U.S. Department
of Transportation

AGENCY FINANCIAL REPORT

FISCAL YEAR 2015

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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) 2015 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 2015 annual reporting includes the following two components:

Agency Financial Report

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 2015 high-level summary of performance information will be found on page 15 of the AFR. Detailed performance data are included in the Annual Performance Report (APR).

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

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

Annual Performance Report

The APR will be produced in conjunction with the FY 2017* 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.

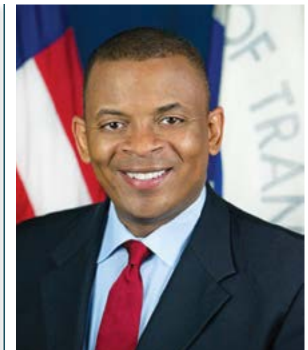
* Available February 2016.

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/.

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) 2015. Consistent with statute, the report provides information on DOT's financial operations and performance for the fiscal year that ended on September 30, 2015. As Secretary, I have been privileged to lead DOT in its critical work to maintain and improve the safety and efficiency of our transportation system. Supported by DOT's successful financial performance, we made significant progress toward our strategic goals and objectives in FY 2015. As we begin FY 2016, DOT will continue to lead in promoting safety and critical transportation investments that will strengthen our Nation's economy, and help develop a transportation system that will promote commerce and opportunity for all citizens.

OVERVIEW OF THE FY 2015 FINANCIAL RESULTS

Again this year, the independent auditors tasked with reviewing our financial statements have provided an unmodified opinion. This demonstrates our successful efforts to ensure that across the Department taxpayer resources are used effectively and efficiently. There is, however, always room for improvement. For example, although the Department made significant improvements in FY 2015, an issue related to legacy IT systems that support the grant programs of the Federal Transit Administration (FTA) continues to be a material weakness in FY 2015. We take any material weakness seriously, and the Department will continue to work to remediate this issue during FY 2016. As in prior years, I can represent that the financial and performance information from our systems included in this report is substantially complete and reliable. Further, with the exceptions noted in my accompanying correspondence to the President, the Department is able to provide reasonable assurance that its internal controls and financial management systems meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA).

The DOT's financial performance in 2015 supported successful operations and positive achievements across our many transportation programs. In FY 2016, the Department will continue its progress, and focus on the following broad themes: enhancing and increasing safety, closing the infrastructure gap, and modernizing our transportation system.

STRATEGIC GOALS

Build on DOT's Legacy of Safety

My overriding priority is to ensure that our transportation systems are the safest and most efficient in the world. We will work to ensure that Americans experience the highest level of safety when they enter a car, board a plane, or ride on a bus or train. We work closely with our State partners to reduce the number of motor coach, truck, vehicle, aviation, pipeline, and pedestrian accidents, and we plan to continue this important work in 2016. In FY 2015, the Department stepped up safety regulation efforts in many areas to include the safe transportation of flammable liquids by rail, highway-rail grade crossings, auto manufacturer defects, and pipeline safety. Our initiatives include improving roadway, transit, bike, and pedestrian safety, combatting distracted driving, stopping impaired driving and other dangerous behaviors, and addressing risks in other surface transportation modes and in aviation.

Close the Infrastructure Deficit

Our Nation's infrastructure has long been our economic backbone, but our investments have decreased. Over the years, our transportation spending has gone down, and congestion and maintenance backlogs have gone up. In response to this troubling situation, Congress passed another short-term extension, its 34th, to authorize DOT to continue making payments from the Highway Trust Fund through early fall. Our dwindling trust fund balance makes it all the more important that Congress pass a comprehensive, multi-year authorization bill that addresses our Nation's infrastructure needs.

Providing a Strong Surface Transportation Reauthorization Plan—It is with this background in mind that the President and I introduced the GROW America Act, a $478 billion, 6-year surface transportation reauthorization proposal that invests in modernizing our infrastructure. This bill would support millions of American jobs to repair and modernize our roads, bridges, railways, and transit systems; ensure American business can grow and compete effectively in the global economy; increase connections so that more Americans have access to jobs and education; and benefit urban, suburban and rural communities.

Most importantly, the GROW AMERICA Act would put into place a program structure and funding stream focused on the transportation needs of the future. Through both funding increases and critical policy enhancements, the GROW AMERICA Act would advance our key priorities: protecting the safety of the traveling public, closing the Nation's infrastructure deficit, and modernizing the U.S. transportation system through technology and process innovation.

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

Our Ladders of Opportunity initiative puts the Department at the forefront of connecting people to opportunities, creates pathways to good jobs through transportation projects and training programs, and revitalizes communities that have been isolated by a lack of transportation—sometimes even by the transportation system itself. The Department has invested considerable effort into educating Americans about the powerful role that transportation can play in making sure everyone gets a fair chance. For example, in Denver, a workforce development grant from FTA is supporting the Workforce Initiative Now, a partnership led by the Regional Transportation District (RTD). Partners include the Community College of Denver, Denver Transit Partners, and the Urban League of Metropolitan Denver. Together, they work to help local employers in the transit and construction industries meet hiring and training needs while connecting Denver residents to good career opportunities.

To help build and restore connections, develop workforce capacity, and catalyze neighborhood revitalization, DOT launched the Ladders of Opportunity Transportation Empowerment Pilot in seven U.S. cities. LadderS^{TEP} will provide technical assistance, and work to attract public and private resources to game-changing community transportation projects. By bringing together mayors, other local officials, non-profit organizations, and private investors, DOT will demonstrate that our Ladders of Opportunity goals are well within the reach of communities across America. For example, in Richmond, VA, a DOT TIGER grant is helping the Greater Richmond Transit Company build the city's first Bus Rapid Transit line, a 7.6-mile corridor between the city and Henrico County. The Broad Street BRT line will provide reliable service, and access to 77,000 area employment opportunities, for transit-dependent residents in Richmond's Fulton Hill community.

The choices we make regarding transportation infrastructure at the Federal, State, and local levels can revitalize communities, create pathways to work, and connect hardworking Americans to a better quality of life.

30-Year Transportation Framework—In FY 2015, the Department released *Beyond Traffic*, its assessment of the American transportation system and the difficult challenges we will face in the future. The point was not to publish this draft framework and end the discussion there. Instead, we wanted to jump-start a national conversation, and draw out ideas about how we can keep America moving in the decades to come. The framework examines the trends and choices facing America's transportation infrastructure over the next three decades, including a rapidly growing population, increased freight volume, demographic shifts in rural and urban areas, and a transportation system that faces more frequent extreme-weather events. Our assessment is well-sourced from Government and industry data, and constitutes a useful starting point for a discussion of where we might find ourselves in 2045, and what we can do to shape those outcomes.

Encouraging Innovative Finance and Public-Private Partnerships—In addition to a strong foundation of public investment, the Department encourages innovative investment strategies, such as Public-Private Partnerships, or P3s. From Fiscal Year 2013 to 2015, the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan program provided 29 loans for $12.5 billion in Federal credit assistance that has supported over $43 billion in infrastructure investment. In addition, through the Build America Transportation Investment Center (BATIC), we are engaging the projects at an earlier stage to help them explore ways to access private capital in P3s. Officially launched on September 29, after more than a year of initial work to develop the organization and its objectives, BATIC serves as the single point of contact and coordination for States, municipalities, and project sponsors looking to utilize Federal transportation expertise, apply for Federal transportation credit programs, and explore ways to access private capital in public-private partnerships.

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 vehicle-to-vehicle (V2V) technology and the Federal Aviation Administration's NextGen program, and by increasing the use of data and analytics to improve performance management. The Department wants to roll out the red carpet and cut the red tape for new technology in transportation. A prominent example of this is V2V technology.

Vehicle-to-Vehicle (V2V) Technology—V2V communications, the wireless exchange of data among vehicles traveling in the same vicinity, offers opportunities for significant safety improvements. The DOT's vision is that each vehicle on the roadway will eventually be able to communicate with other vehicles, and that this rich set of data and communications will support a new generation of active safety applications and systems. In September, the Department announced that New York City, Tampa, FL, and Wyoming will receive up to $42 million to pilot next-generation technology in infrastructure and in vehicles to share and communicate anonymous information with each other and their surroundings in real time, reducing congestion and greenhouse gas emissions, and cutting the vehicle crash rate for unimpaired drivers by 80 percent. In addition, in May, the Department announced steps to accelerate road safety innovation, including accelerating its timetable on a proposed rulemaking that will require the installation of V2V communications equipment in all new vehicles. The proposal is expected by the end of 2015. New cars with connected vehicle technology could be in American showrooms as early as 2016.

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 2016. 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 2015. I am proud of our accomplishments, and I am pleased to present this report.

Sincerely,

Anthony R. Foxx

MANAGEMENT'S DISCUSSION AND ANALYSIS

DOT MISSION AND VALUES

MISSION

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

VALUES

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

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

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

ORGANIZATION

HISTORY

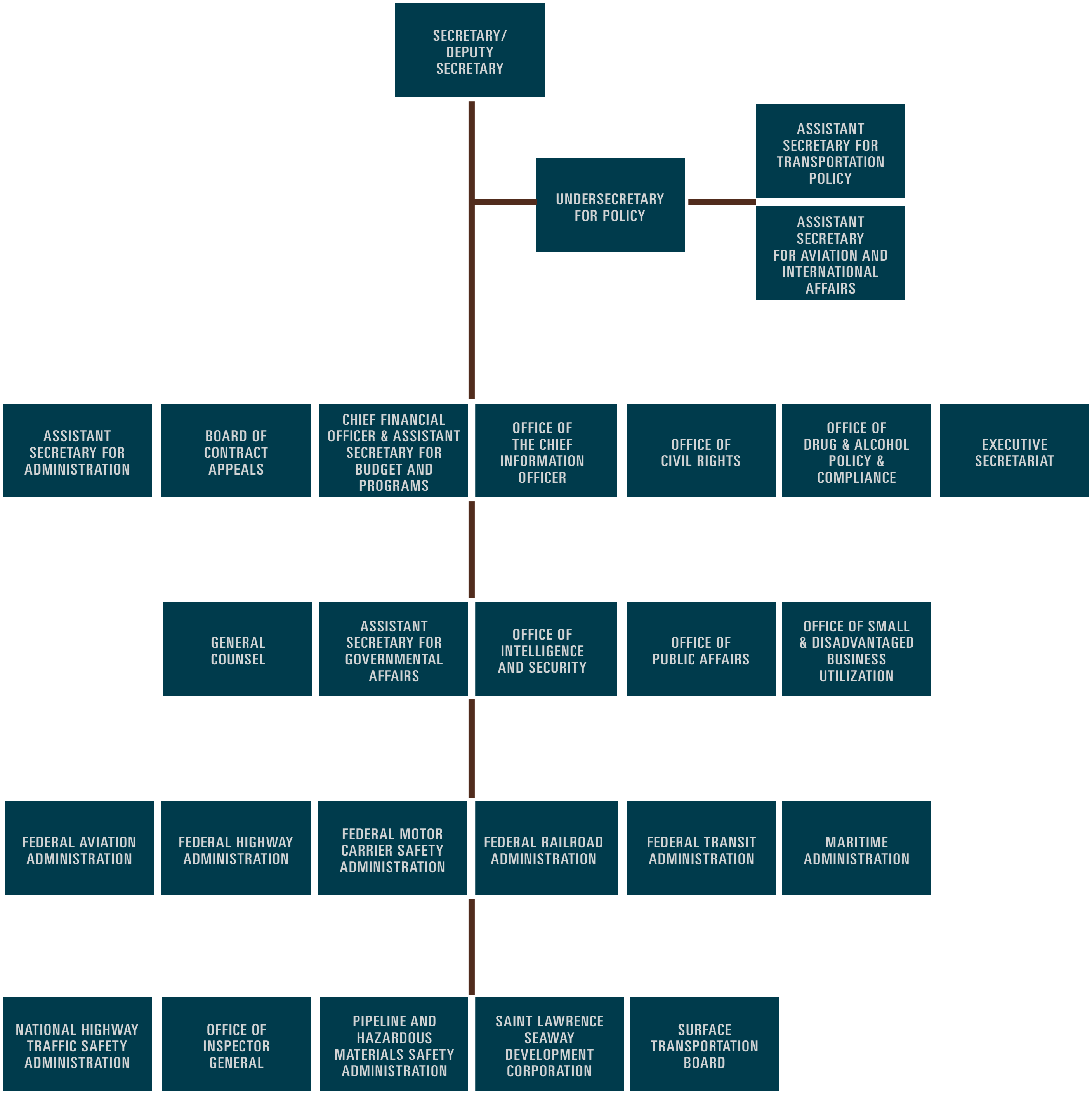
Established in 1967, DOT sets Federal transportation policy and works with State, local, and private-sector partners to promote a safe, secure, efficient, and interconnected national transportation system of roads, railways, pipelines, airways, and seaways. DOT's overall objective of creating a safer,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

HOW DOT IS ORGANIZED

DOT employs more than 55,000 people in the Office of the Secretary (OST) and through 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 negotiating and implementing international transportation agreements, assuring the fitness of U.S. airlines, enforcing airline consumer protection regulations, issuing regulations to prevent alcohol and illegal drug misuse in transportation systems, and preparing transportation legislation.

FEDERAL AVIATION ADMINISTRATION (FAA)

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

FEDERAL HIGHWAY ADMINISTRATION (FHWA)

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

FEDERAL MOTOR CARRIER SAFETY ADMINISTRATION (FMCSA)

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

FEDERAL RAILROAD ADMINISTRATION (FRA)

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

FEDERAL TRANSIT ADMINISTRATION (FTA)

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

MARITIME ADMINISTRATION (MARAD)

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

NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION (NHTSA)

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

OFFICE OF INSPECTOR GENERAL (OIG)

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

PIPELINE AND HAZARDOUS MATERIALS SAFETY ADMINISTRATION (PHMSA)

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

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION (SLSDC)

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

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

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

An overview of DOT's strategic goals is provided below, and a complete analysis of its successes and challenges related to fiscal year (FY) 2015 performance targets will be included in the Annual Performance Report (APR). A brief discussion of DOT's results by strategic goal follows.

SAFETY

Safety is DOT's top priority. Our goal is to bring a departmentwide focus to reducing transportation-related fatalities and injuries. DOT tracks the safe movement of people and products on the roadways, in the air, on transit systems, on railroads, and through pipelines. DOT's main safety priorities across all modes include:

- Continuing improvements in transportation safety to address behavioral, vehicular, and infrastructure safety issues;
- Targeting growing areas requiring safety improvements, including distracted driving and pedestrian and bicycle safety; and
- Addressing emerging issues surrounding the safe transportation of energy products.

The Department has met or potentially met 10 out of 13 safety goals, which will be explained in more detail in the APR. DOT does not anticipate meeting the 2015 targets for the highway fatality rate, the nonoccupant (pedestrian and bicycle) fatality rate, and the large truck and bus fatality rate. The Department is on track, however, to meet the passenger vehicle occupant fatality rate and the motorcyclist rider fatality rate targets. A statistical projection from NHTSA shows that there were 30,574 fatal crashes in 2013, a decrease of 949 crashes when compared with 31,006 fatal crashes in 2012. Fatalities caused by vehicle crashes continue 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 potentially met the target for all state-of-good-repair goals for the year in which data are currently available. DOT will work to finalize results for all state-of-good-repair performance measures prior to the release of the APR.

ECONOMIC COMPETITIVENESS

DOT is committed to supporting the U.S. economy by fostering smart, strategic investments that serve the traveling public and facilitate freight movement. 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 FY 2015 show that DOT potentially met, met, or exceeded 5 out of 9 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:

- Improving the public transit user experience;
- Providing additional pedestrian and bicycle networks; and
- Improving 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 2 out of 5 quality-of-life goals. DOT is awaiting final data for 1 remaining goal, and results will be discussed in the APR.

ENVIRONMENTAL SUSTAINABILITY

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

DOT has met or potentially met 6 out of 13 targets for which current data are available. A full analysis of all the environmental sustainability performance results will be included in the APR.

NATIONAL SECURITY, PREPAREDNESS, AND OTHER

DOT proactively prepares to use internal authorities for the safety and resilience of the U.S. transportation systems and supports the transportation missions of the Department of Homeland Security (DHS) and other Federal departments and agencies to improve the security of domestic and intermodal transportation sectors. The Department is responsible for a number of modal emergency-preparedness programs that provide the Department of Defense (DoD) and civilian agencies with assured access to commercial transportation during times of national emergency. In the same way, DOT is in compliance with the Small Business Act, by ensuring that small businesses have an opportunity to compete and be selected for a fair amount of the agency's contract dollars. According to preliminary data, DOT met 3 out of 5 goals, but the Department is still awaiting final data for 1 of its goals.

PERFORMANCE SUMMARY TABLES

SAFETY PERFORMANCE SUMMARY

Performance Measure	Actual 2010	2011	2012	2013	2014	2015 Target	2015 Actual	2015 Target Met or Not Met
Roadway Safety (FHWA, FMCSA, NHTSA)								
AGENCY PRIORITY GOAL: Highway fatality rate per 100 million VMT	1.11	1.10(r)	1.14	1.09(r)	1.08*	1.02	N/A	Not Met (2014)
Passenger vehicle occupant fatality rate per 100 million VMT	0.89	0.84	0.81	0.79	TBD	0.82	N/A	Met (2013)
Motorcyclist rider fatality rate per 100,000 motorcycle registrations	56.36	54.82	54.66	55.54	TBD	62	N/A	Met (2013)
Non-occupant (pedestrian and bicycle) fatality rate per 100 million VMT	0.17	0.17	0.19	0.19	TBD	0.15	N/A	Not Met (2013)
Large truck and bus fatality rate per 100 million total VMT	0.122	0.133	0.142	0.142*	TBD	0.114	N/A	Potentially Not Met (2014)
Aviation Safety (FAA)								
AGENCY PRIORITY GOAL: Number of U.S.-registered, commercial air carrier fatalities per 100 million persons onboard	8.1	0.3	0.0	0.0(r)	6.1*	6.9	0.1*	Potentially Met
AGENCY PRIORITY GOAL: Number of fatal general aviation accidents per 100,000 flight hours	1.104	1.12(r)	1.09	1.11(r)	1.09	1.04	1.03*	Potentially Met
AGENCY PRIORITY GOAL: Category A&B runway incursions per million operations	0.117	0.138	0.356	0.220	0.282(r)	0.395	0.032*	Potentially Met
Railroad Safety (FRA)								
Rail-related accidents and incidents per million train-miles	16.697	16.072	15.194	15.028	16.160	15.900	14.624**	Met
Transit Safety (FTA)								
Transit fatalities per 100 million passenger-miles traveled	N/A***	0.533	0.547	0.613	0.609*	0.543	0.487*	Potentially Met
Pipeline And Hazardous Materials Safety (PHMSA)								
Pipeline incidents involving death or major injury	38	34	31(r)	27(r)	29	36	25*	Potentially Met
Hazardous materials incidents involving death or major injury	23	32	33(r)	27(r)	21	31	13*	Potentially Met
Transportation Safety Policy (OST)								
Cumulative number of States and localities that adopt roadway designs that accommodate all road users (complete streets)	N/A	214(r)	246(r)	398(r)	652	270	N/A	Met

Notes: N/A = not available. (r) = Revised. TBD = to be determined. VMT = vehicle-miles traveled. * Preliminary data. ** Actual results are subject to change and might differ from previous materials to reflect subsequently obtained information. *** This measure had not been established during this year.

PERFORMANCE SUMMARY TABLES (continued)

STATE OF GOOD REPAIR PERFORMANCE SUMMARY

Performance Measure	Actual 2010	2011	2012	2013	2014	2015 Target	2015 Actual	2015 Target Met or Not Met
Maintain or Improve Conditions (FHWA)								
Percent VMT on NHS with good to very good ride quality	54.0%	55.8%	56.0%	57.0%	59.0%	60.3%	N/A†	Potentially Met
Percent of deck area on NHS structurally deficient bridges	8.3%	7.8%	7.1%	6.8%(r)	6.0%	5.9%	5.6%	Met
Transit Conditions (FTA)								
Backlog of transit capital assets in need of replacement or refurbishment (as defined by an estimated condition rating of 2.5 or lower) *Biennial measure*	$77.7 billion		$85.9 billion		$94.0 billion*		N/A^	Met (2012)
Runway Conditions (FAA)								
Percent of runway pavement in excellent, good, or fair condition for paved runways in the National Plan of Integrated Airport Systems	97.2%	97.4%	97.5%	97.5%	97.6%	93.0%	97.7%	Met

Notes: N/A = not available. NHS = National Highway System. (r) = revised. VMT = vehicle-miles traveled. * Preliminary data. † Available in January 2016. ^ Available in late 2015.

ECONOMIC COMPETITIVENESS PERFORMANCE SUMMARY

Performance Measure	Actual 2010	2011	2012	2013	2014	2015 Target	2015 Actual	2015 Target Met or Not Met
High Performance Passenger Rail (FRA)								
AGENCY PRIORITY GOAL: Number of individual construction projects that achieve initial construction	N/A	8	27	48	60	65	67	Met
AGENCY PRIORITY GOAL: Number of planning, preliminary engineering, environmental analysis, and construction projects that are substantially complete	N/A	N/A	N/A	36	51	74	74	Met
Modernizing the Automation Platform at the ARTCCs (FAA)								
AGENCY PRIORITY GOAL: Cumulative number of continental U.S. En Route air traffic control centers achieving initial operating capability on ERAM	2	2	9	17	16	20	20	Met
Enhance Productivity (FHWA)								
Percent of TMAs using CMPs in making programming and project decisions (total of 181 TMAs)	N/A	N/A	N/A	N/A	10%	20%	90%	Met
Transit Ridership (FTA)								
Increase the total number of urban and rural transit boardings from 10.4 billion in 2012 to 11.2 billion in 2018	10.1 billion	10.3 billion	10.4 billion	10.6 billion	10.7 billion*	10.8 billion	TBD	TBD
Increase the transit market share among commuters to work in at least 10 of the top 50 urbanized areas by population, when compared to a 2010 baseline	N/A	N/A	2	2	3	5	TBD	TBD
Domestic and International Commerce (OST, MARAD, SLSDC)								
Reach 3 or more new bilateral and multilateral aviation agreements to remove market-distorting barriers to transportation (OST)	N/A	4	5	5	N/A	3	N/A	N/A
Number of TEU containers transported across America's Marine Highway routes (MARAD)	N/A	5,901*	16,031*	16,191*	29,981*	30,000	TBD^	Potentially Met^
Percent of time the U.S. portion of the St. Lawrence Seaway is available to commercial users (SLSDC)	99.8%	99.0%	99.7%	98.3%	97.2%	99.0%	97.2%	Not Met

Notes: ARTCC = Air Route Traffic Control Center. CMP = congestion management process. ERAM = En Route Automation Modernization. N/A = not available. TEU = Twenty Foot Equivalent. TBD = to be determined. TMA = Transportation Management Area. * Preliminary data. ^ Available in late 2015.

PERFORMANCE SUMMARY TABLES (continued)

QUALITY OF LIFE PERFORMANCE SUMMARY

Performance Measure	Actual 2010	2011	2012	2013	2014	2015 Target	2015 Actual	2015 Target Met or Not Met
Enhance Quality of Life (FHWA)								
Number of created and/or significantly improved pedestrian and bicycle transportation networks *New measure*	N/A	N/A	N/A	N/A	N/A	25	40*	Met
Increasing Passenger Rail (FRA)								
Number of intercity passenger rail miles traveled	5.90 billion	6.33 billion	6.80 billion	6.80 billion	6.65 billion	6.90 billion	N/A	N/A
Expand Access and Choice (FHWA, FTA, FRA)								
States that have developed an ADA transition plan that is current and includes the public rights-of-ways (FHWA)	N/A	N/A	15(r)	17	24(r)	31	25	Not Met
Number of key rail stations verified as accessible and fully compliant (FTA)	N/A	N/A	513	522	567	531	607	Met
Percent of intercity passenger rail stations that comply with the requirements of the ADA (FRA)	N/A	N/A	less than 1%(r)	less than 3%(r)	N/A	17%	N/A	Not Met

Notes: ADA = Americans with Disabilities Act. N/A = not available. (r) = revised. * Preliminary data.

ENVIRONMENTAL SUSTAINABILITY PERFORMANCE SUMMARY

Performance Measure	Actual 2010	2011	2012	2013	2014	2015 Target	2015 Actual	2015 Target Met or Not Met
Aviation Energy Efficiency (FAA)								
Percent reduction in aviation fuel burned per revenue-ton-mile from the FY 2000 energy use baseline	19.08%	22.28%	22.72%	21.66%	22.40%	18%	24.37%	Met
Adapt to Climate Change (FHWA)								
Number of State DOTs, MPOs serving a TMA, and Federal land management agencies that have conducted vulnerability assessments of the highway system to climate change	N/A	N/A	N/A	N/A	65	69	71	Met
Alternative Fuel and Hybrid Vehicles (FTA)								
Percent of alternative-fuel and hybrid vehicles in the transit revenue service fleet	43%	44%	45%	46%	N/A	50%	N/A	N/A
Sustainable Practices at DOT (OST)								
Percent reduction in greenhouse gas emissions from facilities and fleets	7.9%	15.4%	29.0%	29.4%	23.0%	8%	N/A†	N/A†
Percent reduction in greenhouse gas emissions from employee business travel and commuting	N/A	(4.7%)	0.1%	27.3%	31.0%	6%	N/A†	N/A†
Percent reduction of vehicle fleet petroleum use	5.0%	4.9%	14.5%	22.1%	23.7%	20%	N/A†	N/A†

Notes: DOT = department of transportation. FY = fiscal year. MPO = Metropolitan Planning Organization. N/A = not available. (r) = revised. TMA = Transportation Management Area. * Preliminary data. † Available in January 2016.

PERFORMANCE SUMMARY TABLES (continued)

ENVIRONMENTAL SUSTAINABILITY PERFORMANCE SUMMARY (continued)

Performance Measure	Actual 2010	2011	2012	2013	2014	2015 Target	2015 Actual	2015 Target Met or Not Met
Mitigate Environmental Impacts (MARAD)								
Cumulative number of ships (2010–2017) safely removed from the Suisun Bay Reserve Fleet for disposal	11	26	36	44	52	44	54	Met
Reduce risk of environmental contamination from disposal of Federally owned vessels by maintaining a 1:1 ratio of incoming vessels to vessels removed	N/A	N/A	N/A	N/A	1.0	1.0	1.0	Met
Hazardous Liquid Pipeline Spills (PHMSA)								
Hazardous liquid pipeline spills with environmental consequences	94	117	124(r)	120(r)	141	104	87*	Potentially Met
Aviation Environmental Impacts (FAA)								
U.S. population exposed to significant aircraft noise around airports	318,000	292,000	315,000	319,000	321,000	342,000	340,000	Met
DOT Environmental Impacts (OST)								
Percent improvement in water efficiency	(1.2%)	(9.7%)	0.9%	24.1%	19.0%	16.0%	N/A†	N/A†
Percent recycling and waste diversion	N/A	N/A	11%	20%	31%	50%	N/A†	N/A†
Percent of all applicable contracts that meet sustainability requirements	N/A	95%	95%	95%	95%	95%	N/A†	N/A†

Notes: DOT = department of transportation. FY = fiscal year. MPO = Metropolitan Planning Organization. N/A = not available. (r) = revised. TMA = Transportation Management Area. * Preliminary data. † Available in January 2016.

NATIONAL SECURITY, PREPAREDNESS, AND OTHER PERFORMANCE SUMMARY

Performance Measure	Actual 2010	2011	2012	2013	2014	2015 Target	2015 Actual	2015 Target Met or Not Met
National Security and Emergency Response (MARAD)								
Total operating days U.S.-flagged, foreign commercial ships enrolled in the Maritime Security Program are available to meet DoD requirements	21,436	21,557	21,593	21,794	21,600	19,200	21,659	Met
Percentage of DoD-required shipping capacity complete with crews available within mobilization timelines	N/A	N/A	N/A	N/A	96%	94%	97%	Met
Percentage of DoD-designated commercial ports available for military use within DoD-established timelines	N/A	N/A	N/A	N/A	94%	87%	100%	Met
Number of U.S. Merchant Marine Academy graduates	198	205	219	189(r)	224	229	227	Not Met
Number of State Maritime Academy graduates	575	545	642(r)	658(r)	734	660	TBD^	TBD^

Notes: DoD = U.S. Department of Defense. N/A = not available. (r) = revised. TBD = to be determined. ^ Available in late 2015.

FINANCIAL HIGHLIGHTS

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

During FY 2015, broad funding levels remained flat from continuing resolution authorizations while funding levels shrank for specific disaster relief authorizations as expenditures began to rise and from expenditure of expiring American Recovery and Reinvestment Act of 2009 (ARRA) monies. In January 2013, the Disaster Relief Appropriations Act of 2013 provided the Department with $13 billion (subject to a 5.1 percent sequestration reduction for nonexempt budgetary accounts) for Hurricane Sandy recovery, relief, and future resiliency efforts. As of September 30, 2015, the Department had obligated only $6.3 billion and expended $2.3 billion as the projects are long term by design. The Department disbursed an additional $1.3 billion of previously obligated ARRA funding in FY 2015.

Since 2012, the Airport and Airway Trust Fund (AATF) and the Highway Trust Fund (HTF) have been granted extensions of authority to collect excise taxes and to make expenditures. The FAA Modernization and Reform Act of 2012, Public Law (P.L.) 112-95, extended AATF authority through September 30, 2015. The Highway and Transportation Funding Act of 2014 extended HTF authority and Moving Ahead for Progress in the 21st Century (MAP-21), P.L. 112-141, policies through May 31, 2015 and provided $10.8 billion from the Treasury general fund and the Environmental Protection Agency's Leaking Underground Storage Tank (LUST) fund to replenish funding levels. The Highway and Transportation Funding Act of 2015, P. L. 114-21, extended MAP-21, from May 31, 2015, to July 31, 2015.

In July 2015, the President signed the Surface Transportation and Veterans Health Care Choice Improvement Act of 2015, which further extended surface transportation authorization and MAP-21 policies through October 29, 2015, and transferred an additional $8.1 billion from the Treasury general fund to the HTF. The law allocated $6.1 billion to the Highway Account and $2 billion to the Mass Transit Account. On October 29, 2015, the President signed the Surface Transportation Extension Act of 2015 to further extend the HTF operations to November 20, 2015.

OVERVIEW OF FINANCIAL POSITION

Assets

The Consolidated Balance Sheets report total assets of $80.9 billion at the end of FY 2015, compared with $86.7 billion at the end of FY 2014. The Fund Balance with Treasury line item decreased by $3.1 billion, primarily as the result of $2.3 billion in disaster relief disbursements of FY 2013 funding received in the aftermath of Hurricane Sandy and $1.3 billion in remaining ARRA funding disbursements for high-speed rail, transit, and highway infrastructure projects. Investments decreased by $3.1 billion, as HTF expenditures exceeded restoration transfers from the Treasury general fund and excise tax collections.

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

ASSETS BY TYPE

Dollars in Thousands	2015	%	2014	%
Fund Balance With Treasury	$34,265,425	42.4	$37,335,087	43.1
Investments	22,652,315	28.0	25,713,597	29.7
General Property, Plant and Equipment	13,772,180	17.0	13,914,590	16.0
Direct Loans and Guarantees, Net	8,912,154	11.0	8,508,423	9.8
Inventory and Related Property, Net	909,960	1.1	900,787	1.0
Accounts Receivable	285,048	0.4	281,161	0.3
Cash and Other Assets	84,280	0.1	90,040	0.1
Total Assets	**$80,881,362**	**100**	**$86,743,685**	**100**

Liabilities

The Department's Consolidated Balance Sheets report total liabilities of $20.5 billion at the end of FY 2015, essentially the same as the end of FY 2014 and summarized in the following table. The debt line increased by $787 million as borrowings from Treasury were required to support higher disbursement levels in the Department's credit loan programs.

LIABILITIES BY TYPE

Dollars in Thousands	2015	%	2014	%
Debt	$8,972,231	43.8	$8,185,001	40.0
Grant Accrual	6,361,980	31.1	6,451,084	31.5
Other Liabilities	2,570,698	12.5	2,978,850	14.6
Environmental and Disposal Liabilities	1,118,668	5.5	1,165,195	5.7
Federal Employee Benefits Payable	930,066	4.5	995,250	4.9
Accounts Payable	424,386	2.1	533,899	2.6
Loan Guarantees	105,985	0.5	147,693	0.7
Total Liabilities	**$20,484,014**	**100**	**$20,456,972**	**100**

RESULTS OF OPERATIONS

Net Costs

The Department's Net Cost of Operations was $76 billion for FY 2015. Surface and air costs represent 98.3 percent of the Department's total net cost of operations. Surface transportation program costs represent the largest investment for the Department, at 77.5 percent of the net cost of operations. Air transportation is the next largest investment, at 20.8 percent of total net cost of operations.

NET COSTS

Dollars in Thousands	2015	%	2014	%
Surface Transportation	$58,933,336	77.5	$59,904,020	77.8
Air Transportation	15,856,993	20.8	15,967,217	20.8
Maritime Transportation	373,745	0.5	267,101	0.4
Cross-Cutting Programs	425,459	0.6	412,724	0.5
Costs Not Assigned to Programs	449,182	0.6	403,157	0.5
Net Cost of Operations	**$76,038,715**	**100**	**$76,954,219**	**100**

Net Position

The Department's Consolidated Balance Sheets and Consolidated Statements of Changes in Net Position report a Net Position of $60.4 billion at the end of FY 2015, an 8.9-percent decrease from $66.3 billion the previous fiscal year. The decrease is mainly attributable to excess of HTF expenditures over the reduced funding levels received in FY 2015. Net Position is the sum of Unexpended Appropriations and Cumulative Results of Operations.

RESOURCES

Budgetary Resources

The Combined Statements of Budgetary Resources provide information on how budgetary resources were made available to the Department for the year and their status at fiscal year end. For FY 2015, the Department had total budgetary resources of $146.9 billion, which represents a 12.8-percent decrease from FY 2014 levels of $168.4 billion. Budget Authority of $146.9 billion consisted of $51.6 billion in unobligated authority carried over from prior years, $26.4 billion in appropriations, $58.2 billion in borrowing and contract authority, and $10.7 billion in spending authority from offsetting collections. The Department's FY 2015 obligations incurred totaled $98.8 billion compared with FY 2014 obligations incurred of $117.1 billion.

Net Outlays reflect the actual cash disbursed against previously established obligations. For FY 2015, the Department had net outlays of $76.2 billion compared to FY 2014 levels of $77.4 billion, a 1.5-percent decrease.

RESOURCES

Dollars in Thousands	2015	2014	% (Decrease)
Total Budgetary Resources	$146,885,017	$168,350,014	(12.8)
Obligations Incurred	98,772,682	117,104,045	(15.7)
Net Outlays	76,229,498	77,368,622	(1.5)

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 MARAD. Buildings and structures include Union Station (rail station) in Washington, D.C., which is titled to FRA.

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

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

LIMITATIONS OF THE FINANCIAL STATEMENTS

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

These statements have been prepared from the books and records of the U.S. Department of Transportation in accordance with GAAP for Federal entities and in formats prescribed by the Office of Management and Budget (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 2015 FMFIA ASSURANCE LETTER TO THE PRESIDENT

THE SECRETARY OF TRANSPORTATION
WASHINGTON, DC 20590

November 10, 2015

The President
The White House
Washington, DC 20500

Dear Mr. President:

I am pleased to report on the effectiveness of the internal control and financial management systems for the U.S. Department of Transportation (DOT) during Fiscal Year (FY) 2015. This letter provides DOT's FY 2015 Federal Managers' Financial Integrity Act (FMFIA) assurance statement, and summarizes noteworthy internal control and management efforts in support of that assurance for the fiscal year that ended on September 30, 2015.

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

The DOT's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of FMFIA. The DOT is able to provide a qualified statement of assurance indicating that the internal controls and financial management systems meet the objectives of FMFIA with the exception of two repeat material weaknesses from FY 2014. The first material weakness is related to compliance with the Federal Information Security Management Act (FISMA) within DOT's Cybersecurity and Information Assurance program. The second material weakness is related to general information technology (IT) controls over the Federal Transit Administration's (FTA) grant management systems, which affects DOT's ability to comply with the Federal Financial Management Improvement Act (FFMIA) financial management system requirements, and therefore DOT is also reporting a nonconformance with FFMIA. The details of the material weaknesses are provided in the FISMA and Office of Management and Budget (OMB) Circular A-123, Appendix A sections below, and the details of the nonconformance are provided in the FFMIA section below.

In FY 2015, DOT conducted an assessment of internal controls and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control.*

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

In FY 2015, DOT utilized its standardized FMFIA Internal Control Program approach to conduct an assessment of its business units. The DOT divided the Operating Administrations into Components and Assessable Units (AUs) to determine the level of meaningful review at the business function or office level. Then, AU Managers conducted Inherent Risk Assessments to evaluate the AU's risk environment to identify areas that were inherently high-risk. The DOT considered the results of the completed and ongoing FY 2015 Inspector General and Government Accountability Office audits, other internal reviews performed for FY 2015, and the status of open corrective actions. The DOT considered any findings identified separately and in the aggregate to identify issues that may rise to the level of a significant deficiency or material weakness.

Based on this assessment, DOT is reporting two repeat material weaknesses under Section 2, one of which also results in a repeat nonconformance under Section 4 from FY 2014 for the fiscal year that ended on September 30, 2015.

Office of Management and Budget (OMB) Circular A-123, Appendix A: Internal Controls over Financial Reporting

The DOT's management is responsible for establishing and maintaining effective internal controls over financial reporting. In FY 2015, DOT conducted an assessment of the effectiveness of its internal control over financial reporting, including safeguarding of assets and compliance with applicable laws and regulations in accordance with the requirements of OMB Circular A-123 Appendix A. The DOT assessed and tested controls over several business processes. Appendix A activities in FY 2015 included evaluating entity, process, and transaction-level controls over financial reporting.

In addition, an assessment of the Department-wide financial management system, Delphi, was performed, which included obtaining an annual Statement on Standards for Attestation Engagements 16 (SSAE 16) Service Organization Control (SOC) Type II Report from the Enterprise Services Center to determine if a financial system nonconformance exists. The results of this review are the responsibility of the Assistant Secretary for Budget and Programs/Chief Financial Officer.

A repeat material weakness related to general IT controls identified by the external auditors over FTA's grant management systems was identified for FY 2015. The FTA has developed corrective action plans to address the material weakness, which include implementing a new system, and are summarized in the FFMIA section below.

Based on the results of the Appendix A assessment, DOT provides reasonable assurance that its internal control over financial reporting was operating effectively as of June 30, 2015, except for the material weakness related to FTA's general IT controls.

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The President

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

In FY 2015, DOT conducted a comprehensive and standardized entity-level review of the acquisition function to assess the strengths and weaknesses of the acquisition processes. 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.

