U.S. Department of Transportation

U.S. DEPARTMENT OF TRANSPORTATION

AGENCY FINANCIAL REPORT

2013

FISCAL YEAR 2013


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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) 2013 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 and our strengths and challenges.

The Department's FY 2013 annual reporting includes two components: the AFR and the Annual Performance Report (APR).

AGENCY FINANCIAL REPORT (AFR)

The following AFR report is organized into three major sections:

The Management's Discussion and Analysis section provides executive-level information on the Department's history; mission; organization; key activities; analysis of financial statements, systems, controls, and legal compliance; accomplishments for the fiscal year; and management and performance challenges. The FY 2013 high-level summary of performance information is on page 13 of the AFR. Detailed performance data are included in the 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 a report from the DOT Office of Inspector General and the Independent Auditors.

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

ANNUAL PERFORMANCE REPORT (APR)*

The APR will be produced in conjunction with the FY 2014 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 2014.

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

OVERVIEW OF FY 2013 FINANCIAL RESULTS

I am pleased to submit the U.S. Department of Transportation's (DOT) Agency Financial Report for Fiscal Year (FY) 2013. Consistent with statutory requirements, DOT's Agency Financial Report provides information on DOT's financial operations and performance for the fiscal year that ended September 30, 2013 (FY 2013). This report is presented together with DOT's Annual Performance Report, which will be released in 2014. I am very pleased that DOT received an unmodified audit opinion on its financial statements for FY 2013, its twelfth in thirteen years.

Supported by DOT's successful financial performance, we made significant progress toward our strategic goals and objectives in FY 2013. Looking forward to FY 2014, DOT will continue to lead in promoting safety and critical transportation investments that will strengthen our Nation's economy.

STRATEGIC GOALS

Our citizens are calling for investments in a transportation system that is safer, more efficient, and more cost-effective. To achieve these outcomes, DOT's programs are formulated to support a set of strategic goals that include safety, state of good repair, economic competitiveness, and environmental sustainability. Among these goals, our main focus will remain safety. In addition to this strategic area, DOT's initiatives will create "Ladders of Opportunity," emphasize "Fix it First" investments, and fund projects that promote Economic Growth.

LADDERS OF OPPORTUNITY

Investments in "Ladders of Opportunity" represent a way to connect people with jobs, schools, medical facilities, and centers of commerce. As we plan for population growth, we must be mindful of the numerous communities that currently lack access to reliable transportation options. In the coming year, DOT will support approaches to advance these Ladders of Opportunity.

For example, the Federal Transit Administration (FTA) will look for ways to promote reliable low-cost transportation for rural, suburban, and urban commuters. The Federal Motor Carrier Safety Administration's (FMCSA) bus strike force, which is designed to regulate bus and driver safety, will help ensure cost effective, reliable transportation by removing unsafe motor carriers from our Nation's roadways. Also, the Federal Highway Administration (FHWA) will continue to connect communities with opportunity by linking homes to nearby jobs, schools, and centers of commerce.

FIX IT FIRST

"Fix it First" investments improve the state of good repair for our Nation's roads, bridges, railways, and runways. Fixing our existing infrastructure must be a top priority in order to keep America economically competitive. 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. The DOT programs will continue to emphasize improving the condition of our infrastructure to ensure that these facilities are safe and reliable.

Investments made through FHWA's highway safety improvement program and national highway performance program will reduce the backlog of safety needs on roads and bridges throughout the national highway system. At FTA, resources in the bus and bus facilities program, as well as the state of good repair program, will ensure transit operators can make critical investments to improve the overall conditions and performance of our Nation's transit system. In addition, programs managed by the Federal Railroad Administration (FRA) for passenger rail improvements will increase the reliability and safety of the existing system.

ECONOMIC GROWTH

With demand for both freight and passenger transportation expected to more than double by 2050, DOT will support the U.S. economy by fostering smart, strategic investments that will serve the traveling public and facilitate freight movement. Our central strategies for achieving maximum economic returns on our 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.

Investments in Economic Growth are projects that create jobs and provide efficient transport for goods and services. Besides conventional funding sources, we have a number of options in our toolbox to promote economic growth. The DOT's Transportation Infrastructure Financing and Innovation Act (TIFIA) is one such program that provides Federal credit assistance to eligible surface transportation projects. The TIFIA can help advance qualified, large-scale projects that otherwise might be delayed or deferred because of size, complexity, or uncertainty over the timing of revenues. Each dollar of Federal funds can provide approximately $10 in TIFIA credit assistance, which leverages $30 into total investment. For example, our TIFIA program has leveraged several billion dollars in infrastructure investments across America—in Illinois, California, and Texas. Further, we have seen another of our innovative financing programs—the Railroad Rehabilitation & Improvement Financing loan program—help Denver, Colorado revitalize its Union Station.

An additional measure which will further economic growth is DOT's commitment to the Federal Aviation Administration's NextGen program. NextGen represents an evolution from a ground-based system of air traffic control to a satellite-based system of air traffic management. This evolution is vital to meeting future demand, and to avoiding gridlock in the sky and at our Nation's airports. It will be a better way of doing business. Travel will be more predictable because there will be fewer delays, less time sitting on the ground and holding in the air, and more flexibility to get around weather problems.

EFFICIENCY

DOT programs not only promote economic growth and a stronger America, but they improve the efficiency and performance of our existing transportation system. The American people are counting on us to be good stewards of their tax dollars, and DOT has greatly improved the way we deliver the benefits of transportation to the American people.

For example, the Federal Highway Administration's Every Day Counts initiative has been promoting innovation and saving money on projects across the country. One tool in this initiative is Warm Mix Asphalt. While that may not be a household phrase, it is quietly saving taxpayers millions every year. Warm Mix Asphalt is a new paving technology that allows asphalt to be produced and placed on the road at a lower temperature. It uses less fuel, reduces emissions, and extends the paving season into colder weeks, which allows road crews to keep working longer. Under Every Day Counts, the use of Warm Mix has skyrocketed. By 2020, we project that this program will save more than $3.5 billion dollars – simply by using less fuel in the production and placement of asphalt.

Further, we are not just saving money on our roads and highways. The Federal Transit Administration is cutting red tape to get new rail and bus projects off the ground faster than ever before—while maintaining our commitment to both the environment and safety. This means shovels in the ground sooner, workers on the job quicker, a shorter wait for improved transit, and savings for taxpayers.

SAFETY

As Secretary of Transportation, my overriding priority is to make our transportation system the safest in the world. At DOT, we will continue to work hard so that Americans feel safe when they get in a car, hop on a bus, board an airplane or even ride a bike. Our goal is to continue our DOT-wide focus on reducing transportation-related fatalities and injuries. Over the past year, we have worked closely with our State partners to reduce the number of motor coach, truck, vehicle, and pedestrian accidents, and we plan to continue those important efforts in 2014. Our key initiatives include: roadway safety for all users; combating distracted driving and other dangerous behaviors; pursuing a more effective Federal role in transit safety; and addressing the most serious safety risks in other surface transportation modes and in aviation.

INVESTMENTS FOR AMERICA'S FUTURE

Transportation moves America forward. When we build bridges, highways, transit systems, airports and ports, we are putting people to work and helping businesses expand. But most importantly, we are giving the next generation the tools to compete. Take a look at the Golden Gate Bridge, the Hoover Dam, or the Transcontinental Railroad. These symbols of American grit and innovation were not built by us. Generations before us pursued these projects in difficult times because they believed in a better future for the next generation. Although resources are scarce, I believe we can still build great things. We can ensure that the rungs on the ladder of opportunity are not so far apart—that the American dream is still within reach for those who are willing to work for it. This is our challenge, and we must work together to address it.

Anthony R. Foxx


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MANAGEMENT'S DISCUSSION AND ANALYSIS

DOT MISSION AND VALUES

MISSION

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

VALUES

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

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

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

ORGANIZATION

HISTORY

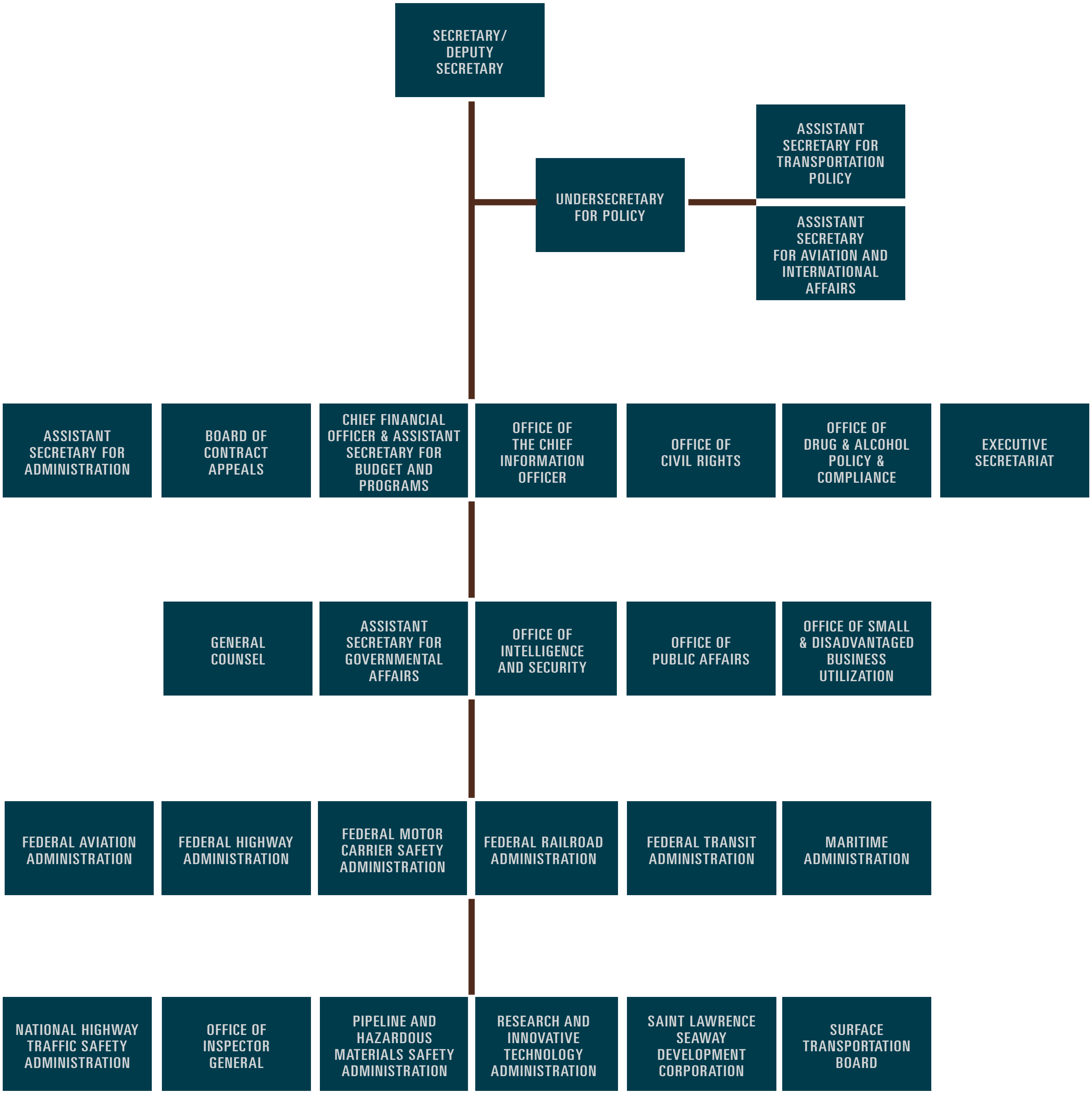
Established in 1967, DOT sets Federal transportation policy and works with State, local, and private-sector partners to promote a safe, secure, efficient, and interconnected national transportation system of roads, railways, pipelines, airways, and seaways. DOT's overall objective of creating a safer,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

HOW DOT IS ORGANIZED

DOT employs more than 57,000 people in the Office of the Secretary (OST) and through 12 Operating Administrations (OAs) and bureaus, each with its own management and organizational structure.

The 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 DOT. The OIG is committed to fulfilling its statutory responsibilities and supporting members of Congress, the Secretary, senior Department officials, and the public in achieving a safe, efficient, and effective transportation system.

PIPELINE AND HAZARDOUS MATERIALS SAFETY ADMINISTRATION (PHMSA)

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

RESEARCH AND INNOVATIVE TECHNOLOGY ADMINISTRATION (RITA)

The Research and Innovative Technology Administration works to advance DOT priorities for innovation and research in transportation technologies and concepts.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION (SLSDC)

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

SURFACE TRANSPORTATION BOARD (STB)

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

PERFORMANCE HIGHLIGHTS

The Department of Transportation will report against "Transportation for a New Generation," DOT's Strategic Plan for Fiscal Years 2012–2016. This is the second year reporting under this Strategic Plan.

An overview of the Department's strategic goals is provided below, and a complete analysis of DOT's successes and challenges related to FY 2013 performance targets will be included in the Annual Performance Report. A brief discussion of the Department's results by strategic goal follows.

SAFETY

Safety is DOT's number one priority. The Department tracks the safe movement of Americans and products on the roadways, in the air, on transit systems, on railroads, and through pipelines. The Department has either estimated or final 2013 results for 9 of the 13 safety goals that will be included in the Annual Performance Report.

The Department does not anticipate meeting the 2013 target for the Roadway Fatality Rate. The Department is on track, however, to meet the passenger vehicle occupant fatality rate target, the motorcyclist rider fatality rate, and the nonoccupant (pedestrian and bicycle) fatality rate. Fatalities have declined by about 26 percent from 2005 to 2011. A statistical projection of traffic fatalities for the first half of 2013 shows an estimated 15,740 people died in motor vehicle traffic crashes. This number is a decrease of 2.5 percent compared with the 16,150 fatalities that were projected to have occurred in the first half of 2012. While it is too soon to speculate in the contributing factors of this decline, it should be noted that there has been a historic downward trend in traffic fatalities. Such deaths are at a 60-year low.

STATE OF GOOD REPAIR

Recent reports on the condition of key facilities—highways, bridges, transit systems, passenger rail, and airport runways—reveal that many fall short of a state of good repair and thus compromise the safety, capacity, and efficiency of the U.S. transportation system. DOT helps its State and local government partners achieve a state of good repair through new resources aimed at improving the condition of our infrastructure. DOT also encourages its government and industry partners to make optimal use of existing capacity, minimize life-cycle costs, and apply sound asset management principles throughout the system. In FY 2013, preliminary results show that the Department met or exceeded the target for three out of four state-of-good-repair goals for which data is currently available. The Department will work to finalize results for all state-of-good-repair performance measures before the release of the Annual Performance Report.

ECONOMIC COMPETITIVENESS

DOT has established a goal to support the U.S. economy by fostering smart, strategic investments that serve the traveling public and facilitate freight movement. The Department's central strategies for achieving maximum economic returns on its policies and investments include leading the development of intercity, high-speed passenger rail and a competitive air transportation system; increasing travel-time reliability in freight-significant highway corridors; improving the performance of freight-rail and maritime networks; advancing transportation interests in targeted markets around the world; and expanding opportunities in the transportation sector for small businesses. In FY 2013, preliminary results show that the Department met or exceeded 16 out of the 18 targets for the economic competitiveness goals.

LIVABLE COMMUNITIES

Fostering livable communities—places where coordinated transportation, housing, and commercial development give people access to affordable and environmentally sustainable transportation—is a transformational policy shift for DOT. Through the principles established in the livable communities strategic goal, 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 has met or exceeded FY 2013 targets for five of eight livable communities goals. The Department is awaiting final data for the two remaining goals and will discuss results in the Annual Performance Report released in early 2014.

ENVIRONMENTAL SUSTAINABILITY

While the transportation sector is a significant source of greenhouse gas (GHG) emissions, the Department is working to address and mitigate this challenge through strategies such as fuel economy standards for cars and trucks and more environmentally sound construction and operational practices and by expanding opportunities for shifting freight from less fuel-efficient modes to more fuel-efficient modes. A full discussion of the Department's FY 2013 environmental sustainability goals will be included in the Annual Performance Report.

PERFORMANCE SUMMARY TABLES

SAFETY PERFORMANCE SUMMARY

Performance Measure	Actual					2013		2013 Target Met or Not Met
	2008	2009	2010	2011	2012	Target	Actual	
Highway Fatality Rate per 100 Million Vehicle-Miles Traveled (VMT). (NHTSA, FHWA, FMCSA)	1.26	1.15	1.11	1.09	1.14*	1.03	1.04*	Potentially Not Met (2012)
Passenger Vehicle Occupant Fatality Rate per 100 Million VMT. (NHTSA, FHWA, FMCSA)	0.97	0.89	0.84	0.83–0.89*	0.83–0.89*	0.85	N/A	Potentially Met (2012)
Motorcyclist Rider Fatality Rate per 100,000 Motorcycle Registrations. (NHTSA, FHWA, FMCSA)	68.52	56.36	54.82	56–58*	56–58*	63	N/A	Potentially Met (2012)
Non-Occupant (Pedestrian and Bicycle) Fatality Rate per 100 Million VMT. (NHTSA, FHWA, FMCSA)	0.18	0.17	0.17	0.16–0.17*	0.16–0.17*	0.16	N/A	Potentially Met (2012)
Large Truck and Bus Fatality Rate per 100 Million Total VMT. (NHTSA, FHWA, FMCSA)	0.155	0.123	0.131	0.117–0.134*	0.110–0.127*	0.114	N/A	Potentially Met (2012)
Number of Commercial Air Carrier Fatalities per 100 Million Persons Onboard. (FAA)	0.4	6.7	0.3	0.0*	7.6	7.4	1.1*	Potentially Met
Number of Fatal General Aviation Accidents per 100,000 Flight Hours. (FAA)	N/A	1.16	1.10	1.13*	1.10(r)	1.06	1.08*	Potentially Not Met
Category A&B Runway Incursions per Million Operations. (FAA)	0.427	0.227	0.117	0.138	0.356	0.395	0.200	Met
Pipeline Incidents Involving Death or Major Injury. (PHMSA)	40	39	39	39	32(r)	41	27*	Potentially Met
Hazardous Materials Incidents Involving Death or Major Injury. (PHMSA)	24	29	19	33	33(r)	33	29*	Potentially Met
Transit Fatalities per 100 Million Passenger-Miles Traveled. (FTA) (r)	N/A	N/A	0.533	0.547	0.613(r)	0.543	N/A	Not Met (2012)
Rail-Related Accidents and Incidents per Million Train-Miles. (FRA)†	16.904	16.874	16.634	15.890	14.351	16.300	14.545*	Potentially Met
Cumulative Number of States and Localities That Adopt Roadway Designs That Accommodate All Road Users (Complete Streets). (OST)	N/A	N/A	214(r)	246(r)	398(r)	270	398*	Met

Notes: (r) Revised performance measure. * Preliminary estimate. † Actual results might differ from previous reports and are subject to change, due to subsequently obtained information. FY 2013 actuals are based on 9 months of preliminary data.

PERFORMANCE SUMMARY TABLES (continued)

STATE OF GOOD REPAIR PERFORMANCE SUMMARY

Performance Measure	Actual					2013		2013 Target Met or Not Met
	2008	2009	2010	2011	2012	Target	Actual	
Percent of Travel on the National Highway System (NHS) Roads With Pavement Performance Standards Rated "Good". (FHWA)	56%	57%	58%	58%	57.1%(r)	57% (r)	57%*	Potentially Met
Percent of Deck Area (i.e., the Roadway Surface of a Bridge) on NHS Bridges Rated Structurally Deficient. (FHWA)	8.2%(r)	8.2%(r)	8.3%(r)	7.8%(r)	7.1%	7.7%	6.7%	Met
Backlog of Transit Capital Assets in Need of Replacement or Refurbishment (as Defined by an Estimated Condition Rating of 2.5 or Lower). (FTA)	N/A	N/A	$77.7 billion	TBD^	TBD^	$77.6 billion	N/A^	—
Percent of Runway Pavement in Excellent, Good, or Fair Condition for Paved Runways in the National Plan of Integrated Airport Systems. (FAA)	96.6%	97.0%	97.2%	97.4%	97.5%	93.0%	97.5%	Met

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

ECONOMIC COMPETITIVENESS PERFORMANCE SUMMARY

Performance Measure	Actual					2013		2013 Target Met or Not Met
	2008	2009	2010	2011	2012	Target	Actual	
Travel Time Reliability in Urban Areas as Measured by the Travel Time Index. (FHWA)	1.21	1.19	1.21	1.21	1.20(r)	1.21	1.21*	Potentially Met
Travel Time Reliability in Freight Significant Corridors. (FHWA)	14.4	13.8	13.7	13.8	13.9(r)	15	15	Met
Number of Corridor Programs That Will Achieve Initial Construction. (FRA)	N/A	N/A	N/A	N/A	3	1	1	Met
Number of Individual Construction Projects That Will Achieve Initial Construction. (FRA)	N/A	N/A	N/A	N/A	8	14	19	Met
Average Daily Airport Arrival and Departure Capacity at Core Airports. (FAA)	103,222	101,691	101,668	87,338	88,591	86,835	87,622*	Potentially Met
Percent of Operational Availability for the Reportable Facilities That Support Core Airports. (FAA)	99.82%	99.78%	99.79%	99.72%	99.8%	99.7%	99.74%	Met
Initial Operating Capability on ERAM at Continental U.S. En Route Centers. (FAA)	N/A	N/A	N/A	2	7	11	8	Not Met
Percent of Time the U.S. Portion of the St. Lawrence Seaway System and Locks Are Available. (SLSDC)	98.8%	99.4%	99.8%	99.0%	99.7%	99.1%		Met
Ships Available To Meet DOD's Requirements for Commercial Sealift Capacity (as Measured by the Number of Ships Contractually Enrolled in the Maritime Security Program). (MARAD)	60	59	60	60	60	60	60	Met

PERFORMANCE SUMMARY TABLES (continued)

ECONOMIC COMPETITIVENESS PERFORMANCE SUMMARY (continued)

Performance Measure	Actual					2013		2013 Target Met or Not Met
	2008	2009	2010	2011	2012	Target	Actual	
Operating Days in U.S. Foreign Commerce and Available To Meet DOD's Requirements (as Measured by the Number of Ship Operating Days That Ships Enrolled in the MSP Were Actually Operating in U.S. Foreign Commerce). (MARAD)	N/A	N/A	21,436	21,557	21,593	19,200	21,794	Met
Number of Twenty Foot Equivalent (TEU) Containers Transported Across America's Marine Highway Corridors. (MARAD)	N/A	N/A	N/A	1,061	8,221	15,000	9,498	Not Met
Number of U.S. Merchant Marine Academy (USMMA) Graduates. (MARAD)	219	198	198	205	219	210	201*	Potentially Met
Number of State Maritime Academy Graduates. (MARAD)	N/A	N/A	575	545	592(r)	600	630*	Potentially Met
Percent of NAS On-Time Arrivals at Core Airports. (FAA)	87.29%	88.98%	90.55%	90.41%	92.5%	88.0%	90.62%	Met
Review Air Carriers To Ensure They Meet the Requisite Standards for Obtaining or Retaining Economic Authority To Operate. (OST)	N/A	22	20	26	27	18	TBD**	Met
Reach New or Expanded Bilateral and Multilateral Agreements To Remove Market-Distorting Barriers to Trade in Transportation. (OST)	4	4	7	4	4	3	5	Met (2012)
Percent of Total Dollar Value of DOT Direct Contracts Awarded to Small, Disadvantaged Businesses. (OST)	16.19%	13.36%	14.0%	19.5%	18.5%(r)	15.0%	TBD**	Potentially Met (2012)
Percent of Total Dollar Value of DOT Direct Contracts Awarded to Women-Owned Businesses. (OST)	8.12%	10.94%	8.0%	11.1%	8.82%*	6.0%	TBD**	Potentially Met (2012)

Notes: (r) Revised. * Preliminary estimate. ** Results available in Jan. 2014 and reported in Annual Performance Report.

PERFORMANCE SUMMARY TABLES (continued)

LIVABLE COMMUNITIES PERFORMANCE SUMMARY

	Actual					2013		2013
Performance Measure	**2008**	**2009**	**2010**	**2011**	**2012**	**Target**	**Actual**	**Target Met or Not Met**
States With Policies That Improve Transportation Choices for Walking and Bicycling. (FHWA)	N/A	N/A	21	24	26	27	28	Met
States That Have Developed an Americans With Disabilities Act (ADA) Transition Plan That Is Current and Includes the Public Rights-of-Ways. (FHWA)	N/A	N/A	N/A	13	17	18(r)	23	Met
Number of Calendar Year Transit Boardings Reported by Urbanized Area Transit Providers. (FTA)	10.3 billion	9.9 billion	9.9 billion	10.1 billion	10.3 billion	10.1 billion	10.3 billion#	Potentially Met
Number of Transit Boardings Reported by Rural Area Transit Providers. (FTA)	128 million	131 million	138 million	144 million	135 million	144 million	TBD^	Not Met (2012)
Transit "Market Share" Among Commuters to Work in the 50 Most-Populous Urbanized Areas. (FTA)	N/A	N/A	0	1	TBD^(r)	4	TBD^	TBD^
Number of Key Rail Stations Verified as Accessible and Fully Compliant. (FTA)	N/A	N/A	N/A	513	522	531	567*	Potentially Met
Number of Intercity Rail Passenger-Miles Traveled. (FRA)	5.65 billion	6.16 billion	5.90 billion	6.33 billion	6.53 billion	6.60 billion	6.80 billion	Met
Percent of Intercity Passenger Rail Stations That Comply With the Requirements of the ADA. (FRA)	N/A	N/A	N/A	N/A	0%(r)	2%	0%	Not Met

Notes: (r) Revised. * Preliminary estimate. ** 2011 interim target developed prior to 2012–2016 Strategic Plan release. # Projection from trends. ^ 2013 actual available late 2014.

PERFORMANCE SUMMARY TABLES (continued)

ENVIRONMENTAL SUSTAINABILITY PERFORMANCE SUMMARY

Performance Measure	Actual					2013		2013 Target Met or Not Met
	2008	2009	2010	2011	2012	Target	Actual	
NAS Energy Efficiency (Measured by Fuel Burned per Miles Flown). (FAA)	(13.52%)	(14.03%)	(15.25%)	(14.50%)	(14.76%)	(16%)	(15.61%)	Not Met
U.S. Population Exposed to Significant Aircraft Noise Around Airports. (FAA)	383,465	291,768	317,596	315,293	319,901(r)	371,000	321,000	Met
Hazardous Liquid Pipeline Spills With Environmental Consequences. (PHMSA)	128	111	88	99	123(r)	94	119*	Potentially Not Met
Percent Reduction of Vehicle Fleet Petroleum Use. (OST)	8%	14%	5%	4.9%	14.5%	14%	TBD**	Met (2012)
Percent Improvement in Water Efficiency. (OST)	2%	3.3%	(1.2%)	(9.7%)	0.9%	10%	TBD**	Not Met (2012)
Percent Recycling and Waste Diversion. (OST)	N/A	N/A	N/A	+	11%(r)	8%	TBD**	Met (2012)
Percent of All Applicable Contracts That Meet Sustainability Requirements. (OST)	N/A	N/A	N/A	95%	95%	95%	TBD**	Met (2012)
Percent Reduction in Green-House Gas Emissions From Facilities and Fleets. (OST)	N/A	N/A	7.9%	15.4%	29%	7%	TBD**	Met (2012)
Cumulative Number of Ships (2010-2017) Safely Removed From the Suisun Bay Reserve Fleet for Disposal. (MARAD)	N/A	N/A	11	26	36	32	44	Met
Percent of Alternative-Fuel and Hybrid Vehicles in the Transit Revenue Service Fleet. (FTA)	42%	43%	44%	45%*	46%	46%	TBD^	Met (2012)

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

FINANCIAL HIGHLIGHTS

The financial statements and financial data presented in this report have been prepared from the accounting books and records of the U.S. Department of Transportation 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 2013, disaster relief authorizations raised funding levels for specific purposes as budget reductions from sequestration and expiring American Recovery and Reinvestment Act (ARRA) of 2009 monies acted to shrink broader fund availability. In January 2013, the Disaster Relief Appropriations Act of 2013 provided Department Operating Administrations with $13 billion (subject to a 5.1 percent sequestration reduction for nonexempt budgetary accounts) for Hurricane Sandy recovery, relief, and future resiliency efforts. The Department disbursed an additional $2.9 billion of previously obligated ARRA funding in FY 2013, down from $5.3 billion disbursed in FY 2012.

In FY 2012, the Airport and Airway Trust Fund (AAFT) and the Highway Trust Fund (HTF) were granted extensions of authority to collect excise taxes and to make expenditures. The FAA Modernization and Reform Act of 2012, Public Law (P.L.) 112-95, extended AATF authority through September 30, 2015. Moving Ahead for Progress in the 21st Century (MAP-21), P.L. 112-141, extended HTF authority through September 30, 2014. MAP-21 also infused HTF with $6.2 billion (less sequestration reductions of $316 million) in appropriations from Treasury's general fund during FY 2013.

OVERVIEW OF FINANCIAL POSITION

Assets

The Consolidated Balance Sheet reports total assets of $78.6 billion at the end of FY 2013 compared with $76.1 billion at the end of FY 2012. The Fund Balance with Treasury line item increased by $7.2 billion as a result of new disaster relief funding. Investments decreased by $6.5 billion, as an $8 billion decrease in the HTF investment balance from falling excise tax collections and higher State highway project expenditures was partially offset by a $1.4 billion increase in the AATF investment balance from rising excise tax collections and lower expenditures.

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

ASSETS BY TYPE

Dollars in Thousands	2013	%	2012	%
Fund Balance With Treasury	$40,581,338	51.7	$33,356,274	43.8
Investments	15,820,956	20.1	22,330,652	29.4
General Property, Plant & Equipment	14,002,887	17.8	14,030,366	18.4
Direct Loans and Guarantees, Net	6,877,433	8.8	5,022,807	6.6
Inventory and Related Property, Net	879,595	1.1	857,891	1.1
Accounts Receivable	266,276	0.3	271,457	0.4
Cash and Other Assets	142,646	0.2	239,348	0.3
Total Assets	**$78,571,131**	**100.0**	**$76,108,795**	**100.0**

Liabilities

The Department's Consolidated Balance Sheet reports total liabilities of $19.6 billion at the end of FY 2013, as summarized in the table below. This number represents a $1.6 billion increase from the previous year's total liabilities of $18 billion. The largest increase was to the Debt line item as the Department borrowed from Treasury to disburse $1.7 billion in new loans made through the Transportation Infrastructure Finance and Innovation Act (TIFIA) program.

LIABILITIES BY TYPE

Dollars in Thousands	2013	%	2012	%
Debt	$6,958,855	35.4	$5,193,598	28.8
Grant Accrual	6,593,732	33.6	6,315,689	35
Other Liabilities	3,403,304	17.3	3,660,118	20.3
Federal Employee Benefits Payable	1,048,503	5.3	1,019,076	5.6
Environmental and Disposal Liabilities	919,195	4.7	1,010,818	5.6
Accounts Payable	546,295	2.8	643,997	3.6
Loan Guarantees	176,134	0.9	192,829	1.1
Total Liabilities	**$19,646,018**	**100.0**	**$18,036,125**	**100.0**

Net Position

The Department's Consolidated Balance Sheet and Consolidated Statement of Changes in Net Position report a Net Position of $58.9 billion at the end of FY 2013, a 1.5 percent increase from the $58 billion from the previous fiscal year. The slight increase is mainly attributable to new emergency relief efforts. Net Position is the sum of Unexpended Appropriations and Cumulative Results of Operations.

RESULTS OF OPERATIONS

Net Costs

The Department's total net cost of operations for FY 2013 was $77 billion. Surface and air costs represent 98.5 percent of the Department's net cost of operations. The Surface Transportation line item represents the largest investment for the Department at 77.6 percent of the Department's net cost of operations. The Air Transportation line item is the next largest investment for the Department at 20.9 percent of total net cost of operations.

NET COSTS

Dollars in Thousands	2013	%	2012	%
Surface Transportation	$59,782,379	77.6	$59,762,698	77.6
Air Transportation	16,084,567	20.9	16,004,333	20.8
Maritime Transportation	337,691	0.4	493,519	0.6
Cross-Cutting Programs	393,251	0.5	391,458	0.5
Costs Not Assigned to Programs	436,442	0.6	384,545	0.5
Net Cost of Operations	**$77,034,330**	**100.0**	**$77,036,553**	**100.0**

RESOURCES

Budgetary Resources

The Combined Statement of Budgetary Resources provides information on how budgetary resources were made available to the Department for the year and their status at fiscal year end. For the 2013 fiscal year, the Department had Total Budgetary Resources of $147.6 billion, which represents a 10 percent increase from FY 2012 levels of $134.1 billion. Budget Authority of $147.6 billion consisted of $48.5 billion in unobligated authority carried over from prior years, $35.6 billion in appropriations, $55.7 billion in borrowing and contract authority, and $7.8 billion in spending authority from offsetting collections. The Department's FY 2013 Obligations Incurred totaled $90.9 billion compared with FY 2012 Obligations Incurred of $86.6 billion.

Net Outlays reflect the actual cash disbursed against previously established obligations. For FY 2013, the Department had Net Outlays of $78.1 billion compared with FY 2012 levels of $76 billion, an increase of 2.8 percent. Disbursements have begun to increase as new emergency relief activities are undertaken.

RESOURCES

Dollars in Thousands	2013	2012	% (Decrease)
Total Budgetary Resources	$147,578,744	$134,107,279	10.0
Obligations Incurred	90,865,064	86,554,746	5.0
Net Outlays	78,122,743	75,973,821	2.8

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, museum, and other collections are those of the Maritime Administration. Buildings and structures include Union Station (rail station) in Washington, D.C., which is titled to the Federal Railroad Administration.

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

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

LIMITATIONS OF THE FINANCIAL STATEMENTS

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

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

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

FY 2013 FMFIA ASSURANCE LETTER TO THE PRESIDENT

THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

The President
The White House
Washington, DC 20500

Dear Mr. President:

I am pleased to report on the effectiveness of the internal controls and financial management systems for the U.S. Department of Transportation (DOT) during Fiscal Year (FY) 2013. This report is based on our successful implementation of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and the Office of Management and Budget (OMB) Circular A-123, Appendix A, *Management's Responsibility for Internal Control*.

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

The DOT is able to provide reasonable assurance that the internal controls and financial management systems in effect during the period of October 1, 2012, through September 30, 2013, met the objectives of both Sections 2 and 4 of the FMFIA, except for one material weaknesses related to compliance with the Federal Information Security Management Act (FISMA). During FY 2013, DOT conducted its assessment of internal controls and compliance with applicable laws and regulations in accordance with OMB Circular A-123.

FISMA Compliance

The Departmental Cybersecurity and Information Assurance program was identified as improved, but not as effective as it should be in the FY 2012 FISMA assessment performed by the Office of Inspector General (OIG). Compliance with FISMA was highlighted as a material weakness in DOT's Statement of Assurance accompanying the FY 2012 Agency Financial Report. The OIG issued five recommendations, in addition to the recommendations that remained open from previous OIG FISMA reports.

During 2013, DOT continued execution of improvements in cybersecurity, submitting evidence for 26 of the 27 recommendations, and successfully closing 13 recommendations. While DOT made progress on the Administration's Cyber Cross Agency Priority (CAP) Goals, increasing required usage of PIV cards for network access from zero percent to seven percent of Agency personnel, increasing continuous diagnostic and monitoring to 57 percent of Agency computers, and increasing compliance with Trusted Internet Connection capabilities from 62 percent to 72 percent, Information Assurance remains a material weakness.

The DOT CIO is continuing corrective action and advancement of the Department's program through its established weakness management processes, and tracking progress with its risk management system and via regular status updates. In addition to continued implementation of Administration CAP goal initiatives, DOT's plan for further remediation in the coming year will address the following key areas and capabilities:

- Deploying strong authentication and data protection for secure remote access;
- Continuing improvements to oversight of component-level program implementations;
- Increasing cybersituational awareness and improving incident response processes;
- Enhancing risk assessment and management guidance and processes; and
- Significant progress in closing remaining open audit recommendations.

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

During FY 2013, DOT conducted an assessment of the effectiveness of internal controls over financial reporting, including safeguarding of assets and compliance with applicable laws and regulations in accordance with the requirements of OMB Circular A-123, Appendix A. During FY 2013, DOT assessed and tested controls over key business processes, including Cost Accounting; Credit Reform and Loans; Environmental Liabilities; Financial Reporting; and Revenue and Receivables.

The major Appendix A activities in FY 2013 included evaluating entity level, process level, and testing at the transaction level of internal controls over financial reporting for the five identified business processes.

Based on the results of this Appendix A review, DOT can provide reasonable assurance that its internal control over financial reporting was operating effectively.

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

During FY 2013, DOT's Travel and Purchase Card programs were reviewed by the OIG. The DOT has responded to the OIG's recommendations for the Purchase Card program and will respond to OIG's recommendations for the Travel Card program once the review is complete.

The Department can provide reasonable assurance that the appropriate policies and controls are in place to mitigate the risk of fraud and inappropriate charge card practices.

FY 2013 FMFIA ASSURANCE LETTER TO THE PRESIDENT (continued)

Federal Financial Management Improvement Act (FFMIA)

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

Based on the results of the Financial Statement Audit, FMFIA, and FISMA reviews, the DOT can provide reasonable assurance that the Department implemented and maintained financial management systems that substantially comply with Federal financial management systems requirements, standards promulgated by Federal Accounting Standards Advisory Board, and the United States Government Standard General Ledger at the transaction level.

FMFIA Internal Control Program

For FY 2013, DOT utilized its standardized and consistent FMFIA Internal Control Program approach for managing control and compliance activities. The DOT identified and documented meaningful Components and Assessable Units (AU). Inherent risk assessments were conducted to classify and prioritize each AU. Management Control Reviews, leveraging the five standards of internal controls, as prescribed by the Committee of Sponsoring Organizations of the Treadway Commission and the U.S. Government Accountability Office, were conducted to identify, assess, document, and communicate key management and programmatic internal controls and related risks or weaknesses.

As a result of our FMFIA reviews in FY 2013, I conclude that the Department has made substantial progress in enhancing its internal controls and financial management program. Additional enhancements are planned and underway in FY 2014.

Sincerely,

Anthony R. Foxx

SYSTEM, CONTROLS, AND LEGAL COMPLIANCE

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

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

The Secretary of Transportation provided the President and Congress a Statement of Assurance for the fiscal year ended September 30, 2013, stating the Department of Transportation (DOT) is able to provide reasonable assurance its controls and systems met the objectives of the FMFIA, except for one material weakness related to compliance with the Federal Information Security Management Act (FISMA).

As a subset of the FMFIA Statement of Assurance, DOT is required to:

1. Provide a certification that the appropriate policies and controls are in place or that corrective actions have been taken to mitigate the risk of fraud and inappropriate charge card practices.
2. Report on the effectiveness of internal control over financial reporting, which includes safeguarding assets and complying with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123.

A separate discussion on Appendix A is included 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

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

Managers within DOT, being in the best position to understand the nature of the problems they face, establish appropriate control mechanisms to ensure Departmental resources are sufficiently protected from fraud, waste, and abuse, and to meet the intent and requirements of the FMFIA. The head of each Operating Administration (OA) and Departmental office submits an annual statement of assurance representing the overall adequacy and effectiveness of management controls within the organization to the DOT Office of Financial Management. Any identified FMFIA material weaknesses and material nonconformances are also reported, as well as milestones established to resolve the challenges and/or accomplishments achieved. Specific guidance for completing the self-assessment and end-of-fiscal-year assurance statement and reporting on deficiencies is issued annually by the DOT Office of Financial Management.

CRITERIA FOR REPORTING MATERIAL WEAKNESSES AND NONCONFORMANCES

A material weakness under the FMFIA must fall into one or more of the categories below plus merit the attention of the Executive Office of the President and/or the relevant congressional oversight committees.

Criteria for Reporting a Material Weakness

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

A material nonconformance under the FMFIA must fall into one or more of the categories below plus merit the attention of the Executive Office of the President or the relevant congressional oversight committees.

Criteria for Reporting a Material Nonconformance

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

FY 2013 FMFIA MATERIAL WEAKNESSES

Status of Internal Controls (FMFIA Section 2)

DOT is reporting one material weakness in FY 2013 related to compliance with the FISMA. The FISMA noncompliance material weakness was also reported in FY 2010, FY 2011, and FY 2012. Senior management and DOT's Chief Information Officer have been collaborating and monitoring corrective actions. Although progress was made in FY 2011, FY 2012 and FY 2013, the same conditions substantially existed during FY 2013.

APPENDIX A, INTERNAL CONTROLS OVER FINANCIAL REPORTING

Appendix A of OMB Circular A-123 emphasizes management's responsibility for establishing and maintaining effective internal control over financial reporting. Appendix A requires agencies to maintain documentation of the controls in place and of the assessment process and methodology management used to support its assertion as to the effectiveness of internal control over financial reporting. Agencies are also required to test the controls in place as part of the overall FMFIA assessment process. The assurance statement related to the assessment performed under Appendix A acts as a subset of the Overall Statement of Assurance reported pursuant to Section 2 of the FMFIA legislation. Management's assurance statement, as it relates to Appendix A, is based on the controls in place as of June 30. The assurance statement is located in the following section of this report.

DOT performed in-depth testing of the controls over five focus area business processes for the applicable OAs, including Cost Accounting, Credit Reform and Loans, Environmental Liabilities, Financial Reporting, and Revenue and Receivables.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)

The Secretary has determined that our financial management systems were in compliance with the Federal Financial Management Improvement Act of 1996 for FY 2013. The FFMIA requires that agencies' financial management systems routinely provide reliable and timely financial information for managing day-to-day operations as well as to produce reliable financial statements, maintain effective internal control, and comply with legal and regulatory requirements. Under FFMIA, financial management systems must substantially comply with three requirements: Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger (SGL) at the transaction level. In addition, CFO Act agencies must determine annually whether their systems meet these requirements. This determination is to be made no later than 120 days after the earlier of (a) the date of receipt of the agency wide audited financial statement, or (b) the last day of the fiscal year following the year covered by such statement.

Management conducted its assessment of the effectiveness of internal controls over financial systems and compliance with applicable laws and regulations in accordance with the Federal Managers' Financial Integrity Act (FMFIA) of 1982 guidance, and the requirements of OMB Circular A-123, Management's Responsibility for Internal Control, and Circular A-127, Financial Management Systems.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT (FISMA)

The Federal Information Security Management Act requires Federal agencies to identify and provide security protection commensurate with the risk and magnitude of potential harm resulting from the loss, misuse of, unauthorized access to, disclosure of, disruption to, or modification of information collected to be maintained by or on behalf of the agency. FISMA also requires that each agency report annually on the adequacy and effectiveness of information security policies, procedures, and practices, and on FISMA compliance. OMB further requires that agency heads submit a signed letter that provides a comprehensive overview of these areas. This report and signed letter were delivered to OMB November 22, 2013. In addition, FISMA requires that agencies have an independent evaluation performed of agency information security programs and practices. At the Department of Transportation (DOT), this annual evaluation is performed by the Office of the Inspector General (OIG). This year's FY 2013 annual FISMA report was finalized on November 22, 2013, as required by OMB and the Department of Homeland Security (DHS).

DOT has 13 Operating Administrations that for FY 2013 operated a total of 437 information systems, an increase of 6 systems over the FY 2012 adjusted inventory, of which 297 belong to the Federal Aviation Administration (FAA). The 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 more than $78 billion in Federal funds each year.

DOT's cyber security program continues to have deficiencies in its enterprise and systems controls. DOT specifically needs to make progress in critical areas, such as improving specialized security training; improving oversight of configuration management; improving detection, reporting, and remediation of security incidents; improving oversight of cloud computing; and continuing to improve the Department's weakness management and remediation processes. Also required is continued progress on remaining open recommendations.

As part of its commitment to improve the agency's security posture, DOT made improvements during 2013 through the issuance of new guidance on continuous monitoring, security authorization, and risk management. DOT also made progress on Administration cyber security priority goals, including committing to participation in the DHS Continuous Diagnostics and Monitoring (CDM) program; increasing continuous monitoring capabilities across 57 percent of agency assets; improving implementation of Trusted Internet Connection capabilities from 62 to 72 percent; and increasing required use of Personal Identification Verification cards to securely access DOT networks from 0 to 7 percent in the span of a single quarter. DOT has also submitted evidence for and requested closure of 26 of 27 audit recommendations. The full FY 2013 FISMA report is available at www.oig.dot.gov.

SSAE-16 REVIEW ON DOT SYSTEMS

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

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

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

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 and Futures Trading Commission, the Institute of Museum and Library Services, the National Credit Union Association, 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 audit report in accordance with the American Institute of Certified Public Accountants (AICPA) SSAE-16.

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

INSPECTOR GENERAL'S FY 2013 TOP MANAGEMENT CHALLENGES

DEPARTMENT OF TRANSPORTATION OFFICE OF INSPECTOR GENERAL APPROACH

The Office of Inspector General (OIG) issues an annual report on the Department of Transportation's top management challenges to provide a forward-looking assessment for the coming fiscal year. The Reports Consolidation Act of 2000 requires the OIG to identify and summarize the most significant management challenges facing the Department in FY 2013.

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

For FY 2013, the OIG identified the following nine significant challenges:

- Ensuring the Next Generation Air Transportation System Advances Safety and Air Travel
- Enhancing FAA's Oversight and Use of Data To Identify and Mitigate Safety Risks
- Overseeing Administration of Key Transportation Assets To Ensure Their Success and Sustainability
- Strengthening Existing Surface Safety Programs and Effectively Implementing New Safety Requirements
- Maximizing Surface Infrastructure Investments With Effective Program Oversight and Execution of New Legislative Requirements
- Adequately Overseeing Administration of High-Speed Intercity Passenger Rail Grant Funds
- Strengthening Financial Management Over Grants To Better Use Funds, Create Jobs, and Improve Infrastructure
- Ensuring Effective Management of DOT's Acquisitions To Maximize Value and Program Performance
- Managing and Securing Information Systems To Efficiently Modernize Technology Infrastructure and Protect Sensitive Data From Compromise

The management challenges will be further discussed in the DOT Annual Performance Report to be issued in February 2014 and to be located on DOT's Web site.

http://www.dot.gov/budget

The significant challenges identified by the OIG for FY 2014 will be discussed in the Other Information of this report.

FINANCIAL REPORT

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

SYLVIA I. GARCIA

I am pleased to issue the Department of Transportation's (DOT) Fiscal Year 2013 Agency Financial Report (AFR). In addition to this information, DOT is preparing our Annual Performance Report, which will be published in 2014. For the accompanying AFR, we highlight our efforts during 2013 in several financial management areas. We had a positive year, with progress modernizing our financial systems, a successful financial audit, and continuing success in promoting efficient spending.

ANNUAL FINANCIAL AUDIT

During 2013, we continued our emphasis on improved financial management, which contributed substantially to another unmodified audit opinion – DOT's twelfth in the last thirteen years. During 2013, DOT received over $13 billion in supplemental appropriations to assist in Hurricane Sandy relief efforts. DOT conformed with the guidance set forth for rapid deployment of these funds, while maintaining appropriate internal controls over this spending.

A material weakness from the Department's 2012 audit associated with the oversight and proper recording of Undelivered Orders (UDOs) was downgraded in 2013. UDOs are budget obligations that have not yet been fully liquidated by making a payment. Since the initial finding of UDOs as an issue, DOT has made significant progress in remediating this condition.

Our annual financial audit in 2013 provided a useful independent review of our system of controls. This process annually highlights some issues that need improvement and also keeps the Department disciplined in maintaining adequate internal controls over accounting and recording processes. Consideration of these annual audit results remains an important component of our efforts to strengthen our safeguards and stewardship of taxpayer dollars.

FINANCIAL SYSTEMS MODERNIZATION

In 2013, the Department, the Enterprise Services Center, and DOT's Operating Administrations continued critical work needed to modernize our core accounting system. DOT is in the final stages of upgrading the current version of the accounting system to Oracle Federal Financials Release 12. There are several benefits of Release 12, to include premium product support, avoidance of IT risk exposure, improved reconciliations, and the automation of prior year recoveries. During 2013, DOT completed retrofitting all its customized business processes and reports in the Release 12 format. We also completed three out of four system integration tests and anticipate deployment of Release 12 during 2014.

Further, as part of our system modernization efforts, the core accounting system was prepared to accept a significant change in the way we report trial balances. The Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) replaces the functionality of several prior Treasury systems as the primary means of reporting agency trial balance data. A single data collection system will pave the way for more consistent and complete financial data and will allow for better analytical reporting. Our work in 2013 provided the needed basis to accommodate GTAS as we move to Release 12.

DO NOT PAY INITIATIVE

During 2013, we continued to make progress in implementing our plan for using the Department of Treasury's centralized source for validating Federal award eligibility—Do Not Pay—which complies with the Improper Payments Elimination and Recovery Improvement Act (IPERIA). By utilizing Treasury's Do Not Pay solution, we are able to review databases such as the Social Security Administration's (SSA) Death Master File (DMF) and the System for Award Management/Excluded Parties List System (SAM/EPLS). These reviews prevent improper payments by verifying recipient eligibility before releasing Federal funds.

We have worked diligently with the Treasury to format and test sample batch files that compare scheduled payments to Do Not Pay sources of data that are flagged for potential improper payments. In 2013, we initiated a review process for scheduled payments, as well as payments made by Treasury's Fiscal Service, to ensure that none of these disbursements have been improperly paid to excluded parties or deceased individuals. The initial phases of implementing these new protocols have been successful.

PROMOTING EFFICIENT SPENDING

In 2013, DOT took a number of aggressive measures to strengthen the oversight and internal controls over federal spending on conferences, workshops, and related gatherings. By the time OMB issued Memorandum M-12-12, "Promoting Efficient Spending to Support Agency Operations," DOT was well-positioned to implement the new requirements relating to conference spending. DOT proactively issued a policy requiring all Operating Administrations to establish internal controls procedures for using federal funds on conferences. The Policy also required monthly reporting of conference activity and the approval of all events by the Agency Administrator. All conferences exceeding $100,000 were further scrutinized and approved by the Deputy Secretary (as required by OMB Memorandum M-12-12). During 2013, these measures have ensured that top DOT executives are directly involved in the oversight of conference spending.

This past year included improvements and progress on many fronts in the financial management area. Looking ahead for 2014, we will continue to manage a sound internal controls program for the Department that focuses on proactively identifying risks and improving our system of internal controls to meet these challenges. In the coming year, we expect additional progress in modernizing our financial systems. We will build on our achievements and manage a strong program that supports the Department's critical investments.

Sylvia I. Garcia

Sylvia I. Garcia

OFFICE OF INSPECTOR GENERAL QUALITY CONTROL REVIEW

Memorandum

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

Subject: **ACTION**: Quality Control Review of Audited Consolidated Financial Statements for Fiscal Years 2013 and 2012, Department of Transportation
Report Number: QC-2014-015

Date: December 16, 2013

From: Calvin L. Scovel III
Inspector General

C. L. Scovel III

To: The Secretary

We respectfully submit our report on the quality control review (QCR) of the Department of Transportation's (DOT) audited financial statements for fiscal years 2013 and 2012.

The audit of DOT's consolidated financial statements, as of and for the years ended September 30, 2013, and September 30, 2012, was completed by KPMG LLP, of Washington, DC (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 14–02, "Audit Requirements for Federal Financial Statements."

KPMG LLP concluded that the financial statements present fairly, in all material respects, DOT's financial position as of September 30, 2013, and September 30, 2012, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP's Fiscal Year 2013 Audit Report

KPMG LLP reported three significant deficiencies in internal control over financial reporting. In addition, KPMG LLP reported instances of noncompliance with laws and regulations.

Significant Deficiencies

1. **Lack of Sufficient Controls over Undelivered Orders** – DOT had potential misstatements in undelivered orders as of September 30, 2013 of approximately $407 million and $111 million for grant and non-grant related undelivered orders, respectively. Inadequate and/or inconsistent application of policies contributed to these misstatements. This finding was identified by KPMG LLP as a material weakness in fiscal year 2012. Since then, DOT initiated corrective actions that included deobligating approximately $2.1 billion of grant agreements and revising criteria for reviewing inactive projects. As a result, KPMG LLP no longer considers this significant deficiency to be a material weakness.