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

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

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

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

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

The DOT conducted risk assessments in FY 2015 to identify programs, processes, and activities that are susceptible to significant improper payments. In FY 2015, DOT performed a review of these programs and activities administered by the Department in accordance with IPIA, as amended by IPERA and IPERIA. These programs and activities included:

- Federal Aviation Administration (FAA)
    - Airport Improvement Program
    - Facilities and Equipment – Disaster Relief Act
- Federal Highway Administration (FHWA)
    - Highway Planning and Construction
- Federal Railroad Administration (FRA)
    - Grants to the National Railroad Passenger Corporation
    - High-Speed Intercity Passenger Rail Program

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The President

- FTA
  - Formula Grants and Passenger Rail Investment and Improvement Projects
  - Public Transit Emergency Relief Program – Disaster Relief Act

- Maritime Administration
  - Electronic Invoicing System - Ready Reserve Force

The DOT met most of IPERA's requirements by: (1) publishing the FY 2014 Agency Financial Report (AFR), and posting it on our Web site; (2) conducting program specific risk assessments; (3) publishing improper payment estimates; (4) publishing corrective action plans; and (5) reporting an improper payment rate of less than 10 percent for each program and activity susceptible to significant improper payments. In the Office of Inspector General's (OIG) report, *DOT's FY 2014 Improper Payment Reporting Generally Complies with IPERA Requirements*, Report Number FI-2015-043, issued on May 15, 2015, OIG determined that two DOT programs did not meet the reduction target rates published in the FY 2013 AFR as required by IPERA.

A description and the results of this review are reported in the Other Accompanying Information section of the DOT FY 2015 AFR.

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

In FY 2014, the Departmental Cybersecurity and Information Assurance program was identified by OIG as having made progress, but DOT was still not adequately in compliance with FISMA, which remains a repeat Section 2 material weakness under FMFIA. The OIG issued eight recommendations in FY 2014, in addition to the recommendations that remained open from previous OIG FISMA reports.

In FY 2015, DOT continued to improve cybersecurity, closing 11 open audit recommendations, and it is making significant progress toward closure of additional audit recommendations in FY 2016. Also, DOT met all FY 2015 Federal Cyber Sprint Goals, including mandatory Personal Identity Verification (PIV) card usage for log-in from zero percent to 100 percent of privileged network account users, and increased mandatory PIV log-in for all DOT network users from 7 percent to 97 percent.

The DOT anticipates further remediation in FY 2016 to address the following key areas:

- Closing additional audit recommendations;
- Continuing to recruit additional personnel to expand and enhance program capabilities;
- Implementing additional Federal Cyber Sprint Goals;
- Working towards implementation of the Federal Continuous Diagnostics and Mitigation program; and
- Updating DOT policy and guidance to adhere to the National Institute of Standards and Technology (NIST), Special Publication 800-53 revision 4.

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

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

Based on the results of the OMB Circular A-123, Appendix A, and Appendix D assessments, DOT has determined that financial management systems were in compliance with FFMIA for FY 2015 except for a repeat nonconformance from FY 2014 related to FTA's general IT controls. Based on FTA's material weakness regarding general IT controls, which affects DOT's ability to comply with FFMIA financial management system requirements, DOT is reporting a nonconformance with FFMIA.

The FTA has developed and implemented corrective actions in FY 2015, and continues to implement corrective actions in FY 2016, to address the nonconformance. These corrective actions include, but are not limited to:

- Implementing a new grants management and payment system;
- Updating procedures to monitor system changes;
- Enhancing user access security controls, policies, and procedures;
- Updating policies and procedures related to the segregation of duties within the change management process;
- Enhancing identification and authentication security controls; and
- Enhancing vulnerability scanning process and policies and procedures.

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

In FY 2015, DOT conducted a review of the programs that received funds under the Disaster Relief Appropriations Act. These programs include:

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

Based on an evaluation of the spending practices and processes of these programs, DOT can provide reasonable assurance that it has implemented the appropriate policies, and controls are in place to mitigate the risk of fraud and inappropriate spending practices regarding activities and expenses related to Hurricane Sandy.

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The President

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

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

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

As required by OMB Circular, A-11 (June 2015):

- The Chief Information Officer (CIO) affirms that he has reviewed and approved the major IT investments portion of the budget request.
- The CFO and CIO affirm that the CIO had a significant role in reviewing the planned IT support for major program objectives, and significant increases and decreases in IT resources.
- The CFO and CIO affirm that the IT Portfolio (OMB Circular A-11 Section 55.6) included appropriate estimates of all IT resources included in the budget request.

As a result of our FMFIA assessment in FY 2015, I conclude that the Department has made substantial progress in enhancing its internal controls and financial management program. Additional enhancements are underway in FY 2016.

Sincerely,

Anthony R. Foxx

SYSTEM, CONTROLS, AND LEGAL COMPLIANCE

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

FMFIA requires agencies to conduct an annual evaluation of their 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 FY 2015, ending September 30, 2015, the Secretary of Transportation provided the President and Congress a Statement of Assurance stating that DOT is able to provide reasonable assurance indicating that the controls and financial management systems met the objectives of FMFIA, with the exception of two repeat material weaknesses from FY 2014. The first material weakness is related to compliance with the Federal Information Security Management Act (FISMA) within DOT's Cybersecurity, Privacy, and Information Assurance program. The second material weakness is related to general information technology (IT) controls over the FTA grants management systems, which affects DOT's ability to comply with the Federal Financial Management Improvement Act (FFMIA) financial management system requirements. DOT therefore is also reporting a nonconformance with FFMIA.

As a subset of the FMFIA Statement of Assurance, DOT is also required to report on the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations in accordance with the requirements of OMB Circular A-123, *Management's Responsibility for Internal Control*. 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 are consistent with the objectives of FMFIA Sections 2 and 4, which include:

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

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 OA or 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/or nonconformances are also reported, as well as corrective actions in place. Specific guidance for completing the self-assessment, 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

A material weakness or nonconformance merits the attention of the Executive Office of the President or the relevant congressional oversight committees if the Secretary determines it to be significant enough to be reported outside the agency in the Department's Statement of Assurance. Under OMB Circular A-123, a material weakness is a significant deficiency, or a combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements or other significant report would not be prevented or detected. A nonconformance is an instance, or instances, in which financial management systems do not substantially conform to financial systems requirements. Financial management systems include both financial and financially related systems.

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, the assessment process, and the methodology used to assert their position regarding the effectiveness of internal controls. Agencies are also required to test the controls as part of the overall FMFIA assessment process. The assurance statement on the effectiveness of internal controls over financial reporting, based on assessments performed under Appendixes A, B, C, and D, is a subset of the overall FMFIA Statement of Assurance. The assessments for FY 2015 included the following, utilizing guidance applicable to each appendix:

- Appendix A: assessed internal controls over financial reporting for focus-area business processes;
- Appendix B: reviewed the travel, purchase, and fleet card programs;
- Appendix C: assessed programs identified to be susceptible to significant improper payments and reported improper payment rates and estimates; and
- Appendix D: assessed financial systems for adherence to FFMIA requirements.

Management's assurance statement, as it relates to OMB Circular A-123, is based on the controls in place as of June 30, 2015. The Statement of Assurance is in the preceding section of this report.

FY 2015 FMFIA MATERIAL WEAKNESSES AND NONCONFORMANCES

Status of Internal Controls

For FY 2015, DOT is reporting two repeat material weaknesses from FY 2014. The first material weakness is related to compliance with FISMA within DOT's Cybersecurity, Privacy, and Information Assurance program. The second material weakness is related to general IT controls over FTA's grants management systems, which affects DOT's ability to comply with FFMIA financial management system requirements, and DOT is therefore reporting a nonconformance with FFMIA.

In FY 2015, DOT continued to improve cybersecurity, closing 11 open audit recommendations, and is making significant progress toward closure of additional audit recommendations in FY 2016. Also, DOT met all FY 2015 Federal Cyber Sprint goals, including mandatory Personal Identity Verification (PIV) card usage for login from 0 to 100 percent of privileged network account users and increased mandatory PIV login for all DOT network users from 7 to 97 percent.

DOT anticipates further remediation in FY 2016 to address the following key areas:

- Closing additional audit recommendations;
- Continuing to recruit additional personnel to expand and enhance program capabilities;
- Implementing additional Federal Cyber Sprint goals;
- Working toward implementation of the Federal Continuous Diagnostics and Mitigation program; and
- Updating DOT policy and guidance to adhere to NIST, Special Publication 800-53, revision 4.

FTA has implemented corrective actions in FY 2015 and developed corrective action plans to implement in FY 2016 to address the material weakness and related nonconformance, which are summarized in the FFMIA section that follows.

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 FMFIA and OMB Circular A-123, Management's Responsibility for Internal Control. FFMIA requires that each agency implement and maintain systems that comply substantially with the following three FFMIA Section 803(a) requirements: (1) Federal financial management system requirements, (2) applicable Federal accounting standards, and (3) the United States Standard General Ledger (USSGL) at the transaction level. 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 in FY 2015, with the exception of a repeat nonconformance from FY 2014. The nonconformance was triggered by a material weakness related to general IT controls over FTA's grants management systems.

FTA developed and implemented corrective actions in FY 2015 and continues to implement corrective actions in FY 2016 to address the nonconformance. These corrective actions include, but are not limited to:

- Implementing a new award management system;
- Updating procedures to monitor system changes;
- Enhancing user access security controls, policies, and procedures;
- Updating policies and procedures related to segregation of duties within the change management process;
- Enhancing identification and authentication security controls; and
- Enhancing vulnerability scanning process and policies and procedures.

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 maintained by or on behalf of the an agency. FISMA also requires that each agency report annually on the adequacy and effectiveness of information security policies, procedures, and practices, and on FISMA compliance. OMB further requires that agency heads submit a signed letter that provides a comprehensive overview of these areas. This report and signed letter were delivered to OMB November 13, 2015. In addition, FISMA requires agencies have an independent evaluation performed of agency information security programs and practices. At DOT, this annual evaluation is performed by OIG. This year's FY 2015 annual FISMA report was finalized on November 13, as required by OMB and DHS.

The Department has 12 OAs that for FY 2015 operated a total of 463 information systems, an increase of 12 systems over the FY 2014 adjusted inventory, of which 318 belong to FAA. FAA's air traffic control system has been designated by the President as part of the critical national infrastructure. Other systems owned by the Department include safety-sensitive surface transportation systems and financial systems used to manage and disburse over $117 billion in Federal funds each year.

DOT's cybersecurity program continues to have deficiencies in its enterprise and systems controls. Specifically, DOT needs to make progress in critical areas, such as: continuing implementation of the use of PIV cards, continuing improvement in the Department's risk management and continuous monitoring programs, improving oversight of contingency planning and testing, and continued improvement of 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 2015 through the issuance of a new DOT information security policy, and the issuance of DOT Common Operating Environment (COE) Services Management Policy. DOT also successfully met all Federal Cyber Sprint goals and focused on improving DOT's FY 2015 Cross-Agency Priority goals to include increasing mandatory PIV card login for all DOT network users from 7 to 97 percent and continued participation as a leading agency to award Federal Continuous Diagnostics and Monitoring (CDM) contracts. The full FY 2015 FISMA report can be found at www.oig.dot.gov.

FINANCIAL SYSTEM INITIATIVES

After the successful upgrade of the Department's core accounting system from Oracle E-Business Suite Release 11.5.10 to Release 12.1.3 in May 2014, the Department focused its attention on automating and improving financial processes in FY 2015. In November 2014, the Department successfully migrated two OAs onto a procurement system that is fully integrated with the core accounting system, Delphi. This integration provides the ability to record commitments and obligations in Delphi electronically, reducing manual entry of transactions in Delphi. As a result, manual processes are eliminated, which reduces the potential for errors and produces cost savings.

During FY 2015, the Department committed to deploying its existing eInvoicing system to the vendor community. eInvoicing is currently utilized by the Department's grantees to submit electronic invoices using an online portal. The Department completed the planning phase for a pilot to begin in early FY 2016. The purpose of the pilot is to identify any gaps in the existing eInvoicing solution that need to be addressed before fully deploying the solution for all vendors. Once fully deployed, the eInvoicing system will eliminate the manual entry of invoice data in Delphi, resulting in significant cost savings.

The Department has initiated a project to develop a consolidated financial Enterprise Data Warehouse/Business Intelligence (EDWBI) service with the goal of providing OAs with the improved financial reporting needed to achieve their mission. EDWBI will provide OAs with a new financial business intelligence capability while improving the overall performance of the Department's financial reporting systems. The need for the EDWBI service was validated in a comprehensive customer survey and maturity assessment conducted by a professional consulting firm. The consulting firm provided an EDWBI roadmap for the Department based on the results of the survey and its knowledge of emerging trends and technology best practices, and the firm ultimately recommended a reporting tool. The Department began the project's planning phase in FY 2015 and has scheduled implementation for FY 2017.

Also in FY 2015, the Department implemented Treasury's Payment Application Modernization (PAM) Standard Payment Request (SPR) format. Submitting payments using the PAM SPR format was the first step toward enabling DOT to be a designated Central Accounting Reporting System (CARS) reporter by meeting the Governmentwide Accounting (GWA) reporting requirement to provide Treasury Account Symbol (TAS) and Business Event Type Code (BETC) information with payment files. The steps to complete the transition to GWA CARS will be concluded in FY 2016.

SSAE-16 EXAMINATION ON DOT SYSTEMS

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

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

This is the 5th year that an SSAE-16 examination has been conducted on DOT's Delphi financial system. A Statement on Auditing Standards 70 (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 is hosted, operated, and maintained by FAA employees at the Mike Monroney Aeronautical Center in Oklahoma City, OK, under the overall direction of the DOT Chief Financial Officer.

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

INSPECTOR GENERAL'S FY 2015 TOP MANAGEMENT CHALLENGES

INTRODUCTION

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

For FY 2015, OIG identified seven significant challenges. What follows is a report on the progress DOT made against these challenges.

MANAGEMENT CHALLENGE 1: MODERNIZING THE NATIONAL AIRSPACE SYSTEM AND ADDRESSING ORGANIZATIONAL CHALLENGES

Why is this issue significant?

FAA's 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 Challenge a: Addressing Underlying Causes for Limited NextGen Progress

Actions taken in FY 2015

- National Airspace System (NAS) Enterprise Architecture (EA): The NAS EA documents levels of planning in keeping with the maturity of the investment, the likely path for the evolution of the NAS, and projected milestones with schedules and cost-based estimates for near- and long-term investments. On January 30, 2015, the 2015 NAS EA was published on the NAS EA Portal. This publication includes updates to the NAS Service Roadmaps, Infrastructure Roadmaps, the NAS Segment Implementation Plan (NSIP), and midterm EA views.
- NAS Segment Implementation Plan: The NSIP is updated annually to reflect the evolution of program management to support portfolio-level decisionmaking. The NSIP 2015 was published on January 30, 2015. The NSIP identifies and helps

manage incremental improvements necessary to develop, integrate, and implement NextGen capabilities and NAS sustainment activities. This year, the NSIP was virtualized into an integrated Web-accessible platform that allows NSIP updates to be managed and reported in real time.

- Portfolio Management Reviews (PfMRs): This year, FAA continued to host regular PfMRs across the multiple Lines of Business within FAA to promote information flow and communication. The PfMRs ensure transparency and provide updates on current portfolio activities. Each portfolio is briefed quarterly and status reports are given to the NextGen Management Board on a semiannual basis. FAA plans to continue hosting such PfMRs in FY 2016 to further monitor and communicate agency efforts regarding NextGen investment priorities.

Key Challenge b: Implementing NextGen Investment Priorities

Actions taken in FY 2015

The Joint Implementation Plan includes activities in four focus areas scheduled to be completed over a 3-year period through 2017. Details of those activities and schedules of Plan milestones can be found on the NextGen Priorities Web site (http://www.faa.gov/nextgen/snapshots/priorities). We have completed 29 of 32 milestones planned for FY 2015.

Key Challenge c: Deploying Key Controller Automation Systems and Resolving Vulnerabilities

Actions taken in FY 2015

The En Route Automation Modernization (ERAM) program office commissioned the baseline ERAM system into the NAS for full-time use, achieving operations at each of its 20 Air Route Traffic Control Center facilities. The successful commissioning is due to (1) improved software quality using enhanced early site test processes; (2) continued collaboration with National Air Traffic Controllers Association (NATCA), including the signing of a new Memorandum of Understanding on July 15, 2015, to extend their collaborative governance model with the program and Professional Aviation Safety Specialist union; (3) strengthened performance incentives and quality controls in the renegotiated prime vendor contract; and (4) enhanced local planning processes at sites that provide consistent data to proactively plan necessary software release components.

FAA has completed the following

- ERAM: Finalized engineering and benefits analysis associated with potential enhancements to continue to strengthen overall system reliability and stability.
- ERAM: Implemented system stability and reliability improvements as planned through the ERAM System Enhancements & Tech Refresh program baseline.
- Terminal Automation Modernization and Replacement (TAMR): Completed collaborative processes through the STARS User Team Event to identify additional functionality needed for operational suitability and engage stakeholders in regular communications to promote a smooth transition to STARS.
- TAMR: Implemented a test strategy and collaborative governance model consistent with ERAM best practices.

Key Challenge d: Integrating Unmanned Aircraft Systems

Actions taken in FY 2015

- FAA granted 1,850 petitions for exemptions or amendments for commercial UAS operations under Section 333 of the FAA Modernization and Reform Act (FMRA) of 2012.
- FAA has been executing on planned research requirements and is coordinating research activities with other Federal agencies, including National Aeronautics and Space Administration (NASA) and DoD. Research focus areas include Sense and Avoid (SAA) and Command and Control (C2). FAA continued to participate on Radio Technical Commission for Aeronautics Special Committee 228, which focuses on standards development for SAA and C2 systems.
- The Unmanned Aircraft Systems (UAS) Executive Committee approved documents identifying operational and certification requirements that must be developed and implemented to enable public UAS routine operations within the NAS. These requirements will be used in support of FAA's efforts to comply with Section 334, Public Unmanned Aircraft Systems, subsection (b) "Standards for Operation and Certification," of the FMRA. This section requires that the Administrator of FAA "develop and implement operational and certification requirements for the operation of public unmanned aircraft systems in the NAS" not later than December 31, 2015.
- On December 30, 2013, Administrator Huerta announced the selection of six UAS Test Sites. The Test Sites, mandated by the FMRA, were established as a research program to support safe integration of UAS into the NAS. The Test Sites have been given the opportunity to have Designated Airworthiness Representatives (DARs), which allows them to issue Special Airworthiness Certificates in the Experimental Category (SAC-ECs) for civil UAS research and development conducted at the Test Sites. On December 19, 2014, the State of Nevada Test Site issued the first SAC-EC under the FAA DAR Program for UAS Test Sites.

Key Challenge e: Consolidating FAA's Vast Network of Facilities

Actions taken in FY 2015

- Site surveys and analysis for Year 1 scenarios were completed in FY 2015. The workgroup completed the realignment recommendations for the first two facilities under analysis (known as transfers), presented its recommendations to the Administrator and labor leadership, and documented the findings in the National Facilities Realignment and Consolidation Report (Year 1, Part 1). The first two transfers under analysis were Cape (K90) TRACON and Abilene (ABI) TRACON. The Year 1, Part 1 report recommends (1) realigning K90 TRACON operations to Boston (A90) Consolidated TRACON, and (2) formalizing a TRACAB configuration at ABI TRACON to provide approach control services from the control tower cab.
- The Year 1, Part 1 report was published in the Federal Register for public comments and submitted to Congress.
- The workgroup continued realignment analysis for the 11 additional transfer facilities and drafted recommendations for the National Facilities Realignment and Consolidation Report (Year 1, Part 2). The Year 1, Part 2 report includes recommendations for realignment to two receiver sites that are prior agency investments (Cleveland Tower/TRACON and Kalamazoo Tower/TRACON), which were built to accommodate TRACON operations from multiple facilities.

- Year 2 analysis includes five potential realignment transfer candidates and seven potential receiver facilities. The workgroup has completed working sessions and site surveys and is in the process of drafting technical documentation.

MANAGEMENT CHALLENGE 2: ENHANCING SAFETY AND OVERSIGHT OF A DIVERSE AND DYNAMIC U.S. AVIATION INDUSTRY

Why is this issue significant?

FAA continues to focus its efforts on implementing new initiatives aimed at collecting and analyzing safety risk data and enhancing its safety and oversight of the NAS. FAA, however, needs to further improve its safety data analysis, aircraft certification process, and repair station and runway safety oversight.

Key Challenge a: Leveraging Data To Reduce Risks

Actions taken in FY 2015

- In FY 2015, FAA upgraded the Voluntary Disclosure Reporting Program (VDRP) system to ensure viability and integration with NAS-wide data to analyze and identify risk(s).
- In August 2015, FAA announced the rollout of the NextGen Aviation Safety Information Analysis (ASIAS) Fusion model, which will integrate multiple de-identified voluntary safety programs and multiple FAA and NAS systems, allowing analysts, inspectors, and managers access to actionable analysis in an effort to increase aviation safety.
- The Commercial Aviation Safety Team (CAST), which is made up of the primary commercial aviation stakeholders and subject matter experts, continues to coordinate, collaborate, and provide valued recommendations on safety enhancements that include changes to regulation, training, and systems/equipment with the goal of increasing aviation safety.
- The Office of Accident Investigation and Prevention and Flight Standard Service ASIAS Work Group continue to meet monthly and on an ad-hoc basis to review actionable information gleaned from ASIAS data. Working group members also continue to attend Joint Implementation Measurement Data Analysis Team, CAST, and ASIAS Executive Board meetings along with InfoShare to learn of emerging air carrier safety issues relative to Flight Standards oversight responsibilities.

Key Challenge b: Managing FAA's Aircraft Certification Process

Actions taken in FY 2015

- FAA revised the Certification Services Oversight Process (CSOP), Standard Operating Procedure (SOP) (Revision 4, dated May 28, 2014) and updated the CSOP SharePoint site to align with Revision 5 of the CSOP SOP. The CSOP SharePoint site enhances the tracking of all certification activities at the field office level and enhances the visibility and reporting at both the regional office and National Headquarters levels.
- FAA developed an audit tool to support the validation of data collection that documents field office and regional compliance with CSOP process.
- FAA revised CSOP SOP Revision 5 (AFS-002-900-S1) on April 9, 2015, to include the following sentence "Regional POCs must review the CSOP report for wait-list each month to monitor the regions' ability to perform certification projects."

Key Challenge c: Bolstering Oversight of Aircraft Repair Stations

Actions taken in FY 2015

- FAA reviewed and incorporated numerous revisions to the Maintenance Annex Guidance (MAG) requirements to ensure FAA inspection procedures and audit reports are comparable in content to those of the European Aviation Safety Agency (EASAs). Additionally, the FAA inspector guidance in FAA Order 8900.1 was revised to reflect Revision 5 of the MAG. Some of the revisions include the development of standardized instructions for FAA and foreign authority inspectors to properly complete the revised audit reports/checklists that are consistent with the audit report requirements used by EASA, and enhanced guidance to the FAA coordinator on the assessment of the foreign authority's oversight capabilities.
- FAA and EASA conducted workshops to all members of the European Union aviation authorities and to the FAA coordinators. The workshops highlighted the training requirements prior to assuming FAA oversight responsibilities and the related changes to Revision 5 of the MAG and FAA Order 8900.1.

Key Challenge d: Improving Runway Safety

Actions taken in FY 2015

- Runway Safety Focus Airports: The Action plans for each of the ten FY 2015 Runway Safety Focus Airports Programs were published prior to September 30, 2015, and are recorded in an FAA internal database called the Runway Safety Tracking System.
- On June 10, 2015, Lincoln Airport held a local Runway Safety Action Team meeting and subsequently developed an action plan with six action items to mitigate risk. On June 29, 2015, FAA conducted a Regional Runway Safety Team (RRST) meeting for the Alaskan airport identified by the Runway Safety Focus Airports Program, and a subsequent action plan was developed. On July 15, 2015, FAA conducted an RRST meeting for the Western-Pacific region airports identified by the Runway Safety Focus Airports Program, and a subsequent action plan was developed.
    - Local Runway Safety Action Team (LRSAT) meetings: All of the required towered airports (over 500) held an LRSAT meeting. A runway safety action plan was completed after each meeting, and over 215 localized action items were developed to help mitigate risk.
    - Runway Status Lights (RWSL) implementation: FAA commissioned the Minneapolis-Saint Paul International Airport RWSL system on August 13, 2015, the Charlotte Douglas International Airport RWSL system on March 25, 2015, and the Fort-Lauderdale-Hollywood International Airport system on May 7, 2015.
    - Surface System Event Rate metric: FAA gathered a full fiscal year of runway safety data using the Surface Risk Analysis Process such as, but not limited to, the safety barriers that were in place during the time of the event and the rate of closure between two aircraft or vehicles.
    - Runway Safety Call to Action: Since the 2007 call to action safety summit, serious runway incursions, "A" and "B" incidents, have dropped by 44 percent. It has been seven years since the last runway collision at a major airport and nine years since the last fatal runway collision. Despite this long-standing trend,

A and B events have recently begun to increase. On June 24, 2015, FAA held a Runway Safety Call to Action to address an increase in the number of runway incursions this year. The meeting was attended by 108 representatives from industry, labor, and government. The event focused on mitigating visual, communication, and procedural challenges that occur on the surface environment. There were a total of 32 recommendations received at the end of the Call to Action. The collaboratively developed recommendations include, but are not limited to, developing focused outreach, conducting a human factors analysis of runway incursions, establishing workgroups to develop safety enhancements, and supporting the development of safety technologies. A summary of the event, along with the recommendations, was published in a report on July 31, 2015, as Phase 1—Runway Safety Call to Action.

MANAGEMENT CHALLENGE 3: INCREASING EFFORTS TO PROMOTE HIGHWAY, VEHICLE, PIPELINE, AND HAZMAT SAFETY

Why is this issue important?

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 MAP-21.

Key Challenge a: Strengthening Efforts To Identify and Address Vehicle Safety Defects

Actions taken

In FY 2011, NHTSA developed an action plan to address this management challenge. Since that time, NHTSA has implemented all 10 OIG recommendations. Key efforts included:

- Upgrading the computer tracking system to make it more fully automated to better review and respond to the more than 80,000 consumer complaints received this year.
- Procuring and customizing new computer software to increase the analytic power to synthesize safety complaints and information from manufacturers to better identify emerging trends or concerns.
- Strengthening internal controls to ensure that all personal information of consumers who submit complaints is totally protected.
- Convening the first ever meeting of vehicle safety enforcement agencies from other countries to support the development of an international network and working group on enforcement issues to better identity safety defects and exchange information on recalls.

These changes to the vehicle defect and recall system will improve the standardization of pre-investigation and investigation documentation procedures and the consistency of the investigation and recall processes. This process, along with developing staff training and more robust internal controls, will result in a more efficient and effective system that will allow NHTSA to better identify, document, and address vehicle safety defect issues in the future.

Key Challenge b: Strengthening the National Bridge Inspection Program

Key Challenge c: Developing a New Tunnel Safety Program

Actions taken in FY 2015

- As required by MAP-21, FHWA began collecting element-level data for National Highway System (NHS) bridges in April 2015 and will continue to do so annually.
- For bridges not on the NHS, MAP-21 required FHWA to evaluate the cost-effectiveness, feasibility, and benefits of element-level bridge inspection data collection and reporting. FHWA will complete a draft for circulation by December 2015.
- FHWA's updated Fiscal Management Information System (FMIS 5.0) will improve bridge obligation data, including more comprehensive cost and geospatial data. The system went live in October 2015, with enhancements occurring during the fiscal year.
- FHWA will continue to provide targeted assistance to States experiencing National Bridge Inspection Standards compliance issues in specific program areas. The goal of the assistance is to provide technical and programmatic strategies that will expedite planned improvement activities. FHWA will also continue to deliver training on element-level bridge inspection to bridge owners upon request.
- 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 include a summary of the cost to replace and rehabilitate structurally deficient bridges as part of FHWA's required bridge and tunnel inventories report to Congress by November 2015.
- A final rule for the National Tunnel Inspection Standards was published in July 2015.
- The National Highway Institute awarded a contract to develop both instructor-led and virtual tunnel inspector training. Training development is complete. These courses are available for delivery.
- The National Highway Institute will initiate development of a Tunnel Inspection Refresher Course in FY 2015. This course is projected to be available in FY 2017.
- 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.
- FHWA has begun to develop the National Tunnel Inventory database. An initial database is being set up to collect preliminary National Tunnel Inventory data following the publication of a final rule. Development of the final National Tunnel Inventory database is expected to be complete by December 2015.
- FHWA initiated the development of an oversight program for the National Tunnel Inspection Program in FY 2015. The completion of this program and its implementation are projected to be in April 2017.

Key Challenge d: Enhancing Actions That Promote Motor Carrier Safety

Actions taken

- All FMCSA field staff completed the Enhanced Investigative Techniques (EIT) training course by December 2014. FMCSA State partners also completed training in FY 2015.

- FMCSA released the Crash Weighting Analysis Report on January 21, 2015. The study examined (1) whether Police Accident Reports provide sufficient, consistent, and reliable information to support crash weighting determinations; (2) whether a crash weighting determination process would offer an even stronger predictor of carrier crash risk than the current assessment method; and (3) how the agency might reasonably manage and support a process for making crash weighting determinations, including the acceptance of public input. The announcement invited public comment along with a request for feedback on what steps the agency should take regarding the weighting of crash data in the agency's systems based on the carrier's role in a crash. The report is located on the FMCSA Web site at http://www.fmcsa.dot.gov/mission/policy/crash-weighting-analysis-report-congress.
- On September 9, 2014 (79 CFR 53511), FMCSA announced two changes to the New Entrant Safety Assurance Program Operational Test (Operational Test) discussed in the agency's September 4, 2013 notice. First, FMCSA has updated the EIT systems so that when an automatic failure violation (as listed in 49 CFR 385.321) is identified by the agency based on the records the motor carrier provides during the document submission process, the carrier will automatically fail the new entrant safety audit and be placed into the corrective action process. This process is consistent with the current new entrant safety audit process for audits conducted at a motor carrier's principal place of business. Second, the agency extended the Operational Test through December 2014 to ensure sufficient data are available to calculate the established metrics in order to make an informed decision on any future actions. These actions are an indication of the efforts the agency is taking to strengthen its enforcement program and to remove unsafe carriers from the Nation's highways.

Key Challenge e: Building on the Efforts To Ensure Pipeline and Hazardous Materials Safety

Pipeline actions taken in FY 2015. As of July 2015, PHMSA closed all seven recommendations issued in OIG's audit of State programs.

- PHMSA is the first DOT modal administration to develop and begin implementing an Agency Safety Action Plan (ASAP). ASAP is led by the Secretary of Transportation and is an effort across the Department to proactively identify ways to improve safety. It asks the question: how can PHMSA better leverage current authorities and capabilities to improve safety? Through this effort, PHMSA is:
  - Reviewing its current State oversight program for opportunities to enhance consistency and improve performance. This includes engaging stakeholders to identify potential improvements and assessing PHMSA's role.
  - Establishing a State program that encourages States to proactively share performance metrics with PHMSA.
  - Evaluating the current strategy for highlighting and communicating best practices among States, including benchmarking with other DOT modes regarding how they highlight and communicate best practices among States.
- In response to the National Transportation Safety Board's (NTSB's) recommendations in its January 2015 Integrity Management report:
  - PHMSA will assess the need for additional inspection protocol guidance for State inspectors, the adequacy of its existing mentorship program for these inspectors, and the availability of its subject matter experts for consultation with them, and PHMSA will report the results and any identified actions for improvement to NTSB.

- PHMSA will conduct an evaluation of the overall State program evaluation, training, and qualification requirements for State inspectors to include Federal-to-State coordination in integrity management inspections, including a reassessment of past internal and external evaluations of its State programs. PHMSA will report the results, along with any corrective actions for improvement and a schedule for these corrective actions to NTSB.
- PHMSA will work with the National Association of Pipeline Safety Representatives (NAPSR) to develop and implement a program to formalize, publicize, and facilitate increased State-to-State coordination in integrity management inspections by December 31, 2015. The program will be documented and include a perspective on the current level of coordination, challenges associated with effecting increased coordination, and actions for implementing increased and effective coordination. Further, PHMSA supports NAPSR on a continual basis, including supporting a NAPSR Web site where States can share information, and is working to implement its current State-to-State mentoring program, which includes the area of Integrity Management inspections.

- PHMSA initiated a State Program Improvement Plan to improve oversight of the program and grant process. PHMSA has completed 24 of the action plan items, including conducting a more in-depth evaluation of State Oversight Programs, encouraging high-risk pipe replacement programs, standing up a State inspector mentoring program, and posting the grant scoring document to PHMSA's Web site.
  - PHMSA will continue to support State transition to the Inspection Assistant software to document State inspections.
  - Exploring the bridging of State inspection data/information to PHMSA databases.
  - Removing PHMSA's 20-percent indirect cost cap resulting in the payment of indirect cost for the CY 2015 grant in accordance with the States' approved indirect cost plans.
  - Onboarding additional State Oversight Program staff: two positions have been filled, and three positions being advertised.

Hazardous materials actions taken in FY 2015

- In July 2015, a new version of the Special Permits tool was released that allows users to request New and Modified Special Permits.
- In September 2015, an update to the previously developed Special Permits tool (Renewals and Party-To) was developed, but the release was delayed until late October because of DOT browser compatibility issues.
  - Both of these updates incorporated modifications and enhancements including the use of the Dun & Bradstreet Global Ultimate (D-U-N-S) Number to identify corporate structure (parent-subsidiary relationships and locations).
  - Updates will also include the use of the newly added corporate structure capability in the Fitness Level determination process of not only the applicant, but the entire corporate profile (if available).
- In July 2015, PHMSA also released a new version of the M-Number and Visual Requalifier Approval applications.
- In late fall 2015, PHMSA will release an update to its Hazmat Registration Program. While not directly related to the Special Permit issue, these two programs will leverage

the overarching model being implemented within PHMSA Company Hub, where the D-U-N-S Number is being used as an authoritative source and the D-U-N-S Number will be used to identify companies that are part of the same corporate structure.

MANAGEMENT CHALLENGE 4: IMPROVING OVERSIGHT, PROJECT DELIVERY, AND SYSTEM PERFORMANCE OF SURFACE TRANSPORTATION PROGRAMS

Why is this issue important?

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 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 Challenge a: Improving Oversight of Highway Infrastructure Programs and Expediting Project Delivery

Actions taken in FY 2015

- In February 2015, FHWA issued updated guidance on developing Stewardship and Oversight (S&O) agreements, which provides a consistent approach to developing future Agreements with State DOTs. Agreements are based on risks and priorities that support the identification of program or project areas that require enhanced review. In addition, assigning responsibilities within the Agreements, as well as within specific project planning, is a key tool for addressing oversight priorities. The divisions submitted their S&O agreements by the end of performance year (PY) 2015, and FHWA Headquarters and the Office of Chief Counsel conducted programmatic and legal sufficiency reviews to ensure responsibilities in the agreements are clear and updated.
- The FHWA Office of Infrastructure issued a new order to establish uniform procedures and criteria for FHWA division offices to use when assessing the ability of State DOTs to assure that Federal-aid requirements are met on Local Public Agency (LPA)-administered projects. The new order included a programmatic assessment of State oversight of local agency projects that occurred in PY 2015. In PY 2016, the Compliance Assessment Program will be focused on LPA project level review to assess the level of compliance with Federal requirements. These efforts will establish a data baseline from which future initiatives can be developed that is more risk-based and resource-focused.
- As a direct result of FHWA's proactive monitoring of unexpended Recovery Act funds, States expended 100 percent of Recovery Act obligations on 12,913 projects and closed 97.46 percent of projects funded only with Recovery Act dollars as of September 30, 2015. While there is no regulatory or statutory deadline for closing out Recovery Act projects, in accordance with new 2 CFR 200 requirements, FHWA will issue updated guidance on funds management and baseline measures for project closeout by May 31, 2016.

- MAP-21 Subtitle C contains key provisions to accelerate the delivery time of surface transportation projects and reduce costs. Much progress has been made to date through the completion of rulemakings, reports, and guidance on some sections of Subtitle C. FHWA continues to make progress in implementing these MAP-21 Subtitle C requirements.
- Congressionally Required Rulemakings: FHWA plans to issue one Notice of Proposed Rulemaking (NPRM) and one Final Rule to meet congressional requirements that contain expediting measures, such as a rule on programmatic approaches used to streamline the environmental review process for federally funded highway projects.
- Department-Initiated Rulemakings: FHWA is developing rules to implement certain sections of Subtitle C, including a Final Rule on the advance acquisition of rights-of-way and the integration of planning and environmental review as part of the Planning Final Rule.
- Congressionally Mandated Reports: FHWA has issued eight periodic reports to inform Congress or other interested parties of the status of environmental actions taken following its initial March 2013 report, and a ninth report is currently under internal review. These reports will continue to be issued quarterly. A separate report on the types and justifications for additional categorical exclusions was sent to Congress on October 20, 2014.
- Guidance: FHWA has additional planned actions to issue new or modify existing guidance to assist States and others managing Federal projects. FHWA issued draft Environmental guidance on the Environmental Review Process under Section 139 for public comment in March 2015 (update of 6002 guidance), and comments are under review.
- Other Initiatives: FHWA has an initiative in progress to implement approved work plans under Memorandums of Agreement for a relocation streamlining demonstration project. To date, two States have approved work plans and are actively carrying out programs using the streamlining flexibilities. FWHA will provide another progress report in spring 2016.

Key Challenge b: Improving Oversight of Transit Infrastructure Programs and Expediting Project Delivery

FTA has improved oversight data tracking, analyzing, and reporting over the past year and is developing oversight performance metrics based on these enhanced oversight data capabilities. FTA has recently established the Oversight Assessment Tool to direct oversight resources towards identified risks.

Key Challenge c: Implementing Tools To Provide Effective Oversight of Emergency Relief Funds

Following Hurricane Sandy, FTA has successfully implemented its new Public Transportation Emergency Relief Program, including (1) establishing a Memorandum of Agreement with the Federal Emergency Management Agency, (2) completing a Final Rule on the Emergency Relief Program, (3) publishing an Emergency Relief Manual, (4) implementing a risk-based oversight approach with heightened scrutiny for the funds, and (5) allocating approximately $9.3 billion, while identifying areas for continued improvement throughout this process.

Key Challenge d: Continuing the Transition to Performance-Based Infrastructure Investments

Actions taken in FY 2015

- FHWA will publish six rulemakings to implement MAP-21 performance-related provisions. NPRMs were issued for three of the six rulemakings in FY 2014 and two other NPRMs on pavement and bridge performance measures and asset management plans were issued in FY 2015. One more NPRM on system performance measures is anticipated in early FY 2016. These new rules are intended to refocus the Federal-Aid Highway Program on national transportation goals, increase accountability and transparency, and improve project decision making through performance-based planning and programming. The rules will also impact how FHWA administers the program, building on our current relationship with State DOTs, Metropolitan Planning Organizations (MPOs), and other partner agencies. FHWA anticipates issuing a final rule for the Highway Safety Improvement Program (HSIP) by the end of 2015 and final rules for the Planning, Asset Management, and Safety and Pavement/Bridge performance measures in early 2016.

- The FHWA PY 2016 Strategic Implementation Plan includes an initiative to monitor and evaluate Highway Performance Monitoring System (HPMS) data, using the HPMS Data Report Card, and implementing strategies with owners to improve timeliness, completeness, and quality to support the transition to performance management.

- FHWA anticipates establishing common effective dates in 2016 to carry out HSIP, consisting of four performance measure areas. They also anticipate establishing an effective date in 2016 for the remaining eight performance measure categories that will be used to assess performance on a national level and to carry out the National Highway Performance Program, Freight Movement on the Interstate, and the Congestion Mitigation and Air Quality Improvement Program.