2. **Lack of Sufficient Controls over Unfilled Customer Orders Without Advance Funding** – The Federal Highway Administration (FHWA) did not properly record transactions pertaining to unfilled customer orders (UCO) for which the Agency did not receive advance funding. The Department's financial systems cannot produce a report with the amount of detail needed for adequately reviewing and monitoring open UCOs and determining whether the balance is complete and accurate. As a result, UCOs that the Agency did not obtain advances for are potentially overstated.

3. **Reliability of Audit Evidence** – On more than one occasion, Federal Transit Administration (FTA) management did not provide the auditors with timely, accurate, reliable, or valid responses to their requests. For example, FTA management could not provide reliable evidence that its personnel reviewed the Financial Management System's daily audit logs. Such reviews are necessary to identify processing errors that may need investigation. FTA lacks organizational policies and procedures to ensure appropriate responses are provided to auditor requests in accordance with Federal and DOT requirements regarding access to audit evidence. FTA's non-adherence to these requirements increases the risk of compromising the integrity and availability of audit evidence.

Noncompliance with Laws and Regulations

Noncompliance with the Anti-Deficiency Act – From fiscal years 2005 through 2010, the Federal Motor Carrier Safety Administration (FMCSA) committed multiple anti-deficiency violations. Likewise, during fiscal year 2010, FHWA also committed three anti-deficiency violations. On April 29, 2013, DOT reported the FMCSA and FHWA violations to the President, U.S. Senate, U.S. Congress, and OMB, as required by the Anti-Deficiency Act. Furthermore, pending additional review, the Federal Railroad Administration

(FRA) may have committed anti-deficiency violations during fiscal year 2013 by obligating $1.24 million prior to OMB's apportionment approval. While FRA's investigation continues, FRA management has indicated that corrective action is already underway to strengthen the process and controls governing fund administration.

We performed a QCR of KPMG LLP's report and related documentation. Our QCR, as differentiated from an audit performed in accordance with generally accepted Government auditing standards, was not intended for us to express, and we do not express an opinion on DOT's financial statements or conclusions about the effectiveness of internal controls or compliance with laws and regulations. KPMG LLP is responsible for its report dated December 12, 2013, and the conclusions expressed in that report. However, our QCR disclosed no instances in which KPMG LLP did not comply, in all material respects, with generally accepted Government auditing standards.

KPMG LLP made 15 recommendations to strengthen DOT's financial, accounting, and system controls. DOT officials concurred with KPMG LLP's recommendations. The Department also committed to submitting to OIG, by December 31, 2013, a detailed action plan to address the findings contained in the KPMG LLP'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 LLP. If you have any questions, please contact me at x61959, or Lou E. Dixon, Principal Assistant Inspector General for Auditing and Evaluation, at x61427.

Attachment

OFFICE OF INSPECTOR GENERAL QUALITY CONTROL REVIEW (continued)

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

Assistant Secretary for Budget and Programs and Chief Financial Officer

1200 New Jersey Avenue, SE
Washington, DC 20590

DEC 12 2013

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

M. Hannah Padilla
Partner, KPMG LLP

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

SUBJECT: Management's Response to the Audit Report on the Consolidated Financial Statements for Fiscal Years (FY) 2013

The Department of Transportation (DOT) is pleased to respond to the unmodified audit report on our Consolidated Financial Statements for FY 2013. 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 three significant deficiencies contained in your report on internal controls over financial reporting, and with one instance 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, 2013, 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.

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, 2013 and 2012 and the related consolidated statements of net cost, and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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, 2013 and 2012, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Notes 1 and 19, the consolidated financial statements reflect actual excise tax revenues deposited in the Highway Trust Fund and the Airport and Airway Trust Fund through June 30, 2013, and excise tax receipts estimated by the Department of Treasury's Office of Tax Analysis for the quarter ended September 30, 2013. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control, described in Exhibit I, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the DOT's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 14-02, and which are described in Exhibit II.

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 no instances in which the Department's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

Department's Responses to Findings

The Department's responses to the findings identified in our audit 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

December 12, 2013

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

EXHIBIT I
SIGNIFICANT DEFICIENCIES

A. Lack of Sufficient Controls over Undelivered Orders

Criteria

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

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

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

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

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

Each operating administration (OA) is responsible for developing and implementing these policies and procedures. In particular, the Federal Highway Administration (FHWA)'s Financial Integrity Review and Evaluation (FIRE) Program, defined by 23 CFR 630.106(a) requires states to review inactive projects in the grant management system (Financial Management Information System (FMIS)) and revise funds obligated, if necessary.

The Federal Transit Administration (FTA)'s obligation monitoring controls include a quarterly review of grantees' milestone progress reports and an annual review of grants obligated more than 3 years ago that have not had a disbursement within 12 months.

Background

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

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Once an obligation is satisfied and/or no longer required, funds are required to be de-obligated, which reduces the balance of undelivered orders and potentially releases the funds for other uses. As of September 30, 2013, the DOT reported $90.9 billion in obligations.

Effective in FY2013, FHWA increased the training provided to grant management personnel as well as revised the policies and procedures of the FIRE Program to require the review of projects based on the following tiers:

(i) Projects inactive for the past 12 months with unexpended balances more than $200,000
(ii) Projects inactive for the past 18 months with unexpended balances of $50,000 to $200,000
(iii) Projects inactive for the past 36 months with unexpended balances of less than $50,000

Condition

We noted a control deficiency in the monitoring of grant and non-grant undelivered orders, particularly those obligations that were aged over one year and had no recent activity (aged undelivered orders). The following conditions were identified during our audit:

1. As of March 31, 2013:
   - During our review of a statistical sample of 256 items, totaling $3.7 billion from a total of $9.6 billion of aged grant related undelivered orders, we noted that for 19 items, totaling $6.9 million, the related grant agreements' period of performance had either ended and/or the project funded by the grant was completed; however, the unused obligations for these items were not properly de-obligated by management.
   - In addition, during our review of a statistical sample of 20 items, totaling $1.15 billion from a total of $1.5 billion of aged non-grant related undelivered orders, we noted that for 6 items, totaling $5.1 million, the related contracts/agreements had ended; however, the unused balances for these items were not properly de-obligated by management.

2. As of September 30, 2013:
   - During our review of a statistical sample of 99 items, totaling $1.3 billion from a total of $4.4 billion of aged grant related undelivered orders, we noted that for 6 items, totaling $3.9 million, the related grant agreements' period of performance had either ended and/or the project funded by the grant was completed; however, the unused obligations for these items were not properly de-obligated by management.

Cause

DOT has inadequate policies and/or does not consistently apply its policy of timely review and de-obligation of open obligations.

Specifically, the revised FHWA FIRE tier review is not operating effectively to identify all unused obligation balances that should be de-obligated and to de-obligate those funds that are found to be stale, in a timely manner. In addition, the FHWA FIRE tier review is performed over a listing of obligations generated from FMIS. Therefore, projects closed and de-obligated in FMIS, but not the general ledger, are not included in this review.

In addition, the Federal Transit Administration (FTA)'s obligation monitoring controls, including the quarterly review of grantees' milestone progress reports and the revised annual review of grants obligated more than 3 years ago that have not had a disbursement within 12 months, are not designed at an appropriate level of precision to timely identify and de-obligate unused obligation balances.

Effect

Undelivered orders were potentially overstated as of September 30, 2013 by approximately $407 million and $111 million for grant and non-grant related undelivered orders, respectively. Furthermore, the lack of adequate processes to review undelivered orders increases the risk that errors may occur and not be detected.

Recommendations

We recommend that DOT strengthen its policies and controls for review and monitoring of grant obligations by performing the following:

1. Develop a department-wide requirement for the periodic operating administration certification of the open obligation balance that is inactive for twelve or more months (validity);
2. Continue to provide department-wide training related to grants management, including the monitoring and close-out process;
3. Require that FHWA emphasize the timely review and de-obligation of stale obligations in accordance with the revised Financial Integrity Review and Evaluation (FIRE) program; and
4. Require that FTA review their processes for monitoring obligations in order to more timely identify and de-obligate stale obligations.

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

Criteria

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

Statements of Federal Financial Accounting Standards (SFFAS) No. 7: *Accounting for Revenue and Other Financing Sources*, paragraph 78 states:

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

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Per OMB Circular A-11, Section 130, *Economy Act Activities Between Federal Entities:*

If the ordering agency account has…	And the performing agency account…	Then the performing agency account must…	Should the performing agency account Treasury Account Fund Symbol (TAFS) show unobligated balances on the September 30th Standard Form (SF) 133?
No-year TAFS	Has no-year TAFS	Use existing no-year TAFS	Yes, unless otherwise specified in the unfilled customer order. The amount will become part of line 1000 in the next fiscal year.

FHWA Policies and Procedures *Reconciliation of Reimbursable Authority* states:

> Fund 15X015P633:
>
> This fund is used by the Federal Lands Highway (FLH) Division offices to pay non-GOE payroll expenditures. This is used as a temporary holding account until payroll expenditures can be charged out to the appropriate project or overhead account via an interface program in the Accounts Payable module. This process takes place every three weeks, or as the file is available for download, and should clear all expenditures after the interface process, leaving a zero balance. Business Intelligence (BI) reports will be developed to monitor this fund on a monthly basis to ensure full recovery at year-end.
>
> It is conceivable that one pay period will remain in the fund at year-end due to timing of system and data availability to complete this interface process. After the last payroll has been interface into the accounting system in September of each year, the FLH Financial Team will work with each Division Financial Management to determine the accrual amount. This accrual will be based on the under-recovered balance in this fund and will be entered as a JV by the ESC.
>
> The Budget Office will enter closing entries to close this fund out at year-end.

Background

Unfilled customer orders (UCOs) without advance are the total amount of unearned reimbursable orders accepted without advance funding for goods and/or services to be furnished for other Federal Government agencies and for the public, if permitted by law. Budgetary transactions should be properly recorded, properly classified, and accounted for in order to prepare timely and reliable reports.

Condition

We selected a statistical sample of 12 items from the population of UCOs without advance as of August 31, 2013, and noted the following during our testing:

1. For 1 of the items selected, the full amount of the reimbursable agreement, $180 million, was not properly recorded. As of August 31, 2013, only $142.6 million of the $180 million was recorded, resulting in an understatement of $37.4 million. Additionally, the related project had expenditures totaling $4.1 million as of August 31, 2013; however, only $2.8 million of the corresponding

revenue was recognized against the related UCO resulting in an overstatement of $1.3 million. The net balance of this UCO is understated by $36.1 million.

2. For 1 of the items selected, the related project had expenditures totaling $1.9 million as of August 31, 2013; however, $2.2 million of corresponding revenue was recognized against the UCO. The net balance of this UCO is understated by $300 thousand.
3. For 1 of the items selected, the purpose of the transaction selected was to record the current year funding related to multiple reimbursable agreements. This funding was for the carryover of reimbursable authority for prior year agreements; however, FHWA failed to record the reduction of the UCO balance in the prior year. The reestablishment of the current year funding resulted in the double counting of these monies, resulting in a $29.4 million overstatement to the corresponding UCOs.
4. For 1 of the items selected, the transaction selected was to record the allotment of payroll, which should have been recovered through the payroll labor distribution process. The balance in this fund should have been cleared through the labor distribution process. As of September 30, 2013, the balance in this fund was $88.9 million which overstated the UCO balance for the corresponding fund.

Cause

DOT cannot produce a report that reflects all open UCOs by agreement number as of the period-end date. As such, DOT does not have adequate controls over the review and monitoring of open UCOs, at the appropriate level of precision, to determine if the balance is complete, accurate, and valid.

DOT incurs reimbursable expenditures related to open UCOs and does not timely recognize the reimbursable revenue. DOT does not have adequate controls to detect and timely correct discrepancies between reimbursable expenditures and reimbursable revenue, at the agreement level.

DOT recorded the UCO for a reimbursable agreement based on the amount of anticipated expenditures in an effort to reduce the amount of unobligated reimbursable authority at year-end, instead of recording the UCO for the full amount of the agreement.

Effect

As of August 31, 2013, the Department's unfilled customer orders without advance may be overstated by approximately $192 million.

Recommendations

We recommend that DOT:

1. Develop a report that reflects a complete population of open UCO balances, by agreement number, as of a period-end date;
2. Implement policies and procedures, whereby the DOT OAs, with material unfilled customer order balances, monitor and review its open UCO balances using the above report for completeness, accuracy, and validity;
3. Perform a reconciliation of reimbursable expenditures to reimbursable revenue, at the agreement level, to ensure reimbursable revenue is properly recognized in the appropriate accounting period and all material reconciling items are investigated;

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4. Provide training on the execution, monitoring and reporting of UCOs in accordance with the newly established policies and procedures;
5. Follow the established policies and procedures and finish development of a BI report to monitor Fund 15X015P633 monthly. In addition, record any necessary year-end accrual and adjusting entries to ensure the full cost recovery program reports a zero balance at year-end.

C. Reliability of Audit Evidence

Criteria

The Department of Transportation (DOT) Cyber Security Compendium dated June 14, 2011, Policy states: Policy ID DOT-AU-6: DOT components must:

a. Review and analyze information system audit records per frequency established by a risk based decision and documented in the System Security Plan (SSP) for indications of inappropriate or unusual activity, and report findings to designated officials; and
b. Adjust the level of audit review, analysis, and reporting within the information system when there is a change in risk to operations, assets, individuals, other organizations, or the Nation based on law enforcement information, intelligence information, or other credible sources of information".

The Federal Information System Controls Audit Manual (FISCAM) states:

AC-5.3.1. Security violations and activities, including failed logon attempts, other failed access attempts, and sensitivity activity, are reported and investigated.

AC-5.3.2. Security managers investigate security violations and suspicious activities and report results to appropriate supervisory and management personnel.

National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Rev 3 states:

AU-6 Audit Review, Analysis and Reporting – the organization:

a. Reviews and analyzes information system audit records for indications of inappropriate or unusual activity, and reports findings to designated organizational officials; and
b. Adjusts the level of audit review, analysis, and reporting within the information system when there is a change in risk to organizational operations, organizational assets, individuals, other organizations, or the Nation based on law enforcement.

DOT Order 8000.6B states:

e. Access to Records/Personnel. During the course of the audit work, OIG is authorized to request the OA to provide access to official Government records, paper and electronic documents, and personnel with information that relate to programs and operations of DOT.
(1) Section 6(a)(l) of the Inspector General Act authorizes the OIG to have access to all records and information needed to complete its audit work.
(2) Under section 9(a)(l)(K) and (2) of the IG Act, the Secretary of Transportation is authorized to transfer functions, powers, or duties as determined by the Secretary to the OIG. The Secretary of Transportation has, by memorandum dated April 27, 1979, specifically authorized the OIG access to all records, reports, reviews, documents, papers, recommendations, and any other material the

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OIG considers pertinent to the DOT program being audited. The memorandum further emphasized that DOT personnel are expected to comply with this provision.
(3) The OIG Audit Team and the OA staff will make every effort to cooperate with each other to ensure that the OIG Audit Team receives timely and full responses to its information requests with as little disruption to the OA as possible. If the OIG Audit Team is denied access to records, or is unreasonably refused assistance or information, attempts will be made to resolve the issue at the appropriate management level. However, under the statutory authority cited in paragraphs e. (1) and e. (2) above, the IG will take necessary actions, including notifying the Secretary and/or the Congress, to obtain the documents.

Section 6 of the Inspector General Act of 1978, as amended, states:

(a) In addition to the authority otherwise provided by this Act, each Inspector General, in carrying out the provisions of this Act, is authorized:

(3) to request such information or assistance as may be necessary for carrying out the duties and responsibilities provided by this Act from any Federal, State, or local governmental agency or unit thereof;

(b) (1) Upon request of an Inspector General for information or assistance under subsection (a)(3), the head of any Federal agency involved shall, insofar as is practicable and not in contravention of any existing statutory restriction or regulation of the Federal agency from which the information is requested, furnish to such Inspector General, or to an authorized designee, such information or assistance.

Background

The Financial Management System (FMS) managed by the Federal Transit Administration (FTA) is not currently integrated into the Security Information and Event Management (SIEM) tool. SIEM automates the collection of audit logs for analysis and review. As a manual compensating control, FTA has adopted a procedure requiring the FMS system administrators and database administrators to perform daily reviews of audit logs.

Condition

On more than one occasion, FTA did not provide us with timely, accurate, reliable or valid responses to auditor requests of information and inquiries. For example, FTA could not provide reliable evidence that they performed a daily review of the FMS audit log.

Cause

FTA lacks the organizational policies and procedures needed to ensure timely, accurate, reliable and valid responses to auditor requests of information and inquiries. In addition, sufficient policies and procedures, and management oversight, are not in place requiring that documented evidence be maintained for the manual daily review of the FMS audit logs.

The control environment (as defined by the Government Accountability Office, *Standards for Internal Control in the Federal Government*) in some operations of FTA was not fully effective in establishing an environment of internal control awareness and understanding of the importance of following DOT policy.

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Effect

Non-adherence to the criteria cited above increases the risk of compromising the confidentiality, integrity, and availability of the audit evidence. In addition, a lack of a documented audit log review increases the risk that FTA will not identify all processing errors for investigation and remediation.

Recommendations

We recommend that FTA continue with plans to add FMS into the SIEM tool. Prior to that implementation, we recommend that FTA implement policies and procedures to formally document and track audit logs reviews of FMS, including a date and time stamp with the reviewers' electronic signature.

We recommend that DOT or FTA:

1. Emphasize, through training, the importance of Inspector General Act of 1978, as amended and DOT Order 8000.6B to ensure that all FTA employees understand the provisions of the laws and regulations when responding to Office of Inspector General auditors' inquiries and requests.
2. Perform a review of FTA's control environment using one of the various tools (available from the GAO, or organizations such as the *Committee of Sponsoring Organizations* of the Treadway Commission – COSO) to assess entity level control effectiveness at FTA. Based on the outcome of this review, take steps to improve the control environment of FTA, including establishing management oversight functions that ensure effective internal controls over financial reporting.

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EXHIBIT II
INSTANCES OF NONCOMPLIANCE

D. Noncompliance with the Anti-Deficiency Act

Criteria

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

Condition

Known Anti-Deficiency Act Violations:

Federal Motor Carrier Safety Administration (FMCSA)

During the fiscal years 2005 through 2010, the FMCSA committed *Anti-Deficiency Act* violations totaling $25.6 million, as a result of issuing grant awards within the Commercial Vehicle Information Systems and Networks (CVISN) that exceeded available funding for this program, as well as reprogramming of funds within the CVISN, Performance and Registration Information Systems Management (PRISM), and Safety Data Improvement Program (SaDIP) grant programs, which resulted in grant awards exceeding the available funding. The DOT reported this violation to the Office of Management and Budget (OMB), the President, U.S. Senate, and U.S. Congress on April 29, 2013.

Federal Highway Administration (FHWA)

During fiscal year 2010, the FHWA committed *Anti-Deficiency Act* violations totaling approximately $11.5 million, as a result of entering obligations in the American Reinvestment and Recovery Act (ARRA) appropriation(s) within the Tiger Grants Program ($10 million), Refuge Roads Program ($1 million), and the Puerto Rico Highway Program ($465 thousand) that exceeded the amount apportioned in those program categories. The DOT reported this violation to the OMB, the President, U.S. Senate, and U.S. Congress on April 29, 2013.

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

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

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

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

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EXHIBIT II
INSTANCES OF NONCOMPLIANCE

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

The funds administrator did not follow established protocol to verify that the apportionment had been approved by the OMB prior to obligating the funds.

Effect

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

Recommendations

We recommend that DOT:

1. Complete the investigation into potential additional *Anti-Deficiency Act* violations at FRA; and
2. Follow established protocol that has been designed to prevent *Anti-Deficiency Act* violations.

PRINCIPAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

As of September 30

Dollars in Thousands	2013	2012
Assets		
Intragovernmental		
Fund Balance With Treasury *(Note 2)*	$40,581,338	$33,356,274
Investments, Net *(Note 3)*	15,820,956	22,330,652
Accounts Receivable *(Note 4)*	118,389	116,550
Other *(Note 5)*	121,002	164,634
Total Intragovernmental	**56,641,685**	**55,968,110**
Cash	—	8
Accounts Receivable, Net *(Note 4)*	147,887	154,907
Direct Loan and Loan Guarantees, Net *(Note 6)*	6,877,433	5,022,807
Inventory and Related Property, Net *(Note 7)*	879,595	857,891
General Property, Plant and Equipment, Net *(Note 8)*	14,002,887	14,030,366
Other *(Note 5)*	21,644	74,706
Total Assets	**$78,571,131**	**$76,108,795**
Stewardship property, plant and equipment *(Note 9)*		
Liabilities (Note 10)		
Intragovernmental		
Accounts Payable	$12,622	$9,823
Debt *(Note 11)*	6,958,855	5,193,598
Other *(Note 14)*	2,017,413	2,287,336
Total Intragovernmental	**8,988,890**	**7,490,757**
Accounts Payable	533,673	634,174
Loan Guarantee Liability *(Note 6)*	176,134	192,829
Federal Employee Benefits Payable	1,048,503	1,019,076
Environmental and Disposal Liabilities *(Note 12)*	919,195	1,010,818
Grant Accrual *(Note 13)*	6,593,732	6,315,689
Other *(Note 14)*	1,385,891	1,372,782
Total Liabilities	**$19,646,018**	**$18,036,125**
Commitments and contingencies *(Note 16)*		
Net position		
Unexpended Appropriations—Funds From Dedicated Collections *(Note 17)*	$951,055	$1,108,929
Unexpended Appropriations—Other Funds	29,852,703	21,652,656
Cumulative Results of Operations—Funds From Dedicated Collections *(Note 17)*	17,544,519	25,768,480
Cumulative Results of Operations—Other Funds	10,576,836	9,542,605
Total Net Position—Funds From Dedicated Collections	**18,495,574**	**26,877,409**
Total Net Position—Other Funds	**40,429,539**	**31,195,261**
Total Net Position	**58,925,113**	**58,072,670**
Total Liabilities and Net Position	**$78,571,131**	**$76,108,795**

The accompanying notes are an integral part of these financial statements

PRINCIPAL STATEMENTS (continued)

CONSOLIDATED STATEMENT OF NET COST

For the periods ended September 30

Dollars in Thousands	2013	2012
Program costs *(Note 18)*		
Surface Transportation		
Gross Costs	$60,688,695	$60,988,807
Less: Earned Revenue	906,316	1,226,109
Net Program Costs	**59,782,379**	**59,762,698**
Air Transportation		
Gross Costs	16,745,291	16,632,500
Less: Earned Revenue	660,724	628,167
Net Program Costs	**16,084,567**	**16,004,333**
Maritime Transportation		
Gross Costs	726,195	886,118
Less: Earned Revenue	388,504	392,599
Net Program Costs	**337,691**	**493,519**
Cross-Cutting Programs		
Gross Costs	656,020	647,327
Less: Earned Revenue	262,769	255,869
Net Program Costs	**393,251**	**391,458**
Costs Not Assigned to Programs	436,796	396,058
Less: Earned Revenues Not Attributed to Programs	354	11,513
Net Cost of Operations	**$77,034,330**	**$77,036,553**

The accompanying notes are an integral part of these financial statements

PRINCIPAL STATEMENTS (continued)

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended September 30

Dollars in Thousands	2013 Dedicated Collections	2013 All Other Funds	2013 Total	2012 Dedicated Collections	2012 All Other Funds	2012 Total
Cumulative Results of Operations						
Beginning Balance	$25,768,480	$9,542,605	$35,311,085	$30,832,675	$9,748,256	$40,580,931
Budgetary Financing Sources						
Appropriations Used	4,447,910	15,189,102	19,637,012	4,565,650	10,945,160	15,510,810
Non-Exchange Revenue *(Note 19)*	49,587,166	111,738	49,698,904	52,969,165	87,411	53,056,576
Donations/Forfeitures of Cash/Cash Equivalents	617	—	617	1,224	—	1,224
Transfers-in/(out) Without Reimbursement	5,883,105	(5,884,367)	(1,262)	2,451,721	5,395	2,457,116
Other	—	(98)	(98)	—	(2,160)	(2,160)
Other Financing Sources (Non-Exchange)						
Donations and Forfeitures of Property	—	78,599	78,599	—	158,117	158,117
Transfers-in/(out) Without Reimbursement	(2,297,274)	2,404,446	107,172	(924,602)	1,020,788	96,186
Imputed Financing	545,973	147,585	693,558	528,664	113,118	641,782
Other	9,718	(379,620)	(369,902)	(6,684)	(146,260)	(152,944)
Total Financing Sources	**58,177,215**	**11,667,385**	**69,844,600**	**59,585,138**	**12,181,569**	**71,766,707**
Net Cost of Operations	66,401,176	10,633,154	77,034,330	64,649,333	12,387,220	77,036,553
Net Change	(8,223,961)	1,034,231	(7,189,730)	(5,064,195)	(205,651)	(5,269,846)
Cumulative Results of Operations	**17,544,519**	**10,576,836**	**28,121,355**	**25,768,480**	**9,542,605**	**35,311,085**
Unexpended Appropriations						
Beginning Balance	1,108,929	21,652,656	22,761,585	1,127,600	25,654,071	26,781,671
Budgetary Financing Sources						
Appropriations Received *(Note 1U)*	4,592,701	24,670,226	29,262,927	4,592,701	7,017,825	11,610,526
Appropriations Transferred-in/(out)	7,500	2,990	10,490	14,819	5,070	19,889
Other Adjustments	(310,165)	(1,284,067)	(1,594,232)	(60,541)	(79,150)	(139,691)
Appropriations Used	(4,447,910)	(15,189,102)	(19,637,012)	(4,565,650)	(10,945,160)	(15,510,810)
Total Budgetary Financing Sources	(157,874)	8,200,047	8,042,173	(18,671)	(4,001,415)	(4,020,086)
Total Unexpended Appropriations	**951,055**	**29,852,703**	**30,803,758**	**1,108,929**	**21,652,656**	**22,761,585**
Net Position	**$18,495,574**	**$40,429,539**	**$58,925,113**	**$26,877,409**	**$31,195,261**	**$58,072,670**

The accompanying notes are an integral part of these financial statements

COMBINED STATEMENTS OF BUDGETARY RESOURCES

For the periods ended September 30

Dollars in Thousands	2013 Budgetary	2013 Non-Budgetary Credit Reform Financing Accounts	2012 Budgetary	2012 Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources *(Note 20)*				
Unobligated Balance, Brought Forward, October 1	$47,267,503	$285,030	$50,244,231	$242,978
Recoveries of Prior Year Unpaid Obligations	1,038,978	6,960	1,199,749	17
Other Changes in Unobligated Balance	(142,166)	—	(156,094)	—
Unobligated Balance From Prior Year Budget Authority, Net	**48,164,315**	**291,990**	**51,287,886**	**242,995**
Appropriations *(Note 1U)*	35,632,671	—	19,743,813	—
Borrowing Authority	46,532	2,249,068	—	1,734,768
Contract Authority	53,366,583	—	53,108,963	—
Spending Authority From Offsetting Collections	7,488,163	339,422	7,754,699	234,155
Total Budgetary Resources	**$144,698,264**	**$2,880,480**	**$131,895,361**	**$2,211,918**
Status of Budgetary Resources				
Obligations Incurred	$88,247,584	$2,617,480	$84,627,858	$1,926,888
Unobligated Balance, End of Year				
Apportioned	38,053,122	24,576	29,066,936	105,393
Exempt From Apportionment	327,758	—	352,571	—
Unapportioned	18,069,800	238,424	17,847,996	179,637
Unobligated Balance, End of Year	**56,450,680**	**263,000**	**47,267,503**	**285,030**
Total Budgetary Resources	**$144,698,264**	**$2,880,480**	**$131,895,361**	**$2,211,918**

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	2013 Budgetary	2013 Non-Budgetary Credit Reform Financing Accounts	2012 Budgetary	2012 Non-Budgetary Credit Reform Financing Accounts
Change in Obligated Balances				
Unpaid Obligations				
Unpaid Obligations, Brought Forward, October 1 (Gross)	$111,942,788	$4,421,232	$114,089,855	$3,815,207
Obligations Incurred	88,247,584	2,617,480	84,627,858	1,926,888
Outlays (Gross)	(89,878,926)	(2,302,627)	(85,585,176)	(1,320,846)
Actual Transfers, Unpaid Obligations	9,491	—	10,000	—
Recoveries of Prior Year Unpaid Obligations	(1,038,978)	(6,960)	(1,199,749)	(17)
Unpaid Obligations, End of Year (Gross)	109,281,959	4,729,125	111,942,788	4,421,232
Uncollected Payments				
Uncollected Payments, Federal Sources, Brought Forward, October 1	(1,249,122)	(222,706)	(1,192,857)	(238,553)
Change in Uncollected Payments, Federal Sources	(135,939)	(83,392)	(56,265)	15,847
Uncollected Payments, Federal Sources, End of Year	(1,385,061)	(306,098)	(1,249,122)	(222,706)
Obligated Balance, Start of Year (Net)	110,693,666	4,198,526	112,896,998	3,576,654
Obligated Balance, End of Year (Net)	**$107,896,898**	**$4,423,027**	**$110,693,666**	**$4,198,526**
Budget Authority and Outlays, Net				
Budget Authority, Gross	$96,533,949	$2,588,490	$80,607,475	$1,968,923
Actual Offsetting Collections	(7,377,632)	(460,425)	(7,726,408)	(466,819)
Change in Uncollected Customer Payments From Federal Sources	(135,939)	(83,392)	(56,265)	15,847
Budget Authority, Net	**$89,020,378**	**$2,044,673**	**$72,824,802**	**$1,517,951**
Outlays, Gross	$89,878,926	$2,302,627	$85,585,176	$1,320,846
Actual Offsetting Collections	(7,377,632)	(460,425)	(7,726,408)	(466,819)
Outlays, Net	82,501,294	1,842,202	77,858,768	854,027
Distributed Offsetting Receipts	(6,220,753)	—	(2,738,974)	—
Agency Outlays, Net	**$76,280,541**	**$1,842,202**	**$75,119,794**	**$854,027**

The accompanying notes are an integral part of these financial statements

NOTES TO THE PRINCIPAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

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

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

- Office of The Secretary (OST) [includes OST Working Capital Fund]
- 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)
- Research and Innovative Technology Administration (RITA) [includes Volpe National Transportation System Center]
- Surface Transportation Board (STB)

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

B. BASIS OF PRESENTATION

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

The Combined Statements of Budgetary Resources provide information about how budgetary resources were made available, as well as their status at the end of the reporting periods. Recognition and measurement of budgetary information reported on these statements is based on budget terminology, definitions, and guidance presented in OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, dated July 2013.

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

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

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

C. BUDGETS AND BUDGETARY ACCOUNTING

DOT follows standard Federal budgetary accounting policies and practices in accordance with OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, dated July 2013. 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 2013 and FY 2012, the Department was accountable for trust fund appropriations, general fund appropriations, revolving fund activity, borrowing authority, and contract authority. DOT recognizes budgetary resources as assets when cash (funds held by the U.S. Treasury) is made available through warrants and trust fund transfers.

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

D. BASIS OF ACCOUNTING

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

Transactions are recorded on an accrual and a budgetary accounting basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

E. FUNDS WITH THE U.S. TREASURY AND CASH

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 classified as 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, DC, the Nuclear Ship *Savannah*, and collections of maritime artifacts, are considered priceless and are not capitalized in the Consolidated Balance Sheet (See Note 9).

J. ADVANCES AND PREPAYMENTS

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

K. LIABILITIES

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

L. CONTINGENCIES

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

M. ANNUAL, SICK, AND OTHER LEAVE

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

N. RETIREMENT PLAN

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

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

O. FEDERAL EMPLOYEES HEALTH BENEFIT (FEHB) PROGRAM

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

P. FEDERAL EMPLOYEES GROUP LIFE INSURANCE (FEGLI) PROGRAM

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

Q. FEDERAL EMPLOYEE COMPENSATION ACT (FECA) BENEFITS

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

R. ENVIRONMENTAL AND DISPOSAL LIABILITIES

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

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

S. USE OF ESTIMATES

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

Significant estimates underlying the accompanying financial statements include the allocation of trust fund receipts by Treasury's Office of Tax Analysis (OTA), accruals of accounts and grants payable (including American Recovery and Reinvestment Act funds), accrued workers' compensation, and accrued legal, contingent, environmental and disposal liabilities. Additionally, the Federal Credit Reform Act of 1990 (FCRA) requires the Department to use estimates in determining the reported amount of direct loan and loan guarantees, the loan guarantee liability and the loan subsidy costs associated with future loan performance.

T. ALLOCATION TRANSFERS

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

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

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

U. REVENUES AND OTHER FINANCING SOURCES

Funds From Dedicated Collections Excise Tax Revenues (Nonexchange)
DOT receives funding (non exchange) needed to support its programs through funds from dedicated collections which are excise tax revenues related to the Highway Trust Fund (HTF) and the Airport and Airway Trust Fund (AATF).

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

The DOT September 30, 2013 financial statements reflect excise taxes certified by the IRS through June 30, 2013 and excise taxes estimated by OTA for the period July 1, 2013 to September 30, 2013 as specified by FASAB Statement of Federal Financial Accounting Standard (SFFAS) Number 7, *Accounting for Revenue and Other Financing Sources*. Actual tax collections data for the quarter ended September 30, 2013 will not be available from the IRS until January 2014.

Appropriations (Financing Source)
DOT receives annual, multi-year and no-year appropriations. Appropriations are recognized as revenues when related program and administrative expenses are incurred.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

On July 6, 2012, the President signed into 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 authorization for surface transportation from October 1, 2012 through September 30, 2014. The new and existing programs in MAP-21 create a streamlined, performance-based, and multimodal program to address the many challenges facing the U.S. transportation system. The law infused $2.4 billion into the HTF from the Leaking Underground Storage Tank (LUST) trust fund in FY 2012, and provided another $6.2 billion (less $316 million that was rescinded due to the sequestration mentioned below) in FY 2013 and $12.6 billion in FY 2014 from the general fund.

In October 2012, Hurricane Sandy significantly impacted certain areas within the northeastern United States. On January 6, 2013, Congress enacted Public Law 113–2 that appropriated $13 billion (which was subject to a 5.1% sequestration reduction due to the Balanced Budget and Emergency Deficit Control Act, as amended [BBEDCA]) 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 $1.3 billion and expended $399 million of these monies as of September 30, 2013.

The Budget Control Act of 2011 (BCA), P.L. 112–25, required that if Congress failed to produce a FY 2013 deficit reduction bill it would trigger across-the-board cuts (sequestration), as of January 2, 2013. These cuts would apply to mandatory and discretionary spending in the years 2013 to 2021.

Pursuant to BCA, on March 1, 2013, the President issued a sequestration order in accordance with section 251A of the BBEDCA, 2 U.S.C. 901a. The order requires that budgetary resources in each non-exempt budget account be reduced by the amount calculated by the Office of Management and Budget (OMB) in its report to Congress of March 1, 2013, entitled *OMB Report to the Congress on the Joint Committee Sequestration for Fiscal Year 2013*. The impact to DOT was an average sequestration rate of 5.1% on nonexempt budgetary accounts.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Due to a lapse in government appropriations from October 1 to October 16, 2013, DOT experienced limited furloughs for its employees. On October 17, 2013, the President signed the Continuing Appropriations Resolution, 2014, P.L. 113-46, to continue government operations through January 15, 2014, predominantly, at FY 2013 spending levels.

American Recovery and Reinvestment Act
On February 17, 2009, the President signed into law the American Recovery and Reinvestment Act (ARRA), which designated over $48 billion to the DOT operating administrations. The funding was provided to FHWA, FAA, FTA, FRA, OST and MARAD. These funds were designated to invest in transportation infrastructure, including transit capital assistance, high speed rail, pavement improvements and bridge repair, as well as to preserve and create jobs, and promote economic recovery that will provide long term economic benefits. In the final stages of the program as of September 30, 2013, the Department had obligated $47.6 billion and disbursed $39.8 billion.

V. FIDUCIARY ACTIVITIES

Fiduciary assets and liabilities are not assets and liabilities of the Department and, as such are not recognized on the balance sheet. In accordance with the provisions of FASAB SFFAS Number 31, *Accounting for Fiduciary Activities*, this activity is reported separately in a note disclosure. The Maritime Administration Title XI Escrow Fund contains fiduciary activity as detailed in Note 22 to the Consolidated Financial Statements.

W. RELATED PARTIES

The Secretary of Transportation has possession of two long term notes with the National Railroad Passenger Service Corporation (more commonly referred to as Amtrak). The first note is for $4 billion and matures in 2975 and; the second note is for $1.1 billion and matures in 2082 with renewable 99 year terms. Interest is not accruing on these notes as long as the current financial structure of Amtrak remains unchanged. If the financial structure of Amtrak changes, both principal and accrued interest are due and payable. The Department does not record the notes in its financial statements since the present value of the notes, discounted according to rates published in OMB M-13-4 Appendix C, *Discount Rates for Cost-Effectiveness, Lease Purchase, and Related Analyses*, with maturity dates of 2975 and 2082, was immaterial to the consolidated financial statements taken as a whole at September 30, 2013.

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

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

X. RECLASSIFICATIONS

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

NOTE 2. FUND BALANCE WITH TREASURY

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

	2013	2012
Fund Balances		
Trust Funds	$5,765,787	$6,243,944
Revolving Funds	1,121,275	1,116,895
General Funds	33,383,181	25,635,140
Other Fund Types	311,095	360,295
Total	**$40,581,338**	**$33,356,274**
Status of Fund Balance With Treasury		
Unobligated Balance		
Available	$25,455,513	$14,384,053
Unavailable	3,005,765	2,750,400
Obligated Balance Not Yet Disbursed	11,059,764	15,608,159
Non-Budgetary Fund Balance With Treasury	1,060,296	613,662
Total	**$40,581,338**	**$33,356,274**

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

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

NOTE 3. INVESTMENTS

	Cost	Amortized Discount	Investments (Net)	Market Value
Intragovernmental Securities	Investments as of September 30, 2013 consist of the following:			
Marketable	$42,895	$(236)	$42,659	$42,697
Non-Marketable Par Value	13,764,511	—	13,764,511	13,764,511
Non-Marketable Market-Based	1,936,922	20,697	1,957,619	1,962,650
Subtotal	**15,744,328**	**20,461**	**15,764,789**	**15,769,858**
Accrued Interest Receivable	56,167	—	56,167	
Total Intragovernmental Securities	**$15,800,495**	**$20,461**	**$15,820,956**	**$15,769,858**
Intragovernmental Securities	Investments as of September 30, 2012 consist of the following:			
Marketable	$28,735	$179	$28,914	$28,950
Non-Marketable Par Value	20,395,163	—	20,395,163	20,395,163
Non-Marketable Market-Based	1,818,209	28,377	1,846,586	1,860,331
Subtotal	**22,242,107**	**28,556**	**22,270,663**	**22,284,444**
Accrued Interest Receivable	59,989	—	59,989	
Total Intragovernmental Securities	**$22,302,096**	**$28,556**	**$22,330,652**	**$22,284,444**

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

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

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

NOTE 4. ACCOUNTS RECEIVABLE

	Gross Amount Due	Allowance for Uncollectible Amounts	Net Amount Due
	Accounts Receivable as of September 30, 2013 consist of the following:		
Intragovernmental			
Accounts Receivable	$118,384	$ —	$118,384
Accrued Interest	5	—	5
Total Intragovernmental	**118,389**	**—**	**118,389**
Public			
Accounts Receivable	161,136	(15,782)	145,354
Accrued Interest	2,610	(77)	2,533
Total Public	**163,746**	**(15,859)**	**147,887**
Total Accounts Receivable	**$282,135**	**$(15,859)**	**$266,276**
	Accounts Receivable as of September 30, 2012 consist of the following:		
Intragovernmental			
Accounts Receivable	$116,545	$ —	$116,545
Accrued Interest	5	—	5
Total Intragovernmental	**116,550**	**—**	**116,550**
Public			
Accounts Receivable	174,794	(22,205)	152,589
Accrued Interest	2,395	(77)	2,318
Total Public	**177,189**	**(22,282)**	**154,907**
Total Accounts Receivable	**$293,739**	**$(22,282)**	**$271,457**

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

	2013	2012
Intragovernmental		
Advances and Prepayments	$121,002	$164,634
Total Intragovernmental Other Assets	**$121,002**	**$164,634**
Public		
Advances to States for Right of Way	$2,982	$19,363
Other Advances and Prepayments	18,097	54,784
Other	565	559
Total Public Other Assets	**$21,644**	**$74,706**

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

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

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

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

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

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

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

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

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

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

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

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

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

DIRECT LOANS

Obligated Prior to FY 1992 (Allowance for Loss Method)

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

	2012 Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
(1) Railroad Rehabilitation Improvement Program	$151	$ —	$ —	$151

Obligated After FY 1991

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

Direct Loan Programs	2012 Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans, Net
(1) Railroad Rehabilitation Improvement Program	$710,932	$1,512	$(47,219)	$665,225
(2) TIFIA Loans	4,696,784	—	(350,654)	4,346,130
Total	**$5,407,716**	**$1,512**	**$(397,873)**	**$5,011,355**

Total Amount of Direct Loans Disbursed (Post-1991)

Direct Loan Programs	2013	2012
(1) Railroad Rehabilitation Improvement Program	$158,255	$285,694
(2) TIFIA Loans	1,664,979	643,609
Total	**$1,823,234**	**$929,303**

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

Direct Loan Programs	2012 Interest Differential	Defaults	Fees and Other Collections	Other Subsidy Costs	Total
(1) Railroad Rehabilitation Improvement Program	$ —	$13,969	$(13,969)	$ —	$ —
(2) TIFIA Loans	—	68,491	—	—	68,491
Total	**$ —**	**$82,460**	**$(13,969)**	**$ —**	**$68,491**

Modifications and Re-estimates

Direct Loan Programs	2013 Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
(1) Railroad Rehabilitation Improvement Program	$ —	$(34,592)	$22,639	$(11,953)
(2) TIFIA Loans	—	—	(77,363)	(77,363)
Total	**$ —**	**$(34,592)**	**$(54,724)**	**$(89,316)**

Direct Loan Programs	2012 Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
(1) Railroad Rehabilitation Improvement Program	$ —	$27,177	$(6,198)	$20,979
(2) TIFIA Loans	—	—	(36,886)	(36,886)
Total	**$ —**	**$27,177**	**$(43,084)**	**$(15,907)**

Total Direct Loan Subsidy Expense

Direct Loan Programs	2013	2012
(1) Railroad Rehabilitation Improvement Program	$(11,953)	$20,979
(2) TIFIA Loans	21,018	31,605
Total	**$9,065**	**$52,584**

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	2013 Interest Differential	Defaults	Fees and Other Collections	Other	Total
(1) Railroad Rehabilitation Improvement Program	0.00%	2.52%	(1.95%)	(0.57%)	0.00%
(2) TIFIA Loans					
Risk Category 1	0.00%	9.66%	0.00%	0.00%	9.66%
Risk Category 2	0.00%	8.37%	(0.09%)	0.00%	8.28%

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

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

Beginning Balance, Changes, and Ending Balance	2013	2012
Beginning Balance of the Subsidy Cost Allowance	$397,873	$322,357
Add: Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component		
Default Costs (Net of Recoveries)	112,165	82,460
Fees and Other Collections	(13,784)	(13,969)
Total of the Above Subsidy Expense Components	**98,381**	**68,491**
Adjustments		
Subsidy Allowance Amortization	(8,744)	8,963
Other	13,784	13,969
Ending Balance of the Subsidy Cost Allowance Before Reestimates	**501,294**	**413,780**
Add or Subtract Subsidy Re-estimates by Component		
Interest Rate Re-estimate	(34,592)	27,177
Technical/Default Re-estimate	(54,724)	(43,084)
Total of the Above Re-estimate Components	**(89,316)**	**(15,907)**
Ending Balance of the Subsidy Cost Allowance	**$411,978**	**$397,873**

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

The Railroad Rehabilitation Improvement Program upward reestimate resulted from an update of the discount rate used at the time of loan obligation to loan disbursement and from changes in technical assumptions and projected cash flows.

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

GUARANTEED LOANS

Defaulted Guaranteed Loans From Post-1991 Guarantees

Loan Guarantee Programs	2013 Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy	Assets Related to Default Guaranteed Loans Receivable, Net
(3) Federal Ship Financing Fund (Title XI)	$97,418	$2,061	$5,800	$(94,073)	$11,206

Loan Guarantee Programs	2012 Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy	Assets Related to Default Guaranteed Loans Receivable, Net
(3) Federal Ship Financing Fund (Title XI)	$97,312	$2,061	$6,500	$(94,572)	$11,301

Guaranteed Loans Outstanding

Loan Guarantee Programs	2013 Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
(3) Federal Ship Financing Fund (Title XI)	$1,730,840	$1,730,840
(4) OST Minority Business Resource Center	3,655	2,741
Total	$1,734,495	$1,733,581

New Guaranteed Loans Disbursed

Loan Guarantee Programs	2013 Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
(3) Federal Ship Financing Fund (Title XI)	$ —	$ —
(4) OST Minority Business Resource Center	395	296
Total	$395	$296

Loan Guarantee Programs	2012 Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
(3) Federal Ship Financing Fund (Title XI)	$593,976	$593,976
(4) OST Minority Business Resource Center	3,449	2,586
Total	$597,425	$596,562

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	2013 Liabilities for Post-1991 Guarantees, Present Value
(3) Federal Ship Financing Fund (Title XI)	$175,572
(4) OST Minority Business Resource Center	562
Total	**$176,134**

Subsidy Expense for Loan Guarantees by Program and Component

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

Loan Guarantee Programs	2012 Interest Supplements	Defaults	Fees and Other Collections	Other	Total
(3) Federal Ship Financing Fund (Title XI)	$ —	$48,520	$(34,732)	$ —	$13,788
(4) OST Minority Business Resource Center	—	77	—	—	77
Total	**$ —**	**$48,597**	**$(34,732)**	**$ —**	**$13,865**

Modifications and Re-estimates

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

Loan Guarantee Programs	2012 Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
(3) Federal Ship Financing Fund (Title XI)	$ —	$ —	$(38,769)	$(38,769)
(4) OST Minority Business Resource Center	—	—	278	278
Total	**$ —**	**$ —**	**$(38,491)**	**$(38,491)**

Total Direct Loan Subsidy Expense

Loan Guarantee Programs	2013	2012
(3) Federal Ship Financing Fund (Title XI)	$(26,239)	$(24,981)
(4) OST Minority Business Resource Center	140	355
Total	**$(26,099)**	**$(24,626)**

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	2013 Interest Supplements	Defaults	Fees and Other Collections	Other	Total
(3) Federal Ship Financing Fund (Title XI)					
Risk Category 3	0.00%	11.78%	(4.88%)	0.00%	6.90%
Risk Category 4	0.00%	14.02%	(4.88%)	0.00%	9.14%
Risk Category 5	0.00%	17.49%	(4.88%)	0.00%	12.61%
(4) OST Minority Business Resource Center	0.00%	1.73%	0.00%	0.00%	1.73%

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

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

Beginning Balance, Changes, and Ending Balance	2013	2012
Beginning Balance of the Loan Guarantee Liability	$192,829	$158,425
Add: Subsidy Expense for Guaranteed Loans Disbursed During the Reporting Years by Component		
Default Costs (Net of Recoveries)	26	48,597
Fees and Other Collections	—	(34,732)
Total of the Above Subsidy Expense Components	**26**	**13,865**
Adjustments		
Fees Received	(445)	53,418
Foreclosed Property and Loans Acquired	605	—
Claim Payments to Lenders	(25)	39,456
Interest Accumulation on the Liability Balance	9,000	(6,756)
Other	269	(27,088)
Ending Balance of the Loan Guarantee Liability Before Re-estimates	**202,259**	**231,320**
Add or Subtract Subsidy Re-estimates by Component		
Technical/Default Re-estimate	(26,125)	(38,491)
Total of the Above Re-estimate Components	**(26,125)**	**(38,491)**
Ending Balance of the Loan Guarantee Liability	**$176,134**	**$192,829**

MARAD retains one vessel in its foreclosed property inventory.

The sufficiency of DOT's loan and loan guarantee portfolio reserves at September 30, 2013 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, 2013 consists of the following:

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

Inventory and Related Property as of September 30, 2012 consists of the following:

	Cost	Allowance for Loss	Net
Inventory			
Inventory Held for Current Sale	$93,855	$ —	$93,855
Excess, Obsolete and Unserviceable Inventory	8,956	(8,956)	—
Inventory Held for Repair	582,567	(135,234)	447,333
Other	51,030	(10,591)	40,439
Total Inventory	**736,408**	**(154,781)**	**581,627**
Operating Materials and Supplies			
Items Held for Use	233,293	(1,075)	232,218
Items Held in Reserve for Future Use	29,664	—	29,664
Excess, Obsolete and Unserviceable Items	1,888	(1,043)	845
Items Held for Repair	25,730	(12,193)	13,537
Total Operating Materials & Supplies	**290,575**	**(14,311)**	**276,264**
Total Inventory and Related Property			**$857,891**

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

Primarily, operating supplies and material consist of unissued materials and supplies that will be used in repair and maintenance of various activities within FAA and to support the training vessels and day to day operations at the U.S. Merchant Marine Academy.

NOTE 8. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

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

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

General Property, Plant and Equipment as of September 30, 2012 consist of the following:

Major Classes	Service Life	Acquisition Value	Accumulated Depreciation Amortization	Book Value
Land and Improvements	10-40	$102,717	$(2,251)	$100,466
Buildings and Structures	20-40	6,213,974	(3,418,667)	2,795,307
Furniture and Fixtures	7-10	3,199	(1,619)	1,580
Equipment	5-15	17,460,914	(10,712,215)	6,748,699
ADP Software	3-10	722,683	(539,726)	182,957
Assets Under Capital Lease	6-10	127,661	(49,902)	77,759
Leasehold Improvements	3	147,821	(84,400)	63,421
Aircraft	20	407,579	(327,059)	80,520
Ships and Vessels	15-25	1,945,001	(1,753,241)	191,760
Small Boats	10-18	27,701	(22,131)	5,570
Construction-in-Progress	N/A	3,780,846	—	3,780,846
Other Miscellaneous Property	N/A	7,202	(5,721)	1,481
Total		**$30,947,298**	**$(16,916,932)**	**$14,030,366**

The FAA is currently testing and implementing the En Route Automation Modernization (ERAM) system to upgrade air traffic management of the en route airspace and to enable certain NextGen system capabilities. When fully deployed, the ERAM system will operate at 20 air route traffic control centers across the nation. FAA has fully deployed ERAM at 11 air route traffic control centers as of September 30, 2013 and expects to deploy the nine remaining sites by the end of FY 2015. As of September 30, 2013, construction in progress includes $1.1 billion related to the ERAM system.

The ERAM system will replace four legacy air traffic systems currently being depreciated over their reamining service lives. The net acquisition cost of the four air traffic legacy systems in use was $1.9 billion at September 30, 2013, down from $2.1 billion at September 30, 2012, and had a net book value of $441 million and $634 million, respectively. Depreciation on these air traffic legacy systems was $171 million and $111 million in FY 2013 and 2012, respectively. For the legacy assets not already retired or placed in Not in Use status, FAA adjusted the useful life to end one year from ERAM's site specific Operational Readiness Decision date.

NOTE 9. STEWARDSHIP PROPERTY, PLANT AND EQUIPMENT

PERSONAL PROPERTY HERITAGE ASSETS

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

MARAD artifacts and other collections are generally on loan to single purpose memorialization and remembrance groups, such as AMVets National Service Foundation and preservation societies. MARAD maintains a web-based inventory system that manages the artifact loan process. The program also supports required National Historical Preservation Act processing prior to vessel disposal. Funding for the maintenance of heritage items is typically the responsibility of the organization requesting the loan of a heritage asset. The artifacts and other collections are composed of ships' operating equipment obtained from obsolete ships. The ships are inoperative and in need of preservation and restoration. As all items are durable and restorable, disposal is not a consideration. The artifacts and other collections are removed from inventory when destroyed while on loan. The table below shows the number of physical units added and withdrawn as of September 30, 2013.