- FHWA will continue to conduct stakeholder outreach activities to support implementation of MAP-21. Starting in September 2014 and continuing through 2016, FHWA launched a webinar series titled "Let's Talk Performance," which is a recurring series focused on advancing best practices and application of Transportation Performance Management principles. The webinars included presentations from a variety of stakeholders and practitioners to gain their unique perspectives. These activities also provided a forum for better collaboration and coordination for implementation. Focused webinar topics were as follows: Target Setting, Nontraditional Performance Measures, Theory vs. Practice: Linking Performance Measures to Improve Performance Outcomes, Fundamentals of Transportation Data Part 1 & Part 2, and Telling the Performance Story. This webinar series will continue to operate on a quarterly schedule through 2016.

- FHWA has taken steps to prepare to effectively carry out its Federal role when the new rules are in place. This work includes the development of guidance and tools as resources to consistently and effectively provide technical assistance and oversight of the new performance elements of the Federal-Aid Highway Program. FHWA created a Web site (http://www.fhwa.dot.gov/tpm) where a number of outreach and guidance materials are posted to support TPM implementation and the review of NPRMs. This site also includes presentation slides, summary fact sheets, and information that can be used for distribution at local and national conferences. In addition, the Web site includes a banner for News and Events that posts related scheduled events and webinars around the country.

Key Challenge e: Following Through on Actions To Implement the High-Speed Intercity Passenger Rail Grant Program

Actions taken in FY 2015

- FRA has substantially completed most Passenger Rail Investment and Improvement Act of 2008 and Rail Safety Improvement Act of 2008 mandates and made considerable progress overseeing High-Speed Intercity Passenger Rail (HSIPR) grants. For example, as of March by the end of FY 2015, FRA had disbursed $3.8 billion through the HSIPR program.
- In April 2015, the Northeast Corridor Commission released the first 5-year capital investment plan for the corridor. The plan integrates the priorities of the four corridor infrastructure owners, nine operators, and affected Government agencies.
- In July 2015, DOT announced that it would further engage stakeholders in the Southeast and Midwest United States to form regional governance organizations.
- FRA is continuing its project oversight and monitoring to deliver ARRA-funded projects on time and on budget.
- FRA is continuing its national, multistate, and State planning to advance regional rail networks and ensure that projects appropriately reflect priorities based on a comprehensive understanding of costs and benefits. FRA is also continuing service development plans and environmental analyses for corridors and terminal areas.

MANAGEMENT CHALLENGE 5: LEVERAGING EXISTING FUNDING MECHANISMS TO FINANCE SURFACE TRANSPORTATION PROJECTS IN A CHALLENGING FISCAL ENVIRONMENT

Why is this issue important?

Governments at all levels in the United States are finding it difficult to keep pace with the demand for transportation investment. In 2013, 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. DOT's primary Federal tool for channeling investment—the 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 Challenge a: Ensuring the Long-Term Solvency of the Highway Trust Fund

The Administration submitted its proposed surface reauthorization, the Grow America Act, on April 29, 2014. It has proposed a number of offsets for the costs of the proposed reauthorization. To date, Congress has enacted short-term extensions of MAP-21 funding levels. Despite these extensions, both the Highway and Transit accounts in the HTF will be approaching their prudent balances for cash management. DOT has published an End-of-Month Cash Balance Ticker on its Web site.

Congress has begun work on a long-term Surface Reauthorization.

Key Challenge b: Leveraging DOT Credit Programs To Help Meet Demand for Financing Future Projects

- DOT established the Build America Transportation Investment Center to encourage use of innovative financing tools such as the Railroad Rehabilitation and Improvement Financing (RRIF) Program. To date, FRA has issued 34 RRIF loans totaling nearly $2.7 billion. In May 2015, FRA closed its largest RRIF loan ever—$967 million for New York City's Metropolitan Transportation Authority positive train control deployment on Metro-North Railroad (Metro North) and Long Island Rail Road.
- FRA has implemented numerous program enhancements that improve the quality of applications and streamline the review time for most applicants. FRA worked with the Credit Council and Assistant Secretary for Budget and Programs to improve the process. For example, the Credit Council gave FRA authority to hire an independent financial advisor or conduct internal financial analysis without prior Credit Council approval for loan applications up to $25 million. In addition, FRA now begins negotiations with applicants earlier in the process, thereby providing the Credit Council more information and reducing delays or significant changes due to the financing agreement.

MANAGEMENT CHALLENGE 6: MANAGING ACQUISITIONS AND GRANTS TO MAXIMIZE PERFORMANCE AND SAVE FEDERAL FUNDS

Why is this issue important?

DOT spent over $61 billion on contracts and grants in fiscal year 2013. The President and OMB have tasked the Federal Government to develop smarter acquisition processes and contracts that deliver the best value, especially given current fiscal constraints. The Inspector General's 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.

Key Challenge a: Improving Acquisition Practices for Management Support Services

Actions taken in FY 2015

The Senior Procurement Executive (SPE) is conducting a department-wide comprehensive analysis on management support services contracts to better manage Management Support Services (MSS) contracts. The SPE management support service analysis includes:

- Expanding review/analysis of MSS contracts. The SPE identified strategies and approaches to improve effectiveness and efficiencies by comparing FAA contract cost escalation rates, high-risk contracts, overhead General and Administrative rates, and labor rate variations. The MSS analysis reviewed 72 FAA contracts and identified approximately $4.6 to $6.3 million in annual savings. Opportunities for continuing improvement were identified, and the team will be working across DOT to develop a comprehensive business case, develop plans to present to the Strategic Sourcing Executive Steering Committee, and implement appropriate solutions.
- The Department continues to seek opportunities to reduce spending on MSS and has initiated several actions that will provide a foundation for improving the use of MSS contracts. Among these opportunities is GSA's One Acquisition Solution for Integrated Services (OASIS).

- OASIS has been put in place to give Government agencies an additional tool to reduce costs associated with all types of professional service contracts. This Federal Strategic Sourcing Initiative provides an immediate government wide strategic sourcing Indefinite Delivery-Indefinite Quantity contracting vehicle for professional support services.
- The use of OASIS for contracts involving professional support services has been strongly encouraged across all OAs.

- Strengthen internal controls and provide increased oversight of the award of management support contracts. The Department (in FY 2014) established the Acquisition Strategy Review Board (ASRB). ASRB continues to provide a departmental review of all high-risk acquisition strategies over $10 million and all acquisition strategies over $20 million.

Key Challenge b: Strengthening Contract and Grant Management and Oversight of Departmental Programs

Actions taken in FY 2015

- Continuing to execute the detailed process for Office of the Senior Procurement Executive (OSPE) staff to regularly evaluate OAs' compliance with departmental and Federal timeframes for (1) making Suspension and Debarment (S&D) decisions (within the 45-day requirement) and (2) reporting to the GSA System for Award Management (SAM) within 3 days for procurement actions and 5 days for non-procurement actions. This process includes follow up actions to correct instances of noncompliance.
- Finalizing the requirement for all OAs to establish or update their S&D procedures to supplement Federal S&D requirements as well as the DOT S&D Order—including requiring recipients to report exclusions and review SAM prior to awarding contracts or assistance agreements. OSPE requested all OAs to provide updates by August 2015. Currently, OSPE has updates from FAA, FHWA, FRA, and Volpe.
- Continuing to execute detailed procedures for regularly verifying the accuracy and completeness of the data reported to the DOT S&D system—including the key data fields needed for OSPE to assess the timeliness of decisions and reporting.
- Continue to maintain the data dictionary for the DOT S&D system that defines each data field and identifies which fields to populate. The data dictionary is available to all relevant stakeholders and in included in DOT S&D system training.
- Ensure that all relevant stakeholders continue to use the revised DOT S&D Order. The order was revised in December 2014.
- Continuing to execute the detailed process for OSPE staff to regularly reconcile data in the DOT S&D system and SAM—including identifying and correcting data discrepancies. Using the new process, OSPE completed a comprehensive reconciliation of data in the DOT S&D system and SAM, and corrected all discrepancies in the July 2015 timeframe.
- Continuing to conduct quarterly internal S&D meetings with all OAs and S&D stakeholders, as established in the DOT S&D Order.
- Continuing to facilitate monthly status reporting of S&D referrals (by the Associate Director to the Senior Procurement Executive). Since December 2014, this process has facilitated a direct dialogue that has heightened situational awareness of S&D activity across the Department.

MANAGEMENT CHALLENGE 7: SECURING INFORMATION TECHNOLOGY RESOURCES

Why is this issue important?

DOT uses 454 information systems to operate some of the Nation's most critical transportation systems. 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 cyberattacks while keeping needed data available and accurate, DOT is working to implement a number of related Presidential priorities and initiatives. Longstanding cybersecurity weaknesses and challenges with integrating and coordinating shared security controls could hinder DOT in meeting its IT security goals, however.

Key Challenge a: Implementing Presidential Priorities and Initiatives

Key Challenge b: Resolving Longstanding Security Vulnerabilities

Key Challenge c: Integrating and Coordinating Shared Security Controls

Actions taken in FY 2015

- Recruited six new cybersecurity personnel in the Office of the Chief Information Officer (CIO), including the hiring of a new Chief Information Security Officer for the agency;
- Reached or exceeded the Department's targets for FY 2015 Cybersecurity Cross-Agency Priority goals: (1) monitored 99 percent of Transportation IT assets for hardware and software inventory using existing tools; (2) required 98.3 percent of unprivileged network accounts to authenticate to agency networks using their PIV cards; (3) required 100 percent of privileged network accounts to authenticate to agency networks using their PIV cards; and (4) provided 100-percent coverage of agency e-mail with anti-phishing and anti-malware defensive capabilities;
- Collaborated with the Office of Security to identify funds for and acquire a new personnel security system in FY 2015 that supports tracking of both Federal and contractor personnel, with full implementation planned for FY 2016;
- Completed reviews of agency contracts covering the processing and storage of sensitive privacy information in collaboration with the Office of the Senior Procurement Executive;
- Completed and closed 11 audit recommendations;
- Successfully participated in and met the objectives of the Federal Cyber Sprint led by the Federal CIO and OMB cyber team; and
- Participated in the evaluation and award of Task Order 2B Continuous Diagnostics and Mitigation (CDM) contracts with GSA and DHS, and initiated CDM implementation across the agency to enhance the agency Information Security Continuous Monitoring program and implement an agency risk management dashboard that will also provide information to DHS.

FINANCIAL REPORT

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

I am pleased to issue the Department of Transportation's (DOT) Fiscal Year 2015 Agency Financial Report (AFR). In addition to this information, DOT is preparing our Annual Performance Report, which will be published in early 2016. For the accompanying AFR, we highlight our progress in several financial management areas during Fiscal Year 2015. The Department made significant progress in several areas, including the development of an implementation plan for the Digital Accountability and Transparency Act of 2014 (DATA Act), designation as a Federal shared service provider, transition to a new travel management system as part of the e-Gov Travel Services 2 initiative (ETS2) 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 fourteenth "clean" opinion in the past fifteen 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 to include the implementation of a modernized grants management system 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.

DATA ACT

DOT is committed to making Federal spending data more accessible, searchable, and reliable by implementing Government-wide data standards, and providing a solid link between data recorded in our financial system (Delphi) with financial assistance and procurement data by using a unique award identifier. In FY 2015, the Department drafted its "Implementation Plan for Federal Spending Transparency and the Digital Accountability and Transparency Act of 2014". This Plan addresses essential milestones needed for a successful transition for implementing the goals and requirements set forth in the DATA Act.

The Department is implementing a strategic phased approach to address new DATA Act requirements, taking into consideration evolving guidance, anticipated policy and process changes, and the extensive level of engagement required from each DOT Operating Administration (OA) and DOT's Federal Shared Service Provider—the Enterprise Services Center (ESC). In Phase 1, we will focus meeting the needs for public reporting, relying principally on the capabilities of DOT's current systems. In Phase 2, DOT will shift to a long-term focus on improving reporting systems to support sustained DATA Act compliance.

FEDERAL SHARED SERVICE PROVIDER INITIATIVE

Also significant during 2015 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. DOT now functions as a shared service provider, providing interim service to the Department of Labor (DOL). During 2015, the ESC entered into an agreement with the DOL for the discovery phase of a potential initiative that would bring DOL onboard as one of ESC's Delphi customers. DOT is committed to supporting this important financial management initiative, and this remains a key focus in 2016, as DOT prepares to provide services to additional Federal agencies.

E-GOV TRAVEL SERVICES 2 (ETS2)

During the fourth quarter of FY 2015, the Department completed its ETS2 implementation. This effort modernized and streamlined the travel management system through the General Services Administration's (GSA) e-Gov Travel Service 2 (ETS2) initiative. ETS2 builds on the success of the first generation e-Gov Travel Service, to help the government further consolidate online travel booking services and expense management platforms, driving additional cost savings and efficiencies.

The Department's ETS2 system, E2 Solutions (E2), uses an intuitive user interface that mirrors commercial online travel booking engines and improves the user's overall e-travel experience. E2 provides enhanced reporting features via self-service and interactive reporting tools and expanded search criteria. Additionally, there is a direct link between the Department's financial system (Delphi) and E2, which enables improved monitoring, tracking, and validation of travel funds.

CONCLUSION

In 2015, our financial management and budget communities across DOT worked together to sustain and improve the Department's financial health. I would like to express my appreciation to the Department's team for their professionalism and valuable, consistent efforts to plan, execute, and account for the Department's resources. They provide the foundation for DOT's success as good stewards of public dollars.

Lana Hurdle

OFFICE OF INSPECTOR GENERAL QUALITY CONTROL REVIEW

Memorandum

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

Subject: **ACTION:** Quality Control Review of Audited Financial Statements for Fiscal Years 2015 and 2014 Department of Transportation Report Number: QC-2016-008

Date: November 16, 2015

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 2015 and 2014.

KPMG LLP of Washington, DC, completed the audit of DOT's consolidated financial statements as of and for the years ended September 30, 2015, and September 30, 2014, (see attachment), under contract to the Office of Inspector General (OIG). The contract required that the audit be performed in accordance with generally accepted Government auditing standards and Office of Management and Budget (OMB) Bulletin 15–02, "Audit Requirements for Federal Financial Statements."

KPMG concluded that the consolidated financial statements present fairly, in all material respects, DOT's financial position as of September 30, 2015, and September 30, 2014, 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.[1]

KPMG's Fiscal Year 2015 Audit Report

KPMG reported one material weakness and one significant deficiency in internal control over financial reporting. KPMG also reported instances of noncompliance with laws and regulations.

[1] Pages 58 and 59 of the attached Agency Financial Report

The 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.

The Significant Deficiency

Lack of Sufficient Controls over Grant Accrual. The Federal Highway Administration (FHWA) does not have adequate documented policies and procedures for its grant accrual methodology to ensure that consistent, complete, and timely data is obtained from grant recipients to properly estimate its year-end grant accrual for the Federal-Aid Highway Program. As a result, FHWA's grant accrual as of September 30, 2015, may be understated by an estimated $538 million.

Instances of 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 $40,000 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's 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 consolidated financial statements or conclusions about the effectiveness of internal controls or compliance with laws and regulations. KPMG is responsible for its report dated November 12, 2015, 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 8 recommendations to strengthen DOT's financial, accounting, and system controls. DOT officials concurred with KPMG's recommendations. The Department also committed to submitting to OIG by December 31, 2015, a detailed action plan to address the findings contained in KPMG's audit report. In accordance with DOT Order 8000.1C, the corrective actions taken in response to the findings are subject to follow up.

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

Attachment

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INDEPENDENT AUDITORS' REPORT

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

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Department of Transportation ("Department" or "DOT"), which comprise the consolidated balance sheets as of September 30, 2015 and 2014, 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. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

KPMG

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, 2015 and 2014, 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 Note 1U, the Highway Trust Fund and the Airport and Airway Trust Fund are primary sources of funding for the Department. The contract authority for the Federal Highway Administration, Federal Transit Administration, Federal Motor Carrier Safety Administration, and the National Highway Traffic Safety Administration, and the authority to collect and deposit excise taxes into and make expenditures from the Highway Trust Fund expires on November 20, 2015. The Federal Aviation Administration's contract authority and the authority to collect and deposit excise taxes into and make expenditures form the Airport and Airway Trust Fund expires on March 31, 2016. Our opinion is not modified with respect to these matters.

Other Matters

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

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The information in the Other Information, Foreword, Message from the Secretary, and Message from the Chief Financial Officer, and Assistant Secretary for Budget and Programs is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the 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, 2015, 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 a significant deficiency.

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 deficiency 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 deficiency described in Exhibit II Section B to be a significant deficiency.

Compliance and Other Matters

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

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

Department's Responses to Findings

The Department's responses to the findings identified in our audit, are described and presented 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

Washington, D.C.
November 12, 2015

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 U.S. General Accountability Office (GAO)'s *Federal Information System Controls Audit Manual* (FISCAM), defines the objectives used to evaluate General Information Technology Controls (GITC) in five key control areas: security management, access control, configuration management, segregation of duties, and contingency planning. FISCAM and the standards and guidelines issued by the National Institute of Standards and Technology (NIST), Special Publication 800-53 define IT security and related business process application control objectives supporting the structure, policies, and procedures that apply to the use, operability, interface, edit, and monitoring controls of a financial IT application. In addition, the DOT Cyber Security Compendium, version 3.0 dated September 2013, provides DOT's policies, procedures, and controls related to the security of DOT information systems that support DOT's mission, operations, and assets, including those provided or managed by another Federal agency, contractor, grantee, or other source.

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 FY2015 testing of the significant DOT financial IT systems, we identified several control deficiencies in the FTA's IT environment, specifically over the grant IT systems. We have classified the deficiencies identified into the following three categories:

Provisioning of Access and Segregation of Duties:

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

Vulnerability Management:

Detective controls, such as credentialed vulnerability scanning, are controls designed to detect whether systems are exposed to risks related to misconfiguration or out-of-date patches. Deficiencies were identified over certain vulnerability management controls in the FTA's grants systems. Specifically, management does not proactively manage vulnerabilities by performing consistent and/or sufficient

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

EXHIBIT I
MATERIAL WEAKNESS

vulnerability scans for certain systems. As a result, the related systems are at risk of privilege escalation, data leakage, denial-of-service, or unauthorized modification of data held within databases that are necessary for the complete and accurate presentation of the financial statements.

System Audit Log Reviews and Change Management:

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

Cause

FTA does not have sufficient procedures and controls in place to ensure compliance with the requirements of FISCAM and the underlying Federal IT security requirements, as documented in the DOT Cyber Security Compendium, version 3.0 dated September 2013.

Effect

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

Recommendations

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

1. Develop policies, procedures and controls to address the provisioning of IT access, vulnerability management, system audit log review, and change management control deficiencies identified in the FTA 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 DEFICIENCY

B. Lack of Sufficient Controls over Grant Accrual

Criteria

FASAB SFFAS 5 *Accounting for Liabilities of the Federal Government* paragraphs 19 and 24-25 state that:

> 19. A liability for federal accounting purposes is a probable future outflow or other sacrifice of resources as a result of past transactions or events. General purpose federal financial reports should recognize probable and measurable future outflows or other sacrifices of resources arising from (1) past exchange transactions, (2) government-related events, (3) government-acknowledged events, or (4) nonexchange transactions that, according to current law and applicable policy, are unpaid amounts due as of the reporting date
>
> 25. Many grant and certain entitlement programs are nonexchange transactions. When the federal government creates an entitlement program or gives a grant to state or local governments, the provision of the payments is determined by federal law rather than through an exchange transaction.

Further, FASAB Technical Release 12: *Accrual Estimate for Grant Programs* Paragraphs 14 and 32 states:

> 14. Agencies must accumulate sufficient relevant and reliable data on which to base accrual estimates. Each agency should prepare grant accrual estimates based upon the best available data at the time the estimates are made.

Background

The Federal Highway Administration (FHWA) Federal-Aid Highway Trust Fund program (Fed-Aid) provides grants to help build and maintain the nation's highway systems. The Fed-Aid program has 52 significant grantees: the 50 states, the District of Columbia, and Puerto Rico ("states"). Each quarter, FHWA estimates a grant accrual for each grantee to recognize expenses incurred by grantees, but not billed to FHWA. A key input into the grant accrual calculation is the grantee's accrual period. The accrual period is a weighted average based on the percentage of spending and the accrual periods for four major expenditure categories: state DOT (grantee) payroll, third party contractors, right of way, and other. FHWA obtains the accrual period and percentage of spending for each expenditure category from the grantee by sending surveys.

Condition

In FY 2015, FHWA surveyed 16 grantees in order to validate key inputs used in the grant accrual estimation methodology.

Of the 16 grantees, two grantees did not respond or responded with incomplete data that could not be used by FHWA to apply the grant accrual estimation methodology. For these grantees, FHWA relied on information obtained in a prior year; however, FHWA did not perform alternative procedures or analysis to validate that the prior year accrual periods are still relevant and reliable.

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

EXHIBIT II
SIGNIFICANT DEFICIENCY

For the remaining 14 grantees surveyed, FHWA used the survey responses to apply the grant accrual methodology. However, FHWA did not document how the grantees' survey responses were used to validate the accrual periods for each expenditure category (i.e., which survey responses were used for which categories) and did not consistently apply a methodology to the survey responses across all grantees. Additionally, the accrual periods for the expenditure categories across nine grantees did not agree to the respective grantee's survey response; and the accrual periods for another four grantees contained mathematical errors.

Cause

The FHWA does not have adequate and documented policies and procedures over the grant accrual methodology, including what constitutes relevant and reliable data inputs, the impact to the estimate from incomplete responses or non-responses from grantees, how to document acceptable deviations from the methodology, and the frequency for when the methodology should be revalidated.

Effect

The FHWA grant accrual, as of September 30, 2015, may be understated by an estimated $538 million as a result of the inconsistent and/or incorrect data inputs and/or assumptions.

Recommendations

We recommend that FHWA:

1. Establish policies, procedures, and controls over the accrual period revalidation process, including policies to regularly revalidate the accrual periods.
2. Develop survey questions that more closely align with the relevant data necessary to determine the accrual periods for the four expenditure categories; and,
3. Document the methodology of how the survey responses are used to determine the accrual period. When a deviation from the standard methodology is necessary; document the reasoning and maintain evidence to support the deviation.

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

EXHIBIT III
INSTANCES OF NONCOMPLIANCE

C. 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.

[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

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.

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

EXHIBIT III
INSTANCES OF NONCOMPLIANCE

D. 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.

MANAGEMENT'S RESPONSE TO THE INDEPENDENT AUDITORS' REPORT

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

1200 New Jersey Avenue, SE
Washington, DC 20590

November 13, 2015

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

M. Hannah Padilla
Partner, KPMG LLP

FROM: Lana Hurdle
Deputy Assistant Secretary for Budget and Programs

SUBJECT: Management's Response to the Audit Report on the Consolidated Financial Statements for Fiscal Years (FY) 2015

The Department of Transportation (DOT) is pleased to respond to the report on our Consolidated Financial Statements for FY 2015. We take great pride in our ability to sustain strong and vigilant financial management, as demonstrated in our achievement of an unmodified audit opinion.

We concur with the material weakness and significant deficiency contained in your report on internal controls over financial reporting, and with two instances of non-compliance found in certain provisions of selected laws and regulations that you reviewed. We concur with all 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, 2015, 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. Please refer any questions to David J. Rivait, Deputy Chief Financial Officer.

PRINCIPAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

As of September 30

Dollars in Thousands	2015	2014
Assets		
Intragovernmental		
Fund Balance With Treasury *(Note 2)*	$34,265,425	$37,335,087
Investments, Net *(Note 3)*	22,652,315	25,713,597
Accounts Receivable *(Note 4)*	119,522	113,305
Other *(Note 5)*	50,883	71,473
Total Intragovernmental	**57,088,145**	**63,233,462**
Accounts Receivable, Net *(Note 4)*	165,526	167,856
Direct Loan and Loan Guarantees, Net *(Note 6)*	8,912,154	8,508,423
Inventory and Related Property, Net *(Note 7)*	909,960	900,787
General Property, Plant and Equipment, Net *(Note 8)*	13,772,180	13,914,590
Other *(Note 5)*	33,397	18,567
Total Assets	**$80,881,362**	**$86,743,685**
Stewardship property, plant and equipment *(Note 9)*		
Liabilities (Note 10)		
Intragovernmental		
Accounts Payable	$3,941	$6,062
Debt *(Note 11)*	8,972,231	8,185,001
Other *(Note 14)*	1,448,688	1,879,138
Total Intragovernmental	**10,424,860**	**10,070,201**
Accounts Payable	420,445	527,837
Loan Guarantee Liability *(Note 6)*	105,985	147,693
Federal Employee Benefits Payable	930,066	995,250
Environmental and Disposal Liabilities *(Note 12)*	1,118,668	1,165,195
Grant Accrual *(Note 13)*	6,361,980	6,451,084
Other *(Note 14)*	1,122,010	1,099,712
Total Liabilities	**$20,484,014**	**$20,456,972**
Commitments and contingencies *(Note 16)*		
Net Position		
Unexpended Appropriations—Funds From Dedicated Collections *(Note 17)*	$1,213,328	$1,141,499
Unexpended Appropriations—Other Funds	24,224,817	26,932,115
Cumulative Results of Operations—Funds From Dedicated Collections *(Note 17)*	23,945,246	27,392,597
Cumulative Results of Operations—Other Funds	11,013,957	10,820,502
Total Net Position—Funds From Dedicated Collections	**25,158,574**	**28,534,096**
Total Net Position—Other Funds	**35,238,774**	**37,752,617**
Total Net Position	**60,397,348**	**66,286,713**
Total Liabilities and Net Position	**$80,881,362**	**$86,743,685**

The accompanying notes are an integral part of these financial statements

PRINCIPAL STATEMENTS (continued)

CONSOLIDATED STATEMENTS OF NET COST

For the periods ended September 30

Dollars in Thousands	2015	2014
Program costs *(Note 18)*		
Surface Transportation		
Gross Costs	$59,784,069	$60,808,232
Less: Earned Revenue	850,733	904,212
Net Program Costs	**58,933,336**	**59,904,020**
Air Transportation		
Gross Costs	16,385,736	16,594,038
Less: Earned Revenue	528,743	626,821
Net Program Costs	**15,856,993**	**15,967,217**
Maritime Transportation		
Gross Costs	739,936	727,049
Less: Earned Revenue	366,191	459,948
Net Program Costs	**373,745**	**267,101**
Cross-Cutting Programs		
Gross Costs	666,541	658,244
Less: Earned Revenue	241,082	245,520
Net Program Costs	**425,459**	**412,724**
Costs Not Assigned to Programs	449,402	403,955
Less: Earned Revenues Not Attributed to Programs	220	798
Net Cost of Operations	**$76,038,715**	**$76,954,219**

The accompanying notes are an integral part of these financial statements

PRINCIPAL STATEMENTS (continued)

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

For the periods ended September 30

Dollars in Thousands	2015 Dedicated Collections	2015 All Other Funds	2015 Total	2014 Dedicated Collections	2014 All Other Funds	2014 Total
Cumulative Results of Operations						
Beginning Balance	$27,392,597	$10,820,502	$38,213,099	$17,544,519	$10,576,836	$28,121,355
Budgetary Financing Sources						
Appropriations Used	1,096,984	15,713,053	16,810,037	2,828,625	30,094,245	32,922,870
Non-Exchange Revenue *(Note 19)*	55,386,197	19,092	55,405,289	52,832,312	44,734	52,877,046
Donations/Forfeitures of Cash/Cash Equivalents	2,431	—	2,431	834	—	834
Transfers-in/(out) Without Reimbursement	8,025,086	(8,062,500)	(37,414)	22,504,619	(21,452,800)	1,051,819
Other	—	—	—	666	37	703
Other Financing Sources (Non-Exchange)						
Donations and Forfeitures of Property	—	40,902	40,902	—	43,784	43,784
Transfers-in/(out) Without Reimbursement	(1,673,061)	1,741,128	68,067	(1,521,741)	1,581,000	59,259
Imputed Financing	381,286	118,456	499,742	562,476	126,266	688,742
Other	1,822	(6,057)	(4,235)	1,157	(600,251)	(599,094)
Total Financing Sources	**63,220,745**	**9,564,074**	**72,784,819**	**77,208,948**	**9,837,015**	**87,045,963**
Net Cost of Operations	66,668,096	9,370,619	76,038,715	67,360,870	9,593,349	76,954,219
Net Change	(3,447,351)	193,455	(3,253,896)	9,848,078	243,666	10,091,744
Cumulative Results of Operations	**$23,945,246**	**$11,013,957**	**$34,959,203**	**$27,392,597**	**$10,820,502**	**$38,213,099**
Unexpended Appropriations						
Beginning Balance	1,141,499	26,932,115	28,073,614	951,055	29,852,703	30,803,758
Budgetary Financing Sources						
Appropriations Received *(Note 1U)*	1,145,700	13,610,044	14,755,744	3,156,214	27,227,785	30,383,999
Appropriations Transferred-in/(out)	1,865	9,135	11,000	940	10,024	10,964
Other Adjustments	21,248	(613,424)	(592,176)	(138,085)	(64,152)	(202,237)
Appropriations Used	(1,096,984)	(15,713,053)	(16,810,037)	(2,828,625)	(30,094,245)	(32,922,870)
Total Budgetary Financing Sources	71,829	(2,707,298)	(2,635,469)	190,444	(2,920,588)	(2,730,144)
Total Unexpended Appropriations	**$1,213,328**	**$24,224,817**	**$25,438,145**	**$1,141,499**	**$26,932,115**	**$28,073,614**
Net Position	**$25,158,574**	**$35,238,774**	**$60,397,348**	**$28,534,096**	**$37,752,617**	**$66,286,713**

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	2015 Budgetary	2015 Non-Budgetary Credit Reform Financing Accounts	2014 Budgetary	2014 Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources *(Note 20)*				
Unobligated Balance, Brought Forward, October 1	$51,002,674	$243,295	$56,450,680	$263,000
Recoveries of Prior Year Unpaid Obligations	937,714	—	915,784	38,617
Other Changes in Unobligated Balance	(548,255)	—	(26,452)	(30,941)
Unobligated Balance From Prior Year Budget Authority, Net	**51,392,133**	**243,295**	**57,340,012**	**270,676**
Appropriations *(Note 1U)*	26,377,847	—	39,945,121	—
Borrowing Authority	—	4,169,831	—	7,422,435
Contract Authority	53,968,762	—	54,178,887	—
Spending Authority From Offsetting Collections	10,314,894	418,255	8,604,967	587,916
Total Budgetary Resources	**$142,053,636**	**$4,831,381**	**$160,068,987**	**$8,281,027**
Status of Budgetary Resources				
Obligations Incurred	$94,164,819	$4,607,863	$109,066,313	$8,037,732
Unobligated Balance, End of Year				
Apportioned	29,528,746	14,428	31,870,402	25,286
Exempt From Apportionment	291,367	—	324,455	—
Unapportioned	18,068,704	209,090	18,807,817	218,009
Unobligated Balance, End of Year	**47,888,817**	**223,518**	**51,002,674**	**243,295**
Total Budgetary Resources	**$142,053,636**	**$4,831,381**	**$160,068,987**	**$8,281,027**

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	2015 Budgetary	2015 Non-Budgetary Credit Reform Financing Accounts	2014 Budgetary	2014 Non-Budgetary Credit Reform Financing Accounts
Change in Obligated Balances				
Unpaid Obligations				
Unpaid Obligations, Brought Forward, October 1 (Gross)	$109,639,711	$10,529,022	$109,281,959	$4,729,125
Obligations Incurred	94,164,819	4,607,863	109,066,313	8,037,732
Outlays (Gross)	(94,614,589)	(2,433,722)	(107,802,777)	(2,199,218)
Actual Transfers, Unpaid Obligations	10,000	—	10,000	—
Recoveries of Prior Year Unpaid Obligations	(937,714)	—	(915,784)	(38,617)
Unpaid Obligations, End of Year (Gross)	108,262,227	12,703,163	109,639,711	10,529,022
Uncollected Payments				
Uncollected Payments, Federal Sources, Brought Forward, October 1	(1,273,596)	(615,395)	(1,385,061)	(306,098)
Change in Uncollected Payments, Federal Sources	392,167	(147,424)	111,465	(309,297)
Uncollected Payments, Federal Sources, End of Year	(881,429)	(762,819)	(1,273,596)	(615,395)
Obligated Balance, Start of Year (Net)	108,366,115	9,913,627	107,896,898	4,423,027
Obligated Balance, End of Year (Net)	**$107,380,798**	**$11,940,344**	**$108,366,115**	**$9,913,627**
Budget Authority and Outlays, Net				
Budget Authority, Gross	$90,661,503	$4,588,086	$102,728,975	$8,010,351
Actual Offsetting Collections	(10,639,795)	(1,626,723)	(8,719,340)	(953,401)
Change in Uncollected Customer Payments From Federal Sources	392,167	(147,424)	111,465	(309,297)
Budget Authority, Net	**$80,413,875**	**$2,813,939**	**$94,121,100**	**$6,747,653**
Outlays, Gross	$94,614,589	$2,433,722	$107,802,777	$2,199,218
Actual Offsetting Collections	(10,639,795)	(1,626,723)	(8,719,340)	(953,401)
Outlays, Net	83,974,794	806,999	99,083,437	1,245,817
Distributed Offsetting Receipts	(8,552,295)	—	(22,960,632)	—
Agency Outlays, Net	**$75,422,499**	**$806,999**	**$76,122,805**	**$1,245,817**

The accompanying notes are an integral part of these financial statements

NOTES TO THE PRINCIPAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

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

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

- Office of the Secretary (OST) [includes OST Working Capital Fund, Volpe National Transportation Center, and Office of the Assistant Secretary for Research and Technology]
- Federal Aviation Administration (FAA)
- Federal Highway Administration (FHWA)
- Federal Motor Carrier Safety Administration (FMCSA)
- Federal Railroad Administration (FRA)
- Federal Transit Administration (FTA)
- Maritime Administration (MARAD)
- National Highway Traffic Safety Administration (NHTSA)
- Office of Inspector General (OIG)
- Pipeline and Hazardous Materials Safety Administration (PHMSA)
- 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 are not included in the DOT consolidated financial statements as they are subject to separate reporting requirements under the Government Corporation Control Act and the dollar value of its activities is not material to that of the Department taken as a whole. Condensed information about SLSDC's financial position is presented in the Other Information section.

B. BASIS OF PRESENTATION

The consolidated financial statements have been prepared to report the Department's financial position and results of operations as required by the Chief Financial Officers Act of 1990 (CFO Act) and Title IV of the Government Management Reform Act of 1994. The statements have been prepared from the DOT books and records in accordance with Office of Management and Budget (OMB) form and content requirements for entity financial statements and DOT's accounting policies and procedures.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Material intradepartmental transactions and balances have been eliminated from the principal statements for presentation on a consolidated basis, except for the Combined Statements of Budgetary Resources, which is presented on a combined basis in accordance with OMB Circular A-136, *Financial Reporting Requirements*, as revised, and as such, intraentity transactions have not been eliminated. Unless otherwise noted, all dollar amounts are presented in thousands.

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

The Consolidated Statements of Net Cost presents the gross costs of programs, less earned revenue, to arrive at the net cost of operations for both the programs and the 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 net position balances.

The Combined Statements of Budgetary Resources provide information about how budgetary resources were made available, as well as the status of budgetary resources at the end of the reporting periods. Recognition and measurement of budgetary information reported on these statements is based on budget terminology, definitions, and guidance presented in OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, dated June 2015.

A Statement of Custodial Activity is not presented since DOT custodial activity is incidental to departmental operations (0.39 percent of total revenue) and is not considered material to the consolidated financial statements taken as a whole.

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

DOT accounts for dedicated collections separately from other funds. Funds from dedicated collections are financed by specifically identified revenues, provided to the

Government by non-Federal sources, often supplemented by other financing sources which remain available over time. Funds from dedicated collections are required, by statute, to be used for designated activities, benefits or purposes.

C. BUDGETS AND BUDGETARY ACCOUNTING

DOT follows standard Federal budgetary accounting policies and practices in accordance with OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, dated June 2015. 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) 2015 and FY 2014, the Department was accountable for trust fund appropriations, general fund appropriations, revolving fund activity, borrowing authority, and contract authority. DOT recognizes budgetary resources as assets when cash (funds held by the U.S. Treasury) is made available through warrants and trust fund transfers.

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

D. BASIS OF ACCOUNTING

The Department is required to be in substantial compliance with all applicable accounting principles and standards developed and issued by the Federal Accounting Standards Advisory Board (FASAB), which is recognized by the American Institute of Certified Public Accountants (AICPA) as the entity to establish generally accepted accounting principles (GAAP) for the Federal Government. The Federal Financial Management Improvement Act (FFMIA) of 1996 requires the Department to comply substantially with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Standard General Ledger requirements at the transaction level.

Transactions are recorded on an accrual and a budgetary accounting basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. Under the budgetary basis, however, funds availability is recorded based upon legal considerations and constraints.

E. FUNDS WITH THE U.S. TREASURY

DOT does not generally maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. The funds with the U.S. Treasury are appropriated, revolving, and trust funds that are available to pay liabilities and finance authorized purchases. Lockboxes have been established with financial institutions to collect certain payments, and these funds are transferred directly to the U.S. Treasury on a daily (business day) basis. DOT does not maintain any balances of foreign currencies.

F. INVESTMENTS IN U.S. GOVERNMENT SECURITIES

Investments, consisting of U.S. Government Securities, are reported at cost, adjusted for amortized cost, net of premiums or discounts, and are held to maturity. Premiums or discounts are amortized into interest income over the term of the investment using the interest method. The Department has the intent and the ability to hold investments to maturity. Investments, redemptions, and reinvestments are controlled and processed by the U.S. Treasury. 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.

I. PROPERTY AND EQUIPMENT

DOT Operating Administrations have varying methods of determining the value of general purpose property and equipment and how it is depreciated. DOT currently has a capitalization threshold of $200 thousand for structures and facilities and for internal use software, and $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, D.C., the Nuclear Ship Savannah, and collections of maritime artifacts, are considered priceless and are not capitalized in the Consolidated Balance Sheets (See Note 9).

J. ADVANCES AND PREPAYMENTS

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

K. LIABILITIES

Liabilities represent amounts expected to be paid as the result of a transaction or event that has already occurred. Liabilities covered by budgetary resources are liabilities, which are covered by 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 transactions other than contracts. Liabilities Not Covered by Budgetary Resources are liabilities where 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. Treasury.

The Department has entered into contractual commitments that require future use of financial resources, specifically for long-term lease obligations. The Department is

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 they are either recorded as capital or operating leases (see Note 15).

M. ANNUAL, SICK, AND OTHER LEAVE

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

N. RETIREMENT PLAN

For DOT employees who participate in the Civil Service Retirement System (CSRS), DOT contributes a matching contribution equal to 7 percent of pay. On January 1, 1987, Federal Employee Retirement System (FERS) went into effect pursuant to Public Law (P.L.) 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which DOT automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For most employees hired since December 31, 1983, DOT also contributes the employer's matching share for Social Security.

Employing agencies are required to recognize pensions and other postretirement benefits during the employees' active years of service. Reporting the assets and liabilities associated with such benefit plans is the responsibility of the administering agency, the U.S. Office of Personnel Management (OPM). Therefore, DOT does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to employees.

O. FEDERAL EMPLOYEES HEALTH BENEFIT (FEHB) PROGRAM

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

P. FEDERAL EMPLOYEES GROUP LIFE INSURANCE (FEGLI) PROGRAM

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

Q. FEDERAL EMPLOYEES COMPENSATION ACT (FECA) BENEFITS

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

R. ENVIRONMENTAL AND DISPOSAL LIABILITIES

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

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

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

S. USE OF ESTIMATES

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

Significant estimates underlying the accompanying financial statements include the accruals of accounts and grants payable, and accrued legal, contingent, environmental,

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

T. ALLOCATION TRANSFERS

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

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

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

U. REVENUES AND OTHER FINANCING SOURCES

Funds From Dedicated Collections Excise Tax Revenues (Nonexchange)

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

The DOT September 30, 2015 financial statements reflect excise taxes certified by the IRS through June 30, 2015 and excise taxes distributed by the U.S. Treasury, Office of Tax Analysis (OTA) for the period July 1, 2015, to September 30, 2015, as specified by FASAB Statement of Federal Financial Accounting Standard (SFFAS) Number 7, Accounting for Revenue and Other Financing Sources. The HTF and AATF receive their budget authority in the form of contract authority and direct appropriations. Contract authority permits programs to incur obligations in advance of an appropriation, offsetting collections, or receipts and authorizes the collections and deposits of excise taxes into and making expenditures from the HTF and AATF. Subsequently, Congress authorizes DOT the liquidation of the contract authority only as appropriated. The excise tax revenue received in the HTF and AATF accounts remain invested until needed and is thereby liquidated and withdrawn from the investments.

Appropriations (Financing Source)

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

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

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) in FY 2014 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 in FY 2014 (which comprised $9.8 billion from the Treasury general fund and $1 billion from the Environmental Protection Agency's Leaking Underground Storage Tank Fund) to HTF. The law allocated $8.8 billion to the Highway Account and $2 billion to the Mass Transit Account.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

further extend the HTF operations to November 20, 2015. These allocations over the course of the last few years have caused significant fluctuations in many of the transfer activities and 'Distributed Offsetting Receipts' in the DOT's financial records.

In October 2012, Hurricane Sandy significantly impacted certain areas within the northeastern United States. On January 6, 2013, Congress enacted P.L. 113–2 that appropriated $13 billion (which was subject to a 5.1-percent sequestration reduction) to several DOT Operating Administrations for the recovery and relief efforts of transit systems most affected by Hurricane Sandy. FTA Emergency Relief Program received $11 billion for recovery and rebuilding projects, resiliency projects, and community development block grants and the FHWA Emergency Relief Program received $2 billion for immediate use in rebuilding roads, bridges, seawalls, and tunnels. As the remainder of the anticipated construction projects related to the destruction caused by Hurricane Sandy include certain complex improvements to the transit systems and are long term, by design, DOT had obligated only $6.3 billion and expended $2.3 billion of these monies as of September 30, 2015.

Effective October 1, 2015, the DOT is operating under a continuing resolution (CR), P.L. 114-53, to continue Government operations. The CR will be in effect through December 11, 2015, predominately at FY 2015 levels.

V. FIDUCIARY ACTIVITIES

Fiduciary assets and liabilities are not assets and liabilities of the Department and, as such, are not recognized on the Balance Sheet. The MARAD Title XI Escrow Fund contains fiduciary activity as detailed in Note 22.

W. RELATED PARTIES

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

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

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

X. RECLASSIFICATIONS

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

Y. TAXES

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

NOTE 2. FUND BALANCE WITH TREASURY

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

	2015	2014
Fund Balances		
Trust Funds	$5,684,525	$5,648,415
Revolving Funds	1,062,214	1,115,805
General Funds	27,163,921	30,237,184
Other Fund Types	354,765	333,683
Total	**$34,265,425**	**$37,335,087**
Status of Fund Balance With Treasury		
Unobligated Balance		
Available	$19,952,693	$21,165,096
Unavailable	2,437,104	3,016,698
Obligated Balance Not Yet Disbursed	11,354,655	12,839,468
Non-Budgetary Fund Balance With Treasury	520,973	313,825
Total	**$34,265,425**	**$37,335,087**

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

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. Subsequently, DOT receives an appropriation to liquidate the contract authority and receives Fund Balance with Treasury at the time needed to make disbursements. 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 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, 2015 consist of the following:			
Marketable	$42,685	$(56)	$42,629	$42,839
Non-Marketable Par Value	20,382,748	—	20,382,748	20,382,748
Non-Marketable Market-Based	2,125,792	39,678	2,165,470	2,171,014
Subtotal	**22,551,225**	**39,622**	**22,590,847**	**22,596,601**
Accrued Interest Receivable	61,468	—	61,468	
Total Intragovernmental Securities	**$22,612,693**	**$39,622**	**$22,652,315**	**$22,596,601**
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**

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

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

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

NOTE 4. ACCOUNTS RECEIVABLE

	Gross Amount Due	Allowance for Uncollectible Amounts	Net Amount Due
	Accounts Receivable as of September 30, 2015 consist of the following:		
Intragovernmental			
Accounts Receivable	$119,517	$ —	$119,517
Accrued Interest	5	—	5
Total Intragovernmental	**119,522**	**—**	**119,522**
Public			
Accounts Receivable	187,373	(22,254)	165,119
Accrued Interest	1,418	(1,011)	407
Total Public	**188,791**	**(23,265)**	**165,526**
Total Accounts Receivable	**$308,313**	**$(23,265)**	**$285,048**
	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**

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

	2015	2014
Intragovernmental		
Advances and Prepayments	$50,883	$71,473
Total Intragovernmental Other Assets	**$50,883**	**$71,473**
Public		
Advances to States for Right of Way	$254	$252
Other Advances and Prepayments	32,643	17,728
Other	500	587
Total Public Other Assets	**$33,397**	**$18,567**

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

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

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

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

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

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

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

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

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

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

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

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

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

DIRECT LOANS

Obligated After FY 1991

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

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**

Total Amount of Direct Loans Disbursed (Post-1991)

Direct Loan Programs	2015	2014
(1) Railroad Rehabilitation Improvement Program	$101,616	$84,802
(2) TIFIA Loans	1,721,600	1,468,018
Total	**$1,823,216**	**$1,552,820**

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

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**

Modifications and Re-estimates

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

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)**

Total Direct Loan Subsidy Expense

Direct Loan Programs	2015	2014
(1) Railroad Rehabilitation Improvement Program	$(8,311)	$(5,544)
(2) TIFIA Loans	427,970	(80,198)
Total	**$419,659**	**$(85,742)**

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	2015 Interest Differential	Defaults	Fees and Other Collections	Other	Total
(1) Railroad Rehabilitation Improvement Program	– 3.94%	8.08%	– 4.14%	0.00%	0.00%
(2) TIFIA Loans					
Risk Category 1	– 0.12%	7.45%	0.00%	0.00%	7.33%

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

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

Beginning Balance, Changes, and Ending Balance	2015	2014
Beginning Balance of the Subsidy Cost Allowance	$341,961	$411,978
Add: Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component		
Default Costs (Net of Recoveries)	92,747	143,419
Fees and Other Collections	(4,196)	(7,037)
Total of the Above Subsidy Expense Components	**88,551**	**136,382**
Adjustments		
Loans Written Off	(136,643)	—
Subsidy Allowance Amortization	48,054	8,688
Other	4,196	7,037
Ending Balance of the Subsidy Cost Allowance Before Reestimates	**346,119**	**564,085**
Add or Subtract Subsidy Reestimates by Component		
Interest Rate Reestimate	8,328	—
Technical/Default Reestimate	322,780	(222,124)
Total of the Above Reestimate Components	**331,108**	**(222,124)**
Ending Balance of the Subsidy Cost Allowance	**$677,227**	**$341,961**

The economic assumptions of the TIFIA upward and downward reestimates were the result of a reassessment of risk levels as well as estimated changes in future cash flows on loans. The Pocahontas Parkway loan writeoff was for $136.6 million and the related reestimate costs were executed in FY 2015.

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

Loan Guarantee Programs	2014 Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy	Assets Related to Default Guaranteed Loans Receivable, Net
(4) OST Minority Business Resource Center	$159	$ —	$ —	$(159)	$ —

Guaranteed Loans Outstanding

Loan Guarantee Programs	2015 Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
(3) Federal Ship Financing Fund (Title XI)	$1,297,553	$1,297,553
(4) OST Minority Business Resource Center	1,096	822
Total	$1,298,649	$1,298,375

New Guaranteed Loans Disbursed

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

Loan Guarantee Programs	2014 Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
(4) OST Minority Business Resource Center	$2,345	$1,759
Total	$2,345	$1,759

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	2015 Liabilities for Post-1991 Guarantees, Present Value
(3) Federal Ship Financing Fund (Title XI)	$106,023
(4) OST Minority Business Resource Center	(38)
Total	**$105,985**

Subsidy Expense for Loan Guarantees by Program and Component

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

Loan Guarantee Programs	2014 Interest Supplements	Defaults	Fees and Other Collections	Other	Total
(4) OST Minority Business Resource Center	$ —	$108	$ —	$ —	$108
Total	**$ —**	**$108**	**$ —**	**$ —**	**$108**

Modifications and Reestimates

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

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

Total Loan Guarantee Subsidy Expense

Loan Guarantee Programs	2015	2014
(3) Federal Ship Financing Fund (Title XI)	$(41,050)	$(29,553)
(4) OST Minority Business Resource Center	(303)	206
Total	**$(41,353)**	**$(29,347)**

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	2015 Interest Supplements	Defaults	Fees and Other Collections	Other	Total
(3) Federal Ship Financing Fund (Title XI)					
Risk Category 4	0.00%	14.14%	– 4.89%	0.00%	9.25%
(4) OST Minority Business Resource Center	0.00%	2.27%	0.00%	0.00%	2.27%

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

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

Beginning Balance, Changes, and Ending Balance	2015	2014
Beginning Balance of the Loan Guarantee Liability	$147,693	$176,134
Add: Subsidy Expense for Guaranteed Loans Disbursed During the Reporting Years by Component		
Default Costs (Net of Recoveries)	18	108
Total of the Above Subsidy Expense Components	**18**	**108**
Adjustments		
Claim Payments to Lenders	(372)	(134)
Interest Accumulation on the Liability Balance	3	—
Other	14	1,040
Ending Balance of the Loan Guarantee Liability Before Reestimates	**147,356**	**177,148**
Add or Subtract Subsidy Reestimates by Component		
Technical/Default Reestimate	(41,371)	(29,455)
Total of the Above Reestimate Components	**(41,371)**	**(29,455)**
Ending Balance of the Loan Guarantee Liability	**$105,985**	**$147,693**

The downward reestimate on the Federal Ship Financing Fund (Title XI) was a result of significant reductions in principal outstanding each year on the loan guarantees as well as the reassessment of risk levels on high-risk loans.

The sufficiency of DOT's loan and loan guarantee portfolio reserves at September 30, 2015, 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, 2015 consists of the following:

	Cost	Allowance for Loss	Net
Inventory			
Inventory Held for Current Sale	$85,539	$ —	$85,539
Excess, Obsolete, and Unserviceable Inventory	9,595	(9,595)	—
Inventory Held for Repair	661,004	(139,315)	521,689
Other	31,650	(1,742)	29,908
Total Inventory	**787,788**	**(150,652)**	**637,136**
Operating Materials and Supplies			
Items Held for Use	229,799	(1,421)	228,378
Items Held in Reserve for Future Use	26,773	—	26,773
Excess, Obsolete, and Unserviceable Items	1,772	(1,239)	533
Items Held for Repair	32,505	(15,365)	17,140
Total Operating Materials & Supplies	**290,849**	**(18,025)**	**272,824**
Total Inventory and Related Property			**$909,960**

Inventory 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 is held for sale to the FAA field locations and other domestic entities and foreign governments. It consists of materials and supplies the FAA uses to support our Nation's airspace system and is predominately located at the FAA Mike Monroney Aeronautical Center in Oklahoma City. Inventory and operating materials are considered held for repair based on the condition of the asset or item, and the allowance for repairable inventory is based on the average historical cost of such repairs.

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

NOTE 8. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

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

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

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**

FAA has fully deployed the En Route Automation Modernization (ERAM) system to upgrade the management of air traffic in the en route airspace and enable the implementation of NextGen capabilities. As of September 30, 2015, construction in progress includes $101 million related to the ERAM system. This primarily relates to upgraded software scheduled to be placed in service in November 2015. The ERAM system replaced four legacy air traffic systems that were retired in FY 2015. The net acquisitions cost of the legacy systems is $141 million and $417 million as of September 30, 2015 and 2014, respectively.

NOTE 9. STEWARDSHIP PROPERTY, PLANT AND EQUIPMENT

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

PERSONAL PROPERTY HERITAGE ASSETS

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

MARAD artifacts and other collections are generally on loan to single-purpose memorialization and remembrance groups, such as AMVETS National Service Foundation and other preservation societies. MARAD maintains a Web-based inventory system that manages the artifact loan process. The program also supports the required National Historic Preservation Act processing prior to vessel disposal. Funding for the maintenance of heritage items is typically the responsibility of the organization requesting the loan of a heritage asset. The artifacts and other collections are composed of ships' operating equipment obtained from obsolete ships. The ships are inoperative and in need of preservation and restoration. As all items are durable and restorable, disposal is not a consideration. The artifacts and other collections are removed from inventory when returned to MARAD, determined to be in excess of the needs of the collection, or destroyed while on loan. The following table shows the number of physical units added and withdrawn as of September 30, 2015.

	Units as of 9/30/2014	Additions	Withdrawals	Units as of 9/30/15
Heritage Assets				
Personal Property				
Artifacts	732	3	—	735
Other Collections	6,887	81	(14)	6,954
Total Personal Property Heritage Assets	**7,619**	**84**	**(14)**	**7,689**

REAL PROPERTY HERITAGE ASSETS

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

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

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

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

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

MARAD also has 35 buildings that encircle the central quadrangle of the U.S. Merchant Marine Academy and the William S. Barstow house, which are 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 for which Congressional action is needed before budgetary resources can be provided. Intragovernmental Liabilities are those liabilities that are with other Federal Government entities. The $407.9 million of liability for nonentity assets is primarily related to downward loan subsidy reestimates.

Liabilities Not Covered by Budgetary Resources as of September 30

	2015	2014
Intragovernmental		
Unfunded FECA Liability	$196,700	$202,325
Unfunded Employment Related Liability	3,583	5,562
Liability for Nonentity Assets	407,862	686,005
Other Liabilities	17,244	10,510
Total Intragovernmental	**625,389**	**904,402**
Federal Employee Benefits Payable	930,066	995,250
Environmental and Disposal Liabilities *(Note 12)*	1,118,668	1,165,195
Accrued Pay and Benefits	560,453	560,776
Legal Claims	14,610	10,671
Capital Lease Liabilities	67,450	73,409
Other Liabilities	22,167	23,299
Total Liabilities Not Covered by Budgetary Resources	**3,338,803**	**3,733,002**
Total Liabilities Covered by Budgetary Resources	17,145,211	16,723,970
Total Liabilities	**$20,484,014**	**$20,456,972**

NOTE 11. DEBT

Debt activities during the fiscal year ended September 30

	2014 Beginning Balance	2014 Net Borrowing	2014 Ending Balance	2015 Net Borrowing	2015 Ending Balance
Intragovernmental Debt					
Debt to the Treasury	$6,958,241	$1,226,760	$8,185,001	$787,230	$8,972,231
Debt to the Federal Financing Bank	614	(614)	—	—	—
Total Intragovernmental Debt	**$6,958,855**	**$1,226,146**	**$8,185,001**	**$787,230**	**$8,972,231**

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

During FY 2015, DOT's U.S. Treasury borrowings carried interest rates ranging from 0.76 to 4.97 percent. The maturity dates for these borrowings occur from September 2016 to September 2053. 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 FY 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:

	2015	2014
Environmental Remediation	$756,700	$813,400
Asset Disposal	361,968	351,795
Total Environmental and Disposal Liabilities	**$1,118,668**	**$1,165,195**

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 remediation of fuels, solvents, and other contamination associated with releases to the environment where DOT owns the property, leases the property, or is identified as a responsible party by a regulatory agency.

As of September 30, 2015 and 2014, DOT's environmental remediation liability primarily includes the removal of contaminants on the Nuclear Ship *Savannah* and remediation at various sites managed by FAA and MARAD. In addition to the amount recorded and disclosed, there is a foreseeable environmental liability related to sites with MARAD and numerous other external parties, where the loss is probable and the estimate cannot be determined. There were no amounts recorded related to the MARAD sites.

ASSET DISPOSAL

The National Maritime Heritage Act requires that MARAD dispose of certain merchant vessels owned by the U.S. Government, including nonretention ships in the fleet. Residual fuel, asbestos, and solid polychlorinated biphenyls (PCB) sometimes exist onboard MARAD's nonretention ships. Nonretention ships are those MARAD vessels that no longer have a useful application and are pending disposition. The asset disposal liability as of September 30, 2015, includes the estimated cost of disposing of 96 ships. In addition, DOT records an asset disposal liability for the estimated cost that will be incurred to remove, contain, and/or dispose of hazardous materials when an asset is removed from service.

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

NOTE 13. GRANT ACCRUAL

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

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

	2015	2014
Federal Highway Administration	$3,864,832	$3,720,849
Federal Transit Administration	1,335,238	1,620,676
Federal Aviation Administration	742,418	719,252
Other Operating Administrations	419,492	390,307
Total Grant Accrual	**$6,361,980**	**$6,451,084**

NOTE 14. OTHER LIABILITIES

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

	Noncurrent	Current	Total
Intragovernmental			
Advances and Prepayments	$89,939	$669,177	$759,116
Accrued Pay and Benefits	—	62,998	62,998
FECA Billings	108,159	89,011	197,170
Other Accrued Liabilities	(3,026)	432,430	429,404
Total Intragovernmental	**$195,072**	**$1,253,616**	**$1,448,688**
Public			
Advances and Prepayments	$1,972	$141,583	$143,555
Accrued Pay and Benefits	60,877	714,232	775,109
Deferred Credits	—	55,378	55,378
Legal Claims *(Note16)*	—	14,610	14,610
Capital Leases *(Note 15)*	59,146	8,304	67,450
Other Accrued Liabilities	—	65,908	65,908
Total Public	**$121,995**	**$1,000,015**	**$1,122,010**

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

	Noncurrent	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			
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 *(Note 16)*	—	10,671	10,671
Capital Leases *(Note 15)*	64,542	8,867	73,409
Other Accrued Liabilities	—	54,937	54,937
Total Public	**$75,117**	**$1,024,595**	**$1,099,712**

FTA received $2.75 billion from Federal Emergency Management Agency (FEMA) in FY 2003 to rebuild parts of the transit system that were destroyed during the World Trade Center attacks on September 11, 2001. The $89.9 million of Non-Current Intragovernmental 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 $265 million. The expected completion date of the FEMA project is March 31, 2019.

NOTE 15. LEASES

ENTITY AS LESSEE

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

	2015	2014
Summary of Assets Under Capital Lease by Category		
Land, Buildings & Machinery	$107,288	$112,647
Software	1,032	1,032
Accumulated Amortization	(46,565)	(46,278)
Net Assets Under Capital Lease	**$61,755**	**$67,401**

Fiscal Year	
Future Payments Due	
2016	$8,304
2017	8,085
2018	8,085
2019	8,092
2020	7,593
2021+	45,590
Total Future Lease Payments	**85,749**
Less: Imputed Interest	18,299
Net Capital Lease Liability	**$67,450**

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

OPERATING LEASES

Fiscal Year	Land, Buildings, Machinery & Other
Future Payments Due	
2016	$274,065
2017	253,898
2018	192,578
2019	166,224
2020	143,777
2021+	585,865
Total Future Lease Payments	**$1,616,407**

Operating lease expenses incurred were $321 million and $322 million for the years ended September 30, 2015 and 2014, 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, 2015 and 2014, DOT's contingent liabilities, in excess of amounts accrued (Note 14), for asserted and pending legal claims reasonably possible of loss were estimated at $102.7 million and $23.5 million, respectively. DOT has one pending legal claim with a reasonably possible potential for loss, but an estimate of the loss cannot be made at this time. DOT does not have material amounts of known unasserted claims. As of September 30, 2015 and 2014, DOT's contingent liabilities for asserted and pending legal claims with a probable loss were estimated at $14.6 million and $10.7 million, respectively.

GRANT PROGRAMS

FHWA preauthorizes States to establish construction budgets without having received appropriations from Congress for such projects. FHWA has authority to approve projects using advance construction under 23 U.S.C. 115(a). FHWA does not guarantee the ultimate funding to the States for these "advance construction" projects and, accordingly, does not obligate any funds for these projects. When funding becomes available to FHWA, the States can then apply for reimbursement of costs that they have incurred on such projects, at which time FHWA can accept or reject such requests. As of September 30, 2015 and 2014, FHWA has preauthorized $50.4 billion and $46.0 billion, respectively, under these arrangements. These commitments have not been recognized in the DOT consolidated financial statements as of September 30, 2015 and 2014.

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, 2015 and 2014, FTA had approximately $1.7 billion and $1.8 billion, respectively, in funding commitments under FFGAs, which Congress had not yet appropriated. Congress must first provide the budget authority (appropriations) to allow FTA to incur obligations for these programs. Until Congress appropriates funds, FTA is not liable to grantees for any costs incurred. There is no liability related to these commitments reflected in the DOT consolidated financial statements at September 30, 2015 and 2014.

FAA's Airport Improvement Program (AIP) provides grants for the planning and development of public-use airports that are included in the National Plan of Integrated Airport Systems. Eligible projects generally include improvements related to enhancing airport safety, capacity, security, and environmental concerns. FAA's share of eligible costs for large and medium primary hub airports is 75 percent with the exception of noise program implementation, which is 80 percent of the eligible costs. For remaining airports (small primary, reliever, and general aviation airports), FAA's share is 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 AIP grant agreements. FAA records an obligation when a grant is awarded. As of September 30, 2015, FAA had letters of intent extending through FY 2028 totaling $7.4 billion. As of September 30, 2015, FAA had obligated $6.4 billion of this total amount, leaving $1.0 billion unobligated. 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.

ENVIRONMENTAL LIABILITIES

As of September 30, 2015, FAA has estimated contingent liabilities categorized as reasonably possible of $227.3 million related to environmental remediation. Contingency costs are defined for environmental liabilities as those costs that may result from incomplete design, unforeseen and unpredictable conditions, or uncertainties within a defined project scope. The FAA is a party to environmental remediation sites in the Pacific Islands in which the extent of liability is unknown. Studies to determine the magnitude and scope of the remediation required at these sites have not yet commenced. The FAA is also a party to certain environmental remediation sites in New Jersey for which remediation is the responsibility of other Federal agencies; therefore, a liability has not been recorded for these sites.

NATIONAL RAILROAD PASSENGER SERVICE CORPORATION (AMTRAK)

The United States and the Department are not at risk if Amtrak fails and nor do they guarantee the indebtedness of Amtrak, whose debt is secured primarily by assets of the Corporation. For many years, 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. The Department issued grants to Amtrak for $1.4 billion in both FY 2015 and 2014. 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.

AVIATION INSURANCE PROGRAM

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

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

Insurance policies are issued on a "standby" basis and become effective for specific air carrier operations only when FAA activates the policy through a Notice of Effective Coverage. Therefore, total coverage in force fluctuates throughout the fiscal year. The coverage in force at any given point in time does not represent a potential liability against the Aviation Insurance Revolving Fund, however, because the Secretary of Defense has entered into an indemnity agreement with the Secretary of Transportation and will fully reimburse the Fund for all losses paid by FAA on behalf of DoD.

NOTE 16. COMMITMENTS AND CONTINGENCIES (continued)

MARINE WAR RISK INSURANCE PROGRAM

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

NOTE 17. FUNDS FROM DEDICATED COLLECTIONS

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

HIGHWAY TRUST FUND

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

MASS TRANSIT ACCOUNT

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

AIRPORT AND AIRWAY TRUST FUND

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

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

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

OTHER DEDICATED COLLECTIONS

- Aviation Insurance Revolving Fund
- Pipeline Safety
- Emergency Preparedness Grant
- Aviation User Fees
- Aviation Operations
- Grants-in-Aid for Airports
- Aviation Facilities and Equipment
- Aviation Research, Engineering and Development
- Essential Air Service and Rural Airport Improvement Fund
- Contributions for Highway Research Program
- Cooperative Work, Forest Highways
- Payment to Air Carriers
- 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, 2015 and 2014, 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 and Airway Trust Fund	Mass Transit	Other Funds From Dedicated Collections	Fiscal Year 2015 Total Funds From Dedicated Collections
Balance Sheet					as of September 30, 2015
Assets					
Fund Balance With Treasury	$4,242,243	$906,751	$169,974	$2,385,638	$7,704,606
Investments, Net	7,667,196	12,769,545	—	2,215,574	22,652,315
Accounts Receivable, Net	53,517	—	—	4,366,699	4,420,216
Property, Plant & Equipment	149,542	—	—	2,101,966	2,251,508
Other	184,124	—	2,717	332,673	519,514
Total Assets	**$12,296,622**	**$13,676,296**	**$172,691**	**$11,402,550**	**$37,548,159**
Liabilities and Net Position					
Accounts Payable	$60,035	$4,263,521	$ —	$291,781	$4,615,337
FECA Liabilities	19,773	—	—	1,047,899	1,067,672
Grant Accrual	4,901,588	—	5,049	742,418	5,649,055
Other Liabilities	192,498	—	1,444	863,579	1,057,521
Unexpended Appropriations	—	—	1,254	1,212,074	1,213,328
Cumulative Results of Operations	7,122,728	9,412,775	164,944	7,244,799	23,945,246
Total Liabilities and Net Position	**$12,296,622**	**$13,676,296**	**$172,691**	**$11,402,550**	**$37,548,159**
Statement of Net Cost					for the period ended September 30, 2015
Program Costs	$52,122,262	$ —	$37,978	$14,959,830	$67,120,070
Less Earned Revenue	181,026	—	—	512,469	693,495
Net Program Costs	**51,941,236**	**—**	**37,978**	**14,447,361**	**66,426,575**
Costs Not Attributable to Programs	—	—	—	241,521	241,521
Net Cost of Operations	**$51,941,236**	**$ —**	**$37,978**	**$14,688,882**	**$66,668,096**
Statement of Changes in Net Position					for the period ended September 30, 2015
Beginning Net Position	$10,149,807	$9,556,238	$203,811	$8,624,240	$28,534,096
Budgetary Financing Sources	48,900,385	(143,463)	365	15,825,240	64,582,527
Other Financing Sources	13,772	—	—	(1,303,725)	(1,289,953)
Net Cost of Operations	51,941,236	—	37,978	14,688,882	66,668,096
Change in Net Position	(3,027,079)	(143,463)	(37,613)	(167,367)	(3,375,522)
Net Position End of Period	**$7,122,728**	**$9,412,775**	**$166,198**	**$8,456,873**	**$25,158,574**

NOTE 17. FUNDS FROM DEDICATED COLLECTIONS (continued)

	Highway Trust Fund	Airport and Airway Trust Fund	Mass Transit	Other Funds From Dedicated Collections	Fiscal Year 2014 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 18. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUES

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

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

NOTE 18. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUES (continued)

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**
Cost Not Assigned to a Program	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 19. EXCISE TAXES AND OTHER NON-EXCHANGE REVENUE

The IRS collects various excise taxes that are deposited into the HTF and AATF. OTA distributes the amount collected/revenue recognized bimonthly and adjusts the allocations to reflect actual collections quarterly. The IRS submits certificates of actual tax collections to DOT 4 months after the quarter end and, accordingly, the DOT financial statements include actual excise tax revenue certified through June 30, 2015, and excise tax revenue allocated by OTA for the quarter ended September 30, 2015. As a result, total taxes recognized in the DOT FY 2015 financial statements include the OTA allocation of $13.1 billion for the quarter ended September 30, 2015, and the actual amounts certified through June 30, 2015, of $40.5 billion.

For the years ended September 30, 2015 and 2014, respectively, excise taxes and associated nonexchange revenue, which are reported on the Consolidated Statements of Changes in Net Position, were as follows.

NONEXCHANGE REVENUE

	September 30, 2015	September 30, 2014
Highway Trust Fund		
Excise Taxes and Other Nonexchange Revenue		
Gasoline	$25,372,004	$24,992,263
Diesel and Special Motor Fuels	10,339,498	10,183,597
Trucks	6,205,061	5,036,970
Investment Income	1,848	3,574
Fines and Penalties	24,186	18,604
Total Taxes	**41,942,597**	**40,235,008**
Less: Transfers	(1,127,776)	(1,182,205)
Other Nonexchange Revenue	42	94
Net Highway Trust Fund Excise Taxes & Other Nonexchange Revenue	**40,814,863**	**39,052,897**
Federal Aviation Administration		
Excise Taxes and Other Nonexchange Revenue		
Passenger Ticket	9,837,876	9,286,011
International Departure	3,310,720	3,197,616
Fuel (Air)	641,836	579,940
Waybill	496,671	465,288
Investment Income	272,683	240,204
Tax Refunds and Credits	(19,052)	(16,341)
Other	29,887	52,669
Net Federal Aviation Administration Excise Taxes & Other Nonexchange Revenue	**14,570,621**	**13,805,387**
Other Miscellaneous Net Nonexchange Revenue	19,805	18,762
Total Nonexchange Revenue	**$55,405,289**	**$52,877,046**

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.

	2015			2014		
	Direct	Reimbursable	Total	Direct	Reimbursable	Total
Category A	$9,987,931	$492,726	$10,480,657	$7,935,908	$452,555	$8,388,463
Category B	86,742,561	1,195,240	87,937,801	107,133,794	1,227,662	108,361,456
Exempt From Apportionment	25,549	328,675	354,224	23,930	330,196	354,126
Total	**$96,756,041**	**$2,016,641**	**$98,772,682**	**$115,093,632**	**$2,010,413**	**$117,104,045**

	2015	2014
Available Contract Authority at Year-End	$18,443,710	$18,734,558
Available Borrowing Authority at Year-End	$4,169,831	$7,422,435
Undelivered Orders at Year-End[1]	$113,786,307	$112,813,173

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

TERMS OF BORROWING AUTHORITY USED

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

EXISTENCE, PURPOSE, AND AVAILABILITY OF PERMANENT INDEFINITE APPROPRIATIONS

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

UNOBLIGATED BUDGETARY RESOURCES

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

NOTE 20. COMBINED STATEMENT OF BUDGETARY RESOURCES (continued)

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

The reconciliation for the year ended September 30, 2014, is presented in the following table. The reconciliation for the fiscal year ended September 30, 2015, is not presented, because the submission of the Budget of the United States (Budget) for FY 2017, which presents the execution of the FY 2015 budget, occurs after publication of these financial statements. The DOT Budget Appendix can be found on the OMB Web site and will be available in early February 2016.

Dollars in Millions	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$168,350	$117,104	$(22,961)	$100,329
Funds Not Reported in the Budget				
Expired Funds	(790)	(8)	—	—
Distributed Offsetting Receipts	—	—	22,961	—
Other	(2)	(8)	—	(1)
Budget of the United States Government	**$167,558**	**$117,088**	**$ —**	**$100,328**

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 nonbudgetary resources available to the reporting entity with its net cost of operations.

For the years ended September 30

	2015	2014
Resources Used To Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$98,772,682	$117,104,045
Less: Spending Authority From Offsetting Collections, Recoveries and Other Changes to Obligated Balances	12,862,798	10,778,388
Obligations Net of Offsetting Collections and Recoveries	85,909,884	106,325,657
Less: Distributed Offsetting Receipts	(8,552,295)	(22,960,632)
Net Obligations	**77,357,589**	**83,365,025**
Other Resources		
Donations and Forfeitures of Property	40,902	43,784
Transfers in/out Without Reimbursement	68,067	59,259
Imputed Financing From Costs Absorbed by Others	499,742	688,742
Other	(4,235)	(599,094)
Net Other Resources Used To Finance Activities	**604,476**	**192,691**
Total Resources Used To Finance Activities	**77,962,065**	**83,557,716**
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	942,683	6,615,943
Resources That Fund Expenses Recognized in Prior Periods	379,695	252,786
Credit Program Collections That Increase Liabilities for Loan Guarantees or Allowances for Subsidy	(1,626,546)	(953,064)
Other/Change in Unfilled Customer Orders	323,590	(102,905)
Special Transfers From the U.S. Treasury	(8,068,000)	(22,457,894)
Resources That Finance the Acquisition of Assets	3,804,707	3,622,258
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	8,241,921	21,640,235
Total Resources Used To Finance Items Not Part of the Net Cost of Operations	**3,998,050**	**8,617,359**
Total Resources Used To Finance the Net Cost of Operations	**$73,964,015**	**$74,940,357**

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

	2015	2014
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	$10,301	$6,689
Increase in Environment and Disposal Liability	1,579	258,638
Upward/Downward Reestimates of Credit Subsidy Expense	150,013	(686,071)
Change in Exchange Revenue Receivable From the Public	(8,395)	(13,648)
Change in Other Liabilities	8,039	231,138
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	**161,537**	**(203,254)**
Components Not Requiring or Generating Resources		
Depreciation and Amortization	1,369,903	1,310,003
Revaluation of Assets or Liabilities	(83,278)	161,026
Other Expenses and Adjustments Not Otherwise Classified Above	626,538	746,087
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	**1,913,163**	**2,217,116**
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**2,074,700**	**2,013,862**
Net Cost of Operations	**$76,038,715**	**$76,954,219**

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

	2015	2014
Fiduciary Net Assets, Beginning of Year	$16,797	$130,183
Contributions	4	86,165
Investment Earnings	8,800	—
Gain (Loss) on Disposition of Investments, Net	—	(6)
Disbursements to and on Behalf of Beneficiaries	(11,338)	(199,545)
Increases/(Decreases) in Fiduciary Net Assets	(2,534)	(113,386)
Fiduciary Net Assets, End of Year	**$14,263**	**$16,797**

FIDUCIARY NET ASSETS

As of September 30

	2015	2014
Fiduciary Fund Balance With Treasury	$12,006	$286
Investments in Treasury Securities	2,257	16,511
Total Fiduciary Net Assets	**$14,263**	**$16,797**

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

DEFERRED MAINTENANCE AND REPAIR (Unaudited)

For the Periods Ended September 30

DOT Entity	Major Class of Asset	Description	Cost To Return to Acceptable Condition: Beginning Balance	Cost To Return to Acceptable Condition: Ending Balance
FAA	Staffed Facilities	Buildings, structures, and facilities at major and nonmajor airports	$219,530	$249,381
	Unstaffed Faculties	Long range radars; unstaffed infrastructure and fuel storage tanks	556,840	630,700
MARAD	Vessels	Ready Reserve Force ships and vessels at various locations	11,555	24,907
	Buildings	Real property structure—U.S. Merchant Marine Academy	67,870	71,640
	Other Maritime Assets	Ready Reserve Force fleet facilities	26,910	—
Total			**$882,705**	**$976,628**

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

Effective FY 2015, DOT adopted SFFAS Number 42, Deferred Maintenance and Repairs: Amending SFFAS No. 6, 14, 29 and 32. Consistent with SFFAS Number 42, DOT's reporting of DM&R includes the Operating Administrations of FAA and MARAD, which include facilities critical to our Nation's airspace and maritime operations.

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

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

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION (RSI) (continued)

COMBINING STATEMENTS OF BUDGETARY RESOURCES BY MAJOR ACCOUNT (Unaudited)

For the period ended September 30, 2015

Dollars in Thousands	Federal-Aid	FAA	FTA	MARAD	All Other	Total
Budgetary Resources						
Unobligated Balance, Brought Forward, October 1	$26,148,140	$4,036,511	$17,064,981	$522,098	$3,474,239	$51,245,969
Recoveries of Prior Year Unpaid Obligations	—	372,325	139,587	31,402	394,400	937,714
Other Changes in Unobligated Balance	15,306	(85,625)	(78,690)	(9,904)	(389,342)	(548,255)
Unobligated Balance From Prior Year Budget Authority, Net	**26,163,446**	**4,323,211**	**17,125,878**	**543,596**	**3,479,297**	**51,635,428**
Appropriations	—	12,513,845	2,291,887	345,920	11,226,195	26,377,847
Borrowing Authority	—	—	—	—	4,169,831	4,169,831
Contract Authority	39,410,648	3,220,000	10,040,192	—	1,297,922	53,968,762
Spending Authority From Offsetting Collections	(125,213)	9,284,129	(32,586)	359,728	1,247,091	10,733,149
Total Budgetary Resources	**$65,448,881**	**$29,341,185**	**$29,425,371**	**$1,249,244**	**$21,420,336**	**$146,885,017**
Status of Budgetary Resources						
Obligations Incurred	$40,606,131	$25,506,172	$13,380,812	$766,706	$18,512,861	$98,772,682
Apportioned	9,616,171	1,576,264	16,040,437	228,168	2,082,134	29,543,174
Exempt From Apportionment	—	—	—	4,540	286,827	291,367
Unapportioned	15,226,579	2,258,749	4,122	249,830	538,514	18,277,794
Unobligated Balance, End of Year	**24,842,750**	**3,835,013**	**16,044,559**	**482,538**	**2,907,475**	**48,112,335**
Total Budgetary Resources	**$65,448,881**	**$29,341,185**	**$29,425,371**	**$1,249,244**	**$21,420,336**	**$146,885,017**
Change in Obligated Balances						
Unpaid Obligations						
Unpaid Obligations, Brought Forward, October 1	$65,694,303	$8,587,739	$22,427,470	$314,600	$23,144,621	$120,168,733
Obligations Incurred	40,606,131	25,506,172	13,380,812	766,706	18,512,861	98,772,682
Outlays (Gross)	(41,817,053)	(24,957,960)	(11,912,729)	(770,254)	(17,590,315)	(97,048,311)
Actual Transfers, Unpaid Obligations (Net) (+ or -)	—	—	—	—	10,000	10,000
Recoveries of Prior Year Unpaid Obligations	—	(372,325)	(139,587)	(31,402)	(394,400)	(937,714)
Unpaid Obligations, End of Year (Gross)	**64,483,381**	**8,763,626**	**23,755,966**	**279,650**	**23,682,767**	**120,965,390**
Uncollected Payments						
Uncollected Payments, Federal Sources, Brought Forward, October 1	(754,348)	(223,569)	(44,746)	(100,836)	(765,492)	(1,888,991)
Change in Uncollected Payments, Federal Sources	290,033	30,854	36,854	2,658	(115,656)	244,743
Uncollected Payments, Federal Sources, End of Year	**(464,315)**	**(192,715)**	**(7,892)**	**(98,178)**	**(881,148)**	**(1,644,248)**
Obligated Balance, Start of Year (Net)	64,939,955	8,364,170	22,382,724	213,764	22,379,129	118,279,742
Obligated Balance, End of Year (Net)	**$64,019,066**	**$8,570,911**	**$23,748,074**	**$181,472**	**$22,801,619**	**$119,321,142**

REQUIRED SUPPLEMENTARY INFORMATION (RSI) (continued)

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

For the period ended September 30, 2015

Dollars in Thousands	Federal-Aid	FAA	FTA	MARAD	All Other	Total
Budget Authority and Outlays, Net						
Budget Authority, Gross	$39,285,436	$25,017,974	$12,299,493	$705,648	$17,941,038	$95,249,589
Actual Offsetting Collections	(164,821)	(9,314,982)	(4,267)	(362,386)	(2,420,062)	(12,266,518)
Change in Uncollected Customer Payments From Federal Sources	290,033	30,854	36,854	2,658	(115,656)	244,743
Budget Authority, Net	**$39,410,648**	**$15,733,846**	**$12,332,080**	**$345,920**	**$15,405,320**	**$83,227,814**
Outlays, Gross	$41,817,053	$24,957,960	$11,912,729	$770,254	$17,590,315	$97,048,311
Actual Offsetting Collections	(164,821)	(9,314,982)	(4,267)	(362,386)	(2,420,062)	(12,266,518)
Outlays, Net	**41,652,232**	**15,642,978**	**11,908,462**	**407,868**	**15,170,253**	**84,781,793**
Distributed Offsetting Receipts	—	(7,850)	(24,383)	(43,776)	(8,476,286)	(8,552,295)
Agency Outlays, Net	**$41,652,232**	**$15,635,128**	**$11,884,079**	**$364,092**	**$6,693,967**	**$76,229,498**

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
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
Total 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**

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
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	—	—	—	—	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**
Budget and 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**

AVIATION INSURANCE PROGRAM

As discussed in Note 16 on page 105, FAA has authority to provide nonpremium war risk insurance to commercial airlines for certain operations contracted by the U.S. Government. Insurance policies are "standby" and become effective when FAA activates the policy on an episodic basis for operations contracted by the DoD, United States Transportation Command. FAA management does not consider the net present value of risks assumed from Aviation Insurance Program coverage to be material to the financial statements.