	Units as of 9/30/2012	Additions	Withdrawals	Units as of 9/30/13
Heritage Assets				
Personal Property				
Artifacts	700	8	(1)	707
Other Collections	6,840	97	(24)	6,913
Total Personal Property Heritage Assets	**7,540**	**105**	**(25)**	**7,620**

REAL PROPERTY HERITAGE ASSETS

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

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

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

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

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

NOTE 10. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities Not Covered by Budgetary Resources are those liabilities that Congressional action is needed before budgetary resources can be provided. Intragovernmental Liabilities are those liabilities that are with other governmental entities.

Liabilities Not Covered by Budgetary Resources as of September 30

	2013	2012
Intragovernmental		
Other Liabilities	$685,228	$628,524
Total Intragovernmental	**685,228**	**628,524**
Federal Employee Benefits Payable	1,048,503	1,019,076
Environmental and Disposal Liabilities *(Note 12)*	919,195	1,010,818
Other Liabilities	713,669	752,946
Total Liabilities Not Covered by Budgetary Resources	**3,366,595**	**3,411,364**
Total Liabilities Covered by Budgetary Resources	16,279,423	14,624,761
Total Liabilities	**$19,646,018**	**$18,036,125**

NOTE 11. DEBT

Debt activities during the fiscal year ended September 30

	2012 Beginning Balance	2012 Net Borrowing	2012 Ending Balance	2013 Net Borrowing	2013 Ending Balance
Intragovernmental Debt					
Debt to the Treasury	$4,341,629	$851,033	5,192,662	$1,765,579	$6,958,241
Debt to the Federal Financing Bank	1,237	(301)	936	(322)	614
Total Intragovernmental Debt	**$4,342,866**	**$850,732**	**$5,193,598**	**$1,765,257**	**$6,958,855**

As part of its credit reform program, DOT borrows from the U.S. Treasury when cash is needed in its financing accounts. Borrowings are needed 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 2013, DOT's U.S. Treasury borrowings carried interest rates ranging from 0.46% to 7.19%. The maturity dates for these borrowings occur from September 2016 to September 2051. Loans may be repaid in whole or in part without penalty at any time. The borrowing from the Federal Financing Bank has an interest rate of 6.4% and matures in May 2015. 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:

	2013	2012
Public		
Environmental Remediation	$550,538	$613,448
Asset Disposal	368,657	397,370
Total Public	**$919,195**	**$1,010,818**

ENVIRONMENTAL REMEDIATION

Environmental remediation generally occurs under the Resource Conservation and Recovery Act of 1976 (RCRA), the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA or Superfund), or the Toxic Substances Control Act (TSCA). Environmental remediation includes the fuel storage tank program, fuels, solvents, industrial, and chemicals, and other environmental cleanup activities associated with normal operations or the result of an accident. Estimating the Department's cost estimates for environmental cleanup and asset disposal liabilities requires making assumptions about future activities and is inherently uncertain. These liabilities are not adjusted for inflation and are subject to revision as a result of changes in technology and environmental laws and regulations.

As of September 30, 2013 and 2012, DOT's environmental remediation liability primarily includes the removal of contaminants on the Nuclear Ship *Savannah* and remediation at various sites managed by the FAA and MARAD. In addition to the amount recorded and disclosed, there is a foreseeable environmental liability related to a site with MARAD and numerous other external parties, where the loss is probable and the estimate cannot be determined. There were no amounts recorded related to the MARAD site.

ASSET DISPOSAL

The National Maritime Heritage Act requires that MARAD dispose of certain merchant vessels owned by the U.S. Government, including non-retention ships in the Fleet. Residual fuel, asbestos, and solid polychlorinated biphenyls (PCB) sometimes exist onboard MARAD's non-retention ships. Non-retention ships are those MARAD vessels that no longer have a useful application and are pending disposition. The asset disposal liability as of September 30, 2013 includes the estimated cost of disposing 109 ships. In addition, FAA records an asset disposal liability upon the decommissioning of an asset to cover preparatory costs required to meet regulatory standards allowing for the safe disposition of the asset.

NOTE 13. GRANT ACCRUAL

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

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

	2013	2012
Federal Highway Administration	$4,083,423	$4,193,169
Federal Transit Administration	1,411,143	1,297,590
Federal Aviation Administration	772,822	640,646
Other	326,344	184,284
Total Grant Accrual	**$6,593,732**	**$6,315,689**

NOTE 14. OTHER LIABILITIES

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

	Non-Current	Current	Total
Intragovernmental			
Advances and Prepayments	$266,349	$974,786	$1,241,135
Accrued Pay and Benefits	—	91,209	91,209
FECA Billings	122,814	93,682	216,496
Other Accrued Liabilities	25,000	443,573	468,573
Total Intragovernmental	**$414,163**	**$1,603,250**	**$2,017,413**
Public			
Other Accrued Unbilled Payments	$ —	$40,958	$40,958
Advances and Prepayments	—	144,829	144,829
Accrued Pay and Benefits	73,820	970,037	1,043,857
Deferred Credits	—	48,230	48,230
Legal Claims *(Note16)*	—	3,988	3,988
Capital Leases *(Note 15)*	69,324	9,125	78,449
Other Custodial Liability	—	254	254
Other Accrued Liabilities	—	25,326	25,326
Total Public	**$143,144**	**$1,242,747**	**$1,385,891**

NOTE 14. OTHER LIABILITIES (continued)

Other Liabilities as of September 30, 2012 consist of the following:

	Non-Current	Current	Total
Intragovernmental			
Advances and Prepayments	$256,725	$1,296,796	$1,553,521
Accrued Pay and Benefits	—	135,401	135,401
FECA Billings	123,890	97,951	221,841
Uncleared Disbursements and Collections	—	2,868	2,868
Other Accrued Liabilities	24,410	349,295	373,705
Total Intragovernmental	**$405,025**	**$1,882,311**	**$2,287,336**
Public			
Other Accrued Unbilled Payments	$ —	$27,815	$27,815
Advances and Prepayments	—	138,837	138,837
Accrued Pay and Benefits	65,264	951,914	1,017,178
Deferred Credits	—	47,821	47,821
Legal Claims (Note 16)	—	34,634	34,634
Capital Leases (Note 15)	73,452	9,490	82,942
Other Custodial Liability	—	1,179	1,179
Other Accrued Liabilities	—	22,376	22,376
Total Public	**$138,716**	**$1,234,066**	**$1,372,782**

FTA received $2.75 billion from Federal Emergency Management Agency (FEMA) in FY 2003 to rebuild parts of the transit system that was destroyed during the World Trade Center attacks on September 11, 2001. The $266 million of Non-Current Intragovernmental Governmental Advances and Prepayments is the remaining portion of those funds and is expected to be paid out as the project progresses. The current portion of the advances and prepayments for this same project is approximately $602 million.

NOTE 15. LEASES

ENTITY AS LESSEE

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

	2013	2012
Summary of Assets Under Capital Lease by Category		
Land, Buildings & Machinery	$114,063	$126,629
Software	1,032	1,032
Accumulated Amortization	(43,198)	(49,902)
Net Assets Under Capital Lease	**$71,897**	**$77,759**

Fiscal Year	
Future Payments Due	
2014	$8,925
2015	8,892
2016	8,639
2017	8,639
2018	8,640
2019+	62,013
Total Future Lease Payments	**105,748**
Less: Imputed Interest	27,299
Net Capital Lease Liability	**$78,449**

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

OPERATING LEASES

Fiscal Year	Land, Buildings, Machinery & Other
Future Payments Due	
2014	$295,235
2015	276,616
2016	243,875
2017	212,003
2018	158,275
2019+	460,659
Total Future Lease Payments	**$1,646,663**

Operating lease expenses incurred were $326 million and $325 million for the years ended September 30, 2013 and 2012, 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, 2013 and 2012, DOT's contingent liabilities, in excess of amounts accrued (Note 14), for asserted and pending legal claims reasonably possible of loss were estimated at $88.7 million and $117.7 million, respectively. DOT does not have material amounts of known unasserted claims. As of September 30, 2013 and 2012, DOT's contingent liabilities for asserted and pending legal claims with a probable loss were estimated at $4 million and $35 million, respectively.

GRANT PROGRAMS

FHWA pre-authorizes States to establish construction budgets without having received appropriations from Congress for such projects. FHWA has authority to approve projects using advance construction under 23 U.S.C. 115(a). FHWA does not guarantee the ultimate funding to the States for these "Advance Construction" projects and, accordingly, does not obligate any funds for these projects. When funding becomes available to FHWA, the States can then apply for reimbursement of costs that they have incurred on such projects, at which time FHWA can accept or reject such requests. For the periods ended September 30, 2013 and 2012, FHWA has pre-authorized $45.9 billion and $44.3 billion each under these arrangements. These commitments have not been recognized in the DOT consolidated financial statements at September 30, 2013 and 2012.

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, 2013 and September 30, 2012, FTA had approximately $1.86 billion and $1.96 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, 2013 and 2012.

FAA's Airport Improvement Program provides grants for the planning and development of public-use airports that are included in the National Plan of Integrated Airport Systems. Eligible projects generally include improvements related to enhancing airport safety, capacity, security and environmental concerns. FAA's share of eligible costs for large and medium primary hub airports is 75 percent with the exception of noise program implementation, which is 80 percent of the eligible costs. For remaining airports (small primary, reliever, and general aviation airports), FAA's share is 95 percent of the eligible costs.

FAA has authority under 49 U.S.C. 47110(e) to issue letters of intent to enter into a series of annual Airport Improvement Program grant agreements. FAA records an obligation when a grant is awarded. As of September 30, 2013, FAA had letters of intent extending through FY 2028 totaling $7.4 billion. As of September 30, 2013, FAA had obligated $6.0 billion of this total amount leaving $1.4 billion unobligated. As of September 30, 2012, FAA had letters of intent extending through FY 2028 totaling $7.4 billion. As of September 30, 2012, FAA had obligated $5.8 billion of this total amount, leaving $1.6 billion unobligated.

NOTE 16. COMMITMENTS AND CONTINGENCIES (continued)

AVIATION INSURANCE PROGRAM

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

During FY 2013, FAA provided premium war-risk insurance to 49 airlines. For these airlines, combined hull and liability per occurrence coverage limits range from $100 million to $4 billion. FAA also provided non-premium war-risk insurance to 37 carriers with 2,068 aircraft for Department of Defense charter operations for Central Command.

As of September 30, 2013, there are pending aviation insurance claims in the amount of $3 million. There is approximately $2.0 billion available in the Aviation Insurance Revolving Fund to pay claims to carriers covered by premium insurance. If premium insurance claims should exceed that amount, additional funding could be appropriated from the General Fund. The Department of Defense and State Department have agreed to pay claims to the carriers covered by non-premium insurance.

MARINE WAR RISK INSURANCE PROGRAM

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

During FY 2013, MARAD wrote non-premium war risk insurance with a total coverage of $463.7 million for six companies on six vessels and the coverage ranges from $64 million to $83 million to cover hull liability and vessel's crew. During FY 2012, MARAD wrote non-premium war risk insurance with a total coverage of $448.5 million for six companies on six vessels and the coverage ranges from $64 million to $83 million to cover hull liability and vessel's crew. The Department of Defense has fully indemnified MARAD for any losses arising out of the non-premium insurance. There have been no losses and no claims are outstanding for this non-premium insurance. There is approximately $47 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.

ENVIRONMENTAL LIABILITIES

As of September 30, 2013, FAA has estimated contingent liabilities, categorized as reasonably possible of $165.2 million related to environmental remediation. Contingency costs are defined for environmental liabilities as those costs that may result from incomplete design, unforeseen and unpredictable conditions or uncertainties within a defined project scope.

NATIONAL RAILROAD PASSENGER SERVICE CORPORATION (AMTRAK)

The United States and the Department are not at risk if Amtrak fails and they do not guarantee the indebtedness of Amtrak, whose debt is secured primarily by assets of the corporation. Amtrak has been operating with an accumulated deficit and is dependent upon appropriations from Congress to continue operations. Amtrak has been receiving Federal funds from Congress through the Department since approximately 1972. For FY 2013 and 2012, the Department issued grants to Amtrak for $1.6 billion and $1.7 billion, respectively. These grants were for both operating and capital improvements. Refer to Note 1W (Significant Accounting Policies) for additional information.

The Passenger Rail Investment and Improvement Act of 2008 (PRIIA) stipulated that the United States Department of Treasury ("Treasury") in consultation with DOT and Amtrak, may make agreements to restructure (including repay) Amtrak's indebtedness, including leases, outstanding as of the date of enactment of PRIIA. Under this provision, Treasury and DOT entered into a Memorandum of Understanding (MOU) consulted and acknowledged by Amtrak, to restructure and enable Amtrak to exercise certain early buyout options on selected Amtrak leases.

LAPSE IN GOVERNMENT APPROPRIATIONS

Due to a lapse in government appropriations from October 1 to October 16, 2013, DOT experienced limited furloughs for its employees. The ESC, FHWA, FMCSA and the WCF were not impacted by the furlough and continued to work. Due to the work stoppage, certain contracts may need modification to extend the period of performance and possibly increase the value of the contracts. DOT is still assessing the monetary impact of these contracts.

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

NOTE 17. FUNDS FROM DEDICATED COLLECTIONS

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

HIGHWAY TRUST FUND

The Highway Trust Fund (HTF) is comprised of the Highway Corpus Trust Fund and certain accounts of the FHWA, FMCSA, FTA, FRA and NHTSA. The HTF was created in 1956 by the Highway Revenue Act of 1956 with the main objective of funding the construction of the Dwight D. Eisenhower System of Interstate and Defense Highways. Over the years, the use of the fund has been expanded to include mass transit and other surface transportation programs such as highway safety and motor carrier safety programs. Overall, there are 76 separate treasury symbols in the HTF.

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

MASS TRANSIT ACCOUNT

In FY 2005 and prior, FTA's formula and bus grant programs were funded 80 percent by certain excise tax revenues and 20 percent from the Treasury general receipts account. These funds are considered dedicated collections but not reported as part of the HTF.

Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) legislation (PL 109-59) changed the way FTA programs are funded. Beginning in FY 2006, the FTA formula and bus grant programs are funded 100 percent by the HTF. On July 6, 2012, the President signed PL112-141 *Moving Ahead for the Programs in the 21st Century* (MAP-21) which provides current SAFETEA-LU programs and funding through September 30, 2013.

AIRPORT AND AIRWAY TRUST FUND

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

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

The following is a list of other funds from dedicated collections for which 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
- University Transportation Centers
- Contributions for Highway Research Program
- Cooperative Work, Forest Highways
- Safety of Cross-Border Trucking Between the United States and Mexico
- Payment to Air Carriers
- Right of Way Revolving Fund Program Account
- Alaska Pipeline Task Force, Oil Spill Liability Trust Fund
- Right-of-Way Revolving Fund Trust Fund
- Technical Assistance, United States Dollars Advanced from Foreign Governments
- Gifts and Bequests, Maritime Administration
- Special Studies, Services and Projects
- Gifts and Bequests, DOT Office of the Secretary
- Equipment, Supplies, etc., for Cooperating Countries

For the periods ended September 30, 2013 and 2012, respectively, funds from dedicated collections are summarized in the following charts. Intra-agency transactions have not been eliminated in the amounts presented.

NOTE 17. FUNDS FROM DEDICATED COLLECTIONS (continued)

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

NOTE 17. FUNDS FROM DEDICATED COLLECTIONS (continued)

	Highway Trust Fund	Airport & Airway Trust Fund	Mass Transit	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Balance Sheet					as of September 30, 2012
Assets					
Fund Balance With Treasury	$4,954,662	$442,965	$546,897	$2,596,036	$8,540,560
Investments, Net	9,970,201	10,473,786	—	1,886,665	22,330,652
Accounts Receivable, Net	17,391	—	809	4,660,338	4,678,538
Property, Plant & Equipment	162,686	—	—	3,721,693	3,884,379
Other	271,608	—	766	285,616	557,990
Total Assets	**$15,376,548**	**$10,916,751**	**$548,472**	**$13,150,348**	**$39,992,119**
Liabilities and Net Position					
AATF Amounts Due to FAA	$88,441	$4,532,545	$ —	$416,722	5,037,708
FECA Liabilities	27,943	—	—	1,152,896	1,180,839
Grant Accrual	4,976,013	—	20,067	640,646	5,636,726
Other Liabilities	215,117	—	1,445	1,042,875	1,259,437
Unexpended Appropriations	—	—	38,446	1,070,483	1,108,929
Cumulative Results of Operations	10,069,034	6,384,206	488,514	8,826,726	25,768,480
Total Liabilities and Net Position	**$15,376,548**	**$10,916,751**	**$548,472**	**$13,150,348**	**$39,992,119**
Statement of Net Cost					for the period ended September 30, 2012
Program Costs	$49,731,576	$ —	$164,208	$15,327,141	$65,222,925
Less Earned Revenue	131,146	—	—	638,791	769,937
Net Program Costs	**49,600,430**	**—**	**164,208**	**14,688,350**	**64,452,988**
Costs Not Attributable to Programs	—	—	—	196,345	196,345
Net Cost of Operations	**$49,600,430**	**$ —**	**$164,208**	**$14,884,695**	**$64,649,333**
Statement of Changes in Net Position					for the period ended September 30, 2012
Beginning Net Position	$16,964,550	$5,092,201	$690,431	$9,213,093	$31,960,275
Budgetary Financing Sources	42,646,717	1,292,005	737	16,029,630	59,969,089
Other Financing Sources	58,197	—	—	(460,819)	(402,622)
Net Cost of Operations	49,600,430	—	164,208	14,884,695	64,649,333
Change in Net Position	(6,895,516)	1,292,005	(163,471)	684,116	(5,082,866)
Net Position End of Period	**$10,069,034**	**$6,384,206**	**$526,960**	**$9,897,209**	**$26,877,409**

NOTE 18. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUES

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

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

NOTE 18. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUES (continued)

Intragovernmental Costs and Exchange Revenues for the fiscal year ended September 30, 2012 consist of the following:

	Intra-governmental	With the Public	Total
Surface Transportation			
Federal-Aid Highway Program			
Gross Costs	$159,178	$39,992,665	$40,151,843
Less Earned Revenue	35,555	50,769	86,324
Net Program Costs	**123,623**	**39,941,896**	**40,065,519**
Mass Transit Program			
Gross Costs	37,034	12,032,237	12,069,271
Less Earned Revenue	366,209	640	366,849
Net Program Costs	**(329,175)**	**12,031,597**	**11,702,422**
Other Surface Transportation Programs			
Gross Costs	402,540	8,365,153	8,767,693
Less Earned Revenue	376,458	396,478	772,936
Net Program Costs	**26,082**	**7,968,675**	**7,994,757**
Total Surface Transportation Program Costs	**(179,470)**	**59,942,168**	**59,762,698**
Air Transportation			
Gross Costs	2,605,520	14,026,980	16,632,500
Less Earned Revenue	258,871	369,296	628,167
Net Program Costs	**2,346,649**	**13,657,684**	**16,004,333**
Maritime Transportation			
Gross Costs	174,211	711,907	886,118
Less Earned Revenue	352,093	40,506	392,599
Net Program Costs	**(177,882)**	**671,401**	**493,519**
Cross-Cutting Programs			
Gross Costs	56,674	590,653	647,327
Less Earned Revenue	251,386	4,483	255,869
Net Program Costs	**(194,712)**	**586,170**	**391,458**
Cost Not Assigned to a Program	49,566	346,492	396,058
Less: Earned Revenues Not Attributed to Programs	15,755	(4,242)	11,513
Net Cost of Operations	**$1,828,396**	**$75,208,157**	**$77,036,553**

NOTE 19. EXCISE TAXES AND OTHER NON-EXCHANGE REVENUE

The Internal Revenue Service (IRS) collects various excise taxes that are deposited into the Highway Trust Fund (HTF) and the Airport and Airway Trust Fund (AATF). OTA estimates the amount collected/revenue recognized monthly, and adjusts the estimates to reflect actual collections quarterly. The IRS submits certificates of actual tax collections to DOT three months after the quarter-end and, accordingly, the DOT financial statements include actual excise tax revenue certified through June 30, 2013 and excise tax revenue estimates for the quarter ended September 30, 2013. As a result, total taxes recognized in the DOT fiscal year 2013 financial statements include the OTA estimate of $12.0 billion for the quarter ended September 30, 2013 and the actual amounts certified through June 30, 2013 of $37.4 billion. The total taxes recognized for the fiscal years ended September 30, 2012 and 2011 include OTA estimates which are certified by the IRS in January of the subsequent fiscal years, as follows:

	September 30, 2012	September 30, 2011
Actual	13,630,316	12,923,016
Estimate	13,914,153	11,618,526
Under (Over) Accrual	**(283,837)**	**1,304,490**

For the fiscal years ended September 30, 2013 and 2012, respectively, Excise Taxes and associated nonexchange revenue, which are reported on the Statement of Changes in Net Position, were as follows:

NON-EXCHANGE REVENUE

	September 30, 2013	September 30, 2012
Highway Trust Fund		
Excise Taxes and Other Non-Exchange Revenue		
Gasoline	$23,462,805	$25,529,900
Diesel and Special Motor Fuels	9,468,623	9,796,891
Trucks	4,647,322	5,994,309
Investment Income	6,366	7,228
Fines and Penalties	15,454	22,103
Total Taxes	**37,600,570**	**41,350,431**
Less: Transfers	(1,130,945)	(1,174,706)
Net Highway Trust Fund Excise Taxes	**36,469,625**	**40,175,725**
Other Non-Exchange Revenue	59	97
Net Highway Trust Fund Excise Taxes & Other Non-Exchange Revenue	**36,469,684**	**40,175,822**

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

NON-EXCHANGE REVENUE (continued)

	September 30, 2013	September 30, 2012
Federal Aviation Administration		
Excise Taxes and Other Non-Exchange Revenue		
Passenger Ticket	8,769,362	8,711,445
International Departure	2,911,287	2,728,594
Fuel (Air)	572,289	622,794
Waybill	618,896	491,845
Investment Income	233,555	244,912
Tax Refunds and Credits	(18,274)	(22,464)
Other	34,475	24,460
Net Federal Aviation Administration Excise Taxes & Other Non-Exchange Revenue	**13,121,590**	**12,801,586**
Other Miscellaneous Net Non-Exchange Revenue	107,630	79,168
Total Non-Exchange Revenue	**$49,698,904**	**$53,056,576**

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:

	2013			2012		
	Direct	Reimbursable	Total	Direct	Reimbursable	Total
Category A	$6,201,872	$506,291	$6,708,163	$6,706,233	$800,786	$7,507,019
Category B	82,388,519	1,435,568	83,824,087	76,800,423	1,923,743	78,724,166
Exempt From Apportionment	42,607	290,207	332,814	48,735	274,826	323,561
Total	**$88,632,998**	**$2,232,066**	**$90,865,064**	**$83,555,391**	**$2,999,355**	**$86,554,746**

	2013	2012
Available Contract Authority at Year-End	$22,065,228	$23,391,628
Available Borrowing Authority at Year-End	$2,295,600	$1,734,768
Undelivered Orders at Year-End(1)	$106,220,153	$108,814,519

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

TERMS OF BORROWING AUTHORITY USED

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

EXISTENCE, PURPOSE, AND AVAILABILITY OF PERMANENT INDEFINITE APPROPRIATIONS

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

UNOBLIGATED BUDGETARY RESOURCES

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

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

The reconciliation for the year ended September 30, 2012 is presented below. The reconciliation for the fiscal year ended September 30, 2013 is not presented, because the submission of the Budget of the United States (Budget) for FY 2015, which presents the execution of the FY 2013 budget, occurs after publication of these financial statements. The U.S. Department of Transportation Budget Appendix can be found on the OMB website (http://www.gpoaccess.gov/usbudget) and will be available in early February 2014.

Dollars in Millions	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$134,107	$86,555	$(2,739)	$75,974
Funds Not Reported in the Budget				
Expired Funds	(639)	(5)	—	—
Undelivered Orders Adjustment	(1,400)	(1,400)		
Distributed Offsetting Receipts	—	—	2,739	2,739
Other	(64)	(37)	—	1
Budget of the United States Government	**$132,004**	**$85,113**	**$ —**	**$78,714**

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 Government.

The Undelivered Orders Adjustment of $1.4 billion is caused by a reversal of an adjustment recorded at the end of FY 2011.