MARINE WAR RISK INSURANCE PROGRAM

For FY 2015 and FY 2014, MARAD wrote nonpremium war risk insurance with a total coverage per year of $463.7 million. DoD has fully indemnified MARAD for any losses arising out of the nonpremium insurance. There have been no losses and no claims are outstanding for this nonpremium insurance. There is approximately $48.1 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	2011	2012	2013	2014	2015
Surface Transportation					
Federal Highway Administration					
Federal Aid Highways (HTF)	$34,556,573	$39,048,865	$40,380,481	$41,408,224	$40,255,642
Other Highway Trust Fund Programs	148,271	99,127	134,204	44,974	27,936
General Fund Programs	7,906,180	3,203,055	1,282,624	563,358	274,327
Appalachian Development System	243,853	288,473	280,380	60,925	247,924
Federal Motor Carrier	—	(15,998)	—	19	—
Total Federal Highway Administration	**42,854,877**	**42,623,522**	**42,077,689**	**42,077,500**	**40,805,829**
Federal Transit Administration					
Discretionary Grants	25,068	12,682	6,672	9,595	4,871
Formula Grants	220,047	171,134	133,830	98,421	42,735
Capital Investment Grants	1,924,741	2,439,812	2,111,680	2,072,587	2,239,409
Washington Metro Area Transit Authority	110,321	91,153	148,469	73,356	97,921
Formula and Bus Grants	7,182,145	8,197,321	8,091,511	9,126,685	8,863,115
Total Federal Transit Administration	**9,462,322**	**10,912,102**	**10,492,162**	**11,380,644**	**11,248,051**
Total Surface Transportation Non-Federal Physical Property Investments	**$52,317,199**	**$53,535,624**	**$52,569,851**	**$53,458,144**	**$52,053,880**
Air Transportation					
Federal Aviation Administration					
Airport Improvement Program	$3,388,712	$3,139,685	$3,603,209	$3,189,449	$3,159,617
Total Air Transportation Non-Federal Physical Property Investments	**3,388,712**	**3,139,685**	**3,603,209**	**3,189,449**	**3,159,617**
Total Non-Federal Physical Property Investments	**$55,705,911**	**$56,675,309**	**$56,173,060**	**$56,647,593**	**$55,213,497**

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

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

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

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

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (RSSI) (continued)

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

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

HUMAN CAPITAL INVESTMENT EXPENSES ANNUAL STEWARDSHIP INFORMATION (Unaudited)

For the fiscal years ended September 30

Dollars in Thousands	2011	2012	2013	2014	2015
Surface Transportation					
Federal Highway Administration					
National Highway Institute Training	$133	$508	$1,184	$587	$738
Federal Motor Carrier Safety Administration					
Safety Grants	636	1,342	2,669	4,585	2,843
Federal Transit Administration					
National Transit Institute Training	3,246	3,550	2,926	3,358	4,098
National Highway Traffic Safety Administration					
Section 403 Highway Safety Programs	123,340	118,169	127,644	124,750	129,465
Highway Traffic Safety Grants	576,063	514,816	517,788	633,512	654,573
Pipeline and Hazardous Materials Safety Administration					
Hazardous Materials (Hazmat) Training	16,974	17,808	18,127	17,204	22,922
Total Surface Transportation Human Capital Investments	**720,392**	**656,193**	**670,338**	**783,996**	**814,639**
Maritime Transportation					
Maritime Administration					
State Maritime Academies Training[1]	11,459	13,746	11,208	10,281	13,319
Additional Maritime Training	2,146	—	2,400	2,274	323
Total Maritime Transportation Human Capital Investments	**13,605**	**13,746**	**13,608**	**12,555**	**13,642**
Total Human Capital Investments	**$733,997**	**$669,939**	**$683,946**	**$796,551**	**$828,281**

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

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (RSSI) (continued)

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

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

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

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

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

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

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (RSSI) (continued)

RESEARCH AND DEVELOPMENT INVESTMENTS ANNUAL STEWARDSHIP INFORMATION
(Unaudited)

For the fiscal years ended September 30

Dollars in Thousands	2011	2012	2013	2014	2015
Surface Transportation					
Federal Highway Administration					
Intelligent Transportation Systems	$98,694	$100,467	$103,510	$58,719	$35,530
Other Applied Research and Development	244,156	12,042	9,977	12,444	4,095
Federal Railroad Administration					
Railroad Research and Development Program	6,027	13,742	5,301	4,317	3,010
Federal Transit Administration					
Applied Research and Development					
Transit Planning and Research	13,751	21,700	22,518	15,922	8,031
Pipeline and Hazardous Materials Safety Administration					
Applied Research and Development					
Development Research and Development Pipeline Safety					
Applied Research and Development Pipeline Safety	2,365	8,073	7,862	10,449	15,815
Applied Research and Development Hazardous Materials	2,855	1,636	1,666	1,635	4,304
Office of the Assistant Secretary for Research and Technology					
Applied Research and Development					
Research and Technology	6,134	5,792	5,755	7,043	—
Total Surface Transportation Research and Development Investments	**373,982**	**163,452**	**156,589**	**110,529**	**70,785**
Air Transportation					
Federal Aviation Administration					
Research and Development Plant	5,848	18,974	26,086	12,479	17,711
Applied Research	129,954	133,932	119,952	155,883	106,363
Development[1]	2,238	1,311	312	40	93,972
Administration	35,875	37,482	35,929	32,572	34,321
Total Air Transportation Research and Development Investments	**173,915**	**191,699**	**182,279**	**200,974**	**252,367**
Total Research and Development Investments	**$547,897**	**$355,151**	**$338,868**	**$311,503**	**$323,152**

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

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

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

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

PHMSA funds research and development activities for the following organizations and activities. The Office of Pipeline Safety is involved in research and development in information systems, risk assessment, mapping, and nondestructive evaluation. The Office of Hazardous Materials is involved in research, development, and analysis in regulation compliance, safety, and information systems.

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

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

OTHER INFORMATION

SCHEDULE OF SPENDING

The Schedule of Spending (SOS) presented in the following table is an overview of the fiscal year (FY) 2015 resources of DOT. The schedule shows the available funds (money) and how they were spent. The schedule is presented to help the public better understand the amount of money that was provided to DOT, how DOT spent the money, and to whom the money was paid. The SOS presents total budgetary resources and fiscal year-to-date total obligations for the reporting entity. The data used to populate this schedule are the same underlying data used to populate the Statement of Budgetary Resources.

SCHEDULE OF SPENDING (Unaudited)

For the period ended September 30

Dollars in Thousands	2015 Budgetary	2015 Non-Budgetary Credit Reform Financing Accounts	2014 Budgetary	2014 Non-Budgetary Credit Reform Financing Accounts
What Money Is Available To Spend?				
Total Resources	$142,053,636	$4,831,381	$160,068,987	$8,281,027
Less Amount Available but Not Agreed To Be Spent	29,820,113	14,428	32,194,857	25,286
Less Amount Not Available To Be Spent	18,068,704	209,090	18,807,817	218,009
Total Amounts Agreed To Be Spent	**$94,164,819**	**$4,607,863**	**$109,066,313**	**$8,037,732**
How Was the Money Spent/Issued?				
Surface Transportation				
1. Personnel Compensation and Benefits	$960,047	$—	$957,546	$—
2. Contractual Services and Supplies	2,069,956	—	1,932,925	—
3. Acquisition of Assets	465,496	4,502,513	925,635	7,986,063
4. Grants and Fixed Charges	54,788,463	66,227	58,081,153	36,177
5. Other	8,057,936	(1,004)	21,602,057	1
Air Transportation				
1. Personnel Compensation and Benefits	7,597,842	—	7,432,515	—
2. Contractual Services and Supplies	5,484,502	—	5,368,636	—
3. Acquisition of Assets	391,688	—	362,529	—
4. Grants and Fixed Charges	3,424,343	—	3,357,094	—
5. Other	8,607,797	—	6,491,700	—
Maritime Transportation				
1. Personnel Compensation and Benefits	100,321	—	100,338	—
2. Contractual Services and Supplies	420,665	—	454,911	—
3. Acquisition of Assets	14,289	—	42,588	—
4. Grants and Fixed Charges	218,796	39,755	231,359	15,243
5. Other	(27,119)	—	33,800	87
Cross-Cut Transportation				
1. Personnel Compensation and Benefits	165,684	—	160,589	—
2. Contractual Services and Supplies	582,267	—	606,585	—
3. Acquisition of Assets	25,218	—	25,681	—
4. Grants and Fixed Charges	—	—	3	—
5. Other	(63,808)	—	(62,515)	—
Not Assigned				
1. Personnel Compensation and Benefits	143,654	—	135,310	—
2. Contractual Services and Supplies	124,594	—	96,137	—
3. Acquisition of Assets	4,636	—	11,768	—
4. Grants and Fixed Charges	2,005,155	372	250,939	161
5. Other	(1,397,603)	—	467,030	—
Total Amounts Agreed To Be Spent	**$94,164,819**	**$4,607,863**	**$109,066,313**	**$8,037,732**

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 2015 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 departmentwide strategic goals. This complexity makes it difficult to track the costs related to the departmentwide 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, 2015

Dollars in Thousands	Strategic Goal Areas						
	Safety	State of Good Repair	Livable Communities	Environmental Sustainability	Economic Competitive-ness	Organization Excellence	Total
Surface Transportation							
Federal Highway Administration	$8,131,449	$20,799,707	$3,325,143	$4,434,890	$6,191,066	$321,744	$43,203,999
Federal Transit Administration	131,868	4,343,442	—	29,614	6,872,912	74,230	11,452,066
Federal Railroad Administration	585,034	441,161	780,999	355,995	537,358	11,692	2,712,239
Federal Motor Carrier Safety Administration	533,529	—	—	—	2,592	27,312	563,433
National Highway Safety Administration	868,819	—	1,893	21,927	—	—	892,639
Pipeline and Hazardous Materials Safety Administration	48,742	—	—	—	—	—	48,742
Surface Transportation Board	—	—	—	—	60,218	—	60,218
Subtotal	**10,299,441**	**25,584,310**	**4,108,035**	**4,842,426**	**13,664,146**	**434,978**	**58,933,336**
Air Transportation							
Federal Aviation Administration	7,716,800	949,072	—	425,398	4,898,376	1,867,347	15,856,993
Subtotal	**7,716,800**	**949,072**	**—**	**425,398**	**4,898,376**	**1,867,347**	**15,856,993**
Maritime Transportation							
Maritime Administration	165,213	—	—	4,695	187,500	16,337	373,745
Subtotal	**165,213**	**—**	**—**	**4,695**	**187,500**	**16,337**	**373,745**
Other Programs							
Office of the Secretary	117,885	114,658	235,530	118,385	124,457	75,755	786,670
Office of Inspector General	—	—	—	—	—	87,971	87,971
Subtotal	**117,885**	**114,658**	**235,530**	**118,385**	**124,457**	**163,726**	**874,641**
Total Net Cost	**$18,299,339**	**$26,648,040**	**$4,343,565**	**$5,390,904**	**$18,874,479**	**$2,482,388**	**$76,038,715**

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	2015	2014
Condensed Information		
Cash and Short-Term Time Deposits	$29,942	$30,357
Long-Term Time Deposits	2,755	1,188
Accounts Receivable	63	74
Inventories	299	284
Other Current Assets	18	26
Property, Plant and Equipment	133,640	123,201
Deferred Charges	4,078	4,742
Other Assets	657	687
Total Assets	**$171,452**	**$160,559**
Current Liabilities	$4,308	$4,415
Actuarial Liabilities	4,078	4,742
Total Liabilities	**8,386**	**9,157**
Invested Capital	148,798	138,358
Cumulative Results of Operations	14,268	13,044
Total Net Position	**163,066**	**151,402**
Total Liabilities and Net Position	**$171,452**	**$160,559**
Operating Revenues	$19,590	$18,297
Operating Expenses	21,913	21,229
Operating Income (Loss)	**(2,323)**	**(2,932)**
Other Financing Sources	3,548	3,255
Operating Revenues and Other Financing Sources Over (Under) Operating Expenses	**1,225**	**323**
Beginning Cumulative Results of Operations (Deficit)	13,043	12,721
Ending Cumulative Results of Operations (Deficit)	**$14,268**	**$13,044**

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

TABLE 1. SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion	Unmodified
Restatement	No

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

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

Statement of Assurance	Systems conform, except for the below Nonconformance

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

Conformance With Federal Financial Management Improvement Act (FFMIA)

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

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

Memorandum

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

Subject: **INFORMATION:** DOT's Fiscal Year 2016 Top Management Challenges Department of Transportation Report Number PT-2016-005

Date: November 16, 2015

From: Calvin 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, manage, and modernize U.S. transportation systems, and we continue to support the Department's efforts through our audits and investigations.

Making the Nation's environment, airspace, and roads safer continues to be the Department's top priority, and it must also continue to address both emerging and longstanding safety risks in a number of critical areas. A key mission is to mitigate the significant risks posed by transportation of hazardous materials (hazmat). From 2010 through 2014, there were more than 3,000 pipeline and 78,000 hazmat incidents in the United States. Reducing safety vulnerabilities will require timely action to implement pipeline safety recommendations; enforce regulations for hazmat transported by rail; and improve the oversight, training, and guidance for programs that promote safe practices for hazmat transported via aviation cargo.

The emergence of Unmanned Aircraft Systems (UAS) presents several new safety challenges for the Department. UAS technology is rapidly advancing, and usage is broadening from primarily the Government and military to commercial users. Analysts are predicting that as much as $91 billion will be invested worldwide over the next decade. To safely integrate UAS into the National Airspace System, the Department and the Federal Aviation Administration (FAA) must focus on reaching consensus on new technology standards, establishing a regulatory framework for commercial use of UAS, developing systems and protocols for collecting data and tracking UAS safety incidents, and adapting oversight to ensure UAS operational safety.

Recent large-scale recalls from automotive manufacturers and motor carrier fatalities highlight a number of safety issues the Department must address to better protect those traveling on our Nation's roads. The National Highway Traffic Safety Administration (NHTSA) plays a key role in reducing the risks posed by vehicle safety defects and has undergone several reviews to determine how it can strengthen its internal processes and controls. NHTSA must now follow through on the resulting recommendations to improve how it collects and analyzes vehicle safety data and investigates defects. In addition, our safety investigations continue to identify challenges for the Department and the Federal Motor Carrier Safety Administration (FMSCA) as they seek to remove unsafe motor carriers from the Nation's highways. While FMCSA has taken enforcement actions and is collaborating with our office and other law enforcement partners, carriers intent on breaking the law continue to pose a threat to the traveling public. Key actions for FMCSA to keep unsafe carriers off the road include effective vetting of carriers' applications, focusing resources on the most high risk carriers, and prosecuting those companies that are caught violating the law.

It is critical that DOT carry out its safety mission within a framework of diligent stewardship over its assets and investments of taxpayer funds. DOT receives over $50 billion annually to fund projects to build, repair, and maintain the Nation's surface transportation system. DOT remains committed to strengthening its oversight for highway, rail, and transit projects. To maximize Federal investments, the Department must strengthen its risk-based oversight of projects and grant controls, fully implement Moving Ahead for Progress in the 21st Century Act (MAP-21) requirements to improve performance management and project delivery, and maintain vigilance over grantees receiving funds for Hurricane Sandy recovery projects.

DOT has also invested billions of dollars in FAA's efforts to transition to a more reliable and efficient aviation system. Effective contract and acquisition management is critical to ensure the success and long-term viability of the many programs and systems required for the Next Generation Air Transportation System (NextGen). Our work continues to find that FAA must do more to structure high-dollar contracts to successfully manage risks and avoid large cost overruns, delays, and performance problems with major aviation acquisitions.

In addition, many of DOT's most critical transportation systems rely on more than 450 information systems to conduct business. Increasingly complex attacks on public and private sector information systems underscore the need for more effective contingency planning, resolution of longstanding cybersecurity weaknesses, and aggressive deterrence of insider threats to protect DOT from damaging security compromises.

The people who work for the Department are its most vital asset in maintaining a safe and vibrant transportation system. Sustaining an effective and skilled workforce in a changing environment presents a significant challenge to the Department. To maximize its efforts to use its resources wisely, the Department must focus on identifying and hiring the right number of staff with the requisite skill mix, adapting hiring and training practices to account for Operating Administrations' changing missions and requirements, and implementing policies and procedures that promote its employees' success and ability to carry out DOT's mission effectively.

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 2016, including their impact on safety, documented vulnerabilities, large dollar implications, and the ability of the Department to effect change in these areas:

- Addressing the Increasing Public Safety Risks Posed by the Transportation of Hazardous Materials
- Integrating Unmanned Aircraft Systems Safely Into the National Airspace System
- Enhancing NHTSA's Efforts To Identify and Investigate Vehicle Safety Defects
- Protecting the Department Against More Complex and Aggressive Cyber Security Threats
- Adopting Effective Practices for Managing FAA Acquisitions
- Improving Oversight of FHWA's and FTA's Surface Infrastructure Programs
- Removing High Risk Motor Carriers From the Nation's Roads
- Developing and Sustaining an Effective and Skilled DOT Workforce

We appreciate the Department's commitment to taking prompt actions in response to the issues we have identified. The final report and the Department's response will be included in the Department's Annual Financial Report, as required by law. 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

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

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

KEY CHALLENGES

- Implementing pipeline and hazardous material congressional mandates and safety recommendations
- Enhancing the effectiveness of the hazardous materials voluntary disclosure reporting program
- Strengthening enforcement of railroad safety regulations

IMPLEMENTING PIPELINE AND HAZARDOUS MATERIAL CONGRESSIONAL MANDATES AND SAFETY RECOMMENDATIONS

PHMSA is responsible for implementing robust and timely safety measures to prevent or mitigate significant hazardous materials (hazmat) accidents, which can have devastating public and environmental impacts. From 2010 through 2014, there have been more than 3,000 pipeline and 78,000 hazmat incidents in the United States. In 2015, the Ranking Member of the House Transportation and Infrastructure Committee requested that we review PHMSA's pipeline and hazmat safety programs to assess the Agency's progress towards meeting congressional mandates and addressing safety recommendations as well as Operating Administrations' safety concerns. In particular, the Ranking Member expressed concerns about PHMSA's ability to promptly respond to significant safety matters, noting that PHMSA had not adopted new standards for rail tank cars even after numerous accidents over the last decade, multiple National Transportation Safety Board (NTSB) recommendations, and a 2011 petition by the Association of American Railroads.[1] In addition, PHMSA has not fully implemented the safety measures included in the Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011.[2] These measures were intended to help change the interval for operators to reassess their gas pipelines, require leak detection systems on hazardous liquid pipelines, and develop regulations for transporting carbon dioxide by pipeline. Finally, the Ranking Member stated that PHMSA has not fully addressed long-standing safety issues raised by the NTSB. Such issues include requiring excess flow valves on gas service lines and evaluating the risk to crews of trains transporting hazmat. We plan to issue our report later this fiscal year.

[1] However, in May 2015, PHMSA—in cooperation with the Federal Railroad Administration—issued a final rule on enhanced tank car standards and operational controls for high-hazard flammable trains.

[2] Public Law No. 112-90 (2011).

Our investigations are focusing closely on pipeline safety issues as well. Our criminal investigation[3] of the fatal 2010 San Bruno, CA, pipeline explosion resulted in a 2014 indictment of Pacific Gas and Electric Company for knowingly violating record keeping and integrity management practices required by the Natural Gas Pipeline Safety Act of 1968.[4] We are also currently reviewing the circumstances of the 2015 Santa Barbara, CA, pipeline rupture that spilled 1,700 to 2,500 barrels of crude oil into the Pacific Ocean to determine whether regulated entities knowingly and willfully violated PHMSA's regulations.

ENHANCING THE EFFECTIVENESS OF THE HAZARDOUS MATERIALS VOLUNTARY DISCLOSURE REPORTING PROGRAM

Transportation of hazmat by air can also present serious safety risks. For example, between 1991 and 2014, lithium batteries, which have the potential to ignite, were involved in over 70 aircraft incidents involving extreme heat, smoke, fire, or explosion in aviation cargo and passenger baggage. In 2006, FAA established the Hazardous Materials Voluntary Disclosure Reporting Program (HM VDRP), which allows air carriers to voluntarily disclose violations of hazmat regulations without receiving civil penalties. FAA's HM VDRP policy is designed to encourage compliance with regulations, foster safe operating practices, and promote the development of internal evaluation programs by air carriers. However, in March 2015 we reported that FAA lacked sufficient program oversight, training, and guidance for meeting HM VDRP requirements. For example, under the HM VDRP, FAA requires air carriers to complete corrective actions for violations they disclose. However, for 31 of the 48 (65 percent) closed cases we reviewed, FAA did not obtain sufficient evidence that air carriers completed all the required corrective actions and conducted self-audits required in the HM VDRP. In response to our findings, FAA issued a new policy to require that, among other things, corrective actions taken be supported by air carriers' documentation and that FAA regions coordinate with FAA Headquarters on proposed corrective actions and significant HM VDRP cases. However, effective implementation of this policy will require program oversight, training, and adequate guidance to improve this critical safety program.

STRENGTHENING ENFORCEMENT OF RAILROAD SAFETY REGULATIONS

The fatal 2013 oil train derailment in Lac Mégantic (Quebec, Canada), other rail accidents involving hazmat in the United States, and recent increases in crude oil shipments highlight the importance of oversight of hazmat being transported by rail. FRA is responsible for enforcing hazmat regulations promulgated by PHMSA. In fiscal year 2014, FRA reported that its inspectors identified 2,046 violations of hazardous materials regulations, and the Agency fined regulated transporting entities roughly $3.2 million. Key elements in an effective enforcement program are considering risk when allocating enforcement resources and imposing sufficient penalties to deter future violations. We are currently assessing FRA's enforcement of hazmat regulations using inspections and other tools and plan to issue our report later this year.

RELATED PRODUCTS

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

[3] We investigated this case jointly with the San Mateo County District Attorney's Office, San Bruno Police Department, and Federal Bureau of Investigation, with assistance from PHMSA.

[4] Public Law No. 90-481 (1968).

- *Audit Initiated of PHMSA's Progress Addressing Significant Safety Issues*, May 5, 2015
- *Program and Data Limitations Impede the Effectiveness of FAA's Hazardous Materials Voluntary Disclosure Reporting Program*, March 13, 2015
- *PG&E Charged With Multiple Violations of the Natural Gas Pipeline Safety Act,* April 1, 2014
- *Audit Initiated of FRA's Oversight of the Transportation of Hazardous Materials by Rail*, October 29, 2014

For more information on the issues identified in this chapter, please contact Mitchell Behm, Assistant Inspector General for Surface Transportation, at (202) 366-5630; Matthew Hampton and Charles Ward, Assistant Inspectors General for Aviation Audits, at (202) 366-0500; or Michelle McVicker, Principal Assistant Inspector General for Investigations, at (202) 366-1967.

CHAPTER 2

INTEGRATING UNMANNED AIRCRAFT SYSTEMS SAFELY INTO THE NATIONAL AIRSPACE SYSTEM

Unmanned Aircraft Systems (UAS)[5] technology is rapidly advancing, with analysts predicting that as much as $93 billion will be invested in the technology worldwide over the next decade. However, safely integrating UAS into the National Airspace System (NAS) presents a significant challenge for the Federal Aviation Administration (FAA)—in part because unmanned aircraft vary widely. UAS can be smaller than a radio-controlled model airplane or have wingspans as large as a Boeing 737 and can serve an array of purposes, from monitoring forest fires and aiding law enforcement to commercial uses such as precision agriculture, filmmaking, and package delivery. Given the industry's rapid expansion, Congress included in the FAA Modernization and Reform Act of 2012 multiple steps FAA must take to safely integrate UAS into the NAS. As FAA works to meet this goal, it must address technological and regulatory challenges while ensuring that safety remains the top priority.

KEY CHALLENGES

- Developing technology standards for UAS
- Establishing a regulatory framework for commercial use of UAS
- Tracking incidents and mitigating risks as UAS integrate into the NAS
- Overseeing UAS operational safety

DEVELOPING TECHNOLOGY STANDARDS FOR UAS

Because UAS do not have pilots on board, they cannot comply with FAA requirements for aircraft to be able to "see and avoid" other aircraft.[6] Therefore, the safe operation of UAS relies on effective, robust technology to automatically detect other aircraft operating in nearby airspace and successfully maneuver to avoid them.

However, as we have reported, despite years of working together, FAA, the aviation industry, and the law enforcement community have not reached consensus on technology standards that would enable UAS to detect and avoid other aircraft

[5] UAS consist of systems of aircraft and ground control stations where operators control the movements of aircraft remotely.

[6] While FAA 14 CFR 91.113 describes a pilot's ability to "see and avoid" other aircraft, the UAS community is using the term "detect and avoid" to describe the desired capability of UAS.

and ensure reliable communication links between ground stations and unmanned aircraft. According to the stakeholder committee tasked with providing recommended standards, this was due in part to the unique challenges posed by integrating UAS with manned aircraft. Developing these standards will be key to safely advancing integration on a widespread basis.

ESTABLISHING A REGULATORY FRAMEWORK FOR COMMERCIAL USE OF UAS

While UAS technology has existed for many years, these aircraft have historically been operated by military and government agencies. As such, the growing demand for commercial UAS presents new regulatory challenges for FAA, which must develop rules and regulations to govern UAS use while maintaining safety. However, FAA has not yet established a regulatory framework for UAS integration. This includes defining certification and crew qualification standards and issuing rules describing when and how UAS are authorized to operate in U.S. airspace. In addition, FAA has not established standard air traffic procedures for safely managing UAS in the same airspace as manned aircraft nor an adequate UAS training program for controllers. While FAA has provided interim guidance on air traffic policies and procedures, air traffic personnel have expressed concerns about the lack of training and guidance in some areas, such as how to handle "lost link" events—that is, interruptions or complete loss of aircraft connectivity. Further, FAA is behind schedule in issuing a congressionally mandated rule to govern operations of small UAS (under 55 pounds), which are expected to comprise most commercial UAS operations.

In the absence of regulations, FAA has approved UAS operations only on a case-by-case basis, leveraging an authority granted by Congress to exempt some UAS from certification requirements. Using this authority, FAA has broadened the commercial use of UAS by approving over 2,100 requests for exemption from companies in industries such as filmmaking, pipeline inspection, aerial surveying, precision agriculture, and real estate.

TRACKING INCIDENTS AND MITIGATING RISKS AS UAS INTEGRATE INTO THE NAS

As more UAS operate in the NAS, the number of reported incidents has grown. According to FAA, reported sightings of UAS by aircraft pilots have increased significantly, with more than 650 incidents reported this year so far, compared to 238 pilot reports in all of 2014. Some of the incidents did not pose a safety risk, but others have involved reports of pilots altering course to avoid unmanned aircraft. However, FAA has neither developed a formal system to track and classify the severity and type of these UAS incidents nor established a system to refer egregious incidents to our office for potential criminal investigation.

FAA also has not established an effective way to collect and share comprehensive UAS safety data with the Department of Defense (DoD), the largest UAS user. While FAA routinely collects some limited safety data from current governmental UAS operators (mainly from DoD), FAA's UAS integration staff told us they do not find this information useful because it lacks detail. DoD has a wealth of additional operational data, such as airworthiness data, which could assist FAA in better understanding the reliability of UAS, but FAA has not reached agreement with DoD regarding the collection of these data.

OVERSEEING UAS OPERATIONAL SAFETY

As we reported in 2014, aviation safety inspectors have experienced challenges related to UAS safety oversight, including unclear oversight guidance and lines of organizational reporting. For example, while FAA issued guidance in January 2013 that provides policies for evaluating proposed UAS operations and describes the operating procedures an applicant should have in place, the guidance did not clearly detail what actions an inspector should take in overseeing a UAS operator after it is approved. In addition, inspectors receive work instructions from the UAS Integration Office managers in FAA Headquarters, but actually report to regional managers in other offices, which can lead to competing priorities for the same resources. Given that FAA has already approved more than 1,700 UAS for commercial operations, along with an influx of unapproved operations in the NAS cited by pilots, UAS oversight will be a growing responsibility for FAA's safety inspector workforce.

RELATED PRODUCTS

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

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

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

CHAPTER 3

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

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

KEY CHALLENGES

- Improving NHTSA's processes for collecting and analyzing vehicle safety data
- Maintaining focus on the implementation of past safety process improvements
- Following through on *NHTSA's Path Forward*

IMPROVING NHTSA'S PROCESSES FOR COLLECTING AND ANALYZING VEHICLE SAFETY DATA

As of June 12, 2015, General Motors Corporation (GM) has received 114 eligible death and 229 eligible injury claims attributable to an ignition switch defect that could shut down the vehicle engine and disable power steering, power brakes, and air bags. Since February 2014, GM has recalled nearly 9 million vehicles in the United States due to this issue. Our office initiated a criminal investigation surrounding this matter, culminating in September 2015 when GM entered into a deferred prosecution agreement with the Government and agreed to forfeit $900 million for engaging in a scheme to conceal the ignition switch defect from NHTSA and consumers.

Our 2015 audit of NHTSA's Office of Defects Investigations (ODI), requested by the Secretary, found that NHTSA's inadequate data collection and analysis processes undermined its efforts to identify and investigate potential vehicle safety concerns. For example, ODI's processes were insufficient for verifying that manufacturers submit complete and accurate early warning reporting data, which can be essential for determining whether a recall is necessary. NHTSA agreed to implement our 17 recommendations regarding 3 critical areas of concern: improving ODI's collection of vehicle safety data, improving ODI's processes for screening and analyzing vehicle safety data, and promoting a streamlined process for opening investigations. However, it will be a challenge for NHTSA to make these and other process improvements while continuing to respond to urgent safety issues stemming from the thousands of consumer complaints and reports from manufacturers that it receives each year.

MAINTAINING FOCUS ON THE IMPLEMENTATION OF PAST SAFETY PROCESS IMPROVEMENTS

Recent safety recalls, along with our ongoing work, have highlighted the need for NHTSA to conduct periodic reviews of its safety processes and strengthen its internal controls. These reviews and our recommendations have resulted in several potential improvements to ODI's procedures for identifying and addressing vehicle safety defects. For example, in response to our 2011 recommendations on ODI oversight, NHTSA agreed to strengthen ODI's procedures for documenting and retaining pre-investigative and investigative evidence. Other key process improvements that NHTSA agreed to implement include conducting a workforce assessment, coordinating with foreign nations to identify safety defects or recalls, and documenting its justifications for not investigating identified defects. Although NHTSA has completed actions for each of the 10 recommendations we made in 2011, it will be critical for NHTSA to follow through to ensure these improvements achieve their full impact. Accordingly, we are currently evaluating NHTSA's progress in implementing and sustaining these actions.

FOLLOWING THROUGH ON NHTSA'S PATH FORWARD

On June 5, 2015, the Secretary released *NHTSA's Path Forward*, reporting the results of a year-long due-diligence review to identify weaknesses and outline changes in a number of areas. Specifically, the Secretary seeks to improve NHTSA's ability to hold manufacturers accountable by collecting information more efficiently, auditing carmakers and their suppliers, expanding NHTSA's expertise on new technologies, implementing a systems safety approach to better examine assumptions, improving data mining techniques, improving control of the investigation process, and strengthening communications. Further, the Secretary announced the formation of an expert panel, called the Safety Systems Team, to help strengthen its defect investigation workforce. As it continues efforts to enhance NHTSA's ability to identify and investigate vehicle safety defects, the Department will need to closely monitor the implementation of the changes outlined in *NHTSA's Path Forward* and follow through on findings and recommendations made by the Safety Systems Team.

RELATED PRODUCTS

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

- *General Motors Agrees to Deferred Prosecution Agreement and a $900 Million Forfeiture*, September 16, 2015
- *Inadequate Data and Analysis Undermine NHTSA's Efforts To Identify and Investigate Vehicle Safety Concerns,* June 18, 2015
- *Process Improvements Are Needed for Identifying and Addressing Vehicle Safety Defects,* October 6, 2011
- *Letter to Chairmen Rockefeller and Pryor Regarding Whether Former NHTSA Employees Exerted Undue Influence on Safety Defect Investigations*, April 4, 2011

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

CHAPTER 4

PROTECTING THE DEPARTMENT AGAINST MORE COMPLEX AND AGGRESSIVE CYBER SECURITY THREATS

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

KEY CHALLENGES

- Minimizing system disruptions through effective contingency planning and testing
- Overcoming longstanding cybersecurity vulnerabilities
- Deterring insider threats

MINIMIZING SYSTEM DISRUPTIONS THROUGH EFFECTIVE CONTINGENCY PLANNING AND TESTING

We continue to find weaknesses in DOT's ability to plan for contingencies and recover from disruptions, even for critical systems. For example, on September 26, 2014, a Federal Aviation Administration (FAA) contract employee deliberately started a fire that destroyed critical telecommunications equipment at FAA's Chicago Air Route Traffic Control Center (Chicago Center) in Aurora, IL. As a result of the damage, Chicago Center was unable to control air traffic for more than 2 weeks, thousands of flights were delayed and cancelled, and aviation stakeholders and airlines reportedly lost over $350 million. While FAA completed comprehensive reviews of its contingency plans and security procedures following the Chicago Center incident, significant work remains to prevent or mitigate the impact of similar events in the future. Likewise, the event highlighted the need to enhance security and increase the flexibility and resiliency of the national air traffic control system.

In addition, DOT's Operating Administrations are not effectively testing their disaster recovery plans to ensure they will work in the event of a disruption. For example, our recent work has shown that several Operating Administrations did not conduct annual contingency plan testing for their selected mission critical and high-impact systems, as required.[7] Moreover, 4 of the Department's 12 Operating Administrations had disaster recovery plans that were not in compliance with DOT policy. As a result, the Department cannot ensure continuity of its critical systems in the event of a malicious attack.

OVERCOMING LONGSTANDING CYBERSECURITY VULNERABILITIES

DOT has made only limited progress toward addressing longstanding vulnerabilities and fulfilling key cybersecurity requirements. To help reduce cybersecurity risks, the Office of Management and Budget (OMB) requires agencies to create and track identified weaknesses using plans of actions and milestones (POA&M). Also, we issue recommendations as part of our audits, such as our annual Federal Information Security Management Act (FISMA) audit. Yet, DOT has been slow to take the corrective actions to address its cybersecurity weaknesses. For example, in 2014, DOT had a backlog of more than 5,000 POA&Ms, which included 38 unimplemented recommendations we have made. Of the 38, 16 recommendations were issued as part of our fiscal year 2014 FISMA audit, and DOT was required to submit a corrective action plan on January 31, 2015, to address them. However, we did not receive this plan until August 10, 2015—7 months behind schedule. Moreover, it remains unclear when the Department will fully implement this plan, as there are still several open recommendations and POA&Ms.

DOT's delays are of particular concern in light of current Presidential initiatives to strengthen cybersecurity protections. Many of our recommendations focus on key Administration priorities, such as implementing information system continuous monitoring and National Institute of Standards and Technology (NIST) requirements. OMB requires agencies to implement continuous monitoring by 2017.[8] However, DOT has not defined the practices or technologies that should be used to achieve this. As a result, its Operating Administrations have been unable to successfully implement a continuous monitoring program, thereby limiting their ability to detect and mitigate risks.

[7] Departmental Cybersecurity Compendium Supplement to DOT Order 1351.37, "Departmental Cybersecurity Policy," Version 3.0, September 2013.

[8] Continuous monitoring involves establishing processes and capabilities to provide near real-time security information to senior leaders.

DOT also has not yet established common security controls that would help protect its information systems, including high-value asset[9] systems. Because many DOT systems are interconnected, meeting NIST requirements efficiently necessitates 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 (COE). If these controls change or fail, the systems that rely on them may also be unknowingly placed at risk. However, DOT has not finalized procedures pertaining to common controls and is still conducting planning and research to determine the resources needed to ensure that common controls are properly used, implemented, and monitored. Until then, COE users may be dependent on controls that do not function or exist, leaving DOT vulnerable to more aggressive and complex cyber threats.

DETERRING INSIDER THREATS

Insider threats can take many forms—from a malicious employee who steals data to an unwitting employee who opens infected email attachments. For example, in 2014, a DOT employee opened an infected email attachment and unleashed a serious computer virus (known as "Dyre") into DOT's network, compromising more than 5,000 computers and resulting in loss of productivity, email interruptions, and data loss. This virus was designed to steal information (including passwords), avoid routine detection, and generate new emails with attachments to further spread the virus. While DOT reported that the virus has been mostly eradicated, it has also noted the need to better train employees to protect DOT's systems and strengthen other controls, such as using Personal Identity Verification (PIV) card capabilities. Employees using PIV cards to log on to systems were at lower risk of compromise. Until employees are properly educated and PIV cards are fully implemented, DOT will continue to face preventable security compromises.

In addition, the 2014 Chicago Center fire incident highlighted that FAA's security protocols were insufficient to identify, counter, or mitigate the impact of an insider threat to its air traffic control systems. For example, FAA lacked the controls necessary to block access to a contract employee no longer assigned to this facility, thereby leaving the Center's high-value systems vulnerable to unauthorized access, disruption, or loss of information. Prior to the Chicago Center incident, FAA security policies were primarily focused on prevention and mitigation of external threats. FAA has acknowledged that its security controls against both internal and external threats need strengthening, to include risk assessment, access control, personnel screening policies and procedures, and training enhancements.

RELATED PRODUCTS

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

- *FAA's Contingency Plans and Security Protocols Were Insufficient at Chicago Air Traffic Control Facilities*, September 29, 2015
- *FISMA 2014: DOT Has Made Progress but Significant Weaknesses in Its Information Security Remain,* November 14, 2014

[9] High-value assets are those assets, systems, or datasets that may be considered "high-value" by the Department based on the following attributes—sensitivity of the information, uniqueness of the dataset, impact of loss or compromise, system dependencies, and systems that are integral to supporting critical department communications.

- *FISMA 2013: DOT Has Made Progress, but Its Systems Remain Vulnerable to Significant Security Threats*, November 22, 2013
- *Security Weaknesses in DOT's Common Operating Environment Expose Its Systems and Data to Compromise,* September 10, 2013
- *FISMA 2012: Ongoing Weaknesses Impede DOT's Progress Toward Effective Information Security*, November 14, 2012

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

CHAPTER 5

ADOPTING EFFECTIVE PRACTICES FOR MANAGING FAA ACQUISITIONS

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

KEY CHALLENGES

- Structuring major acquisitions to successfully manage risk
- Reducing cost, schedule, and performance risks by adequately testing systems
- Assessing risks and validating cost estimates prior to contract award

STRUCTURING MAJOR ACQUISITIONS TO SUCCESSFULLY MANAGE RISK

Successful risk management is essential to Agency officials' ability to develop sound contracting and acquisition approaches. Yet, FAA has not structured its major acquisitions to address this challenge, such as adopting the use of modular contracting or selecting contract types that are appropriate for the procurement. For example, in 2007 FAA awarded a contract to ITT Corporation for $1.8 billion (if all options are exercised through 2025) to develop and deploy the ground infrastructure for the Automatic Dependence Surveillance-Broadcast (ADS-B) system, a new satellite-based surveillance system for managing air traffic. Since 2010, we have reported that FAA faces significant risks in implementing the ADS-B program and realizing benefits due to weaknesses in its contract management and oversight, including its contract structure. For example, the ADS-B contract structure bundles and comingles tasks and costs, making it difficult for decision makers to manage the contract and track costs. In addition, FAA attempted to cover the first 18 years of ADS-B's 28-year lifecycle through one contract award. In contrast, guidance from the Office of Management and Budget and the Federal Chief Information Officer recommends dividing large acquisitions into a series of shorter term contracts, task orders, or segments. This reduces the risk of adverse consequences on the overall project by isolating errors and refining requirements. FAA has made progress implementing ADS-B by completing the deployment of 634 ground radio stations. However, it is not clear whether past problems associated with oversight and contract management have been rectified to ensure ADS-B technical requirements are being achieved as intended and within budget. Given FAA's continuing challenge with managing risk on this major effort, we are currently reviewing FAA's prime ADS-B contract to determine whether FAA is effectively monitoring the delivery of contractor services and establishing procedures to verify contractor payments.

REDUCING COST, SCHEDULE, AND PERFORMANCE RISKS BY ADEQUATELY TESTING SYSTEMS

FAA has increased the risk of performance problems, along with cost and schedule growth, by not adequately testing systems and sometimes accepting them from the contractor prematurely. For example, FAA's ability to achieve its NextGen goals depends on the successful implementation of the En Route Automation Modernization (ERAM) system—a $2.7 billion system for processing flight data at facilities that manage high-altitude traffic. In 2012 we reported that FAA did not address significant acquisition risks, including ensuring that its system was adequately tested before agreeing to accept the system from the contractor. Instead, FAA chose to accept an immature system before testing it at an operational site. As a result, FAA became responsible for hundreds of millions of dollars in increased costs to address extensive software-related problems, which also delayed ERAM's nationwide implementation by over 4 years. FAA has made considerable progress in deploying ERAM since then—declaring the system fully operational at all 20 sites in March 2015. However, recent ERAM outages that significantly disrupted air traffic have raised questions about the stability of the system. FAA must continue to identify and correct recurring problems with ERAM, especially since further delays pose significant risks to other key NextGen programs—such as DataComm[10]—that depend on fully functional ERAM capabilities. As FAA moves forward with implementing these other programs, adequate testing will remain critical to ensure that ERAM is stable enough to effectively integrate with NextGen technologies.

ASSESSING RISKS AND VALIDATING COST ESTIMATES PRIOR TO CONTRACT AWARD

FAA has not taken sufficient steps to assess and mitigate risk factors identified on previous contracts when selecting a bidder and awarding new contracts, potentially resulting in significant increased costs to the Agency. We have made recommendations in recent years to improve FAA's ability to manage risks in the contract selection and award process. Yet, in April 2015, FAA awarded a $727.2 million new air traffic controller training contract, known as the Controller Training Contract (CTC), without fully addressing recommendations from our 2013 report. We had identified significant problems with FAA's management of performance and cost risks on a similar high-dollar service contract. Specifically, we reported that prior to awarding the $859 million Air Traffic Control Optimum Training Solution (ATCOTS) contract, FAA determined there was a 60- to 80-

[10] DataComm will reduce controller-to-pilot voice communications by enabling digital communications capabilities, which enhance the speed and accuracy of delivering instructions and information.

percent likelihood that the successful bidder would not meet FAA's training needs with the limited staff hours proposed. However, FAA did not require the contractor to address this issue prior to award, and FAA had to spend millions of dollars more than expected to make up for the shortfall in contracted resources. FAA also did not sufficiently assess and address identified risks before extending the contract again in 2012—despite the program's $89 million in cost overruns and failure to achieve key contract goals to reduce controller training times and costs and produce training innovations. Our ongoing work has found that FAA did not implement our recommendations to define requirements and validate costs of its controller training efforts before awarding CTC in April 2015. FAA's lack of knowledge of these foundational aspects of its controller training program could hinder its ability to effectively and transparently manage training costs, validate cost estimates, and detect and address cost or performance risks on its new CTC.

RELATED PRODUCTS

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

- *Status of FAA's Efforts To Operate and Modernize the National Airspace System, Testimony Before the Committee on Transportation and Infrastructure, United States House of Representatives,* November 18, 2014
- *ADS-B Benefits Are Limited Due to a Lack of Advanced Capabilities and Delays in Used Equipage,* September 11, 2014
- *The Success of FAA's Air Traffic Controller Optimum Training Solution Relies on Sound Contracting and Program Management Practices, Testimony Before the Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Financial and Contracting Oversight,* January 14, 2014
- *FAA Needs To Improve ATCOTS Contract Management To Achieve Its Air Traffic Controller Training Goals,* December 18, 2013
- *FAA Has Made Progress Fielding ERAM, but Critical Work on Complex Sites and Key Capabilities Remains,* August 15, 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 or Matthew Hampton and Charles Ward, Assistant Inspectors General for Aviation Audits, at (202) 366-0500.

CHAPTER 6

IMPROVING OVERSIGHT OF FHWA'S AND FTA'S SURFACE TRANSPORTATION PROGRAMS

DOT receives over $50 billion in Federal dollars annually to fund projects to build, repair, and maintain the Nation's surface transportation system. DOT remains committed to strengthening its oversight for highway, rail, and transit projects to maximize Federal investments. As part of this effort, it must enhance its risk-based oversight of projects and grant controls, fully implement Moving

Ahead for Progress in the 21st Century Act (MAP-21) requirements to improve performance management and project delivery, and continue to exercise vigilant oversight over Hurricane Sandy recovery projects. At the same time, DOT must address longstanding deficiencies with the Nation's highway and bridge systems and move forward effectively with a new tunnel safety program.

KEY CHALLENGES

- Strengthening risk-based oversight of projects and grant controls
- Fully implementing MAP-21 performance management and project delivery requirements and initiatives
- Improving Hurricane Sandy oversight and grantee controls
- Ensuring the integrity of the Nation's highway and rail bridges and implementing a new tunnel safety program

STRENGTHENING RISK-BASED OVERSIGHT OF PROJECTS AND FINANCIAL CONTROLS

The Federal Highway Administration (FHWA) and Federal Transit Administration (FTA) provide funding each year for more than 100,000 transportation projects nationwide. Therefore, it is critical that they have strong risk-based oversight and financial controls. FHWA oversees $40 billion annually in Federal-aid highway project funds. The Agency recently revised its risk-based approach to oversee these funds in response to MAP-21 requirements and our recommendations and must now follow through to ensure their success. This revised effort includes improving the linkage between FHWA's annual assessments of State and Federal-aid highway programs and then analyzing that information to better target its oversight reviews of highway and bridge projects. FHWA is also conducting internal process reviews and updating congressionally required stewardship and oversight agreements.[11] Many of the approaches and requirements are different than FHWA's past practices. FHWA recently completed its first full performance cycle with these revised initiatives; in future performance cycles, management will need to assess whether the program is robust and working as designed and make improvements where needed. Another key component of a sound risk-based oversight strategy will be tightening and enforcing its grant controls over approving, obligating, and spending funds. For example, our work has found that FHWA needs to improve oversight of financial and program plans covering major highway and bridge projects—those exceeding $500 million in funding, implement its new guidance on project estimating, and address the backlog of pending Federal-aid highway project closeouts to ensure effective use of Federal-aid funds. As part of its efforts to enhance grant controls, FHWA must also finalize improvements to its financial information system, intended to improve project data used to oversee its programs.

FTA awards billions of dollars in grant funds each year to more than 1,200 grantees across its 10 regions. FTA has opportunities to better target its oversight and use tools to meet its goals to ensure major capital projects are on time and within budget. For example, we reviewed the Metropolitan Washington Airports Authority's (MWAA) grant expenses for FTA's Dulles Rail Project. We found that FTA did not verify whether MWAA had adequate support for claimed costs and initially

[11] Stewardship and Oversight Agreements formalize the roles and responsibilities of FHWA Division Offices and the States to ensure oversight of Federal funds, project quality, and safety.

reimbursed MWAA for more than $36 million in unsupported and unallowable costs. We provided our results to FTA for cost recovery purposes. According to FTA, MWAA later provided documentation showing that most of the costs are now supported.

Going forward, FTA must also focus on promptly addressing identified oversight issues, strengthening stakeholder agreements, and enhancing controls to prevent and detect fraud. FTA started a comprehensive review of its oversight program in 2011 but needs to complete it to ensure the Agency is effectively monitoring grantees' use of Federal funds. For example, our work determined that FTA lacked performance measures to assess the outcomes of its grant oversight program as well as a risk-based approach and adequate policies and procedures for using remedies and sanctions. Addressing these gaps could help provide FTA with needed insight into how Headquarters, regional staff, and contracted oversight staff are operating and identify opportunities to improve oversight reviews and follow-up actions.

Our investigations are also focusing closely on oversight of grantees' use of Federal transit funds. In July 2015, the former owner of a Massachusetts transit authority bus operator was sentenced to 70 months in prison and ordered to pay $688,772 in restitution in connection with his misuse of grant funds that were designated to pay salaries, benefits, and other expenses for employees of the bus company. Instead, the operator used the funds to pay employees to work on his personally owned produce farm.

FULLY IMPLEMENTING MAP-21 PERFORMANCE MANAGEMENT AND PROJECT DELIVERY REQUIREMENTS AND INITIATIVES

Three years after MAP-21's enactment, many requirements for DOT to move toward more performance-based investment management of its highway and transit programs are still not in place. A key requirement, to establish individual State transportation performance plans linked to Federal-aid highway funds, will require DOT to modify related oversight mechanisms. The new performance measures will incorporate the Department's seven national goals: safety, infrastructure condition, congestion reduction, system reliability, freight movement and economic vitality, environmental sustainability, and reduced project delivery delays. MAP-21 also called for DOT to increase project efficiency and innovation, with a focus on environmental issues during the planning and design phase of highway and transit projects. DOT still has not fully implemented all actions it identified to meet these requirements. Sustained management attention will be critical to ensure the timely completion of rulemakings, guidance, other program initiatives, and reports to Congress.

IMPROVING HURRICANE SANDY OVERSIGHT AND GRANTEE CONTROLS

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 efforts, FTA received approximately $10 billion in relief funds through the Disaster Relief Appropriations Act (DRAA) and still faces challenges in overseeing use of these funds.[12] Our second Hurricane Sandy assessment, issued in June 2015, determined that FTA had not fully implemented the processes and internal controls it established to monitor Hurricane Sandy funds, as required by

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

DRAA. FTA also has yet to develop a formal coordination process with the Federal Emergency Management Agency to reduce the risk of duplicating Hurricane Sandy reimbursements.

Given FTA's significant investment in Hurricane Sandy funds, it plays a critical role in overseeing project awards and ensuring grantees take steps to mitigate the risk of fraud. During liaison and coordination efforts with FTA and other stakeholders, we found that a grantee receiving Sandy and non-Sandy grants was not reporting fraud settlements to FTA, and funds were not being appropriately returned back to FTA. We also found that the same FTA grantee did not notify Federal suspension and debarment (S&D) authorities of contractors who have settled or been found to have business integrity issues. We are reviewing these reporting issues to assess any impact on Sandy-related contracts awarded by the same grantee.

S&D actions exclude parties found to be unethical, dishonest, or otherwise irresponsible from receiving Federal contracts and grants and are among the Government's strongest tools to deter unethical and unlawful use of Federal funds. Without full information on fraud settlements from its grant recipients, FTA cannot determine if S&D actions are warranted, and the contractor could continue to receive work involving Federal funds—putting the Federal Government at greater risk of doing business with dishonest or irresponsible parties. In response to this issue, FTA recommended that the grantee include in its next progress report any claims, litigation, or pending settlements involving third-party contracts. We consider FTA's recommendation important in our efforts to ensure that Federal taxpayers' interests are protected. In addition, we recently reported that the use of integrity monitors, which FTA requires grantees receiving over $100 million in Hurricane Sandy funding to hire, can help to prevent and detect fraud. FTA is working with our Office of Investigations, which has led to some referrals of alleged fraud. The Agency must continue efforts to ensure its recipients comply with its grant requirements by providing timely notification of fraud and all fraud settlements to FTA.

ENSURING THE INTEGRITY OF THE NATION'S HIGHWAY AND RAIL BRIDGES AND IMPLEMENTING THE NEW TUNNEL SAFETY PROGRAM

Approximately one-fourth of the Nation's more than 600,000 bridges are deficient according to FHWA. Since 2006, FHWA has been working to address our recommendations for improving its oversight of State bridge programs. These recommendations include establishing a data-driven, risk-based approach to assessing States' compliance with National Bridge Inspection Standards; prioritizing and remediating national bridge safety risks; improving bridge inspection and inventory practices; and encouraging States' effective use of bridge management systems. As part of its corrective actions, in 2011, FHWA launched a program that assesses each State's bridge safety risks based on uniform metrics. In 2015, however, we found that FHWA needs to build a better foundation for the assessment program's long-term success by improving communication with Division Offices and addressing gaps in program guidance. Furthermore, until FHWA defines and implements a comprehensive national bridge safety risk management process, it may be missing opportunities to identify, track, and remediate high-priority risks.

FHWA is progressing in its implementation of MAP-21 requirements to establish a new national tunnel inspection program and inventory. On July 14, 2015, FHWA issued the National Tunnel Inspection Standards (NTIS). This is its first regulation on tunnel inspection standards with qualifications, certification procedures, and formal training for tunnel inspectors as well as periodic State inspections and reports on the condition of the Nation's tunnels. The program has similarities to the long-standing national bridge inspection program. FHWA now faces the challenge of assisting States and tunnel owners in developing their program to meet near-term deadlines imposed by the regulation for program compliance, as well as performing annual reviews of such compliance. We will monitor FHWA as it helps States take the appropriate steps and deploy resources to meet requirements and ensure tunnel inventories are accurate.

RELATED PRODUCTS

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

- *Former President of a Massachusetts Transit Authority Operator Sentenced to 70 Months Imprisonment,* July 29, 2015
- *Oversight of Major Transportation Projects: Opportunities To Apply Lessons Learned,* June 8, 2015
- *FTA Has Not Fully Implemented Key Internal Controls for Hurricane Sandy Oversight and Future Emergency Relief Efforts*, June 12, 2015
- *Most FHWA ARRA Projects Will Be Closed Out before Funds Expire, but Weaknesses in the Project Close-Out Process Persist,* March 2, 2015
- *FHWA Effectively Oversees Bridge Safety, But Opportunities Exist To Enhance Guidance and Address National Risks,* February 18, 2015
- *FHWA Meets Basic Requirements but Can Strengthen Guidance and Controls for Financial and Project Management Plans*, January 27, 2015
- *DOT's Suspension and Debarment Program Continues To Have Insufficient Controls,* October 15, 2014
- *FHWA Has Not Fully Implemented All MAP-21 Bridge Provisions and Prior OIG Recommendations,* August 21, 2014
- *MWAA's Financial Management Controls Are Not Sufficient To Ensure Eligibility of Expenses on FTA's Dulles Rail Project Grant*, January 16,2014
- *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
- *FHWA Provides Sufficient Guidance and Assistance To Implement the Highway Safety Improvement Program but Could Do More To Assess Program Results*, March 26, 2013
- *FHWA Has Opportunities To Improve Oversight of ARRA High Dollar Projects and the Federal-Aid Highway Program*, November 12, 2012

- *Improvements to Stewardship and Oversight Agreements Are Needed To Enhance Federal-Aid Highway Program Management*, October 1, 2012
- *Improvements Needed in FTA's Grant Oversight Program*, August 2, 2012
- *Actions Needed To Improve FTA's Oversight of the Dulles Corridor Metrorail Project's Phase 1*, July 26, 2012

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

CHAPTER 7

REMOVING HIGH RISK MOTOR CARRIERS FROM THE NATION'S ROADS

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

KEY CHALLENGES

- Pursuing motor carriers that continually violate FMCSA regulations
- Removing reincarnated motor carriers from highways

PURSUING MOTOR CARRIERS THAT CONTINUALLY VIOLATE FMCSA REGULATIONS

A total of 4,278 people died in large truck and bus crashes in 2014. To reduce such fatalities, FMCSA must take stringent enforcement action against motor carriers that repeatedly violate safety regulations and ensure that unsafe carriers are placed out of service and not reissued authority under new identities.

We focus our investigations on those entities that repeatedly engage in the most unsafe of practices. These include violating hours of service regulations and subsequently falsifying records of duty status; violating medical, drug, and alcohol testing requirements for drivers; and falsifying vehicle inspection, repair, and maintenance records. In some instances, these carriers are involved in multi-vehicle crashes and fatalities. For example, a truck driver traveling to New Jersey was involved in a six-vehicle fatal crash outside of Philadelphia. Our investigation revealed that the driver had been repeatedly violating hours of service regulations and falsifying his records of duty status, up until the day of the crash. Records prior to the crash revealed that the driver and his employer had been previously cited for falsification of logs and vehicles placed out of service for mechanical problems. He pleaded guilty to Federal charges and was sentenced to 18 months of incarceration and 36 months of supervised release.

While FMCSA has taken strong enforcement actions and continues to collaborate with our office and other law enforcement partners, carriers intent on breaking the law continue to pose a threat to the traveling public. Key actions to keep unsafe carriers off the road include effective vetting of carriers' applications, focusing resources on the most high risk carriers, and prosecuting those companies that are caught violating the law.

REMOVING REINCARNATED MOTOR CARRIERS FROM HIGHWAYS

A longstanding safety concern in the motor carrier industry is the practice of reincarnated carriers—carriers that attempt to operate as different entities in an effort to evade FMCSA's enforcement actions. To circumvent out-of-service orders, these carriers often assume aliases or use different business addresses. For example, in Texas, we initiated an investigation of a company that was issued an unsatisfactory safety rating by FMCSA for numerous violations including falsification of hours of service requirements and using drivers who were not medically examined or certified. After being placed out of service by FMCSA, the company reincarnated under a different name and was ultimately involved in a passenger bus crash that killed 14 people. The owner of the company was prosecuted and sentenced to 3 years of probation and ordered to pay a fine. Unfortunately, current FMCSA procedures make it difficult to revoke the carrier's operating authority without a protracted investigation. Further, while FMCSA has implemented a more stringent application vetting process to identify carriers that might have had a previous authority revoked for unsafe operations, rogue carriers continue to bypass the system.

Criminal cases of carriers violating safety laws and regulations and reincarnating have increased in recent years. Of the 138 motor carrier safety investigations we opened since fiscal year 2010, 34 involved reincarnated carriers. In one particularly egregious case, a Georgia man continued to drive trucks for a company that had been issued an out-of-service order following a fatal crash that killed seven in Alabama. The man was sentenced to 10 months incarceration and 12 months supervised release for his participation in the conspiracy to violate the out-of-service order. In November 2013, we initiated a proactive project in California that has identified over 200 DOT-regulated carriers suspected of reincarnation.

Prosecuting carriers that attempt to evade FMCSA's out-of-service orders can be challenging for the Department. While a number of our investigations of alleged reincarnated carriers have prompted legal action, there are some legal and procedural barriers. For example, one reincarnated carrier case was recently declined for prosecution because the criminal penalties under Title 49 U.S.C. Section 521 contain only a misdemeanor provision, which is less likely to result in jail time.[13] In a Tennessee case, a District Court Judge similarly ruled that violating an out-of-service order under Title 49 U.S.C. Section 521 was a civil—not a criminal—offense. FMCSA has proposed modification of Section 521 to include criminal penalties for knowingly and willfully violating an out-of-service order.

[13] 49 United States Code Section 521(b)(6)(A) is a misdemeanor statute for violations of certain FMCSA regulations.

In addition, we found instances of third parties completing applications for DOT authority and falsely representing that the applicant had no prior affiliation with another carrier. This practice not only violates FMCSA's application instructions but complicates the Department of Justice's ability to pursue prosecutions. The current application process makes it too easy for rogue carriers to deny any knowledge that they were required to disclose prior affiliations. In many of the cases we investigated, the third parties completing the applications never questioned company owners about prior affiliations. Continued efforts are needed to enhance the process for vetting applications so that FMCSA may more efficiently identify carriers that pose safety risks and keep them off the road.

RELATED PRODUCTS

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

- *FMCSA Oversight and Reauthorization Issues,* March 4, 2015
- *Bus Company Owner Sentenced for Operating Without FMCSA Authority,* October 24, 2014
- *Georgia Man Sentenced for Violating a FMCSA Imminent Hazard Out of Service Order,* May 29, 2014
- *Philadelphia Truck Driver Sentenced to Jail for False Logbooks Resulting in Fatal Crash,* May 7, 2013

For more information on the issues identified in this chapter, please contact Michelle McVicker, Principal Assistant Inspector General for Investigations, at (202) 366-1967.

CHAPTER 8

DEVELOPING AND SUSTAINING AN EFFECTIVE AND SKILLED DOT WORKFORCE

The people who work for the Department are its most vital asset in maintaining a safe and vibrant transportation system. Maintaining an effective and skilled workforce in an evolving and more fiscally constrained environment will present a significant challenge to the Department's leadership. Our work continues to highlight DOT's efforts to use its resources wisely and identify a number of areas where the Department can make improvements to support the hiring, development, placement, and performance of its workforce. The challenges we have identified significantly impact the Federal Aviation Administration (FAA)—which has the largest workforce in the Department—however, other Operating Administrations must address these at various levels as well.

KEY CHALLENGES

- Identifying and hiring the right number of staff with the requisite skill mix
- Adapting training and staffing practices to account for changing missions and requirements
- Implementing policies and procedures that facilitate the success of key workforce components across the Department

IDENTIFYING AND HIRING THE RIGHT NUMBER OF STAFF WITH THE REQUISITE SKILL MIX

Knowing how many staff are needed and the types of skills they should possess is a basic step toward being able to achieve the Department's missions. Our work has shown the complexity involved in accomplishing this task. For example, FAA's efforts to provide for the certification of new aircraft and related technologies depend on the Agency's ability to maximize its authority provided by existing law and regulations under the Organization Designation Authorization (ODA) program. Using ODA, FAA can delegate certain functions, such as approving new aircraft designs and certifying aircraft components, to organizations (e.g., manufacturers). However, FAA lacks a comprehensive process for determining staffing levels needed to provide ODA oversight. Although FAA uses a staffing model to help identify overall staffing needs, the model does not include detailed ODA data on important workload drivers such as a company's size and location, type of work performed, past performance, and project complexity and volume. Additionally, the Agency does not use the model to forecast specific staffing needs at the field certification office and oversight team levels. Instead, a committee of managers allocates staffing using the model's overall results, which are based on average amount of time spent on ODA oversight regardless of company size and a discussion of individual office needs.

While FAA has improved its oversight of air traffic controller staffing at critical facilities—the busiest and most complex facilities—many have a shortage of fully trained controllers. Moreover, FAA still does not have the data or an effective model in place to fully and accurately identify how many controllers it needs to maintain efficiency without compromising safety. Without better models, it will be difficult for FAA to ensure critical facilities are well staffed, especially as more controllers retire. In addition, FAA will also need more effective tools for screening and selecting applicants, given its plans to hire over 6,300 controllers in the next 5 years. In 2010, we reported that although FAA used an aptitude test known as Air Traffic Selection and Training (AT-SAT) as a pre-employment screening tool, the Agency was not using the test to determine the type of facility in which new controllers should be placed. In 2014, FAA made several changes to its controller hiring process. However, Congress has expressed concerns about the transparency and effectiveness of FAA's revised processes. At the request of Congress, we plan to conduct another review of FAA's air traffic control hiring programs and practices and the impact of FAA's recent changes to these processes.

The National Highway Traffic Safety Administration (NHTSA) has also faced an issue with determining the right number of staff needed for specific elements of its mission. In 2011 we reported that NHTSA's Office of Defects Investigation (ODI) had not determined the number of staff needed nor the specialized skill sets required for ensuring that manufacturers recall vehicles and equipment with safety-related defects in a timely manner. We recommended that NHTSA conduct a workforce assessment. In April 2015, NHTSA responded by providing us with its "Workforce Assessment: The Future of NHTSA's Defect Investigations" report. NHTSA's evaluation used two models to assess its available resources: one to address the immediate staffing needs of ODI and one that would align ODI with other safety enforcement transportation modes, such as FAA's Office of Aviation Safety, with more than 7,000 employees. NHTSA must now effectively implement the results of the workforce assessment to help inform future decisions regarding the resources required for this critical mission.

ADAPTING TRAINING AND STAFFING PRACTICES TO ACCOUNT FOR CHANGING MISSIONS AND REQUIREMENTS

Sustaining a workforce at the desired skill level requires additional efforts to ensure employees keep abreast of changing technology and missions. Our work has identified a number of areas where further efforts are needed. For example, in 2011 we found that NHTSA's ODI did not have a formal training program to help develop the current and future workforce to ensure the continuity of institutional knowledge. ODI's ability to identify potential safety risks depends on the expertise of its staff, and it relies heavily on its on-the-job training and supplemental periodic outside training. However, from 2002 through 2009, only 15 of 23 ODI defect investigators took at least one training course directly related to automobile technology, dynamics, and crashes—for a total of 30 courses during the 8-year period. We recommended that ODI develop a formal training program. Our additional work in 2015 found that while ODI had developed a training plan in response to our recommendations, it had not been effectively implemented. For example, ODI staff charged with interpreting statistical test results for early warning reporting data told us they have no training or background in statistics. Three screeners assigned to analyze air bag incidents lacked training in air bags. One screener who was originally hired to review child seat restraint issues was assigned in 2008 to review air bag issues—without any air bag training and without an engineering or automotive background. Going forward, NHTSA will need to focus on establishing a clear plan for carrying out its new program to ensure that its staff receives the appropriate training.

In 2014, we reported that the Federal Highway Administration's (FHWA) workforce planning processes generally aligned with six best practices identified by the Government Accountability Office (GAO). Specifically, they (1) align with FHWA's strategic plan, (2) involve stakeholders, (3) identify workforce gaps, (4) include strategies to address those gaps, (5) stress human capital flexibilities to support workforce strategies, and (6) include means to monitor and evaluate progress. However, we found that FHWA had not conducted a comprehensive assessment of MAP-21's impact on its workforce. MAP-21 brought about significant structural changes, such as consolidation of several FHWA programs. In August 2014, FHWA issued a Strategic Workforce Assessment Summary Report, which recognized that the Agency still needs to make a number of changes to the way it does business and deploys staff to meet MAP-21 requirements. FHWA's implementation of these changes and the challenges that develop will be critical to the Agency's ability to carry out its mission effectively.

IMPLEMENTING POLICIES AND PROCEDURES THAT FACILITATE THE SUCCESS OF KEY WORKFORCE COMPONENTS ACROSS THE DEPARTMENT

FAA's air traffic controllers and the many staff throughout the Department devoted to the acquisition function pose a number of workforce-related challenges. Since 1998, FAA has implemented 51 initiatives intended to increase productivity among the controller workforce. The goal of these efforts is to increase workforce productivity, reduce operating costs, and improve training and hiring practices. However, FAA has been unable to demonstrate the results of its controller productivity initiatives largely because it has missed opportunities to assess their effectiveness. For example, FAA did not establish detailed baseline metrics or quantifiable cost and productivity goals for 43 (84 percent) of its 51 initiatives. A lack of baseline goals hinders FAA's ability to ensure these initiatives are effective. In addition, FAA is not maximizing operational and financial data regarding its controller workforce. The Agency does not systematically collect or analyze these data to reduce cost or improve productivity due to a number of barriers. These include a lack of requirements and guidance for facility managers on analyzing existing data, FAA's inability to reach consensus on which metrics should be used to measure controller productivity, and data control and entry weaknesses with controllers' time recording system. FAA's challenge will be to implement procedures that clearly demonstrate whether controller productivity has increased, operating costs have decreased, or training and hiring practices have improved.

At the Department level, the demographic changes facing the DOT acquisition workforce—22 percent will be retirement-eligible in fiscal year 2015—heighten the need for improved compliance with contracting officer (CO) training and experience requirements.[14] The Department's acquisition workforce is composed of hundreds of COs, CO representatives, and other supporting staff who are necessary to provide agencies with the goods and services required to accomplish their mission at the best value to taxpayers. While the Department has several training improvement initiatives underway for its acquisition workforce, our 2015 review found that it still needs to clarify and enforce its policies governing certification and warrant authority for COs. COs award and manage DOT's significant portfolio of contracts, which in fiscal year 2014 totaled $2 billion in obligations. Therefore, COs must be certified at the level appropriate for the dollar value of contracts they award and administer. COs who do not fully comply with Federal certification requirements may not be properly trained and therefore could be unqualified to award and administer DOT contracts. Of the 63 COs we reviewed, 15 (24 percent) did not fully comply with DOT requirements. For example, 10 COs with expired certifications had approved over 3,000 contract actions and obligated over $731 million. In addition, DOT policies also contain conflicting information on whether it is optional or mandatory to revoke warrants for COs who do not complete the required number of training hours. Timely implementation of our recommendation that DOT update its policies and strengthen controls for CO warrant and certification practices will help to reduce the risk that complex, high-dollar acquisitions may be awarded and administered by COs who lack appropriate training and experience.

RELATED PRODUCTS

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

- *Inadequate Data and Analysis Undermine NHTSA's Efforts To Identify and Investigate Vehicle Safety Concerns,* June 18, 2015
- *Audit Initiated of FAA's Policies and Procedures for Hiring New Air Traffic Controllers*, June 17, 2015
- *Some Deficiencies Exist in DOT's Enforcement and Oversight of Certification and Warrant Authority for Its Contracting Officers*, April 9, 2015
- *FAA Lacks the Metrics and Data Needed To Accurately Measure the Outcomes of Its Controller Productivity Initiatives,* July 9, 2014

[14] FAA is excluded from these data and the scope of our work described in this paragraph because Congress exempted FAA from Federal acquisition laws and regulations in DOT's fiscal year 1996 Appropriations Act and provided FAA with broad authority to develop its own acquisition process, which FAA used to develop the Acquisition Management System and a set of policies and guidance designed to address the unique needs of the Agency.

- *FHWA's Workforce Planning Processes Generally Align With Best Practices, but Some Components Are Inconsistently Implemented or Lack Map-21 Consideration*, June 19, 2014
- *Audit Initiated of FAA's Controller Staffing at Critical Air Traffic Control Facilities*, April 3, 2014
- *Process Improvements Are Needed for Identifying and Addressing Vehicle Safety Defects*, October 6, 2011
- *Review of Screening, Placement, and Initial Training of Newly Hired Air Traffic Controllers*, April 1, 2010

For more information on the issues identified in this chapter, please contact Matt Hampton or Chuck Ward, Assistant Inspectors General for Aviation Audits, at (202) 366-0500; Mitchell Behm, Assistant Inspector General for Surface Transportation Audits, at (202) 366-5630; or Mary Kay Langan-Feirson, Assistant Inspector General for Acquisition and Procurement Audits at (202) 366 5225.

EXHIBIT

COMPARISON OF FISCAL YEARS 2016 AND 2015 TOP MANAGEMENT CHALLENGES

Fiscal Year 2016 Challenges	Fiscal Year 2015 Challenges
• Addressing the Increasing Public Safety Risks Posed by the Transportation of Hazardous Materials	• Increasing Efforts To Promote Highway, Vehicle, Pipeline, and Hazmat Safety
• Integrating Unmanned Aircraft Systems Safely Into the National Airspace System	• Modernizing the National Airspace System and Addressing Organizational Challenges • Enhancing Safety and Oversight of a Diverse and Dynamic U.S. Aviation Industry
• Enhancing NHTSA's Efforts To Identify and Investigate Vehicle Safety Defects	
• Protecting the Department Against More Complex and Aggressive Cyber Security Threats	• Securing Information Technology Resources
• Adopting Effective Practices for Managing FAA Acquisitions	• Managing Acquisitions and Grants To Maximize Performance and Save Federal Funds
• Improving Oversight of FHWA's and FTA's Surface Infrastructure Programs	• 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
• Removing High Risk Motor Carriers From the Nation's Roads	
• Developing and Sustaining an Effective and Skilled DOT Workforce	

Appendix. Department Response

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

1200 New Jersey Avenue, SE
Washington, DC 20590

OCT 30 2015

Subject: ACTION: Management Response – OIG Fiscal Year 2016 Top Management Challenges

From: Lana Hurdle
Deputy Assistant Secretary for Budget and Programs

To: Calvin L. Scovel III
Inspector General

The Department of Transportation (DOT) works diligently to ensure 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 for the future. In early 2015, the Secretary launched "*Beyond Traffic: Trends and Choices 2045," which* examines the trends and choices facing America's transportation infrastructure over the next three decades, including a rapidly growing population, increasing freight volume, demographic shifts in rural and urban areas, and a transportation system facing more frequent extreme weather events. The report has sparked a national dialogue about the shape, size, and condition of our nation's transportation system and how it will need to meet the needs and goals of our nation for decades to come. The Secretary has also made expanding ladders of opportunity a priority. Transportation plays a critical role in connecting Americans and communities to economic opportunity. The Department can help more Americans reach opportunity by ensuring that our transportation system provides reliable, safe, and affordable ways to reach jobs, education and other essential services. Through the TIGER 2015 Discretionary Grant Program, the Department was able to fund numerous transportation projects focused on improving ladders of opportunity across cities, towns, and regions.

The Office of Inspector General's (OIG) Fiscal Year 2016 Management Challenges report touches upon priorities the Secretary has identified. The combination of emerging and ongoing complex issues cited in the OIG report aligns with several efforts already underway at the Department. Highlights of these efforts are as follows:

Protecting People and the Environment from Hazardous Materials Transportation Risks

The Pipeline and Hazardous Materials Safety Administration (PHMSA) is focused on protecting people and the environment from the risks of hazardous materials transportation. Hazardous materials accident fatalities have generally declined over time. Accidents involving death or major injury associated with hazardous materials transportation by pipeline have been declining at a rate of about 10 percent every 3 years on average. Even as risk exposure has increased, accidents involving death or major injury associated with hazardous materials transportation by other modes also have declined over the past 25 years. PHMSA has identified hazardous materials transportation risks from recent changes and emerging trends in energy and technology sectors. Environmental consequences and damages, especially from crude by rail transportation, have significantly increased every year since 2011. With a focus on safety, PHMSA has improved its data collection activities and risk-based approaches to better inform policy and regulatory changes. Safety is a shared responsibility in this arena and PHMSA collaborates and coordinates with its Departmental, Federal, and international partners and industry. PHMSA has a multi-modal partnership underway involving rail, pipelines, and motor carriers on the safe transport of petroleum and other hazardous materials.

Integrating UAS Technology into the National Air Space While Maintaining the Highest Levels of Safety

The United States has the safest aviation system in the world, and the Department's goal is to integrate the new and important Unmanned Aircraft Systems (UAS) technology while maintaining the highest levels of safety. The Federal Aviation Administration (FAA) recognizes the significance of this technology and has adapted organizationally. Its efforts focus on long-term planning, including the ongoing development and finalization of the regulation of small unmanned aircraft. Further, the Secretary and FAA Administrator recently announced the Department's new approach to creating a culture of accountability and responsibility among the UAS community by requiring the registration of UAS. A task force will advise the Department on which aircraft to exempt from registration and will explore options for a streamlined system that would make registration less burdensome for commercial UAS operators.

Enhancing Highway Safety Through Improved Defect Investigation Processes and Increased Oversight

The National Highway Traffic Safety Administration (NHTSA) Office of Defects Investigation (ODI) leads the world in protecting the driving public from vehicle safety defects. Efforts to enhance safety never end and examining lessons learned is critical to improving NHTSA's effectiveness in pursuing the agency's vital mission. Based on ongoing efforts to enhance NHTSA and ODI effectiveness and lessons learned, improvements have been instituted in pre-investigative, investigation, and recall completion processes. In addition, NHTSA has undertaken several enforcement actions against vehicle and vehicle equipment manufacturers for violating the Vehicle Safety Act requirements. In 2015, NHTSA extended its oversight of General Motors Corporation's (GM) review, decision making and communications about potential vehicle safety issues for an additional year after the company faced significant fines and recalled the Chevrolet Cobalt. NHTSA extended its oversight because the consent order has proven to be a productive and effective tool to proactively and expeditiously address potential safety-related defects. The agency also issued Consent Orders to Ricon, Graco, Forest River, Spartan, Triumph, and Fiat Chrysler Automobiles with Fiat Chrysler agreeing to a $105 million penalty, the largest ever imposed by NHTSA.

Appendix. Department Response

Adapting to Ever-Changing Cybersecurity Challenges
Information security is a priority for the Department. While the OIG recognized progress in the Department's annual Financial Information Security Modernization Act audit, our efforts must continue to evolve with ever-changing cybersecurity challenges. Consistently working with the Operating Administrations, the Office of the Chief Information Officer (OCIO) provides comprehensive guidance, updates controls, assesses risk, and provides oversight. Further, in alignment with the DOT Information Technology Strategic Plan, the Department has implemented, and is enhancing, a cybersecurity risk management program that continually adapts to changing threats, vulnerabilities, and assets.

Utilizing Effective and Innovative Approaches in Managing FAA Acquisitions
FAA utilizes sound and innovative acquisition approaches which are in the best interest of the government. For the Automatic Dependence Surveillance-Broadcast (ADS-B), FAA used a two phase approach which included a cost plus incentive fee and allowed for the development solution to be proven, followed by a second phase that was structured as fixed price for the services. FAA realized a variety of benefits from this approach. For example, since FAA does not own or maintain the equipment it does not have to invest in technical advancements or address technical obsolescence. This innovative approach was more cost effective for FAA when compared to a traditional design and development type of government acquisition. Similarly, the new Controller Training Contract awarded in spring 2015, is designed to improve contract resource planning and management through a change in contract type, better mechanisms for requirements planning, and improved oversight of contractor provided services.