NOTE 21. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

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

	2013	2012
Resources Used To Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$90,865,064	$86,554,746
Less: Spending Authority From Offsetting Collections, Recoveries and Other Changes to Obligated Balances	8,884,243	9,200,514
Obligations Net of Offsetting Collections and Recoveries	81,980,821	77,354,232
Less: Distributed Offsetting Receipts	(6,220,753)	(2,738,974)
Net Obligations	**75,760,068**	**74,615,258**
Other Resources		
Donations and Forfeitures of Property	78,599	158,117
Transfers in/out Without Reimbursement	107,172	96,186
Imputed Financing From Costs Absorbed by Others	693,558	641,782
Other	(369,902)	(152,944)
Net Other Resources Used To Finance Activities	**509,427**	**743,141**
Total Resources Used To Finance Activities	**76,269,495**	**75,358,399**
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	(2,710,345)	(735,543)
Resources That Fund Expenses Recognized in Prior Periods	275,741	263,392
Credit Program Collections That Increase Liabilities for Loan Guarantees or Allowances for Subsidy	(459,718)	(466,944)
Other/Change in Unfilled Customer Orders	142,518	508,098
Special Transfers From the U.S. Treasury	(5,883,800)	(2,471,408)
Resources That Finance the Acquisition of Assets	3,592,394	3,059,374
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	6,051,271	(168,516)
Total Resources Used To Finance Items Not Part of the Net Cost of Operations	**1,008,061**	**(11,547)**
Total Resources Used To Finance the Net Cost of Operations	**75,261,434**	**75,369,946**

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

	2013	2012
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	$829	$99,959
Increase in Environment and Disposal Liability	—	53,010
Upward/Downward Reestimates of Credit Subsidy Expense	(119,992)	6,257
Change in Exchange Revenue Receivable From the Public	(3,726)	(1,005)
Change in Other Liabilities	230,473	160,217
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	**107,584**	**318,438**
Components Not Requiring or Generating Resources		
Depreciation and Amortization	1,341,059	1,217,178
Revaluation of Assets or Liabilities	(39,884)	7,907
Other Expenses and Adjustments Not Otherwise Classified Above	364,137	123,085
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	**1,665,312**	**1,348,170**
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**1,772,896**	**1,666,608**
Net Cost of Operations	**$77,034,330**	**$77,036,553**

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

	2013	2012
Fiduciary Net Assets, Beginning of Year	$354,106	$18,845
Contributions	305	593,976
Investment Earnings	91	242
Disbursements to and on Behalf of Beneficiaries	(224,319)	(258,957)
Increases/(Decreases) in Fiduciary Net Assets	(223,923)	335,261
Fiduciary Net Assets, End of Year	**$130,183**	**$354,106**

FIDUCIARY NET ASSETS

As of September 30

	2013	2012
Fiduciary Fund Balance With Treasury	$291	$291
Investments in Treasury Securities	129,892	353,815
Total Fiduciary Net Assets	**$130,183**	**$354,106**

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

DEFERRED MAINTENANCE (Unaudited)

For the Periods Ended September 30

DOT Entity	Major Class of Asset	Method of Measurement	Asset Condition*	2013 Cost To Return to Acceptable Condition**	2012 Cost To Return to Acceptable Condition**
FAA	Buildings	Condition Assessment Survey	4 & 5	$89,183	$56,166
	Other Structures and Facilities	Condition Assessment Survey	4 & 5	413,297	243,295
MARAD	Vessels, Ready Reserve Force (Various Locations)	Condition Assessment Survey	2	3,936	12,521
	Real Property, Structure U.S. Merchant Marine Academy, NY	Condition Assessment Survey	1	10	—
	Real Property, Structure U.S. Merchant Marine Academy, NY	Condition Assessment Survey	2 & 3	24,640	16,110
	Real Property, Structure U.S. Merchant Marine Academy, NY	Condition Assessment Survey	4 & 5	48,100	64,750
	Other (Fleet Craft)	Condition Assessment Survey	2	26,902	—
	Other (Fleet Craft)	Condition Assessment Survey	3	—	11,350
Total				**$606,068**	**$404,192**

***Asset Condition Rating Scale**

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

****Acceptable Condition Is**

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

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

REQUIRED SUPPLEMENTARY INFORMATION (RSI) (continued)

COMBINING STATEMENTS OF BUDGETARY RESOURCES BY MAJOR ACCOUNT (Unaudited)

For the period ended September 30, 2013

Dollars in Thousands	Federal-Aid	FAA	FTA	MARAD	All Other	Total
Budgetary Resources						
Unobligated Balance, Brought Forward, October 1	$30,017,656	$3,519,678	$10,055,116	$586,682	$3,373,401	$47,552,533
Recoveries of Prior Year Unpaid Obligations	—	373,663	91,161	45,265	535,849	1,045,938
Other Changes in Unobligated Balance	21,012	(85,116)	(47,331)	(2,854)	(27,877)	(142,166)
Unobligated Balance From Prior Year Budget Authority, Net	**30,038,668**	**3,808,225**	**10,098,946**	**629,093**	**3,881,373**	**48,456,305**
Appropriations	—	11,924,500	12,307,834	339,064	11,061,273	35,632,671
Borrowing Authority	—	—	—	46,532	2,249,068	2,295,600
Contract Authority	38,776,167	3,343,300	9,890,360	(10,746)	1,367,502	53,366,583
Spending Authority From Offsetting Collections	379,904	5,910,887	23,852	415,565	1,097,377	7,827,585
Total Budgetary Resources	**$69,194,739**	**$24,986,912**	**$32,320,992**	**$1,419,508**	**19,656,593**	**147,578,744**
Status of Budgetary Resources						
Obligations Incurred	$41,335,932	$21,380,109	$11,679,505	$860,178	$15,609,340	$90,865,064
Unobligated Balance, End of Year						
Apportioned	12,870,704	1,388,704	20,591,066	255,638	2,971,586	38,077,698
Exempt From Apportionment	—	—	—	3,605	324,153	327,758
Unapportioned	14,988,103	2,218,099	50,421	300,087	751,514	18,308,224
Unobligated Balance, End of Year	**27,858,807**	**3,606,803**	**20,641,487**	**559,330**	**4,047,253**	**56,713,680**
Total Budgetary Resources	**$69,194,739**	**$24,986,912**	**$32,320,992**	**$1,419,508**	**$19,656,593**	**$147,578,744**
Change in Obligated Balances						
Unpaid Obligations						
Unpaid Obligations, Brought Forward, October 1	$67,461,777	$9,268,750	$19,230,337	$378,340	$20,024,816	$116,364,020
Obligations Incurred	41,335,932	21,380,109	11,679,505	860,178	15,609,340	90,865,064
Outlays (Gross)	(41,866,334)	(21,481,413)	(11,676,795)	(892,030)	(16,264,981)	(92,181,553)
Actual Transfers, Unpaid Obligations (Net) (+ or -)	—	—	—	—	9,491	9,491
Recoveries of Prior Year Unpaid Obligations	—	(373,663)	(91,161)	(45,265)	(535,849)	(1,045,938)
Unpaid Obligations, End of Year (Gross)	**66,931,375**	**8,793,783**	**19,141,886**	**301,223**	**18,842,817**	**114,011,084**
Uncollected Payments						
Uncollected Payments, Federal Sources, Brought Forward, October 1	(521,159)	(330,705)	(58,163)	(123,682)	(438,119)	(1,471,828)
Change in Uncollected Payments, Federal Sources	(255,743)	54,842	(889)	23,277	(40,818)	(219,331)
Uncollected Payments, Federal Sources, End of Year	**(776,902)**	**(275,863)**	**(59,052)**	**(100,405)**	**(478,937)**	**(1,691,159)**
Obligated Balance, Start of Year (Net)	66,940,618	8,938,045	19,172,174	254,658	19,586,697	114,892,192
Obligated Balance, End of Year (Net)	**$66,154,473**	**$8,517,920**	**$19,082,834**	**$200,818**	**$18,363,880**	**$112,319,925**

REQUIRED SUPPLEMENTARY INFORMATION (RSI) (continued)

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

For the period ended September 30, 2013

Dollars in Thousands	Federal-Aid	FAA	FTA	MARAD	All Other	Total
Budget Authority and Outlays, Net						
Budget Authority, Gross	$39,156,071	$21,178,687	$22,222,046	$790,415	$15,775,220	$99,122,439
Actual Offsetting Collections	(124,161)	(5,969,567)	(22,962)	(441,340)	(1,280,027)	(7,838,057)
Change in Uncollected Customer Payments From Federal Sources	(255,743)	54,842	(889)	23,277	(40,818)	(219,331)
Budget Authority, Net	**$38,776,167**	**$15,263,962**	**$22,198,195**	**$372,352**	**$14,454,375**	**$91,065,051**
Outlays, Gross	$41,866,334	$21,481,413	$11,676,795	$892,030	$16,264,981	$92,181,553
Actual Offsetting Collections	(124,161)	(5,969,567)	(22,962)	(441,340)	(1,280,027)	(7,838,057)
Outlays, Net	**41,742,173**	**15,511,846**	**11,653,833**	**450,690**	**14,984,954**	**84,343,496**
Distributed Offsetting Receipts	—	(2,801)	(1,156)	(41,623)	(6,175,173)	(6,220,753)
Agency Outlays, Net	**$41,742,173**	**$15,509,045**	**$11,652,677**	**$409,067**	**$8,809,781**	**$78,122,743**

COMBINING STATEMENTS OF BUDGETARY RESOURCES BY MAJOR ACCOUNT (Unaudited)

For the period ended September 30, 2012

Dollars in Thousands	Federal-Aid	FAA	FTA	MARAD	All Other	Total
Budgetary Resources						
Unobligated Balance Brought Forward, October 1	$30,728,090	$3,556,211	$10,777,895	$640,840	$4,784,173	$50,487,209
Recoveries of Prior Year Unpaid Obligations	—	413,890	205,555	57,652	522,669	1,199,766
Other Changes in Unobligated Balance	—	(116,841)	(7,127)	(1,427)	(30,699)	(156,094)
Unobligated Balance From Prior Year Budget Authority, Net	**30,728,090**	**3,853,260**	**10,976,323**	**697,065**	**5,276,143**	**51,530,881**
Appropriations	7,382	12,552,370	2,179,126	362,520	4,642,415	19,743,813
Borrowing Authority	—	—	—	18,000	1,716,768	1,734,768
Contract Authority	38,657,065	3,350,000	9,889,067	—	1,212,831	53,108,963
Spending Authority From Offsetting Collections	192,112	5,969,879	21,118	493,685	1,312,060	7,988,854
Total Budgetary Resources	**$69,584,649**	**$25,725,509**	**$23,065,634**	**$1,571,270**	**$14,160,217**	**$134,107,279**
Status of Budgetary Resources						
Obligations Incurred	$39,566,993	$22,205,831	$13,010,518	$984,588	$10,786,816	$86,554,746
Unobligated Balance, End of Year						
Apportioned	14,877,106	1,430,914	10,011,591	304,785	2,547,933	29,172,329
Exempt From Apportionment	—	—	—	3,812	348,759	352,571
Unapportioned	15,140,550	2,088,764	43,525	278,085	476,709	18,027,633
Total Unobligated Balance, End of Year	**30,017,656**	**3,519,678**	**10,055,116**	**586,682**	**3,373,401**	**47,552,533**
Total Budgetary Resources	**$69,584,649**	**$25,725,509**	**$23,065,634**	**$1,571,270**	**$14,160,217**	**$134,107,279**

REQUIRED SUPPLEMENTARY INFORMATION (RSI) (continued)

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

For the period ended September 30, 2012

Dollars in Thousands	Federal-Aid	FAA	FTA	MARAD	All Other	Total
Change in Obligated Balances						
Unpaid Obligations						
Unpaid Obligations, Brought Forward, October 1	$68,014,555	$9,243,110	$18,716,473	$383,813	$21,547,111	$117,905,062
Obligations Incurred	39,566,993	22,205,831	13,010,518	984,588	10,786,816	86,554,746
Outlays (Gross)	(40,119,771)	(21,766,301)	(12,291,099)	(932,409)	(11,796,442)	(86,906,022)
Actual Transfers, Unpaid Obligations	—	—	—	—	10,000	10,000
Recoveries of Prior Year Unpaid Obligations	—	(413,890)	(205,555)	(57,652)	(522,669)	(1,199,766)
Unpaid Obligations, End of Year (Gross)	**67,461,777**	**9,268,750**	**19,230,337**	**378,340**	**20,024,816**	**116,364,020**
Uncollected Payments						
Uncollected Payments, Federal Sources, Brought Forward, October 1	(430,928)	(288,053)	(58,900)	(155,567)	(497,962)	(1,431,410)
Change in Uncollected Payments, Federal Sources	(90,231)	(42,652)	737	31,885	59,843	(40,418)
Uncollected Payments, Federal Sources, End of Year	**(521,159)**	**(330,705)**	**(58,163)**	**(123,682)**	**(438,119)**	**(1,471,828)**
Obligated Balance, Start of Year (Net)	67,583,627	8,955,057	18,657,573	228,246	21,049,149	116,473,652
Obligated Balance, End of Year (Net)	**$66,940,618**	**$8,938,045**	**$19,172,174**	**$254,658**	**$19,586,697**	**$114,892,192**
Budget and Authority and Outlays, Net						
Budget Authority, Gross	$38,856,559	$21,872,249	$12,089,311	$874,205	$8,884,074	$82,576,398
Actual Offsetting Collections	(101,881)	(5,927,228)	(21,854)	(610,572)	(1,531,692)	(8,193,227)
Change in Uncollected Customer Payments From Federal Sources	(90,231)	(42,652)	737	31,885	59,843	(40,418)
Budget Authority, Net	**$38,664,447**	**$15,902,369**	**$12,068,194**	**$295,518**	**$7,412,225**	**$74,342,753**
Outlays, Gross	$40,119,771	$21,766,301	$12,291,099	$932,409	$11,796,442	$86,906,022
Actual Offsetting Collections	(101,881)	(5,927,228)	(21,854)	(610,572)	(1,531,692)	(8,193,227)
Outlays, Net	**40,017,890**	**15,839,073**	**12,269,245**	**321,837**	**10,264,750**	**78,712,795**
Distributed Offsetting Receipts	—	(11,559)	(773)	(54,533)	(2,672,109)	(2,738,974)
Agency Outlays, Net	**$40,017,890**	**$15,827,514**	**$12,268,472**	**$267,304**	**$7,592,641**	**$75,973,821**

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	2009	2010	2011	2012	2013
Surface Transportation					
Federal Highway Administration					
Federal Aid Highways (HTF)	$37,860,105	$29,649,943	$34,556,573	$39,048,865	$40,380,481
Other Highway Trust Fund Programs	216,263	155,061	148,271	99,127	134,204
General Fund Programs	3,228,009	11,616,036	7,906,180	3,203,055	1,282,624
Appalachian Development System	321,480	90,091	243,853	288,473	280,380
Federal Motor Carrier	837	—	—	(15,998)	—
Total Federal Highway Administration	**41,626,694**	**41,511,131**	**42,854,877**	**42,623,522**	**42,077,689**
Federal Transit Administration					
Discretionary Grants	$16,424	$17,171	$25,068	$12,682	$6,672
Formula Grants	743,604	428,696	220,047	171,134	133,830
Capital Investment Grants	2,175,758	1,930,185	1,924,741	2,439,812	2,111,680
Washington Metro Area Transit Authority	33	—	110,321	91,153	148,469
Interstate Transfer Grants	316	—	—	—	—
Formula and Bus Grants	7,264,278	7,345,804	7,182,145	8,197,321	8,091,511
Total Federal Transit Administration	**10,200,413**	**9,721,856**	**9,462,322**	**10,912,102**	**10,492,162**
Total Surface Transportation Non-Federal Physical Property Investments	**$51,827,107**	**$51,232,987**	**$52,317,199**	**$53,535,624**	**$52,569,851**
Air Transportation:					
Federal Aviation Administration					
Airport Improvement Program	$4,034,970	$4,015,463	$3,388,712	$3,139,685	$3,603,209
Total Air Transportation Non-Federal Physical Property Investments	**$4,034,970**	**$4,015,463**	**$3,388,712**	**$3,139,685**	**$3,603,209**
Total Non-Federal Physical Property Investments	**$55,862,077**	**$55,248,450**	**$55,705,911**	**$56,675,309**	**$56,173,060**

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

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

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

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (RSSI) (continued)

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

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

Interstate Transfer Grants provided Federal financing from FY 1976 through FY 1995 to allow States and localities to fund transit capital projects substituted for previously withdrawn segments of the Interstate Highway System.

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

HUMAN CAPITAL INVESTMENT EXPENSES ANNUAL STEWARDSHIP INFORMATION (Unaudited)

For the fiscal years ended September 30

Dollars in Thousands	2009	2010	2011	2012	2013
Surface Transportation					
Federal Highway Administration					
National Highway Institute Training	$375	$109	$133	$508	$1,184
Federal Motor Carrier Safety Administration					
Safety Grants	1,230	845	636	1,342	2,669
Idaho Video	399	9	—	—	—
Federal Transit Administration					
National Transit Institute Training	3,440	3,886	3,246	3,550	2,926
National Highway Safety Administration					
Section 403 Highway Safety Programs	143,639	138,221	123,340	118,169	127,644
Highway Traffic Safety Grants	566,790	565,787	576,063	514,816	517,788
Pipeline and Hazardous Materials Safety Administration					
Hazardous Materials (Hazmat) Training	13,263	13,153	16,974	17,808	18,127
Total Surface Transportation Human Capital Investments	**729,136**	**722,010**	**720,392**	**656,193**	**670,338**
Maritime Transportation					
Maritime Administration					
State Maritime Academies Training[1]	11,041	10,810	11,459	13,746	11,208
Additional Maritime Training	1,751	2,365	2,146	—	2,400
Total Maritime Transportation Human Capital Investments	**12,792**	**13,175**	**13,605**	**13,746**	**13,608**
Total Human Capital Investments	**$741,928**	**$735,185**	**$733,997**	**$669,939**	**$683,946**

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

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

The Idaho Video Program develops video training material utilized by the FMCSA National Training Center for the purpose of training State and local law enforcement personnel.

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

The National Highway Traffic Safety Administration's (NHTSA) programs authorized under the Highway Trust Fund provide resources to State and local governments, private partners, and the public, to effect changes in driving behavior on the nation's highways to increase safety belt usage and reduce impaired driving. NHTSA provides technical assistance to all States on the full range of components of the impaired driving system as well as conducting demonstrations, training and public information/education on safety belt usage.

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

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (RSSI) (continued)

RESEARCH AND DEVELOPMENT INVESTMENTS ANNUAL STEWARDSHIP INFORMATION
(Unaudited)

For the fiscal years ended September 30

Dollars in Thousands	2009	2010	2011	2012	2013
Surface Transportation					
Federal Highway Administration					
Intelligent Transportation Systems	$111,219	$129,993	$98,694	$100,467	$103,510
Other Applied Research and Development	28,259	159,389	244,156	12,042	9,977
Federal Railroad Administration					
Railroad Research and Development Program	3,349	5,647	6,027	13,742	5,301
Federal Transit Administration					
Applied Research and Development					
Transit Planning and Research	6,914	7,228	13,751	21,700	22,518
Pipeline and Hazardous Materials Safety Administration					
Applied Research and Development					
Development Research and Development Pipeline Safety					
Applied Research and Development Pipeline Safety	9,198	7,362	2,365	8,073	7,862
Applied Research and Development Hazardous Materials	1,593	1,622	2,855	1,636	1,666
Research and Innovative Technology Administration					
Applied Research and Development					
Research and Technology	1,936	6,137	6,134	5,792	5,755
Total Surface Transportation Research and Development Investments	**162,468**	**317,378**	**373,982**	**163,452**	**156,589**
Air Transportation					
Federal Aviation Administration					
Research and Development Plant	3,381	5,590	5,848	18,974	26,086
Applied Research	95,764	103,042	129,954	133,932	119,952
Development	1,102	2,008	2,238	1,311	312
Administration	35,055	36,723	35,875	37,482	35,929
Total Air Transportation Research and Development Investments	**135,302**	**147,363**	**173,915**	**191,699**	**182,279**
Total Research and Development Investments	**$297,770**	**$464,741**	**$547,897**	**$355,151**	**$338,868**

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

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

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

Transit University Transportation Centers, combined with funds from the Highway Trust Fund, provide continued support for research, education, and technology transfer.

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 activities.

The Federal Railroad Administration (FRA) research and development projects contribute vital inputs to its safely regulatory processes, to railroad suppliers, to railroads involved in transportation of freight, intercity passengers, commuters, and to railroad employees and their labor organizations. FRA-owned facilities provide the infrastructure necessary to conduct experiments and test theories, concepts, and new technologies in support of the R&D program.

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

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

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

The Research and Innovative Technology Administration's key mandate is to coordinate research across DOT to maximize and leverage the taxpayers' $1.2 billion annual investment in research, development and technology (RD&T) activities.

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


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OTHER INFORMATION

SCHEDULE OF SPENDING

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

SCHEDULE OF SPENDING (Unaudited)

For the period ended September 30

Dollars in Thousands	2013 Budgetary	2013 Non-Budgetary Credit Reform Financing Accounts
What Money Is Available To Spend?		
Total Resources	$144,698,264	$2,880,480
Less Amount Available but Not Agreed To Be Spent	38,380,880	24,576
Less Amount Not Available To Be Spent	18,069,800	238,424
Total Amounts Agreed To Be Spent	**$88,247,584**	**$2,617,480**
How Was the Money Spent/Issued?		
Surface Transportation		
1. Personnel Compensation and Benefits	$909,433	$ —
2. Contractual Services and Supplies	2,291,347	—
3. Acquisition of Assets	312,484	2,542,186
4. Grants and Fixed Charges	54,633,821	35,559
5. Other	5,885,052	0
Air Transportation		
1. Personnel Compensation and Benefits	7,499,646	—
2. Contractual Services and Supplies	5,338,487	—
3. Acquisition of Assets	350,852	—
4. Grants and Fixed Charges	3,124,754	—
5. Other	5,066,370	—
Maritime Transportation		
1. Personnel Compensation and Benefits	99,787	—
2. Contractual Services and Supplies	496,146	92
3. Acquisition of Assets	26,634	—
4. Grants and Fixed Charges	190,919	39,581
5. Other	6,982	37
Cross-Cut Transportation		
1. Personnel Compensation and Benefits	155,370	—
2. Contractual Services and Supplies	569,236	—
3. Acquisition of Assets	13,618	—
4. Grants and Fixed Charges	5	—
5. Other	(52,022)	—
Not Assigned		
1. Personnel Compensation and Benefits	134,252	—
2. Contractual Services and Supplies	82,492	—
3. Acquisition of Assets	9,072	—
4. Grants and Fixed Charges	255,749	25
5. Other	847,098	—
Total Amounts Agreed to be Spent	**$88,247,584**	**$2,617,480**

SCHEDULE OF NET COST BY STRATEGIC GOAL

The Schedule of Net Cost by Strategic Goal reports the DOT operational net cost to reflect the net cost of operations by each of the Department's six goals in its FY 2013 Budget submission (which was a continuation of the FY 2012 budget submission due to effects of the continuing resolutions) 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, 2013

	Strategic Goal Areas						
Dollars in Thousands	Safety	State of Good Repair	Livable Communities	Environmental Sustainability	Economic Competitiveness	Organization Excellence	Total
Surface Transportation							
Federal Highway Administration	$12,366,991	$17,005,889	$4,271,893	$5,557,347	4,997,139	$15,924	$44,215,183
Federal Transit Administration	119,631	5,504,032	1,981,110	66,984	3,735,349	68,734	11,475,840
Federal Railroad Administration	352,569	365,788	519,879	455,476	772,630	110,002	2,576,344
Federal Motor Carrier Safety Administration	559,529	—	—	—	3,300	16,419	579,248
National Highway Safety Administration	681,589	—	—	59,269	—	6,500	747,358
Pipeline and Hazardous Materials Safety Administration	84,834	—	—	—	—	—	84,834
Research and Innovative Technology Administration	16,520	788	689	3,532	638	5,846	28,013
Surface Transportation Board	—	—	—	—	—	75,559	75,559
Subtotal	**14,181,663**	**22,876,497**	**6,773,571**	**6,142,608**	**9,509,056**	**298,984**	**59,782,379**
Air Transportation							
Federal Aviation Administration	7,852,048	1,589,135	—	554,757	4,462,013	1,626,614	16,084,567
Subtotal	**7,852,048**	**1,589,135**	**—**	**554,757**	**4,462,013**	**1,626,614**	**16,084,567**
Maritime Transportation							
Maritime Administration	—	—	—	20,205	288,866	28,620	337,691
Subtotal	**—**	**—**	**—**	**20,205**	**288,866**	**28,620**	**337,691**
Other Programs							
Office of the Secretary	132,234	131,386	190,510	132,818	138,318	43,130	768,396
Volpe National Transportation System Center	(1,418)	(68)	(60)	(303)	(55)	(502)	(2,406)
Office of Inspector General	—	—	—	—	—	63,703	63,703
Subtotal	**130,816**	**131,318**	**190,450**	**132,515**	**138,263**	**106,331**	**829,693**
Total Net Cost	**$22,164,527**	**$24,596,950**	**$6,964,021**	**$6,850,085**	**14,398,198**	**$2,060,549**	**$77,034,330**

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	2013	2012
Condensed Information		
Cash and Short-Term Time Deposits	$30,569	$37,410
Long-Term Time Deposits	1,293	2,036
Accounts Receivable	111	172
Inventories	284	277
Other Current Assets	28	11
Property, Plant and Equipment	111,961	90,734
Deferred Charges	4,815	4,588
Other Assets	690	727
Total Assets	**$149,751**	**$135,955**
Current Liabilities	$5,109	$4,628
Actuarial Liabilities	4,815	4,588
Total Liabilities	**9,924**	**9,216**
Invested Capital	127,106	105,879
Cumulative Results of Operations	12,721	20,860
Total Net Position	**139,827**	**126,739**
Total Liabilities and Net Position	**$149,751**	**$135,955**
Operating Revenues	$8,161	$25,249
Operating Expenses	19,318	21,552
Operating Income (Loss)	**(11,157)**	**3,697**
Other Financing Sources	3,018	2,931
Operating Revenues and Other Financing Sources Over (Under) Operating Expenses	**(8,139)**	**6,628**
Beginning Cumulative Results of Operations (Deficit)	20,860	14,232
Ending Cumulative Results of Operations (Deficit)	**$12,721**	**$20,860**

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 Controls Over Undelivered Orders	1		1			0
Total	**1**	**0**	**1**	**0**	**0**	**0**

TABLE 2. SUMMARY OF MANAGEMENT ASSURANCES

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

Statement of Assurance	Unqualified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Lack of Sufficient Controls Over Undelivered Orders	1		1			0
Total Material Weaknesses	**1**	**0**	**1**	**0**	**0**	**0**

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

Statement of Assurance	Qualified

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

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

Statement of Assurance	Unqualified

Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Lack of Sufficient Controls Over Undelivered Orders	1	0	1	0	0	0

Conformance with Federal Financial Management Improvement Act (FFMIA)

	Agency	Auditor
1. System Requirements	No noncompliance noted	No noncompliance noted
2. Accounting Standards	No noncompliance noted	No noncompliance noted
3. USSGL at Transaction Level	No noncompliance noted	No noncompliance noted

Memorandum

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

Subject: **INFORMATION**: DOT's Fiscal Year 2014 Top Management Challenges Department of Transportation Report Number PT-2014-009

Date: December 16, 2013

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

Reply to Attn. of: J-1

To: The Secretary
Deputy Secretary

A safe and well-managed transportation system is key for the U.S. economy and the quality of life for the traveling public. The Department of Transportation (DOT) provides over $70 billion annually to fund a wide range of programs. Consequently, it is critical for the Department to provide rigorous stewardship of taxpayer funds while carrying out its mission.