Taking Safety Oversight and Stewardship of Surface Transportation Programs to the Next Level
The Department continues to take safety to the next level. In October 2015, the Secretary directed the Federal Transit Administration (FTA) to assume extended safety oversight of the Washington Metropolitan Area Transit Authority (WMATA). FTA has also improved its oversight of major capital projects and financial controls through data tracking, analyzing, and reporting and plans to develop performance metrics based on these enhanced oversight data capabilities. FTA successfully implemented its new Public Transportation Emergency Relief Program, following Hurricane Sandy, with a focus on oversight and grantee controls. Throughout the process, FTA identified areas for continued improvement. Actions FTA has taken include establishing a Memorandum of Agreement with the Federal Emergency Management Agency, completing a Final Rule on the Emergency Relief Program, publishing an Emergency Relief Manual, implementing a risk-based oversight approach with heightened scrutiny for the funds, and allocating approximately $9.3 billion.

Through its Risk Based Stewardship and Oversight program implemented in 2013, the Federal Highway Administration (FHWA) uses an objective, data-driven approach to identify national trends and to address priority focus areas based on the review of highway and bridge projects. To strengthen its oversight practices, FHWA also conducted a comprehensive review of its Stewardship and Oversight Agreements with each State partner to ensure responsibilities in the agreements are clear and updated. Additionally, FHWA continues to complete its rulemaking efforts in accordance with MAP-21 requirements. For example, on July 14, 2015, FHWA issued a final rule on National Tunnel Inspection

Standards, which require tunnel owners to establish a program for the inspection of highway tunnels, maintain a tunnel inventory, report the inspection findings to FHWA, and correct any critical findings found during inspections.

Keeping Potentially Dangerous Motor Carriers Off the Roads

The Federal Motor Carrier Safety Administration's (FMCSA) safety mission is to reduce crashes, injuries, and fatalities involving large trucks and buses. To ensure FMCSA allocates its resources as effectively as possible, the Compliance, Safety, Accountability (CSA) Safety Measurement System uses motor carrier data from roadside inspections, reportable crashes, and investigations to prioritize motor carriers for safety interventions and identify the highest risk carriers before crashes occur. FMCSA has kept some 220 potentially dangerous motor carriers off the highway since 2012, using its new record consolidation rule. The rule prevents truck and bus companies from using the FMCSA registration process to escape poor safety records by enabling the Agency to legally merge the records of affiliated or reincarnated motor carriers that are still operating with out-of-service orders and other safety histories of carriers in the agency's databases.

Additionally, the Utility for Risk Based Screening and Assessment (URSA), which will screen applications for reincarnated/chameleon carriers, is in the final stages of development. The URSA algorithm will be integrated with the Unified Registration System which will begin a phased implementation in December 2015 in accordance with the recent FMCSA Federal Register Notice. A stand-alone prototype of URSA is operational and FMCSA plans to begin screening all new applications, instead of only Household Goods and Passenger Carriers, for reincarnated/chameleon behavior beginning in the second quarter of Fiscal Year 2016.

Building and Sustaining a Highly-Skilled, Diverse, Innovative, and Motivated Workforce

DOT's ability to provide transportation programs and services that meet the Nation's needs depends on effective management of our organization and resources. The Department is committed to building a workforce that can meet the challenges of this decade, especially in light of the pending retirement of many of its eligible employees. Succession planning and employee engagement are critical for retaining or replacing retiring employees, and hiring and training are increasingly important. The Department is implementing workforce planning, and competency-based hiring and training to ensure it has a diverse, inclusive, and capable workforce and a culture of continuous learning and improvement.

We appreciate this opportunity to offer an additional perspective on the OIG's Top Management Challenges Report for Fiscal Year 2016. Please contact Madeline M. Chulumovich, Director of Program Management and Improvement, at (202) 366-6512 with any questions or additional details about our comments.

IMPROPER PAYMENTS REPORTING DETAILS

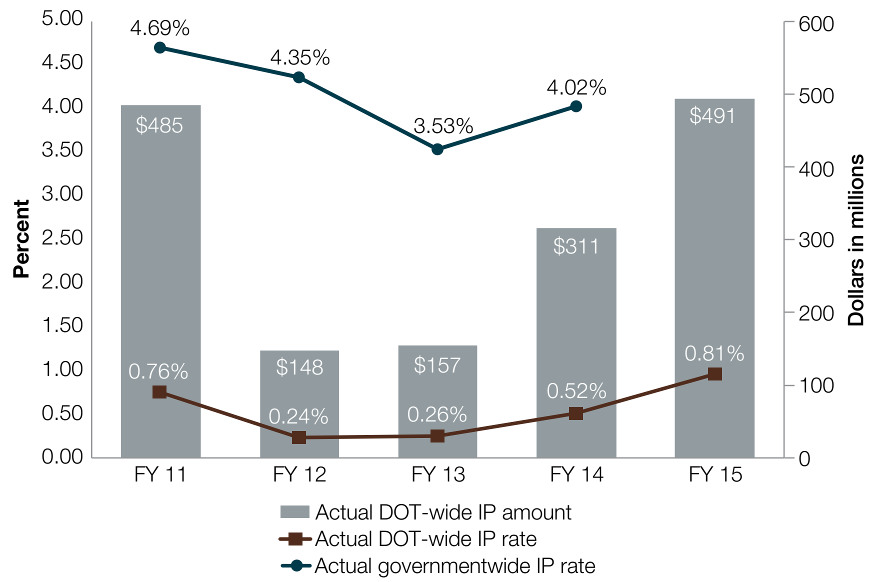
The Improper Payments Information Act of 2002 (IPIA; P.L. 107-300),[1] as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA; P.L. 111-204) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA; P.L. 112-248), requires agencies to report information on improper payments[2] (IP) to the President, Congress, and the public. The Office of Management and Budget (OMB) Circular A-123, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments, provides agencies with guidance for implementing IPIA.

DOT performed our IP management reviews in accordance with IPIA and supporting guidance from OMB. The following sections provide a summary of DOT's fiscal year (FY) 2015 efforts and the results of our risk assessments, statistical sampling to estimate IPs, payment recapture audit, and Do Not Pay implementation.

FY 2015 ACCOMPLISHMENTS TO REDUCE IMPROPER PAYMENTS

- DOT programs susceptible to significant IPs continue to maintain rates significantly lower than the governmentwide estimate, which, in most cases, are less than the statutory thresholds.
- FTA's Formula Grants and FRA's High-Speed Intercity Rail programs reduced IPs and met their FY 2015 IP reduction targets. Both programs reported IP estimates higher than their reduction targets in FY 2014.
- DOT completed IP risk assessments for all programs and activities.
- DOT conducted a comprehensive program evaluation and implemented the new reporting requirements established by IPERIA and OMB Circular A-123, Appendix C.
- DOT collaborated with the Treasury Department's Do Not Pay (DNP) Business Center to perform a comparison of our vendor records against the Social Security Administration's (SSA's) Death Master File (DMF).

DOT-WIDE IMPROPER PAYMENTS



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

[2] IPIA defines an improper payment as a payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements.

FY 2015 IMPROPER PAYMENT CHALLENGES

- The IPERIA requirement to include all IPs identified in the reported estimate, regardless of prior identification and recovery actions, adversely affected FHWA's Highway Planning and Construction program IP estimate. DOT officials are closely monitoring this program and plan to implement corrective actions to reduce errors prior to payment.
- The majority of DOT's IPs are the result of administrative errors made by entities external to the Department, such as grant recipients. Even though statutory and administrative requirements that govern Federal assistance are generally accessible, DOT must continue to refine and enforce controls to ensure that recipients correctly request payments in accordance with the terms of their grants.
- Despite maintaining rates lower than governmentwide IP estimates, DOT is considered noncompliant with IPIA because of missed IP reduction targets. In past years, DOT established aggressive IP reduction targets but has been unable to consistently meet these goals. In FY 2015, DOT adopted a more conservative approach to setting future IP reduction targets for FY 2016 and future reporting periods.

DOT PROGRAMS IDENTIFIED AS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS

IPIA defines a program or activity as susceptible to significant IPs when annual IPs exceed 1.5 percent and $10 million of outlays, or $100 million of outlays regardless of the error rate. A risk assessment, statutory law, OMB, or DOT management my identify a program or activity as susceptible to significant IPs and require it to report annual estimates. IPIA requires DOT to report eight IP estimates for programs identified as susceptible to significant IPs for FY 2015. DOT programs and the source identifying them as susceptible to significant IPs are as follows:

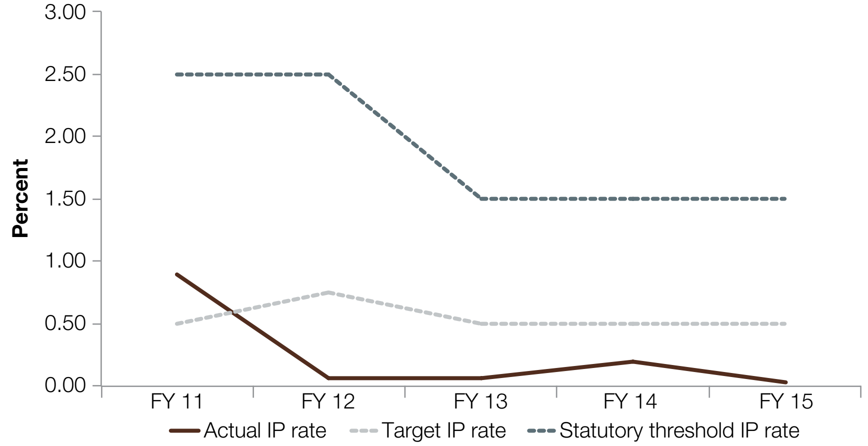
Operating Administration	Program Name	Source Identifying Program as Susceptible to Significant Improper Payments
Federal Aviation Administration (FAA)	Airport Improvement Program (AIP)	Former Section 57 of OMB Circular A-11 (2002)
	Facilities & Equipment—Disaster Relief Appropriations Act (F&E—DRAA)	Disaster Relief Appropriations Act of 2013
Federal Highway Administration (FHWA)	Highway Planning and Construction	Former Section 57 of OMB Circular A-11 (2002) and Disaster Relief Appropriations Act, 2013
Federal Railroad Administration (FRA)	High-Speed Intercity Passenger Rail (HSIPR)	IP Risk Assessment
	Grants to the National Railroad Passenger Corporation (Amtrak)	IP Risk Assessment and Disaster Relief Appropriations Act, 2013
Federal Transit Administration (FTA)	Formula Grants and Passenger Rail Investment and Improvement Act Projects (Formula Grants)	Former Section 57 of OMB Circular A-11 (2002) and IP Risk Assessment
	Emergency Relief Program—Disaster Relief Appropriations Act (ERP—DRAA)	Disaster Relief Appropriations Act, 2013
Maritime Administration (MARAD)	Electronic Invoicing System—Ready Reserve Force—Ship Manager Payments (RRF)	IP Risk Assessment

FAA Airport Improvement Program (AIP)

0.04%

FAA's AIP provides grants for the planning and development of public-use airports. AIP is susceptible to significant IPs because of the amount of program outlays and diversity of numerous program recipients. For FY 2015, AIP reports an IP estimate of 0.04 percent, which is lower than its FY 2015 reduction target of 0.50 percent. The primary cause for IPs was insufficient documentation maintained by AIP grant recipients.

FAA AIRPORT IMPROVEMENT PROGRAM IMPROPER PAYMENT RATES



FAA Facilities and Equipment—Disaster Relief Appropriations Act (F&E—DRAA)

0.00%

FAA's F&E—DRAA program finances expenditures related to the consequences of Hurricane Sandy. DRAA deemed the F&E—DRAA program to be susceptible to significant IPs. For FY 2015, F&E—DRAA reports an IP estimate of 0 percent.

FHWA Highway Planning and Construction

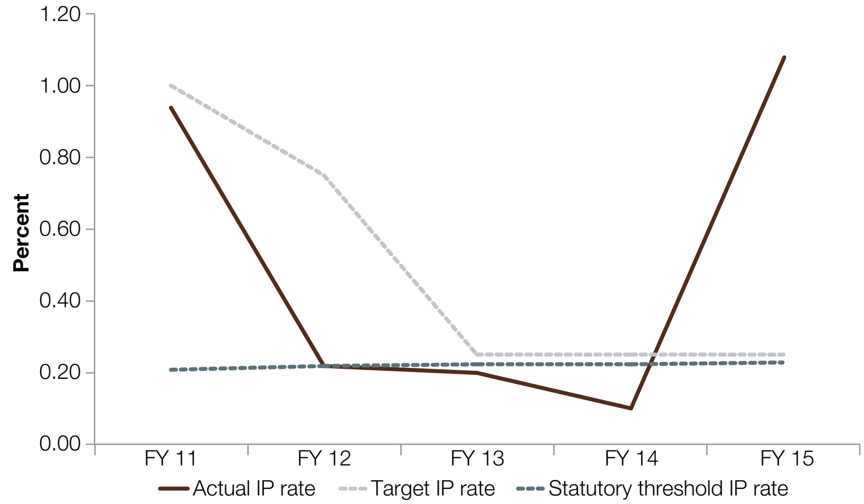
1.08%

FHWA's Highway Planning and Construction program helps States and territories plan, construct, improve, and preserve public roads and bridges. The Highway Planning and Construction program is susceptible to significant IPs because of the amount of program outlays. DRAA also deemed FHWA funds received under the act as susceptible to significant IPs. For purposes of testing IPs, FHWA includes its DRAA-related payments in the Highway Planning and Construction payment population.

In FY 2014, FHWA reported IP estimates for two programs:

- Federal-Aid Highways, General Funded Emergency Relief Program—Disaster Relief Appropriations Act (other than Hurricane Sandy), American Recovery and Reinvestment Act, and Other Programs.
- General Funded Emergency Relief Program—Disaster Relief Appropriations Act (Hurricane Sandy-related only).

FHWA HIGHWAY PLANNING AND CONSTRUCTION IMPROPER PAYMENT RATES



FHWA requested and received OMB approval to consolidate the payment populations of both programs starting in FY 2015. Because its grant programs operate within the same financial systems and internal controls, FHWA determined that consolidating the IP programs would be more efficient. For IP reporting purposes, FHWA renamed the consolidated programs Highway Planning and Construction.

For FY 2015, the Highway Planning and Construction program reports IP estimates of 1.08 percent and $479 million. The cause for the program's IPs was administrative errors made by grant recipients. Additionally, the IP estimate exceeds the Highway Planning and Construction FY 2015 reduction target of 0.25 percent. FHWA plans to redistribute guidance to ensure grant recipients request payments in accordance with terms and conditions of the award.

Beginning in FY 2015, changes resulting from the implementation of IPERIA required all IPs be included in the reported estimate, regardless of recovery actions. For FY 2015, FHWA changed its IP testing procedures because the new IPERIA requirement conflicted with the methodology used in prior reporting periods. Specifically, OMB had previously allowed FHWA to implement procedures that excluded IPs recovered within 60 days from the payment date. A review of FHWA's FY 2015 IPs indicates that approximately half were recovered within 60 days from the payment date and would have been considered proper payments in prior reporting periods.

FRA Grants to the National Railroad Passenger Corporation

0.31%

FRA's Grants to Amtrak program includes Federal assistance in the form of Operating Subsidy, Capital and Debt Service, and DRAA grants. The Grants to Amtrak program is susceptible to significant IPs because of recent independent audit reports concerning Amtrak and amount of program outlays. DRAA also deemed FRA funds received under the act as susceptible to significant IPs. For purposes of testing IPs, FRA includes DRAA-related payments in the Grants to Amtrak payment population.

In FY 2014, FRA reported an IP estimate for Amtrak grants funded by DRAA. DOT's IP risk assessment identified Amtrak's Operating Subsidy and Capital and Debt Service Grants as susceptible to significant IPs. Because of similarities in financial systems and internal controls, FRA increased the scope of the Grants to Amtrak—Disaster Relief Appropriations Act payment population to include the Operating Subsidy and Capital and Debt Service grant payments. FRA renamed the consolidated grant programs Grants to the National Railroad Passenger Corporation for IP reporting purposes.

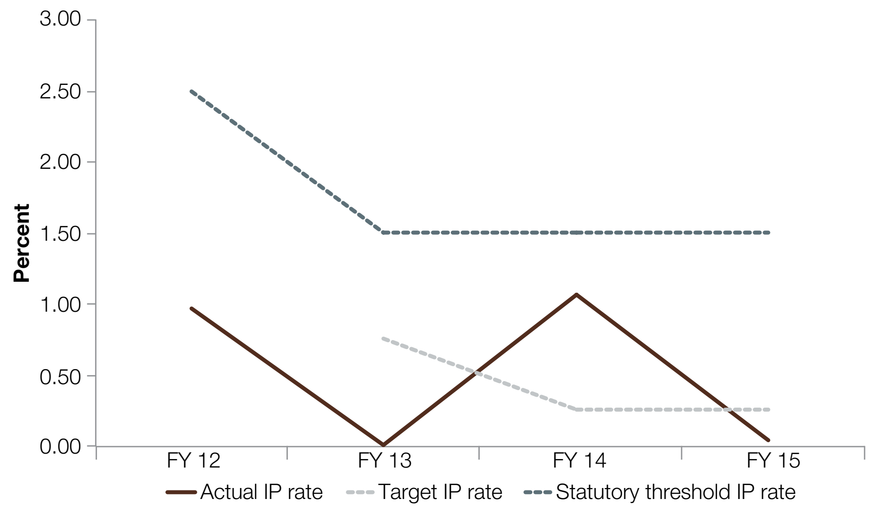
For FY 2015, Grants to Amtrak reports an IP estimate of 0.31 percent. The primary cause for IPs was administrative errors made by Amtrak.

FRA High-Speed Intercity Passenger Rail (HSIPR)

0.03%

FRA's HSIPR program provides grants to increase the efficiency of the Nation's passenger rail corridors. HSIPR is susceptible to significant IPs because of the amount of outlays and complexity of the program. For FY 2015, HSIPR reports an IP estimate of 0.03 percent. The primary cause for IPs was administrative errors made by HSIPR grantees. The IP estimate is lower than HSIPR's FY 2015 reduction target of 0.25 percent.

FRA HIGH-SPEED INTERCITY PASSENGER RAIL IMPROPER PAYMENT RATES



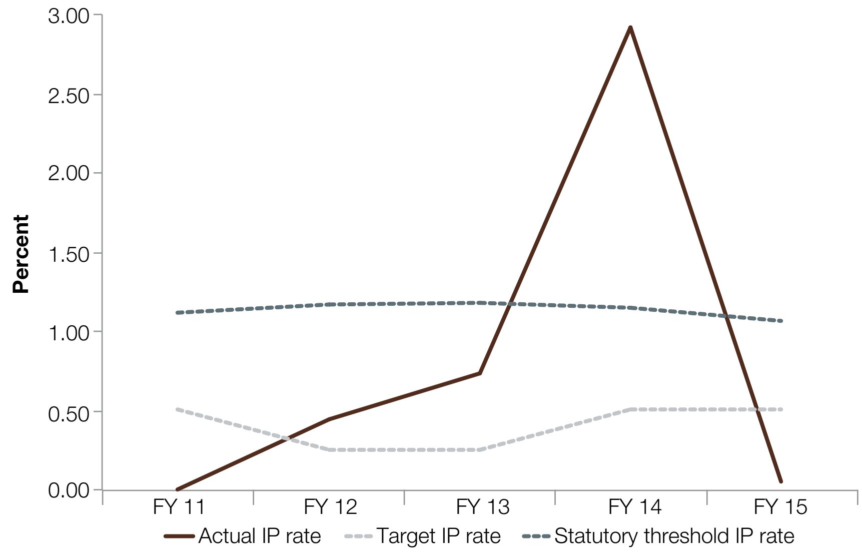
FTA Formula Grants and Passenger Rail Investment and Improvement Act (PRIIA) Projects

0.05%

FTA's Formula Grants program supports transit capital investment, state of good repair, safety, planning, bus and railcar purchases and maintenance, and transit operations in small and rural areas. The Formula Grants program is susceptible to significant IPs because of the amount of program outlays and diversity of numerous program recipients.

DOT's IP risk assessment identified the PRIIA Projects activity as being susceptible to significant IPs. FTA determined that combining the PRIIA Projects payment population with Formula Grants would be a more efficient use of resources devoted to IP activities because its grant programs operate within the same financial systems and internal controls over payments. The PRIIA Projects activity added approximately $74 million of payments to the Formula Grants payment population of $9.4 billion.

FTA FORMULA GRANTS IMPROPER PAYMENT RATES



For FY 2015, the Formula Grants program reports IP estimates of 0.05 percent and $5.1 million. The primary cause for IPs was insufficient documentation maintained by transit authorities. The IP estimate is lower than Formula Grant's FY 2015 reduction target of 0.50 percent.

FTA Emergency Relief Program—Disaster Relief Appropriations Act (ERP—DRAA)

0.03%

FTA's ERP—DRAA helps grant recipients pay for protecting, repairing, and/or replacing equipment and facilities that suffered damage because of Hurricane Sandy. DRAA deemed the ERP—DRAA program susceptible to significant IPs. For FY 2015, ERP—DRAA reports an IP estimate of 0.03 percent. The primary cause for IPs was administrative errors made by transit authorities.

MARAD Electronic Invoicing System—Ready Reserve Force—Ship Manager Payments (RRF)

0.25%

MARAD's RRF program supports the rapid worldwide deployment of U.S military forces. DOT's risk assessment identified RRF as susceptible to significant IPs because of the complexity of contract awards. FY 2015 was the initial year of testing the RRF Program for IPs.

MARAD reports an Electronic Invoicing System payment process IP estimate of 0.25 percent for FY 2015. The primary cause for IPs was administrative errors made by MARAD personnel. MARAD will establish annual reduction targets in FY 2016 because DOT requires at least one more reporting period to determine an IP baseline.

I. RISK ASSESSMENTS

In FY 2014, DOT initiated departmentwide risk assessments to determine if our programs are susceptible to significant IPs. We completed the triennial reviews in FY 2015 and plan to conduct our next departmentwide risk assessments in FY 2017.

DOT considered both quantitative and qualitative risk factors when assessing the susceptibility of a program to make IPs. We associated a risk weight of 20 percent to the quantitative factors and 80 percent to the qualitative risk factors. For quantitative risk factors, DOT assessed the materiality of expenditures by determining the total amount of program disbursements. The qualitative risk factors included assessments of the following:

- Quality of internal payment processing controls;
- Quality of monitoring controls;
- Quality of external payment processing controls;
- Human capital risk;
- Age of program;
- Complexity of program; and
- Nature of program payments and recipients.

Overall, DOT's risk assessments focused on 49 programs, accounting for $86 billion of FY 2012 and FY 2013[3] disbursements, to determine their susceptibility to significant IPs. The initial phase of our risk assessments ascertained the extent to which we examined the qualitative risk factors for each DOT program. We concluded programs with less than $40 million of disbursements were at low risk of being susceptible to significant IPs based on the materiality of expenditures. For FHWA, we increased the level of materiality to $85 million of program disbursements since their historical IP estimates were significantly lower than IPIA thresholds. In addition, we did not include DRAA-related activities within the scope of the risk assessment because the act deemed those activities susceptible to significant IPs. DOT included programs that reported an IP estimate in FY 2013 within the scope of the risk assessment. The 49 programs with material program disbursements were:

FAA

- Airport Improvement Program
- Facilities and Equipment
- Franchise Fund
- Operations General Fund
- Personnel Compensation & Benefits
- Research, Engineering and Development

FHWA

- American Recovery and Reinvestment Act
- Bridge Program
- High-Priority Projects Program
- National Highway Performance Program
- Operations
- Personnel Compensation & Benefits
- Surface Transportation Program
- Transportation Infrastructure Finance and Innovation Act

[3] The time period of disbursements reviewed for the risk assessment was April 1, 2012 to March 31, 2013.

FMCSA

- Motor Carrier Safety Assistance Program
- Personnel Compensation & Benefits
- Vendor Payments

FRA

- Capital Assistance for High and Intercity Rail Railroad Passenger Service
- Operating Subsidy and Capital and Debt Service Grants to Amtrak
- Railroad Rehabilitation and Improvement
- Railroad Research and Development
- Safety and Operations

FTA

- Capital Investment Grants
- Formula Grants
- PRIIA Projects for the Washington Metropolitan Area Transit Authority (WMATA)
- Personnel Compensation & Benefits
- Public Transportation Planning and Research

MARAD

- Electronic Invoicing System—Ready Reserve Force—Ship Manager Payments
- Federal Ship Financing (Title XI) Program
- Maritime Security Program
- MarkView Payments
- Personnel Compensation & Benefits
- Student Incentive Program

NHTSA

- General Fund
- Highway Safety Program—Vehicle and Highway Allocation Grants
- Operation Research Highway Trust Fund

OIG

- Operating Expenditures
- Personnel Compensation & Benefits

OST

- Essential Air Service
- Personnel Compensation & Benefits
- Transportation Investment Generating Economic Recovery (TIGER) FRA Grants
- TIGER FTA Grants
- TIGER FHWA Grants
- TIGER MARAD Grants
- University Transportation
- VOLPE Personnel Compensation & Benefits
- VOLPE Vendor Payments
- Working Capital Fund Vendor Payments

PHMSA

- Personnel Compensation & Benefits

The assessment identified 11 programs as susceptible to significant IPs. Of those 11 programs, 8 reported an IP estimate in FY 2014 and were already within the scope of DOT's FY 2015 IP reviews. The other 3 programs were included in the scope of DOT's IP reviews for the first time in FY 2015. The programs identified as susceptible to significant IPs were:

- FAA Airport Improvement Program
- FHWA American Recovery and Reinvestment Act
- FHWA Bridge Program
- FHWA High-Priority Projects Program
- FHWA National Highway Performance Program
- FHWA Surface Transportation Program
- FRA Capital Assistance for High and Intercity Rail Railroad Passenger Service
- FRA Operating Subsidy and Capital and Debt Service Grants to Amtrak[4]
- FTA Formula Grants
- FTA PRIIA Projects for WMATA[4]
- MARAD Electronic Invoicing System—Ready Reserve Force—Ship Manager Payments[4]

II. STATISTICAL SAMPLING

DOT's statistical sampling process begins with obtaining data extracts from Delphi, our financial system of record. The Enterprise Service Center (ESC), DOT's service provider, reconciles the data extracts to the Operating Administration's (OA's) financial statements to ensure completeness. Next, the statistician works with the OAs and OFM to identify the final payment populations for sampling.

We base our IP rates on probability samples with estimates for sampling error. The statistician designs the sampling plan considering the nature and distribution of payments made by our programs. For contract programs, DOT uses a single-stage random selection methodology in which the statistician draws a sample from DOT payments.

For our grant-related programs, DOT typically employs a multistage random selection methodology. The first stage involves generating a sample from DOT payments to grant recipients. At the second stage, the statistician develops a sample from the list of invoices the grant recipient applied to the DOT payment. From the sampled grant recipient invoice, DOT typically samples and tests invoice line items to determine if the expenditures are proper.

DOT designs the sampling and estimation plan within the precision requirements established by OMB Circular A-123 Appendix C.[5] After DOT confirms the IPs within the sample, the statistician extrapolates the results to arrive at the IP estimates.

Prior to statistical sampling, DOT's Office of Financial Management (OFM) performed a comprehensive program evaluation to improve the efficiency and effectiveness of generating IP estimates. Between FY 2011 and FY 2014, the number of DOT's IP programs grew from four to nine because of increased reporting requirements mandated by IPERA and DRAA. DOT concluded that this increase, coupled with the prospects of adding three more IP estimates in FY 2015, would be a significant strain on the schedule and resources required to perform IP estimates.

[4] Program newly identified as being susceptible to significant IPs. The FY 2015 reporting cycle represents the initial year for these programs to be included within the scope of an IP estimate.

[5] OMB Circular A-123 Appendix C requires agencies to design the sample and select a sample size sufficient to yield an estimate of IPs with a 90-percent confidence interval of plus or minus 2.5 percent of the total amount of all payments for a program around the estimate of the dollars of IPs.

DOT evaluated its portfolio of programs that are susceptible to significant IPs by comparing the underlying financial systems, internal controls, and payees. We identified three opportunities to consolidate programs susceptible to significant IPs:

- Combining FHWA's programs into one IP estimate because FHWA administers its programs in the same manner.
- Increasing the scope of FRA's Grants to Amtrak—Disaster Relief Appropriations Act program to include the Capital and Debt Service and Operating Subsidy Grants to Amtrak programs.
- Increasing the scope of FTA's Formula Grants program to include the PRIIA Projects for WMATA program.

Furthermore, OMB Circular A-123 Appendix C permits agencies to request relief when a program reduces its IP estimates below the statutory thresholds for 2 consecutive years. FTA's Capital Investment Grants program met these criteria and, in accordance with Appendix C guidance, we requested and received OMB approval for relief from the annual IP reporting requirements for this program starting in FY 2015.

In addition to program changes, DOT reassessed the time period of payments sampled for IPs. Historically, DOT's payment data extracts included the last 6 months of the prior fiscal year and the first 6 months of the current fiscal year (April to March). DOT established this range in order to develop IP estimates with current fiscal year data. This time period, however, typically caused transaction testing to occur in the summer months, which is the busiest time of year for transportation infrastructure projects. Moreover, the April-to-March time period served little programmatic purpose and added a layer of complexity because DOT aligns its programs to the fiscal year.

DOT requested and received OMB approval to shift the time period for all IP estimates to payments made in the prior fiscal year. The FY 2015 reporting period spans the 12-month period from October 1, 2013, to September 30, 2014, for all of DOT's IP programs. Shifting the scope resulted in a 6-month overlap with the FY 2014 IP reporting period (October 1, 2013, to March 30, 2014).

The table on the following page summarizes changes resulting from DOT's comprehensive program evaluation.

OA	FY 14 IP Program	Program Identified Through Triennial Risk Assessment	FY 15 IP Program	Modifications to FY 2014 IP Program
FAA	Airport Improvement Program	Airport Improvement Program	Airport Improvement Program	FAA did not modify the IP program.
	Facilities & Equipment—Disaster Relief Appropriations Act	N/A	Facilities & Equipment—Disaster Relief Appropriations Act	FAA did not modify the scope of the IP program. FAA changed sampling methodology from a multistage to a single-stage approach. FAA revised the sampling and estimation plan due to the change in methodology. OFM recertified the plan and submitted it to OMB.
FHWA	Federal-Aid Highways, General Funded Emergency Relief Program—Disaster Relief Appropriations Act, American Recovery and Reinvestment Act, and Other Programs	National Highway Performance Program Surface Transportation Program Bridge Program High-Priority Project Program American Recovery and Reinvestment Act	Highway Planning and Construction	The IP risk assessments did not result in modifications to FHWA's FY 2014 IP programs. FHWA concluded that combining the FY 2014 IP programs would be a more efficient use of resources devoted to IP related activities. FHWA requested and received OMB approval to consolidate IP program into one estimate starting in FY 2015. OMB approval was required because the programs reported separate IP estimates in FY 2014. FHWA renamed the IP program. FHWA revised the sampling and estimation plan because both programs reported IP estimates in FY 2014. OFM recertified the plan and submitted it to OMB.
	General Funded Emergency Relief Program—Disaster Relief Appropriations Act (Hurricane Sandy related only)	N/A		
FRA	Grants to the National Railroad Passenger Corporation—Disaster Relief Appropriations Act	N/A	Grants to the National Railroad Passenger Corporation	FRA determined that combining the Grants to Amtrak—DRAA, Operating Subsidy and Capital, and Debt Service Grant programs would be a more efficient use of resources devoted IP-related activities. FRA renamed the IP program. FRA revised the sampling and estimation plan because the inclusion of Operating Subsidy and Capital and Debt Service Grants payment materially increased the size of the IP program's payment population. OFM recertified the revised plan and submitted it to OMB.
	N/A	Operating Subsidy and Capital and Debt Service Grants to Amtrak		
	High-Speed Intercity Passenger Rail	Capital Assistance for High and Intercity Rail Railroad Passenger Service—Grants	High-Speed Intercity Passenger Rail	The IP risk assessments did not result in modifications to FRA's FY 2014 IP programs.
FTA	Capital Investment Grants	N/A	N/A	OMB approved FTA's request for relief from annual reporting requirements starting in FY 2015. The Capital Investment Grants program will be included in the next triennial risk assessment.
	Formula Grants	Formula Grants	Formula Grants and PRIIA Projects	FTA determined that combining Formula Grants and PRIIA Projects for WMATA programs would be a more efficient use of resources devoted to IP-related activities and increased the scope of FY 2014 IP program.
	N/A	PRIIA Projects for WMATA		
	Emergency Relief Program—Disaster Relief Appropriations Act	N/A	Emergency Relief Program—Disaster Relief Appropriations Act	FTA did not modify the IP program.
MARAD	N/A	Electronic Invoicing System—Ready Reserve Force—Ship Manager Payments	Electronic Invoicing System—Ready Reserve Force—Ship Manager Payments	MARAD established a new IP program and reported IP estimates starting in FY 2015. OFM certified the sampling and estimation plan and submitted it to OMB.

DRAA = Disaster Relief Appropriations Act of 2013. FY = fiscal year. IP = improper payment. OFM = Office of Financial Management. OA = Operating Administration. OMB = Office of Management and Budget. PRIIA = Passenger Rail Investment and Improvement Act. WMATA = Washington Metropolitan Area Transit Authority.

III. IMPROPER PAYMENTS REPORTING

The IP Reduction Outlook table summarizes amounts for DOT's programs or activities susceptible to significant IPs. The table includes improper payment percent (IP %) and improper payment dollar (IP $) results from our FY 2014 and FY 2015 management reviews. The future year IP % represents our reduction targets. DOT requires at least one more year to establish reduction targets for the MARAD RRF program.

DOT's Prior Year (PY) Outlays and PY $ amounts differ from the Current Year (CY) Outlays and CY $ amounts published in our FY 2014 Agency Financial Report (AFR). DOT published amounts based on the Treasury Department's outlay data in FY 2014. For FY 2015, OMB provided clarifying guidance defining PY and CY activity as the time frame of the payments tested. Based on OMB guidance, DOT changed its methodology and restated the PY Outlay and PY$ amounts to equal the actual results from our FY 2014 IP management reviews. The PY IP % estimates are the same as the CY IP % estimates published in our FY 2014 AFR.

TABLE 1. IMPROPER PAYMENT REDUCTION OUTLOOK ($ IN MILLIONS)

Program or Activity	PY Outlays[1]	PY IP %	PY IP $	CY Outlays[1]	CY IP %	CY IP $	CY Over-payment $	CY Under-payment $
	2014 Testing (Based on FY 2013/FY 2014 Actual Data)[2]			2015 Testing (Based on FY 2014 Actual Data)[3]				
FAA AIP	$2,752.15	0.20%	$5.60	$3,117.09	0.04%	$1.27	$1.19	$0.08
FAA F&E—DRAA[4]	4.43	0.00	—	9.58	0.00	—	—	—
FHWA Highway Planning and Construction[4]	44,660.18	0.10	42.43	44,424.55	1.08	479.20	212.57	266.63
FHWA General Funded ERP—DRAA (Hurricane Sandy-related only)[4]	91.53	0.00	—	*FHWA General Funded ERP—DRAA consolidated into the FHWA Highway Planning and Construction program as of FY 2015.*				
FRA Grants to Amtrak[4]	N/A	N/A	N/A	1,363.12	0.31	4.24	1.44	2.80
FRA Grants to Amtrak—DRAA	88.78	0.41	0.36	*FRA Grants to Amtrak—DRAA scope increased as of FY 2015.*				
FRA HSIPR	780.02	1.06	8.30	1,113.59	0.03	0.36	0.13	0.23
FTA CIG	1,996.45	0.00	—	*FTA CIG no longer tested as of FY 2015.*				
FTA Formula Grants	8,725.82	2.91	254.16	9,419.66	0.05	5.09	5.09	—
FTA ERP—DRAA[4]	595.75	0.02	0.13	570.44	0.03	0.17	0.17	—
MARAD RRF	N/A	N/A	N/A	277.66	0.25	0.69	0.69	—
OIG—DRAA[4, 6]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total[5]	**$59,695.12**	**0.52%**	**$310.99**	**$60,295.68**	**0.81%**	**$491.02**	**$221.28**	**$269.74**

Program or Activity	CY+1 Est. Outlays	CY+1 Est. IP %	CY+1 Est. IP $	CY+2 Est. Outlays	CY+2 Est. IP %	CY+2 Est. IP $	CY+3 Est. Outlays	CY+3 Est. IP %	CY+3 Est. IP $
	2016 Testing (Based on FY 2015 Actual and Estimated Data)			2017 Testing (Based on FY 2016 Estimated Data)			2018 Testing (Based on FY 2017 Estimated Data)		
FAA AIP	$3,168.37	0.038%	$1.20	$3,652.00	0.037%	$1.35	$3,428.00	0.036%	$1.23
FAA F&E—DRAA[4]	5.43	0.000	—	2.81	0.000	—	—	0.000	—
FHWA Highway Planning and Construction[4]	42,724.65	0.950	405.88	47,710.00	0.800	381.68	51,574.00	0.600	309.44
FRA Grants to Amtrak[4]	1,303.06	0.300	3.91	1,478.00	0.290	4.29	1,463.00	0.280	4.10
FRA HSIPR	1,100.07	0.029	0.32	3,386.00	0.028	0.95	1,596.00	0.027	0.43
FTA Formula Grants	9,070.25	0.045	4.08	9,705.00	0.040	3.88	12,816.00	0.035	4.49
FTA ERP—DRAA[4]	369.05	0.025	0.09	797.00	0.020	0.16	1,542.00	0.015	0.23
MARAD RRF	116.16	N/A	N/A	204.98	N/A	N/A	134.12	N/A	N/A
OIG—DRAA[4, 6]	0.60	N/A	N/A	$1.20	N/A	N/A	$1.00	N/A	N/A
Total[5]	**$57,857.65**	**0.72%**	**$415.49**	**$66,936.99**	**0.59%**	**$392.31**	**$72,554.12**	**0.44%**	**$319.92**

AIP = Airport Improvement Program. CIG = Capital Investment Grant. CY = current year. DRAA = Disaster Relief Appropriations Act of 2013. ERP = Emergency Relief Program. F&E = Facilities and Equipment. FY = fiscal year. HSIPR = High-Speed Intercity Passenger Rail. IP = improper payment. N/A = not applicable. RRF = Ready Reserve Force.

(1) For grant-related programs or activities, outlays represent the absolute value of disbursements and collections.

(2) For FY 2014 testing, the time period of payments reviewed was April 1, 2013 to March 31, 2014.

(3) For FY 2015 testing, the time period of payment reviewed was October 1, 2013 to September 30, 2014.

(4) Program or activity Includes Disaster Relief Appropriation Act of 2013 funding.

(5) The total figures represent the cumulative results of DOT programs susceptible to significant IPs. The total figures do not represent a true statistical estimate for all of DOT's programs and activities.

(6) DRAA deemed the OIG—DRAA funding as susceptible to significant IPs. OIG plans to report annual IP estimate in DOT's FY 2016 AFR.

IV. IMPROPER PAYMENTS ROOT CAUSE CATEGORIES

The IPs Root Cause Category Matrix table provides detailed reasons for DOT's IPs. The table also provides overpayment and underpayment breakouts for DOT's programs or activities susceptible to significant IPs. DOT added subcategories to the Insufficient Documentation category.

TABLE 2. IMPROPER PAYMENT ROOT CAUSE CATEGORY MATRIX ($ IN MILLIONS)

		FAA AIP		FAA F&E—DRAA		FHWA Highway Planning and Construction		FRA HSIPR	
Reason for Improper Payment		Over-payments	Under-payments	Over-payments	Under-payments	Over-payments	Under-payments	Over-payments	Under-payments
Program design or structural issue									
Inability to authenticate eligibility									
Failure to verify:	Death data								
	Financial data								
	Excluded party data								
	Prisoner data								
	Other eligibility data								
Administrative or process error made by:	Federal agency								
	State or local agency	$0.0004	$0.08			$212.57	$266.63	$0.0003	$0.23
	Other party								
Medical necessity									
Insufficient documentation to determine:		1.19						0.13	
Federal agency									
State or local agency		*1.19*						*0.13*	
Other party									
Total		**$1.19**	**$0.08**	**$0.00**	**$0.00**	**$212.57**	**$266.63**	**$0.13**	**$0.23**
		FRA Grants to Amtrak		**FTA Formula Grants**		**FTA ERP—DRAA**		**MARAD RRF**	
Reason for Improper Payment		**Over-payments**	**Under-payments**	**Over-payments**	**Under-payments**	**Over-payments**	**Under-payments**	**Over-payments**	**Under-payments**
Program design or structural issue									
Inability to authenticate eligibility									
Failure to verify:	Death data								
	Financial data								
	Excluded party data								
	Prisoner data								
	Other eligibility data								
Administrative or process error made by:	Federal agency							$0.69	
	State or local agency			$2.48		$0.17			
	Other party	$0.003	$2.80						
Medical necessity									
Insufficient documentation to determine:		1.44		2.61					
Federal agency									
State or local agency				*2.61*					
Other party		*1.44*							
Total		**$1.44**	**$2.80**	**$5.09**	**$0.00**	**$0.17**	**$0.00**	**$0.69**	**$0.00**

AIP = Airport Improvement Program. DRAA = Disaster Relief Appropriations Act of 2013. ERP = Emergency Relief Program. F&E = Facilities and Equipment. HSIPR = High-Speed Intercity Passenger Rail. RRF = Ready Reserve Force.

V. CORRECTIVE ACTIONS

DOT plans to take the following corrective actions for programs with FY 2015 IP estimates above the statutory threshold of 1.5 percent and $10 million, or $100 million regardless of the error rate. We targeted the corrective actions by addressing the root causes behind administrative errors made by grant recipients.

FHWA HIGHWAY PLANNING AND CONSTRUCTION CORRECTIVE ACTIONS

Risk Factor	Corrective Action	Target Completion Date
Improper Payment Category – Administrative or Process Error		
Administrative or process error made by State and local agency	FHWA will advise select grant recipients of the root cause for their IPs and coordinate issue specific corrective actions.	12/31/2015
	FHWA will proactively distribute guidance to select grant recipients on requesting payment in accordance with grant terms.	09/30/2016

VI. INTERNAL CONTROLS OVER PAYMENTS

For programs above IPIA statutory thresholds, DOT reports the following internal controls over payments:

FHWA Highway Planning and Construction. FHWA establishes and maintains internal controls over payments under the Financial Integrity Review and Evaluation (FIRE) program. The objectives of the FIRE program are to: (1) consistently apply sound financial management and accountability within FHWA's programs; (2) provide a basis for the approval and certification of claims for Federal reimbursement; (3) continuously promote improvements and provide for the effective risk-based management of Federal funds; (4) provide for a systematic and verifiable means of testing internal controls and administrative, grantee, and subgrantee compliance with pertinent laws, regulations, and contract provisions; and (5) provide management with a basis for the necessary assurances required by the FMFIA and governmentwide financial reporting requirements.

TABLE 3. STATUS OF INTERNAL CONTROLS OVER PAYMENTS

Internal Control Standards	FHWA Highway Planning and Construction
Control environment	3
Risk assessment	3
Control activities	3
Information and communication	3
Monitoring	3

Legend:
4 = Sufficient controls are in place to prevent IPs.
3 = Controls are in place to prevent IPs but there is room for improvement.
2 = Minimal controls are in place to prevent IPs.
1 = Controls are not in place to prevent IPs.

VII. ACCOUNTABILITY

For programs above IPIA statutory thresholds, DOT plans to take the following steps to ensure agency officials are held accountable for reducing and recapturing IPs:

FHWA Highway Planning and Construction. FHWA's Office of the Chief Financial Officer (HCF) administers the implementation of the Administration's IPIA requirements. Under its FIRE program, FHWA develops IPs reduction target, implements corrective actions, and coordinates the recapture of IPs identified during IPIA reviews. In addition to the IPIA sampling, FHWA subjects States and territories not selected as part of the IPIA 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.

FHWA's HCF monitors FIRE program findings and recommendations to ensure procedural or internal control weaknesses are corrected. Corrective action plans are developed for procedural and internal control weaknesses, and progress against plans are periodically assessed and documented in the FIRE working papers. The HCF monitors progress to ensure timely and effective corrective action has been completed.

VIII. AGENCY INFORMATION SYSTEMS AND OTHER INFRASTRUCTURE

DOT and, more specifically, FHWA, currently possess the internal controls, human capital, and information systems necessary to identify and reduce IP to the targeted reduction rates.

IX. BARRIERS

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

X. RECAPTURE OF IMPROPER PAYMENTS REPORTING

In FY 2015, OFM performed the payment recapture audit instead of outsourcing the requirement to a recovery audit firm. OFM collaborated with ESC to identify overpayments, initiate collection actions, and explore opportunities to improve departmental payment processes. All DOT programs and activities were included within the scope of the payment recapture audit.

The FY 2015 audit's scope included DOT payments and financial transactions processed by ESC. We concentrated on payments made between October 2013 and March 2015; however, DOT does not restrict the scope of the payment recapture audit to a firm time period. OFM's data analytics lab maintains more than 5 years of payment data and we typically expand the scope of the payment time period when changing parameters or logic.

DOT considers all payments identified through the FY 2015 audit to be collectable. ESC typically recoups overpayments directly from the payee, by offsetting a payee's future payment, or by submitting a debt to the Department of Treasury's Offset Program. In most cases, ESC is able to recover the overpayment directly from the payee.

In FY 2015, OFM detected that grant payments represented a greater proportion of overpayments compared to our FY 2013 and 2014 audits. DOT attributes the cause for grant-related overpayments to be administrative errors made by entities external to the Department. To address grant overpayments, DOT intends to assertively monitor, test, and adapt our internal controls. Our proactive courses of action include enhancing preventative controls by incorporating cutting-edge data analytic methods and emphasizing adherence to established control procedures.

TABLE 4A. IMPROPER PAYMENT RECAPTURES WITH AND WITHOUT AUDIT PROGRAMS

Activity	Overpayments Recaptured Through Payment Recapture Audits (Dollars in Millions)									
	Contracts					Grants				
	Amount Identified	Amount Recap-tured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recap-tured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target
DOT payments	$0.20	$0.38	191.20%	90.00%	90.00%	$1.51	$1.51	99.99%	90.00%	90.00%

Activity	Overpayments Recaptured Through Payment Recapture Audits (Dollars in Millions)						
	Other					Total	
	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured
DOT payments	$0.0037	$0.0033	88.44%	90.00%	90.00%	$1.71	$1.89

CY = current year.

TABLE 4B. IMPROPER PAYMENT RECAPTURES WITH AND WITHOUT AUDIT PROGRAMS

Activity	Overpayments Recaptured outside of Payment Recapture Audits (Dollars in Millions)	
	Amount Identified	Amount Recaptured
Statistical samples conducted under IPIA—contract payments	$0.1320	$ —
Statistical samples conducted under IPIA—other payments	0.3362	0.3118
Voluntarily returned—contract payments	0.0645	0.0645
Offset future payment—contract payments	0.0001	0.0001
OIG review—other payments	7.0276	1.7282
Postpayment reviews—contract payments	1.9531	2.2436
Postpayment reviews—other payments	0.5846	0.0107
Total	**$10.0981**	**$4.3588**

OIG = Office of Inspector General.

TABLE 5. DISPOSITION OF FUNDS RECAPTURED THROUGH PAYMENT RECAPTURE AUDITS

Activity	(Dollars in Millions)								
	Amount Recaptured	Type of Payment	Agency Expenses To Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury	Other
DOT payments	$0.376	Contract	N/A	N/A	N/A	$0.376	N/A	N/A	N/A
DOT payments	1.510	Grants	N/A	N/A	N/A	1.510	N/A	N/A	N/A
DOT payments	0.003	Other	N/A	N/A	N/A	0.003	N/A	N/A	N/A
Total	**$1.889**		**N/A**	**N/A**	**N/A**	**$1.889**	**N/A**	**N/A**	**N/A**

N/A = not applicable.

TABLE 6. AGING OF OUTSTANDING OVERPAYMENTS IDENTIFIED IN THE PAYMENT RECAPTURE AUDITS

Program or Activity	(Dollars in Millions)				
	Type of Payment	Amount Outstanding (0–6 months)	Amount Outstanding (6 months–1 year)	Amount Outstanding (over 1 year)	Amount Determined To Not Be Collectable
DOT payments	Contract	$0.0129	$0.0004	$12.5492	$ —
DOT payments	Grants	0.1054	0.1042	0.1004	—
DOT payments	Other	—	0.0004	—	—
Total		**$0.1183**	**$0.1051**	**$12.6496**	**$ —**

XI. ADDITIONAL COMMENTS

In May 2015, the Office of the Inspector General (OIG) issued a report regarding DOT's FY 2014 implementation of IPIA reporting requirements and OMB guidance. The OIG determined that two programs, FRA's HSIPR and FTA's Formula Grants, did not meet their FY 2014 IP reduction targets and, therefore, did not comply with the IPIA requirement for FY 2014. DOT is pleased to report that both programs reduced their IP estimates to levels less than their FY 2015 IP reduction targets. DOT considers both of these programs to be in compliance with IPIA for the FY 2015 reporting period.

We expect OIG to determine that DOT is noncompliant with one of six IPIA requirements for FY 2015, however. FHWA's Highway Planning and Construction program did not meet the reduction target published in DOT's FY 2014 AFR, likely making DOT noncompliant for the FY 2015 reporting period. OIG will review DOT's FY 2015 IPIA implementation and determine compliance in FY 2016.

XII. AGENCY REDUCTION OF IMPROPER PAYMENTS WITH THE DO NOT PAY INITIATIVE

An important part of the Department's program integrity efforts designed to prevent, identify, and reduce IPs is integrating Treasury Department's DNP Business Center into our existing processes. DOT utilizes the DNP Business Center to perform online searches, screen payments against the DNP databases, and augment OFM's data analytics capabilities.

Using the DNP Business Center helps DOT improve the quality and integrity of information within our financial systems. In FY 2015, DOT and ESC engaged the DNP Analytics Services to match our vendor records with SSA's DMF. The review identified high-risk vendor records associated with deceased individuals and enabled us to classify our vendor records into risk-based categories for further evaluation. DOT deactivated the highest risk vendor records, thereby decreasing the likelihood of making IPs to deceased individuals.

At DOT, we follow established preenrollment, preaward, and prepayment processes for all acquisition and financial assistance awards. Preenrollment procedures include cross-referencing applicants against the General Services Administration's (GSA) System for Award Management (SAM) exclusion records. We also review Federal and commercial databases to verify past performance, Federal Government debt, integrity, and business ethics. As part of our preaward process and prior to entering into an agreement, we require recipients of financial assistance to verify that the entities they transact with are not excluded from receiving Federal funds. For prepayment processes, ESC verifies an entity against both SAM and the Internal Revenue Service's Taxpayer Identification Number Match Program before establishing them as a vendor in our core financial accounting system.

The Department performs postpayment reviews to adjudicate conclusive matches identified by the DNP Business Center. The monthly adjudication process involves verifying payee information against internal sources, reviewing databases within the DNP Business Center, and confirming whether DOT applied appropriate business rules when a payment was made.

In November 2014, the DNP Business Center upgraded its capabilities by automating the adjudication process through the DNP portal and providing better matching against SAM. While this upgrade significantly improved DOT's adjudication procedures, differences between ESC and Treasury Department payment file formats prevented the DNP Business Center from matching payments made from November 2014 through July 2015. The file format differences were resolved in August 2015. DOT will complete the postpayment review of the unmatched backlog of payments made from November 2014 to July 2015 during FY 2016.

TABLE 7. RESULTS OF THE DO NOT PAY INITIATIVE IN PREVENTING IMPROPER PAYMENTS

	Number of Payments Reviewed for Possible Improper Payments	Millions of Dollars of Payments Reviewed for Possible Improper Payments	Number of Payments Stopped	Millions of Dollars of Payments Stopped	Number of Potential Improper Payments Reviewed and Determined Accurate	Millions of Dollars of Potential Improper Payments Reviewed and Determined Accurate
Reviews with the IPERIA specified databases[1]	171,560	$54,436.01	0	0	577	$26.05
Reviews with databases not listed in IPERIA	N/A	N/A	N/A	N/A	N/A	N/A

IPERIA = Improper Payments Elimination and Recovery Improvement Act of 2012. N/A = not applicable.

[1] In FY 2015, DOT screened payments against the SSA's DMF and GSA's SAM Exclusion Records databases.

FEDERAL REAL PROPERTY INITIATIVE

Several Executive Office of the President initiatives have focused on the aggressive disposal of excess properties held by Federal agencies. The "Freeze the Footprint" initiative, implemented OMB Management Procedures Memorandum No. 2013-02, requires Federal agencies to reduce their domestic office and warehouse inventory, in square footage terms, from their FY 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. The Department's partnership with GSA on the Client Portfolio Planning (CPP) initiative to create a comprehensive real property portfolio management plan has resulted in several recently completed, currently ongoing, and planned consolidation projects. Systematic reviews are performed on all leases expiring within 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. In addition, the Department regularly updates the Real Estate Management System (REMS) to track the inventory of all DOT operating administrations.

The largest portion of DOT's real property portfolio consists of technical facilities, or en route centers, to support the National Airspace System. FAA's transition to its Next Generation Air Transportation System (NextGen), a system designed to enhance how aircraft are tracked and routed through the airspace, will permit the replacement of some legacy ground-based navigational and communication facilities with modern satellite-based systems. The Department has reduced its leased and owned space during each year of the "Freeze the Footprint" initiative, from FY 2012 to FY 2014, as summarized in the following table.

EXHIBIT I. FREEZE THE FOOTPRINT BASELINE COMPARISON

	Fiscal Year 2012 Baseline	Prior Fiscal Year 2014[1]	Change (2012–2014)
Square footage (in millions)	13	12.8	(.2)

[1] Fiscal year 2014 is the most recent period for which data are available, as fiscal year square footage data are not verified and finalized until the end of the calendar year.

Completion of several consolidation, colocation, disposal, and construction projects has further reduced the Department's footprint in FY 2015.

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 optimizing building energy performance, conserving water, enhancing indoor environmental quality, and reducing the impact of materials on the environment. Another tool, the Real Property Disposal Cost Control Measure, monitors the monthly and year-to-date cost savings/avoidance of disposed assets.

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

	Fiscal Year 2012 Baseline	Prior Fiscal Year 2014[1]	Change (2012–2014)
Operation and maintenance costs[2] (in millions)	$261.93	$221.85	($40.08)

[1] Fiscal year 2014 is the most recent period for which data are available, as fiscal year square footage data are not verified and finalized until the end of the calendar year.

[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.

CIVIL MONETARY PENALTY INFLATION ADJUSTMENTS

The Federal Civil Penalties Inflation Adjustment Act of 1990, as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to maintain their deterrent effect. The following are the civil penalties that the DOT may impose, the authority for imposing the penalty, the dates of inflation adjustments, and the current penalty level.

CIVIL MONETARY PENALTY INFLATION ADJUSTMENTS

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment[1]	Date of Current Adjustment	Current Penalty Level ($ Amount)[2]
Violation of a requirement of the Commercial Space Launch Act, as amended, a regulation issued under the Act, or any term or condition of a license or permit issued or transferred under the Act	51 U.S.C. § 50917	June 2010	October 2014	$120,000
General civil penalty	49 U.S.C. § 46301(a); 14 CFR Part 383	November 2008	N/A[3]	$27,500
General civil penalty for individuals or small businesses	49 U.S.C. § 46301(a); 14 CFR Part 383	December 2003	N/A[3]	$1,100
Civil penalty for individuals or small businesses for most provisions of Title 49 U.S.C. chapter 401	49 U.S.C. § 46301(a); 14 CFR Part 383	November 2008	N/A[3]	$11,000
Civil penalty for individuals or small businesses for 49 U.S.C. § 41719 and rules and orders issued thereunder	49 U.S.C. § 46301(a); 14 CFR Part 383	November 2008	N/A[3]	$5,500
Civil penalty for individuals or small businesses for violations of 49 U.S.C. § 41712 or consumer protections rules or orders issued thereunder	49 U.S.C. § 46301(a); 14 CFR Part 383	December 2003	May 2015	$2,750
Statutory min. civil penalty (rail safety violations)	49 U.S.C. ch. 213	March 2009	April 2012[4]	$650
Statutory max. civil penalty (rail safety violations)	49 U.S.C. ch. 213; Rail Safety Improvement Act of 2008 (RSIA), P.L. 110-432, Sec. 302(a)	March 2009	April 2012[4]	$25,000
Statutory "aggravated" max. civil penalty (rail safety violations)	49 U.S.C. ch. 213; RSIA, P.L. 110-432, Sec. 302(a)	March 2009	April 2012	$105,000
Violation of Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011	49 U.S.C. § 60101 et seq.; P.L. 112-90	January 3, 2012	N/A[5]	$200,000 per violation; $2,000,000 max. for any related series of violations[6]
Violation of Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011	Under 49 U.S.C. § 60103 and 60111; P.L. 112-90	January 3, 2012	N/A[5]	$50,000 per violation[7]
Violation of Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011	Under 49 U.S.C. § 60129; P.L. 112-90	January 3, 2012	N/A[5]	$1,000 per violation
Violation of hazardous materials transportation law	49 U.S.C. § 5123(a)(1)	July 2012[8]	October 2, 2013	$75,000
Violation of hazardous materials transportation law resulting in death, serious illness, severe injury, or substantial property destruction	49 U.S.C. § 5123(a)(2)	July 2012[8]	October 2, 2013	$175,000
Violation of hazardous materials transportation law relating to training	49 U.S.C. § 5123(a)(3)	July 2012[8]	October 2, 2013	$75,000
Violation by a person other than an individual or small business concern under 49 U.S.C. § 46301(a)(1)(A) or (B)	49 U.S.C. § 46301(a)(1)	December 2003	November 2010	$27,500
Violation by an airman serving as an airman under 49 U.S.C. § 46301(a)(1)(A) or (B) (but not covered by 49 U.S.C. § 46301(a)(5)(A) or (B))	49 U.S.C. § 46301(a)(1)	N/A	December 2003[8]	$1,100
Violation by an individual or small business concern under 49 U.S.C. § 46301(a)(1)(A) or (B) (but not covered in 49 U.S.C. § 46301(a)(5))	49 U.S.C. § 46301(a)(1)	N/A	December 2003[8]	$1,100
Violation of 49 U.S.C. § 47107(b) (or any assurance made under such section) or 49 U.S.C. § 47133	49 U.S.C. § 46301(a)(3)	N/A	N/A	See footnote[9]

CIVIL MONETARY PENALTY INFLATION ADJUSTMENTS (continued)

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment[1]	Date of Current Adjustment	Current Penalty Level ($ Amount)[2]
Violation by an individual or small business concern (except an airman serving as an airman) under 49 U.S.C. § 46301(a)(5)(A)(i) or (ii)	49 U.S.C. § 46301(a)(5)(A)	December 2003[8]	June 2006	$11,000
Violation by an individual or small business concern related to the transportation of hazardous materials	49 U.S.C. § 46301(a)(5)(B)(i)	December 2003[8]	June 2006	$11,000
Violation by an individual or small business concern related to the registration or recordation under 49 U.S.C. chapter 441, of an aircraft not used to provide air transportation	49 U.S.C. § 46301(a)(5)(B)(ii)	December 2003[8]	June 2006	$11,000
Violation by an individual or small business concern of 49 U.S.C. § 44718(d), relating to limitation on construction or establishment of landfills	49 U.S.C. § 46301(a)(5)(B)(iii)	December 2003[8]	June 2006	$11,000
Violation by an individual or small business concern of 49 U.S.C. § 44725, relating to the safe disposal of life-limited aircraft parts	49 U.S.C. § 46301(a)(5)(B)(iv)	December 2003[8]	June 2006	$11,000
Tampering with a smoke alarm device	49 U.S.C. § 46301(b)	January 1997	November 2010	$3,200
Knowingly providing false information about alleged violation involving the special aircraft jurisdiction of the United States	49 U.S.C. § 46302	January 1997	November 2010	$16,000
Interference with cabin or flight crew	49 U.S.C. § 46318	April 2000[10]	June 2006	$27,500
Permanent closure of an airport without providing sufficient notice	49 U.S.C. § 46319	December 2003[10]	June 2006	$11,000
Violation of 49 U.S.C. § 47528–47530, relating to the prohibition of operating certain aircraft not complying with stage 3 noise levels	49 U.S.C. § 47531	N/A	N/A	See 49 U.S.C. § 46301(a)(1)(A) and (a)(5), above
Motor vehicle safety	49 U.S.C. § 30165; 49 CFR 578.6(a)(1), (a)(3)	May 2006	December 2012	$7,000 per violation or per day
Motor vehicle safety[11]	49 U.S.C. § 30165	December 2012	October 2013[8]	$35,000,000 max. for related series of violations
School bus safety	49 U.S.C. § 30165; 49 CFR 578.6(a)(2)	N/A	March 2010	$11,000 per violation
School bus safety	49 U.S.C. § 30165; 49 CFR 578.6(a)(2)	March 2010	December 2012	$17,250,000 max. for related series of violations
Filing false and misleading reports	49 U.S.C. § 30165(a)(4)	N/A	October 2012[10]	$5,000 per day; $1,000,000 max. for a related series of daily violations
National Automobile Title Information System	49 U.S.C. § 30505; 49 CFR 578.6(b)	N/A	1997	$1,100
Bumper standards	49 U.S.C. § 32507; 49 CFR 578.6(c)(1), (c)(2)	N/A	1997	$1,100 per violation
Bumper standards	49 U.S.C. § 32507; 49 CFR 578.6(c)(1), (c)(2)	March 2010	December 2012	$1,225,000 max. for related series for violations
Consumer information regarding crashworthiness and damage susceptibility	49 U.S.C. § 32308; 49 CFR 578.6(d)	N/A	1997	$1,100 per violation
Consumer information regarding crashworthiness and damage susceptibility	49 U.S.C. § 32308; 49 CFR 578.6(d)	March 2010	December 2012	$600,000 max. for related series of violations
Country of origin content labeling	49 U.S.C. § 32309; 49 CFR 578.6(e)	N/A	1997	$1,100
Odometer tampering and disclosure	49 U.S.C. § 32709	March 2008	October 2012[10]	$10,000 per violation
Odometer tampering and disclosure	49 U.S.C. § 32709	March 2010	October 2012[10]	$1,000,000 max. for related series of violations
Odometer tampering and disclosure with intent to defraud	49 U.S.C. § 32709	December 2010	October 2012[10]	$10,000 or 3X actual damages
Vehicle theft protection	49 U.S.C. § 33115(a)(1)-(4); 49 CFR 578.6(g)(1)	N/A	February 1997	$1,100 per violation

CIVIL MONETARY PENALTY INFLATION ADJUSTMENTS (continued)

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment[1]	Date of Current Adjustment	Current Penalty Level ($ Amount)[2]
Vehicle theft protection	49 U.S.C. § 33115(a); 49 CFR 578.6(g)(1)	October 2005	March 2010	$350,000 max. for related series of violations
Vehicle theft protection operating a chop shop	49 U.S.C. § 33115(b); 49 CFR 578.6(g)(2)	October 2005	March 2010	$140,000 per day
Automobile fuel economy	49 U.S.C. § 32912(a); 49 CFR 578.6(h)(1)	February 1997	March 2008	$16,000 per day
Automobile fuel economy	49 U.S.C. § 32912(b); 49 CFR 578.6(h)(2)	N/A	February 1997	$5.50[12]
Medium and heavy duty vehicle fuel efficiency	49 U.S.C. § 32902(k)	N/A	September 2011[10]	$37,500
Appendix A II Subpoena	49 U.S.C. § 525		N/A	$11,000
Appendix A IV (a) Out-of-service order (operation of CMV by driver.)	49 U.S.C. § 521(b)(7)		N/A	$3,100
Appendix A IV (b) Out-of-service order (requiring or permitting operation of CMV by driver)	49 U.S.C. § 521(b)(7)		N/A	$21,000
Appendix A IV (c) Out-of-service order (operation by driver of CMV or intermodal equipment that was placed out of service)	49 U.S.C. § 521(b)(7)		N/A	$3,100
Appendix A IV (d) Out-of-service order (requiring or permitting operation of CMV or intermodal equipment that was placed out of service)	49 U.S.C. § 521(b)(7)		N/A	$21,000
Appendix A IV (e) Out-of-service order (failure to return written certification of correction)	49 U.S.C. § 521(b)(2)(B)		N/A	$850
Appendix A IV (g) Out-of-service order (failure to cease operations as ordered)	49 U.S.C. § 521(b)(2)(F)		N/A	$25,000
Appendix A IV (h) Out-of-service order (operating in violation of order)	49 U.S.C. § 521(b)(7)		N/A	$16,000
Appendix A IV (i) Out-of-service order (conducting operations during suspension or revocation for failure to pay penalties)	49 U.S.C. § 521(b)(2)(A), 521(b)(7)		N/A	$16,000
Appendix A IV (j) Out-of-service order (conducting operations during suspension or revocation)	49 U.S.C. § 521(b)(7)		N/A	$11,000
Appendix B (a)(1)* Recordkeeping	49 U.S.C. § 521(b)(2)(B)(i)		N/A	$1,100 per day; $11,100 max. total penalty
Appendix B (a)(2)* Knowing falsification of records	49 U.S.C. § 521(b)(2)(B)(ii)		N/A	$11,100
Appendix B (a)(3) Non-recordkeeping violations	49 U.S.C. § 521(b)(2)(A)		N/A	$16,000
Appendix B (a)(4) Non-recordkeeping violations by drivers	49 U.S.C. § 521(b)(2)(A)		N/A	$3,750
Appendix B (a)(5)* Violation of 49 CFR 392.5	49 U.S.C. § 31310(i)(2)(A)		N/A	$4,125
Appendix B (b) Commercial driver's license (CDL) violations	49 U.S.C. § 521(b)(2)(C)		N/A	$4,750
Appendix B (b)(1)*M : Special penalties pertaining to violation of out-of-service orders	49 U.S.C. § 31310(i)(2)(A)		N/A	$2,750 1st conviction; $5,500 subsequent convictions
Appendix B (b)(2)M Employer violations pertaining to knowingly allowing, authorizing employee violations of out-of-service order - min. penalty	49 U.S.C. § 521(b)(2)(C)		N/A	$4,750
Appendix B (b)(2)*M Employer violations pertaining to knowingly allowing, authorizing employee violations of out-of-service order - max. penalty	49 U.S.C. § 31310(i)(2)(c)		N/A	$27,500
Appendix B (b)(3)M* Special penalties pertaining to railroad-highway grade crossing violations	49 U.S.C. § 31310(j)(2)(B)		N/A	$11,000
Appendix B (d) Financial responsibility violations	49 U.S.C. § 31139(g)(1)		N/A	$21,000
Appendix B (e)(1) Violations of Hazardous Materials Regulations (HMRs) and Safety Permitting Regulations (transportation or shipment of hazardous materials)	49 U.S.C. § 5123(a)(1)		N/A	$75,000

CIVIL MONETARY PENALTY INFLATION ADJUSTMENTS (continued)

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment(1)	Date of Current Adjustment	Current Penalty Level ($ Amount)(2)
Appendix B (e)(2) Violations of Hazardous Materials Regulations (HMRs) and Safety Permitting Regulations (training) - min. penalty	49 U.S.C. § 5123(a)(3)		N/A	$450
Appendix B (e)(2) Violations of Hazardous Materials Regulations (HMRs) and Safety Permitting Regulations (training) - max. penalty	49 U.S.C. § 5123(a)(1)		N/A	$75,000
Appendix B (e)(3) Violations of Hazardous Materials Regulations (HMRs) and Safety Permitting Regulations (packaging or container)	49 U.S.C. § 5123(a)(1)		N/A	$75,000
Appendix B (e)(4) Violations of Hazardous Materials Regulations (HMRs) and Safety Permitting Regulations (compliance with FMCSRs)	49 U.S.C. § 5123(a)(1)		N/A	$75,000
Appendix B (e)(5) Violations of Hazardous Materials Regulations (HMRs) and Safety Permitting Regulations (death, serious illness, severe injury to persons; destruction of property)	49 U.S.C. § 5123(a)(2)		N/A	$175,000
Appendix B (f)(1) Operating after being declared unfit by assignment of a final "unsatisfactory" safety rating (generally)	49 U.S.C. § 521(b)(2)(F)		N/A	$25,000
Appendix B (f)(2) Operating after being declared unfit by assignment of a final "unsatisfactory" safety rating (hazardous materials) - max. penalty	49 U.S.C. § 5123(a)(1)		N/A	$75,000
Appendix B (f)(2) Operating after being declared unfit by assignment of a final "unsatisfactory" safety rating (hazardous materials) - max. penalty if death, serious illness, severe injury to persons; destruction of property	49 U.S.C. § 5123(a)(2)		N/A	$175,000
Appendix B (g)(1)M Violations of the commercial regulations (CR) (property carriers)	49 U.S.C. § 14901(a)		N/A	$10,000
Appendix B (g)(2) Violations of the CRs (brokers)	49 U.S.C. § 14916(c)		N/A	$10,000
Appendix B (g)(3) Violations of the CRs (passenger carriers)	49 U.S.C. § 14901(a)		N/A	$25,000
Appendix B (g)(4) Violations of the CRs (foreign motor carriers, foreign motor private carriers)	49 U.S.C. § 14901(a)		N/A	$10,000
Appendix B (g)(5) Violations of the CRs (foreign motor carriers, foreign motor private carriers before implementation of North American Free Trade Agreement land transportation provisions) - max. penalty for intentional violation	49 U.S.C. § 14901 note		N/A	$53,500
Appendix B (g)(6) Violations of the CRs (motor carrier or broker for transportation of hazardous wastes)	49 U.S.C. § 14901(b)		N/A	$20,000 min. penalty; $40,000 max. penalty
Appendix B (g)(7) Violations of the CRs (HHG carrier or freight forwarder, or their receiver or trustee)	49 U.S.C. § 14901(d)(1)		N/A	$1,100
Appendix B (g)(8) Violation of the CRs (weight of HHG shipment, charging for services)	49 U.S.C. § 14901(e)		N/A	$3,200 min. 1st violation; $7,500 subsequent violations
Appendix B (g)(10) Tariff violations	49 U.S.C. § 13702		N/A	$140,000
Appendix B (g)(11) Additional tariff violations (rebates or concessions)	49 U.S.C. § 14904(a)		N/A	$320 1st violation; $375 subsequent violations
Appendix B (g)(12) Tariff violations (freight forwarders)	49 U.S.C. § 14904(b)(1)		N/A	$750 1st violation; $3,200 subsequent violations
Appendix B (g)(13) service from freight forwarder at less than rate in effect	49 U.S.C. § 14904(b)(2)		N/A	$750 1st violation; $3,200 subsequent violations
Appendix B (g)(14) Violations related to loading and unloading motor vehicles	49 U.S.C. § 14905		N/A	$16,000
Appendix B (g)(16) Reporting and recordkeeping under 49 U.S.C. subtitle IV, part B (except 13901 and 13902(c) - min. penalty	49 U.S.C. § 14901		N/A	$1,000

CIVIL MONETARY PENALTY INFLATION ADJUSTMENTS (continued)

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment[1]	Date of Current Adjustment	Current Penalty Level ($ Amount)[2]
Appendix B (g)(16) Reporting and recordkeeping under 49 U.S.C. subtitle IV, part B - max. penalty	49 U.S.C. § 14907		N/A	$7,500
Appendix B (g)(17) Unauthorized disclosure of information	49 U.S.C. § 14908		N/A	$3,200
Appendix B (g)(18) Violation of 49 U.S.C. subtitle IV, part B, or condition of registration	49 U.S.C. § 14910		N/A	$750
Appendix B (g)(21)(i)*M: Knowingly and willfully fails to deliver or unload HHG at destination	49 U.S.C. § 14905		N/A	$11,000
Appendix B (g)(22)* HHG broker estimate before entering into an agreement with a motor carrier	49 U.S.C. § 14901(d)(2)		N/A	$10,900
Appendix B (g)(23)* HHG transportation or broker services—registration requirement	49 U.S.C. § 14901(d)(3)		N/A	$27,250
Appendix B (h)* Copying of records and access to equipment, lands, and buildings	49 U.S.C. § 521(b)(2)(E)		N/A	$1,100 per day; $11,000 max. total penalty
Appendix B (i)(1)M Evasion of regulations under 49 U.S.C. ch. 5, 51, subchapter III of 311 (except § 31138 and § 31139), § 31302-31304, § 31305(b), § 31310(g)(1)(A), § 31502	49 U.S.C. § 524		N/A	$2,000 min. 1st violation; $5,000 max. 1st violation; $2,500 min. subsequent violations; $7,500 max. subsequent violations
Appendix B (i)(2)M Evasion of regulations under 49 U.S.C. subtitle IV, part B	49 U.S.C. § 14906		N/A	$2,000 min. 1st violation; $5,000 min. subsequent violations

(1) FAA/NHTSA: This refers to the last time the penalty was actually changed. All penalty amounts were reviewed in 2010, and are reviewed during each inflation adjustment, but only some were adjusted under the formula. FMCSA: Most of the civil penalties were last adjusted for inflation in 2007, and some have not been changed since 2003.

(2) FAA: this schedule was prepared as of September 30, 2015. The next adjustments were scheduled for publication in October 2015, at which time the following penalties were expected to be adjusted: § 5123(a)(1) and (3) to $85,000; § 5123(a)(2) to $185,000; § 46301(a)(1) (person other than an individual or small business concern under 49 U.S.C. § 46301(a)(1)(A) or (B)) to $32,500; and § 46318 to $32,500.

(3) No adjustment called for in current cycle.

(4) Date analyzed; unchanged from 2009.

(5) Adjustment for inflation being prepared for submission before December 31, 2015.

(6) From § 60122.

(7) In addition to the above penalties.

(8) Reset by statute.

(9) Increase above otherwise applicable maximum amount not to exceed 3 times the amount of revenues that are used in violation of such section.

(10) Set by statute.

(11) On September 21, 2015, NHTSA issued a notice of proposed rulemaking to update tour civil penalty regulations to include the new civil penalty amounts in the Moving Ahead for Progress in the 21st Century Act (MAP-21), Public Law 112-141, (2012), for the maximum penalty for a related series of violations of the National Traffic and Motor vehicle Safety Act under 49 U.S.C. § 30165, filing false and misleading reports under 49 U.S.C. § 30165(4), and penalty provisions related to odometer disclosure and tampering under 49 U.S.C. § 32709.

(12) For each 0.1 mile per gallon by which the manufacturer's average fuel economy exceeds the standard.

LIST OF ACRONYMS

A

AATF	Airport and Airway Trust Fund
ADA	Americans with Disabilities Act
AEC	Atomic Energy Commission
AFR	Agency Financial Report
AICPA	American Institute of Certified Public Accountants
AIP	Airport Improvement Program
APR	Annual Performance Report
ARRA	American Recovery and Reinvestment Act of 2009
ARTCC	Air Route Traffic Control Center
AU	Assessable Units

B

BATIC	Build America Transportation Investment Center

C

CDM	Continuous Diagnostics and Monitoring
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act of 1980
CFO	Chief Financial Officer
CFO Act	Chief Financial Officers Act of 1990
CIO	Chief Information Officer
COE	Common Operating Environment
CPP	Client Portfolio Planning
CSRS	Civil Service Retirement System
CY	current year

D

DHS	Department of Homeland Security
DM&R	Deferred Maintenance and Repairs
DoD	Department of Defense
DOL	Department of Labor
DOT	Department of Transportation
DRAA	Disaster Relief Appropriations Act

E

ERAM	En Route Automation Modernization
ERP	Emergency Relief Program
ESC	Enterprise Service Center

F

F&E	Facilities and Equipment
FAA	Federal Aviation Administration
FASAB	Federal Accounting Standards Advisory Board
FCRA	Federal Credit Reform Act of 1990
FECA	Federal Employees Compensation Act Benefits
FEGLI	Federal Employees Group Life Insurance Program
FEHB	Federal Employees Health Benefit Program
FEMA	Federal Emergency Management Agency
FERS	Federal Employee Retirement System
FFGA	Full Funding Grant Agreement
FFMIA	Federal Financial Management Improvement Act of 1996
FHWA	Federal Highway Administration
FIRE	Financial Integrity Review and Evaluation
FISMA	Federal Information Security Management Act of 2002
FMCSA	Federal Motor Carrier Safety Administration
FMFIA	Federal Managers' Financial Integrity Act of 2002
FRA	Federal Railroad Administration
FTA	Federal Transit Administration
FY	fiscal year

G

GAAP	generally accepted accounting principles
GAO	Government Accountability Office
GHG	greenhouse gas
GSA	General Services Administration

H

HSIPR	High-Speed Intercity Passenger Rail
HTF	Highway Trust Fund

I

IP	improper payment
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
IRS	Internal Revenue Service
IT	information technology

J, K

L

LUST	Leaking Underground Storage Tank

M

MAP-21	Moving Ahead for Progress in the 21st Century
MARAD	Maritime Administration

N

NAS	National Airspace System
NASA	National Aeronautics and Space Administration
NATCA	National Air Traffic Controllers Association
NHS	National Highway System
NHTSA	National Highway Traffic Safety Administration
NIST	National Institute of Standards and Technology
NRC	Nuclear Regulatory Commission
NTSB	National Transportation Safety Board

O

OA	Operating Administration
OFM	Office of Financial Management
OICO	Office of the Chief Information Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OST	Office of the Secretary
OTA	U.S. Treasury, Office of Tax Analysis

P

PCB	polychlorinated biphenyls
PHMSA	Pipeline and Hazardous Materials Safety Administration
PIV	Personal Identity Verification
P.L.	Public Law
PRIIA	Passenger Rail Investment and Improvement Act of 2008
PY	performance year
PY	prior year

Q

R

RCRA	Resource Conservation and Recovery Act of 1976
RITA	Research and Innovative Technology Administration
RRF	Ready Reserve Force
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship Information
RTD	Regional Transportation District

S

SAFETEA-LU	Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users
SAS 70	Statement on Auditing Standards 70
SFFAS	Statement of Federal Financial Accounting Standard
SIP	Student Incentive Payment
SLSDC	Saint Lawrence Seaway Development Corporation
SMA	State Maritime Academies
SOS	Schedule of Spending
SSAE-16	Statements on Standards for Attestation Engagements 16
STB	Surface Transportation Board

T

TIFIA	Transportation Infrastructure Finance and Innovation Act
TIGER	Transportation Investment Generating Economic Recovery
TSCA	Toxic Substances Control Act

U

U.S.C	United States Code
USMMA	U.S. Merchant Marine Academy
USSGL	United States Standard General Ledger

V

V2V	vehicle-to-vehicle

W

WCF	Working Capital Fund
WMATA	Washington Metropolitan Area Transit Authority

X, Y, Z

U.S. Department of Transportation

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

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