Safety remains the Department's top priority, and DOT has a number of initiatives underway to enhance safety in the air and on the ground. To maintain the Nation's excellent aviation safety record, the Department must continue to improve pilot, runway, and repair station safety oversight; assess its recent policy changes to prevent controller fatigue; and enhance the data it collects to prevent separation losses between aircraft. At the same time, the Department must set investment priorities and realistic plans for the Next Generation Air Transportation System (NextGen)—a complex and costly effort that is vital to provide safer and more efficient air traffic management. This will require difficult trade-offs among diverse capital programs.

With regard to highways, transit, and pipelines, the Department must address our longstanding recommendations and new safety oversight requirements in the Moving Ahead for Progress in the 21st Century Act (MAP-21). Key priorities include implementing data-driven, risk-based oversight for bridge inspections; developing a national tunnel safety program; removing unsafe motor carriers from our Nation's roads; setting effective policies for its newly expanded rail transit oversight role; and strengthening States' pipeline safety programs.

The Department must also continue efforts to meet other MAP-21 requirements for surface infrastructure projects nationwide to accelerate their delivery and employ performance-based management. In addition, the Department faces a new challenge to effectively manage the influx of relief funds to restore transit systems damaged by Hurricane Sandy in the northeastern United States and establish an emergency relief program for future disasters. Securing the Department's information technology (IT) infrastructure also remains a top priority, as we continue to find information security deficiencies in critical systems. To protect its mission and credibility, the Department must help its Operating Administrations address cyber threats; protect sensitive information; and develop a strategic vision to better manage its current technologies, plan for future systems, and maximize cost savings.

Finally, we continue to identify opportunities for the Department to save taxpayer dollars and better manage its contracts and resources. Key focus areas include reducing use of high-risk contract types, improving oversight of major IT acquisitions, and better protecting high-dollar recipient programs from fraud, waste, and abuse.

We remain committed to assisting the Department in improving the management and execution of its programs and protecting its resources through our audits and investigations. As required by law, we have identified the Department's top management challenges for fiscal year 2014. We considered several criteria in identifying the following seven challenges, including their impact on safety, documented vulnerabilities, large dollar implications, and the ability of the Department to effect change in these areas:

- Improving FAA's Oversight of the Aviation Industry and the Operations of the National Airspace System
- Identifying and Addressing Root Causes of Problems With NextGen and Setting Investment Priorities
- Continuing Actions To Strengthen Highway, Transit, and Pipeline Safety
- Improving Oversight of Surface Infrastructure Investments and Implementing Statutory Requirements
- Implementing Requirements To Address the Federal Railroad Administration's Expanded and Traditional Responsibilities
- Managing Acquisitions and Contracts To Achieve Results and Save Taxpayer Dollars
- Building a Secure and Modern Information Technology Infrastructure

We appreciate the Department's commitment to taking prompt corrective action in response to our findings and recommendations. This report and the Department's response will be included in the Department's Annual Financial Report. 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 Audits and Evaluation, at (202) 366-1427.

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cc: DOT Audit Liaison, M-1

CHAPTER 1

IMPROVING FAA'S OVERSIGHT OF THE AVIATION INDUSTRY AND THE OPERATIONS OF THE NATIONAL AIRSPACE SYSTEM

The Federal Aviation Administration (FAA) operates the world's safest air transportation system and has a number of initiatives underway to enhance safety in the National Airspace System (NAS). However, our audit work as well as recent aircraft accidents and incidents underscore the need for FAA to further improve its pilot safety initiatives, controller workforce management, repair station and runway oversight, and safety data analysis.

KEY CHALLENGES

- Advancing initiatives to improve pilot training, mentoring, and record keeping
- Improving air traffic controller training, scheduling, and performance
- Implementing a risk-based approach for repair station oversight
- Enhancing runway safety
- Improving data collection and analysis to identify and mitigate risks with aircraft separation losses and air carrier operations

ADVANCING INITIATIVES TO IMPROVE PILOT TRAINING, MENTORING, AND RECORD KEEPING

Investigations of recent accidents, including the July 2013 crash of Asiana Airlines flight 214, have focused attention on airline pilots' training, performance, and qualifications. The 2010 Airline Safety and FAA Extension Act[1] required improvements in these areas, and FAA has made important progress on many of them. For example, in recent weeks, FAA issued a final rule to significantly advance commercial pilot training, and in July 2013, FAA completed a rule that raised airline pilot qualifications for first officers from 250 flight hours to 1,500. Last year, FAA also updated its rule on flight and duty requirements to help ensure pilots are rested when they fly. These are significant achievements for the Agency and should further enhance aviation safety.

Despite these improvements, the Agency is still experiencing delays in issuing rules required by the act to develop pilot mentoring and leadership programs, and establish better processes for managing safety risks. Additionally, FAA has been slow to make long-term implementation decisions on a new electronic database for pilot records. Effectively implementing the database will require FAA to ensure air carriers are retaining pilot records and that records contain enough information to help carriers identify specific performance deficiencies.

IMPROVING AIR TRAFFIC CONTROLLER TRAINING, SCHEDULING, AND PERFORMANCE

Training new air traffic controllers to replace the large number of retirees remains a key priority for FAA—especially in light of FAA's transition to the Next Generation Air Transportation System (NextGen). In August 2013, we reported that while FAA has taken actions to improve its controller training program, such as determining whether to base new hires' facility placement on their performance at the FAA Academy, it needs to track the progress of these actions and establish efficient mechanisms to

[1] Airline Safety and Federal Aviation Administration Extension Act of 2010, P. L. No. 111-216 (2010).

assess their impact. We also found that further steps are needed to ensure that air traffic facilities have the training support resources they need. In July 2012, FAA reduced its use of contracted instructors at its 22 en route centers by 62 percent. This resulted in some facility managers taking certified controllers off of their air traffic control positions to supplement training.

We also recently completed a review of FAA's policy changes to address controller fatigue. These include placing an additional air traffic controller on the midnight shift at certain facilities and mandating a minimum of 9 hours off between evening and day shifts. While the new policies are positive steps to improve safety in this area, they lack clarity and metrics to measure the effects of fatigue on controllers. For example, facility managers were concerned about the lack of explicit guidance on what activities are allowed during recuperative breaks. They also expressed concern over the ability to recall employees on their breaks.

IMPLEMENTING A RISK-BASED APPROACH FOR REPAIR STATION OVERSIGHT

FAA's development of the Safety Assurance System (SAS), a new risk-based approach to enhance oversight of repair stations, has been delayed 2 years. The Agency now projects inspectors will not begin using this system until fiscal year 2015. When fully implemented, SAS should address our recommendations to target inspector resources based on risk and develop a risk-based system suitable for oversight of foreign repair stations. In the meantime, FAA has proposed interim solutions to address some of our recommendations, such as providing inspectors with more comprehensive, standardized procedures for conducting inspections and reporting findings. However, further delays in implementing the new risk-based system will likely hinder FAA's ability to improve its oversight of repair stations.

FAA must also ensure it effectively monitors FAA-certificated repair stations in the European Union. In 2011, the United States and the European Union entered into an agreement, which in part directed FAA to begin transferring oversight of its repair stations to the national aviation authorities of those countries to reduce duplicative oversight. As of May 2013, these authorities assumed responsibility for inspecting, on FAA's behalf, nearly 400 FAA-certificated repair stations located in 18 countries. This presents a unique challenge for FAA because, despite its diminished oversight presence at European repair stations, it must still ensure that these repair stations continue to meet FAA standards. We are reviewing this issue and plan to report on the process early next year.

ENHANCING RUNWAY SAFETY

FAA's Runway Safety Program Office tracks all reported runway incursions and categorizes them in terms of risk. FAA met its goal to reduce the rate of serious runway incursions—those in which a collision was barely avoided—for fiscal year 2012.[2] However, between fiscal years 2010 and 2012, the number of serious incursions tripled—from 6 to 18. Additionally, the total number of all runway incursions increased by 21 percent (954 to 1,150) between fiscal years 2011 and 2012, and continues to rise, despite a slight decline in total air traffic operations. While FAA recently reorganized its Runway Safety Office and changed the way it reports runway incursions, it has not assessed the impact of these changes.

[2] FAA's serious runway incursion rate goal for fiscal year 2012 was 0.395 runway incursions per 1 million operations. The actual rate for serious runway incursions was 0.356 for fiscal year 2012.

FAA is also working to deploy technology that could help prevent collisions on runways. For example, in fiscal year 2011, FAA completed deployment of the Airport Surface Detection Equipment-Model X (ASDE-X) system at 35 major airports, which provides detailed information to air traffic controllers regarding aircraft operations on runways and taxiways. While ASDE-X is a step in the right direction, it does not provide alerts directly to pilots, a longstanding National Transportation Safety Board (NTSB) recommendation. To address this shortcoming, FAA is integrating ASDE-X with two other systems—Runway Status Lights (RWSL)[3] and Automatic Dependent Surveillance-Broadcast (ADS-B)[4]—to simultaneously alert controllers and pilots of potential ground collisions. However, progress toward these enhancements depends on a number of other actions, such as establishing requirements for technical upgrades, testing system integrity, and determining whether ASDE-X capabilities will meet FAA's goals of increasing capacity while improving safety.

IMPROVING DATA COLLECTION AND ANALYSIS TO IDENTIFY AND MITIGATE RISKS WITH AIRCRAFT SEPARATION LOSSES AND AIR CARRIER OPERATIONS

Accurately counting and identifying trends that contribute to separation losses and operational errors continues to be a top priority for FAA. In April 2013, we reported that between fiscal years 2011 and 2012, operational errors appeared to increase by as much as 32 percent (from 1,895 to 2,509)[5]; the most serious reported errors (category A)[6] also increased (from 55 to 275).

According to FAA, the increase in reported operational errors between fiscal years 2011 and 2012 was largely due to increased reporting through programs such as the Air Traffic Safety Action Program (ATSAP)[7] and the Traffic Analysis and Review Program (TARP), an automated system to detect losses of separation at air traffic terminal facilities.[8] However, we found that the increase in reported errors was linked in part to a rise in actual errors rather than increased reporting. For example, FAA's air route traffic control centers (ARTCC)[9]—which have had an automated system in place for years to detect and investigate reported errors—had a 32 percent increase in operational errors during the same period.

FAA is taking action to mitigate separation losses. For example, FAA has developed a Risk Analysis Process to evaluate the risk of separation losses, an annual list of the five highest risk separation losses, and corrective actions to address such hazards. FAA states it has implemented over 90 percent of the mitigation strategies within the corrective plans that address the fiscal year 2012 Top Five Hazards and has begun developing corrective action plans for the fiscal year 2013 list.

FAA is also moving toward a data-driven approach to identify and mitigate risks related to airline operations. As part of this initiative, FAA implemented the Aviation Safety Information Analysis and Sharing (ASIAS) system in 2007, which collects and analyzes data from multiple databases to proactively identify accident risks. ASIAS enables authorized users to obtain data from confidential databases—such as airline voluntary safety reporting programs—as well as publicly available data sources. These data could help increase inspectors' awareness of industry-wide safety issues. We are currently reviewing ASIAS and expect to issue a report later this year. Thus far, we have found that FAA is improving ASIAS by increasing the number of participating commercial airlines and capturing key confidential voluntary safety data, such as those from air carrier Flight Operational Quality Assurance[10] programs and Aviation Safety

[3] RWSL consists of red lights embedded into the runway designed to provide a visible warning to pilots when runways are not clear to enter, cross, or depart.

[4] ADS-B is a satellite-based effort expected to provide more precise information about the position of aircraft and vehicles operating on airport surfaces to both pilots and controllers.

[5] Based on FAA data, we calculated that the total number of operational errors may have increased up to 2,509 in fiscal year 2012. We are unable to state that our calculations for FY 2012 are 100 percent accurate due to limitations in FAA data. Specifically, FAA stopped using the term "operational errors" in 2012.

[6] Prior to fiscal year 2011, FAA reported the rate of category A and B errors per every 1,000 operations as a performance measure. FAA rated operational errors by severity based on aircraft proximity using A, B, or C—with A being the most severe risk and C the least severe. In FY 2011, FAA began reporting its System Risk Event Rate (SRER) performance measure, which also considers repeatability and severity of events. According to FAA, using its SRER performance measure, the rate of high risk events per 1,000 losses of separation decreased nearly every month during fiscal year 2012 from 24.38 in October 2011 to 9.33 in September 2012.

[7] ATSAP is a voluntary, non-punitive program in which controllers can self-report safety instances and concerns. In July 2012, we issued a separate report on FAA's implementation of ATSAP: *Long-Term Success of ATSAP Will Require Improvements in Oversight, Accountability, and Transparency* (OIG Report Number 2012-152), July 19, 2012. OIG reports are available on our Web site at http://www.oig.dot.gov/.

[8] Terminal facilities include air traffic control towers and Terminal Radar Approach Control (TRACON) facilities. Air traffic control towers separate aircraft on the airport surface and guide aircraft as they take off and land. TRACONs guide aircraft as they approach or leave airspace surrounding airports to about 40 miles away.

[9] ARTCC guide aircraft flying at high altitudes, generally above 17,000 feet.

[10] FOQA is a voluntary safety program that allows for the routine collection and analyses of digital flight data generated during aircraft operations.

Action Programs.[11] However, FAA's plan to use ASIAS as a fully predictive tool is still several years away due to a number of challenges. These include enhancing automated capabilities and analytical methodologies, improving the quality of data ASIAS receives from carriers, and addressing access issues and airline concerns over using confidential ASIAS data.

RELATED PRODUCTS

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

- *FAA's Controller Scheduling Practices Can Impact Human Fatigue, Controller Performance, and Agency Costs*, August 27, 2013
- *FAA Is Making Progress but Improvements in Its Air Traffic Controller Facility Training Are Still Needed*, August 27, 2013
- *FAA Lacks a Reliable Model for Determining the Number of Flight Standards Safety Inspectors It Needs*, June 20, 2013
- *FAA Continues To Face Challenges in Implementing a Risk-Based Approach to Repair Station Oversight*, May 1, 2013
- *FAA's Fiscal Year 2014 Budget Request: Key Issues Facing the Agency*, April 18, 2013
- *FAA's Progress and Challenges in Advancing Safety Oversight Initiatives*, April 16, 2013
- *FAA's Efforts To Track and Mitigate Air Traffic Losses of Separation Are Limited by Data Collection and Implementation Challenges*, February 27, 2013
- *FAA and Industry Are Advancing the Airline Safety Act, but Challenges Remain To Achieve Its Full Measure*, January 31, 2013

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

CHAPTER 2

IDENTIFYING AND ADDRESSING ROOT CAUSES OF PROBLEMS WITH NEXTGEN AND SETTING INVESTMENT PRIORITIES

The Next Generation Air Transportation System (NextGen) is a multibillion-dollar transportation infrastructure project that is necessary to modernize our Nation's aging air traffic system and provide safer and more efficient air traffic management. NextGen is also a complex undertaking that involves new technologies and procedures and multiple stakeholders whose priorities may conflict. In response to a more constrained budget environment and the need for more realistic plans, the Federal Aviation Administration (FAA) is working with industry to set investment priorities for NextGen and make trade-offs among programs, plans, and funding profiles. Since the effort began almost a decade ago, we have reported on cost increases and delays with modernization projects and other key management challenges that FAA must address to successfully transform the National Airspace System (NAS).

[11] ASAP is a voluntary safety program that allows *aviation employees* to self-report safety violations to air carriers and FAA without fear of reprisal through legal or disciplinary actions.

KEY CHALLENGES

- Identifying and addressing the underlying causes of cost increases and schedule delays
- Integrating new performance-based navigation routes to maximize near-term benefits and gain user support
- Implementing an integrated master schedule for NextGen programs
- Mitigating implementation risks with key automation systems that controllers rely on to manage air traffic
- Further developing and implementing consolidation and modernization plans
- Safely integrating unmanned aircraft systems in the NAS

IDENTIFYING AND ADDRESSING THE UNDERLYING CAUSES OF DELAYS

FAA's NextGen plans—which initially targeted completion for 2025 at a cost of $40 billion—lacked sound strategies for achieving a system that could handle three times more traffic while reducing FAA's operating costs. FAA has been unable to set realistic plans, budgets, and expectations for key NextGen programs due to a lack of firm requirements for NextGen's most critical capabilities. FAA's organizational culture has also been slow to embrace NextGen's transformational vision, and gaps in leadership have further undermined the Agency's efforts to advance NextGen. Recognizing the need to better position itself to execute NextGen, FAA announced a major reorganization in 2011, creating an Assistant Administrator for NextGen who reports directly to the FAA Deputy Administrator and establishing a new Program Management Office. While these changes could enhance FAA's management of NextGen, it remains unclear whether they will be sufficient to successfully implement NextGen.

INTEGRATING NEW PERFORMANCE-BASED NAVIGATION ROUTES TO MAXIMIZE NEAR-TERM BENEFITS AND GAIN USER SUPPORT

A central question with NextGen has been when users will begin realizing benefits. Near-term benefits—such as more direct flights, improved on-time aircraft arrival rates, and greater fuel savings—can be achieved through new performance-based navigation (PBN) procedures, such as Area Navigation (RNAV) and Required Navigation Performance (RNP).[12] However, FAA's implementation and airlines' use of PBN procedures has been inconsistent. For example, according to preliminary data, RNP use is high at some small- to medium-sized airports, such as Oakland, CA, but overall RNP use is low, particularly at busy airports, such as those in the New York area. Several obstacles undermine FAA's efforts to increase use of PBN procedures. These include a lack of updated PBN policies and procedures for controllers, a lengthy flight procedure development process, and a lack of controller tools to manage and sequence aircraft. Until FAA addresses these obstacles and clearly demonstrates the type and timing of expected benefits, airspace users will remain reluctant to equip with new avionics needed to advance new procedures and NextGen.

IMPLEMENTING AN INTEGRATED MASTER SCHEDULE FOR NEXTGEN PROGRAMS

In response to our April 2012 recommendation, FAA continues to develop an integrated master schedule for NextGen's transformational programs[13] and related efforts. The integrated master schedule is a key tool for FAA and the Department

[12] RNAV is a method of navigation in which aircraft use avionics, such as Global Positioning Systems, to fly any desired flight path without the limitations imposed by ground-based navigation systems. RNP is a form of RNAV that adds on-board monitoring and alerting capabilities for pilots, thereby allowing aircraft to fly more precise flight paths.

[13] These six programs are Automatic Dependent Surveillance-Broadcast (ADS-B), System Wide Information Management (SWIM), Data Communications (DataComm), NextGen Network Enabled Weather (NNEW), NAS Voice System (NVS), and Collaborative Air Traffic Management Technologies (CATM-T).

to manage NextGen given the complex interdependencies between new NextGen technologies and existing air traffic systems. Without an effective master schedule, it will be difficult for FAA to (1) fully address operational, technical, programmatic risks; (2) prioritize and make informed trade-offs among capital programs consistent with industry recommendations; and (3) determine what capabilities should be delivered first and at what locations. FAA plans to begin using the integrated master schedule in March 2014 and demonstrate its capabilities by showing the linkages and dependencies among NextGen programs through 2015. FAA also states that it will need to further refine and update the schedule to reflect developmental efforts it plans to implement through 2020.

MITIGATING IMPLEMENTATION RISKS WITH KEY AUTOMATION SYSTEMS THAT CONTROLLERS RELY ON TO MANAGE AIR TRAFFIC

FAA's long-term goals for NextGen, such as increasing airspace capacity and reducing flight delays, depend on fully implementing the En Route Automation Modernization (ERAM) program—a $2.4 billion system to replace hardware and software at FAA's facilities that manage high-altitude traffic. After experiencing significant delays and cost increases due to extensive software-related problems, FAA began making progress deploying ERAM over the last 2 years. FAA is using the new system either on a full- or part-time basis at 17 air traffic facilities. However, FAA is now revising ERAM plans due to the impacts of sequestration, increased costs incurred to fix problems, and the remaining work required to implement the system at the Nation's busiest facilities on the East Coast. FAA plans to complete ERAM in March 2015.

FAA's Terminal Automation Modernization/Replacement (TAMR) program is also a prerequisite for introducing new NextGen capabilities. This program involves about $1 billion through 2018 to replace aging displays and processors with a single automation platform that controllers rely on to manage takeoffs and landings, the most critical phases of flight. FAA recently approved plans to begin transitioning to a new terminal automation system at 11 large Terminal Radar Approach Control (TRACON) facilities through 2017 at a cost of $438 million. However, FAA has not identified and finalized all hardware and software requirements or "gaps" needed to successfully replace the existing system. While FAA is developing software to address 94 gaps, it anticipates finding more as it deploys the system. To achieve future NextGen capabilities, continued management attention from the Department and FAA is essential to ensure timely implementation of these foundational programs.

FURTHER DEVELOPING AND IMPLEMENTING CONSOLIDATION AND MODERNIZATION PLANS

An important and controversial component of FAA's NextGen efforts is the extent to which the Agency consolidates or realigns the Nation's extensive network of aging air traffic control facilities. FAA's consolidation plans will impact various NextGen programs that already have established baselines, including automation and communication projects. Moreover, these programs were originally based on FAA's current facility set-up for en route centers and TRACONs—not consolidated facilities. However, FAA has not made changes to its Capital Investment Plan, and the full extent of any changes will remain unknown until FAA makes decisions for the first integrated facility in the New York area. These issues include cost, schedule, technical capabilities, and the impact on the aviation workforce. To date, FAA has been unable to quantify the potential cost savings and benefits from realigning air traffic facilities for airspace users and the traveling public. FAA expects to provide a detailed cost estimate for the integrated New York facility by the end of 2014.

SAFELY INTEGRATING UNMANNED AIRCRAFT SYSTEMS IN THE NAS

FAA predicts there will be roughly 7,500 small commercial Unmanned Aircraft Systems (UAS)[14] in 5 years, with the aerospace industry investing over $89 billion in UAS technology over the next 10 years. Integrating UAS in domestic US airspace will impact several FAA lines of business and offices, including safety and air traffic modernization. In 2012, FAA appointed a senior executive to lead its UAS Program Office. In 2013, this became the UAS Integration Office, with Aviation Safety and Air Traffic personnel combined into one office. However, it took over a year to fully establish the office due to difficulties with creating a hybrid organization for an emerging technology. FAA is still working on the necessary internal agreements to establish roles and responsibilities between the UAS Integration Office and other FAA lines of business. At the same time, FAA is behind in meeting requirements of the FAA Modernization and Reform Act of 2012,[15] which calls for FAA to safely integrate UAS into the NAS by September 2015. For example, FAA has neither completed the requirements to establish six test ranges, which were due in 2012, nor provided Congress with a comprehensive UAS integration plan, which was due by February 2013. FAA states that problems in meeting the act's requirements are due to the complexity of the problem, privacy issues, and unresolved coordination issues with other Federal agencies.

In addition, FAA must resolve a number of UAS-specific safety issues. While UAS capabilities have improved, their ability to detect, sense, and avoid other air traffic is limited. Although UAS are now operating in the NAS, FAA has not developed standard air traffic procedures for safely co-managing them with manned aircraft. FAA must continue to work with other Federal agencies and the aerospace industry to establish certification standards, obtain reliable safety data, address privacy concerns, and align changes with its capital investments.

RELATED PRODUCTS

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

- *FAA Has Made Progress Fielding ERAM, but Critical Work on Complex Sites and Key Capabilities Remains*, August 15, 2013
- *FAA's Progress and Challenges in Advancing the Next Generation Air Transportation System*, July 17, 2013
- *FAA's Acquisition Strategy for Terminal Modernization Is at Risk for Cost Increases, Schedule Delays, and Performance Shortfalls*, May 29, 2013
- *Weaknesses in Program and Contract Management Contribute to ERAM Delays and Put Other NextGen Initiatives at Risk*, September 13, 2012
- *Update on FAA's Progress and Challenges in Advancing the Next Generation Air Transportation System*, September 12, 2012
- *Status of Transformational Programs and Risks To Achieving NextGen Goals*, April 23, 2012

[14] A UAS is comprised of a pilotless aircraft, satellite or radio link, and ground control station where an operator controls the movements of the aircraft. UAS aircraft range in size from those with a wingspan as large as a Boeing 737 to smaller than a radio-controlled model airplane. UAS can serve diverse purposes, such as conducting military operations, enhancing border security, and monitoring forest fires.

[15] FAA Modernization and Reform Act of 2012, P. L. No. 112-95, February 14, 2012.

- *Challenges With Implementing Near-Term NextGen Capabilities at Congested Airports Could Delay Benefits*, August 1, 2012
- *The Success of FAA's Long-Term Plan for Air Traffic Facility Realignments and Consolidations Depends on Addressing Key Technical, Financial, and Workforce Challenges*, July 17, 2012

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

CHAPTER 3

CONTINUING ACTIONS TO STRENGTHEN HIGHWAY, TRANSIT, AND PIPELINE SAFETY

The Department plays a key role in improving and overseeing the Nation's surface transportation systems that are critical to efficiently move people and energy resources, promote interstate commerce, and grow the U.S. economy. Sustained focus on the safety requirements enacted in the Moving Ahead for Progress in the 21st Century Act (MAP-21)[16] will be an essential part of the Department's oversight across multiple modes of transportation.

KEY CHALLENGES

- Strengthening the national bridge inspection program
- Developing a new tunnel safety program
- Enhancing motor carrier safety oversight
- Continuing efforts to build a rail transit safety program
- Providing stronger oversight of pipeline safety programs

STRENGTHENING THE NATIONAL BRIDGE INSPECTION PROGRAM

The May 2013 partial collapse of the Skagit River Bridge on Interstate 5 in Washington State brought renewed attention to the safety and condition of the Nation's bridges. One-fourth of the Nation's more than 600,000 bridges are deficient according to the Federal Highway Administration (FHWA).[17] Our recommendations and new MAP-21 requirements both focus on developing enhanced tools to help States improve safety, allocate scarce resources, measure performance, and effectively oversee Federal funds. Since 2006, we have recommended that FHWA improve its oversight of State bridge programs by implementing 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. In response, FHWA revised its approach to bridge oversight in 2011 to more objectively assess bridge safety risks. However, FHWA needs to implement our remaining recommendations and meet MAP-21 provisions for strengthening bridge inspection and inventory standards. At the request of the Ranking Member of the House Committee on Transportation and Infrastructure, we are currently assessing FHWA's progress in responding to our prior recommendations and its implementation of MAP-21 bridge provisions.

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

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

DEVELOPING A NEW TUNNEL SAFETY PROGRAM

MAP-21 also requires FHWA to establish a new national tunnel inspection program and a tunnel inventory. These requirements include setting tunnel inspection standards by 2015 with qualifications, certification procedures, and formal training for tunnel inspectors. Similar to FHWA's national bridge inspection program and inventory, MAP-21 requires States to inspect and periodically report on the condition of the Nation's tunnels. To fully implement the MAP-21 provisions and promote consistent application of tunnel safety standards, FHWA will need to take a number of steps, including issuing regulations that clearly specify what dimensions and characteristics constitute a tunnel,[18] ensuring the baseline inventory of highway tunnels is accurate, and establishing a process to assess inspection data. Prior to MAP-21, FHWA issued a proposed rule on tunnel inspection standards in 2010 and developed guidance on tunnel design and other topics. In response to MAP-21, FHWA issued a supplemental proposed rule to add MAP-21 tunnel inspection standards. Any delays in developing training and certification procedures could impact FHWA's ability to oversee compliance with new regulations.

ENHANCING MOTOR CARRIER SAFETY OVERSIGHT

Between 2010 and 2012, large truck and bus crashes decreased by 3.5 percent (from 129,587 to 125,063); associated fatalities were also down by 4.9 percent[19] (from 4,307 to 4,096). While the Federal Motor Carrier Safety Administration (FMCSA) has taken actions to remove high-risk carriers from the road, DOT must take additional steps to implement MAP-21's large truck and bus safety provisions, which include several rulemakings, programmatic changes, and reports to be completed in the next 2 years. FMCSA and the National Highway Traffic Safety Administration (NHTSA) must complete a number of actions to meet these provisions:

- **Motor Coach Safety Rules:** While NHTSA has the lead on MAP-21 provisions to strengthen motor coach safety regulations for improved occupant protection, passenger evacuation, and crash avoidance, FMCSA is still developing a rule the National Transportation Safety Board (NTSB) recommended to address oversight concerns on passenger carrier leases. FMCSA is also preparing to initiate a required rulemaking on safety inspections of passenger carrying vehicles.
- **Reincarnated Carriers:** FMCSA issued a rule on revoking reincarnated carriers'[20] operating authority in response to an NTSB recommendation. Since the rule went into effect in May 2012, FMCSA has taken 43 actions, and is pursuing 3 more, against 123 companies to consolidate the records of reincarnated or affiliated carriers. Of the 46 actions, 38 involved motor carriers attempting to avoid existing out-of-service orders. FMCSA must also complete its pilot of a risk-based screening methodology to detect reincarnated carriers and take enforcement action against them to effectively implement the rule.
- **Motor Carrier Data:** FMCSA published its long-delayed Unified Registration System (URS) Final Rule in August 2013, which should streamline the motor carrier registration process and, if properly implemented, enable the Agency to maintain more accurate industry information. FMCSA must implement the URS rule and enforcement mechanisms to ensure accurate information is available to evaluate carriers' safety performance. Such mechanisms include automatic deactivation of DOT numbers for carriers who fail to update company information every 2 years. FMCSA must also ensure data quality in the measurement system it uses to evaluate

[18] MAP-21 does not specify a definition for tunnel.

[19] According to preliminary data for 2012. Final data for 2012 will be reported later in 2014.

[20] Motor carriers that attempt to operate as a different entity in an effort to evade enforcement action, out-of-service orders, or both.

motor carriers' safety performance under the Compliance, Safety, Accountability Program,[21] and complete nationwide deployment of interventions, such as on- and off-site reviews, which are planned for later this year.

CONTINUING EFFORTS TO BUILD A RAIL TRANSIT SAFETY PROGRAM

MAP-21 enhanced the Federal Transit Administration's (FTA) authority to oversee the safety of the Nation's public transportation systems. FTA must continue to work on initial policies and procedures for its expanded safety oversight role and effectively distribute almost $22 million to State Safety Oversight (SSO) agencies to ensure financial independence from transit agencies.[22] FTA needs to ensure that each State with an SSO has a State safety oversight plan that complies with MAP-21 requirements.[23] FTA must follow through on its plan to adopt a Safety Management System framework to address the need for data-driven risk identification and performance-based measures—concerns highlighted in our prior work. FTA also needs to issue timely guidance, prioritize the greatest safety risks for any rulemakings, and enlist leadership commitment to expedite these rulemakings.

As FTA begins plans for a Transit Asset Management system for rail transit infrastructure, it may want to consider MAP-21 program changes in other DOT modes that are in the process of implementing similar systems. For example, under MAP-21, FHWA is developing its first national tunnel inventory and safety inspection program, similar to its longstanding bridge safety program. FTA could build on past collaborations with FHWA and discuss opportunities to initiate an inventory and safety inspection program for rail transit bridges and tunnels nationwide.

PROVIDING STRONGER OVERSIGHT OF PIPELINE SAFETY PROGRAMS

Several recent pipeline accidents highlight the need for the Pipeline and Hazardous Materials Administration (PHMSA) and its State agents to implement an effective performance-based approach for assessing pipeline safety.[24] NTSB has reported weaknesses in this aspect of PHMSA's and States' oversight. After its investigation of the 2010 San Bruno, CA, pipeline explosion,[25] NTSB recommended an audit of PHMSA's certification program[26] to assess the effectiveness of (1) State pipeline safety programs and Federal pipeline safety grants with regard to oversight of intrastate pipeline operations and (2) State inspection and enforcement activities.

We are currently finalizing the results of our review of PHMSA's State Pipeline Safety Program.[27] To date, we have determined that despite several efforts underway to enhance program oversight, PHMSA faces critical challenges, including accurately assessing States' compliance with performance safety factors and scoring their performance. In addition, PHMSA's guidelines for the State Pipeline Safety Program lack elements needed to identify all safety weaknesses. For example, the guidelines do not establish minimum qualifications for State inspectors who lead standard pipeline operator inspections. Consequently, PHMSA cannot be sure that State inspections cover all Federal requirements and that pipeline operators maintain safety standards. The guidelines also do not detail how States should use risk factors for scheduling inspections or specify appropriate time intervals between inspections, making it difficult for PHMSA to ensure States conduct inspections frequently enough to detect and mitigate safety risks. Finally, PHMSA needs to strengthen its oversight of suspension grant funds—funds awarded to States that are fiscally unable to maintain or expand

[21] Compliance, Safety, Accountability is a 2010 FMCSA initiative to improve large truck and bus safety. It introduces a new enforcement and compliance model that allows FMCSA and its State partners to contact a larger number of carriers earlier to address safety problems before crashes occur.

[22] Many oversight agencies have limited staffing levels and budgets, and some depend on funding from the same rail transit agencies they oversee.

[23] MAP-21 required FTA to make this determination by October 1, 2013.

[24] Under the Natural Gas Pipeline Safety Act of 1968, PHMSA manages the State Pipeline Safety Program by requiring State agencies to self-certify that they are qualified to oversee intra-State pipeline operators and enforce Federal pipeline safety regulations.

[25] On September 9, 2010, a 54-year old gas pipeline exploded in San Bruno, CA, killing 8 and injuring 58 people, and destroying 38 homes.

[26] In early 2012, the Secretary stated in a letter to NTSB that our office would conduct the audit.

[27] Through this program, PHMSA authorizes States to oversee and enforce operators' compliance with Federal pipeline safety regulations and allocates grants to State programs. Grant funding increased from $19.5 million in 2008 to $46.3 million in 2012.

their pipeline safety programs. The Agency's guidance to States on how to account for these funds has proven insufficient, and PHMSA must follow through on its intent to begin auditing the funds in calendar year 2014.

RELATED PRODUCTS

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

- *Timely and Targeted FMCSA Action Is Needed To Fully Address National Transportation Safety Board Recommendations for Improving Passenger Carrier Oversight*, April 17, 2012
- *Challenges to Improving Oversight of Rail Transit Safety and Implementing an Enhanced Federal Role*, January 31, 2012
- *Assessment of FHWA Oversight of the Highway Bridge Program and National Bridge Inspection Program*, January 14, 2010
- *National Bridge Inspection Program: Assessment of FHWA's Implementation of Data-Driven, Risk-Based Oversight*, January 12, 2009
- *Audit of Oversight of Load Ratings and Postings on Structurally Deficient Bridges on the National Highway System*, March 21, 2006

For more information on the issues identified in this chapter, please contact Joseph W. Comé, Assistant Inspector General for Highway and Transit Audits, at (202) 366-5630; Jeffrey B. Guzzetti, Assistant Inspector General for Aviation Audits, at (202) 366-0500; or Mitch Behm, Assistant Inspector General for Rail, Maritime, Hazmat Transport, and Economic Analysis, at (202) 366-9970.

CHAPTER 4

IMPROVING OVERSIGHT OF SURFACE INFRASTRUCTURE INVESTMENTS AND IMPLEMENTING STATUTORY REQUIREMENTS

In late 2012, Hurricane Sandy substantially damaged transit infrastructure in the mid-Atlantic and northeastern United States. To assist State and local agencies in their recovery and resiliency efforts, DOT received approximately $13 billion in relief funds.[28] DOT is responsible for effective stewardship of these funds as well as billions in Federal funds provided annually to States and localities to construct and maintain the Nation's roadways, bridges, transit systems, and ports. At the same time, DOT's Federal Transit Administration (FTA) and Federal Highway Administration (FHWA) must meet new requirements of the Moving Ahead for Progress in the 21st Century Act (MAP-21). These requirements include accelerating project delivery, employing performance management, and making oversight activities more risk based. The Maritime Administration (MARAD) must also continue to correct management vulnerabilities with its port projects as it works to develop a framework for ongoing and future port infrastructure projects.

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

KEY CHALLENGES

- Ensuring effective oversight of Hurricane Sandy relief funds and considering lessons learned from Federal emergency responses
- Maintaining efforts to strengthen highway and transit oversight
- Implementing initiatives to expedite project delivery and reduce costs
- Transitioning to a system of performance-based surface transportation investments
- Developing an effective port infrastructure program

ENSURING EFFECTIVE OVERSIGHT OF HURRICANE SANDY RELIEF FUNDS AND CONSIDERING LESSONS LEARNED FROM FEDERAL EMERGENCY RESPONSES

FTA is responsible for ensuring appropriate stewardship over the largest allocation—more than $10 billion—of DOT's Hurricane Sandy relief funds. FTA is also required by MAP-21 to establish an Emergency Relief Program to effectively respond to future emergencies. FTA quickly responded to Hurricane Sandy by making more than $5 billion of relief funds available to recipients within 4 months of the Disaster Relief Appropriations Act. Our initial review of FTA's oversight of Hurricane Sandy relief funds identified opportunities for FTA to more effectively allocate, obligate, and oversee them. A key challenge for FTA will be ensuring that oversight plans target key project and grantee risks, such as improper payments. FTA must also develop a process for allocating and awarding the remaining resiliency funds on a competitive basis and define clear and transparent criteria for evaluating proposed resiliency projects.

Drawing on lessons learned from Federal emergency responses and best practices for recipients' acquisitions based on Department and other Federal resources could inform FTA's efforts to finalize a rule for the Emergency Relief Program. These lessons include mitigating the risk of overpayment for some services in emergencies, establishing timeframes to limit requests for emergency relief funds after events occur, setting a minimum amount for providing emergency relief funds, and reviewing a sample of emergency grantee acquisitions. We expect to issue our report later this year.

MAINTAINING EFFORTS TO STRENGTHEN HIGHWAY AND TRANSIT OVERSIGHT

FHWA and FTA took several actions to align their programs with MAP-21 requirements, strengthen oversight of highway and transit investments, and move towards more risk-based approaches to oversight. Maintaining momentum on improving these oversight tools will be critical to ensure proper stewardship of about $40 billion annually in Federal-aid highway funds. For example, FHWA should more clearly and consistently define Federal and State oversight roles and responsibilities within its congressionally required Stewardship and Oversight Agreements with States. In response to our recommendations and MAP-21, FHWA significantly revised its oversight approach. However, actions are needed to link national and local project priorities to a National Program Stewardship and Oversight Plan, implement a new risk assessment process, develop a more data-driven and consistent approach to project level oversight, and use internal Program Management Improvement teams. These actions would help ensure effective and consistent implementation of Federal requirements across FHWA's 52 division offices.

Similarly, FTA must complete a comprehensive review of its oversight program, which relies heavily on private contractors, and implement any changes that emerge from that review. For example, in response to vulnerabilities we identified on the Dulles Corridor Metrorail Project, FTA committed to assess the effectiveness of its project management oversight contractors—who help oversee major transit projects in accordance with FTA guidance. Further, FTA agreed to address vulnerabilities we found in its oversight of billions in grants provided to State and local transit agencies. For example, FTA must follow through on ensuring its regions and contractors accurately enter data into its oversight tracking system to address repeat findings and trends and to implement performance measures that assess the effectiveness of the oversight program's outcomes.

IMPLEMENTING INITIATIVES TO EXPEDITE PROJECT DELIVERY AND REDUCE COSTS

MAP-21's Subtitle C is designed to increase efficiency and innovation, with a focus on environmental issues during the planning and design phase of highway and transit projects. According to DOT, fully implementing Subtitle C requires completion of 42 actions. To enable States to fully achieve Subtitle C's anticipated project delivery benefits in a timely manner, DOT must complete rulemakings—including a rule to expand use of categorical exclusions.[29] DOT should also assign estimated completion dates, where feasible, for planned actions that do not have milestones specified by statute and track their progress. Sustained management attention will be critical to ensure the timely completion of rulemakings, guidance, other program initiatives, and reports to Congress.

TRANSITIONING TO A SYSTEM OF PERFORMANCE-BASED SURFACE TRANSPORTATION INVESTMENTS

MAP-21 requires DOT to move toward more performance-based investment management of its highway and transit programs. MAP-21 also requires States to establish a transportation performance plan that is linked to Federal-aid highway funds. Accordingly, DOT must establish new rules, performance standards, and modify related oversight mechanisms. For example, DOT must implement new performance measures that 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. Further, to meet MAP-21 requirements, DOT must use its newly defined performance measures and associated data improvements to better assess and report on the impact of core programs, such as FHWA's Highway Safety Improvement Program (HSIP)—DOT's primary program for reducing fatalities and serious injuries on roadways through infrastructure improvements. FHWA could use existing financial and performance data on HSIP projects, combined with the consistent and complete data on fatalities and serious injuries throughout the United States called for by MAP-21, to develop a more complete picture of HSIP's impact on traffic safety.

DEVELOPING AN EFFECTIVE PORT INFRASTRUCTURE PROGRAM

Since 2003, MARAD has been authorized to administer funds to develop and modernize port infrastructure. In 2009, the National Defense Authorization Act[30] mandated that MARAD establish a Port Infrastructure Development Program to improve port

[29] A categorical exclusion is a category of actions that do not individually or cumulatively have a significant effect on the human environment. In these cases, an environmental impact statement or an environmental assessment is not required.

[30] P. L. No. 111-84 § 3512 (Oct. 28, 2009).

facilities and provide a framework for ongoing and future port infrastructure projects. In recent years, port projects under MARAD's management have experienced setbacks, including construction problems and schedule delays, raising concerns about MARAD's ability to manage its port projects.

While MARAD has taken steps to improve management of its port infrastructure projects, we reported in August 2013 that MARAD could do more to provide effective oversight of its projects and develop a Port Infrastructure Development Program. These steps include adequately defining its port project oversight responsibilities and providing guidance to contractors for developing program management plans; establishing a sound risk management process consistent with industry best practices; and establishing a process to systematically store, maintain, and track project progress and funds. MARAD is developing a Port Infrastructure Development Program but has yet to provide a completion date.

RELATED PRODUCTS

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

- *MARAD Has Taken Steps To Develop a Port Infrastructure Development Program but Is Challenged in Managing Its Current Port Projects*, August 2, 2013
- *Letter to Congress on the Status of MAP-21, Subtitle C: Acceleration of Project Delivery*, May 22, 2013
- *Lessons Learned from ARRA Could Improve the Federal Highway Administration's Use of Full Oversight*, May 7, 2013
- *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 Joseph W. Comé, Assistant Inspector General for Highway and Transit Audits, at (202) 366-5630 or Mitch Behm, Assistant Inspector General for Rail, Maritime, Hazmat Transport, and Economic Analysis, at (202) 366-9970.

CHAPTER 5

IMPLEMENTING REQUIREMENTS TO ADDRESS THE FEDERAL RAILROAD ADMINISTRATION'S EXPANDED AND TRADITIONAL RESPONSIBILITIES

The Rail Safety Improvement[31] (RSIA) and the Passenger Rail Investment and Improvement[32] (PRIIA) Acts of 2008 directed the Federal Railroad Administration (FRA) to broaden its safety related responsibilities, establish a National Rail Plan, and develop a grant program to fund rail investment. Five years later, the Agency has only disbursed 16 percent of $10.1 billion in grant funds for the High Speed Intercity Passenger Rail Program.[33] FRA's progress toward defining rail safety priorities and completing requirements for new responsibilities has also been limited. Going forward, FRA will need to expedite required rulemakings to mitigate rail safety hazards and address national transportation needs, provide its oversight staff with the training needed to carry out new responsibilities, and ensure that policies and procedures governing its traditional responsibilities reflect the current regulatory environment.

KEY CHALLENGES

- Completing implementation of key RSIA and PRIIA provisions
- Updating policies and procedures for traditional responsibilities

COMPLETING IMPLEMENTATION OF KEY RSIA AND PRIIA PROVISIONS

RSIA directed FRA to develop 17 new or revised safety regulations governing a wide variety of areas, including positive train control (PTC), track maintenance, minimum training standards for railroad employees, and highway rail grade crossings.[34] In April 2013, we reported that FRA had issued or made progress on the RSIA-required rules, but its primary focus on developing a PTC rule created delays with other rules. Ultimately, FRA missed statutory deadlines for seven of the eight rules it issued and has now missed the deadlines for seven of the remaining nine. The lack of timely rules delays mitigation of railroad industry hazards that Congress intended the rules to address. For example, FRA has yet to issue a rule on minimum training standards for safety-related railroad employees and a rule on grade crossing inventories. Respectively, these rules are intended to reduce accidents caused by human factors and to mitigate risk of injury and death due to highway-rail grade crossing accidents.

In addition, FRA has not provided updated guidance or training for overseeing compliance with certain new RSIA rules. For example, although FRA's rule on PTC has been in effect since March 2010, the Agency did not update its compliance manual to include information on the new rule until April 2012. FRA uses these compliance manuals to set expectations for inspection tasks and establish investigation requirements. Training has been similarly lacking. For example, PTC oversight staff informed us that they still needed additional training to be confident in their abilities to oversee PTC tests. FRA implemented a new policy in September 2013 requiring staff to develop technical bulletins or other guidance documents outlining new regulations and to develop and host training sessions to explain new regulations; however, it remains to be seen whether this new policy will be effective.

Of the 29 responsibilities PRIIA assigned to FRA, 17 have been completed, 10 are in progress, and 2 have not been started. One critical responsibility—development of a

[31] P. L. No. 110-432 Div. A.

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

[33] $8 billion of which was appropriated by the American Recovery and Reinvestment Act of 2009 (ARRA). FRA has obligated 99 percent of the $10.1 billion in grant funding.

[34] PTC is a communication-based system designed to prevent accidents caused by human factors, including train collisions, derailments due to speed, incursions into work zones, and movement of trains through switches left in wrong positions. Human factor accidents are accidents due to causes such as employee physical condition, improper communications, and improper train handling.

National Rail Plan[35]—is underway. However, rather than producing a single national rail plan, FRA has focused on developing tools and guidance for States and regions to create regional rail plans, as well as criteria and parameters for justifying Federal investments. To date, FRA has primarily focused on regional plans for the Southwest and the Northeast Corridor. Consequently, 5 years after the passage of PRIIA, FRA has still not articulated rail plans and milestones for the rest of the country.

UPDATING POLICIES AND PROCEDURES FOR TRADITIONAL RESPONSIBILITIES

FRA must ensure that policies and procedures governing its traditional responsibilities reflect the current regulatory environment, such as the National Environmental Policy Act (NEPA),[36] which requires agencies to consider the potential environmental impact of proposed actions including federally funded projects. However, because most of FRA's procedures for the NEPA process have not been updated since 1999, many references in the procedures are outdated, and requirements from subsequent statutes and recommended guidance are not included. As a result, FRA staff lack guidance to efficiently administer the NEPA process and ensure grantees comply with legal and regulatory requirements.

Finally, improvements are needed in FRA's Railroad Rehabilitation and Improvement Financing (RRIF) program—a $35 billion credit program established in 1998 to provide loans to railroads and other eligible entities to finance rail infrastructure projects. Since its inception, the RRIF program has issued 33 loans totaling approximately $1.7 billion. However, because RRIF has disbursed less than 5 percent of its authorized spending limit and has only issued seven loans since the beginning of 2010, Congress has expressed concerns over the extent to which the program has been used and suggested that lengthy reviews of applications may be contributing to the program's low participation rate. Our analysis found that accepting incomplete applications has affected the timeliness of FRA's RRIF application reviews, which have taken as long as 28 months. Management attention is needed to identify ways to expedite this process as a step toward maximizing this program's full potential.

RELATED PRODUCT

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

- *FRA Is Nearing Completion of Rules Required by the Rail Safety Improvement Act, but Needs To Improve Oversight*, April 17, 2013

For more information on the issues identified in this chapter, please contact Mitch Behm, Assistant Inspector General for Rail, Maritime, Hazmat Transport, and Economic Analysis, at (202) 366-9970.

[35] PRIIA directs the Federal Railroad Administrator to develop a long-range national rail plan that is consistent with approved State rail plans and the rail needs of the Nation, as determined by the Secretary in order to promote an integrated, cohesive, efficient, and optimized national rail system for the movement of goods and people.

[36] 42 U.S.C. § 4321-4347, Jan. 1, 1970.

CHAPTER 6

MANAGING ACQUISITIONS AND CONTRACTS TO ACHIEVE RESULTS AND SAVE TAXPAYER DOLLARS

In fiscal year 2012, DOT obligated approximately $62 billion on contracts and grants.[37] Investing and administering these funds wisely and fulfilling the President's Executive Order[38] and Office of Management and Budget (OMB) initiatives[39] to deliver an efficient, effective, and accountable Government continues to be a challenge for DOT management. Our audits have identified opportunities for DOT to better manage its contracts and resources and save taxpayer dollars.

KEY CHALLENGES

- Increasing management focus on reducing high-risk contract types
- Ensuring taxpayer dollars are invested and administered wisely on major contracts
- Improving management oversight of recipients' contract practices to ensure program integrity and efficient use of limited funds

INCREASING MANAGEMENT FOCUS ON REDUCING HIGH-RISK CONTRACT TYPES

A Government-wide initiative calls for Federal agencies to reduce spending on high-risk contract types—such as cost-reimbursement—and management support services contracts,[40] which are often awarded using high-risk contract types. However, between fiscal years 2009 and 2012, DOT increased its obligations for cost-reimbursement contracts from $1.5 billion to $1.9 billion. While these contracts may be justified in some cases, they pose a high risk for waste of taxpayer funds because they do not provide a direct incentive for contractors to control costs. Similarly, our ongoing work shows that DOT's obligations on management support services contracts have increased by 17 percent (approximately $1.1 billion to almost $1.3 billion) from fiscal years 2010 through 2012. Given DOT's significant investment in high-risk contracts each year, even minimal steps toward reducing the use of these contracts could yield substantial savings for the Government and taxpayers.

In addition, revised Federal Acquisition Regulations (FAR) impose increased oversight requirements on Federal agencies that choose cost-reimbursable contracts over less risky contract types. DOT did not meet at least 25 percent of these FAR revisions on 15 of the 31 cost-reimbursable contract awards we examined. For example, the Operating Administrations we reviewed[41] did not fully comply with acquisition planning and justification requirements or consistently assess oversight risks, properly designate oversight personnel, or verify that contractors' accounting systems were adequate to provide valid and reliable cost data. As a result, the Department is missing opportunities to reduce the Government's risk associated with use of these contract types.

ENSURING TAXPAYER DOLLARS ARE INVESTED AND ADMINISTERED WISELY ON MAJOR CONTRACTS

Each year, DOT awards billions of dollars for major information technology (IT) and infrastructure improvement contracts. To maximize its investment, the Department needs to administer these funds wisely while meeting program goals. Several concerns require sustained management attention:

[37] DOT's fiscal year 2013 data were not available at the time of this report.

[38] Executive Order 13576, "Delivering An Efficient, Effective, and Accountable Government," Jun. 13, 2011.

[39] OMB Memoranda: Reduced Contract Spending for Management Support Services, Nov. 7, 2011, and Improving Government Acquisition, Jul. 29, 2009.

[40] Management support services contracts include those for professional and technical support services such as engineering, information technology, acquisition planning, and program management.

[41] Our review included 6 of the 11 Operating Administrations that awarded cost-reimbursement contracts within the timeframe selected for our audit of July 1, 2011, through May 31, 2012. We did not include the Federal Aviation Administration in our audit because the Agency is not required to comply with the FAR.

- **DOT's Oversight of Major IT Investments:** DOT has made significant progress toward implementing our March 2013 recommendations to strengthen its decision processes and oversight for its major IT investments, which in fiscal year 2012 were just over $2.2 billion. For example, in fiscal year 2013, DOT updated its Investment Review Board's charter to clarify organizational responsibilities and establish the Senior Procurement Executive as a voting member. However, DOT still needs to develop a comprehensive plan to ensure it is equipped to properly oversee all Operating Administrations' IT investments; assign organizational responsibility, accountability, and authority; and develop written implementation policies.

- **MARAD Port Projects:** In August 2013, we reported that inadequate acquisition planning, lack of reliable cost estimates, and noncompliance with Federal contracting requirements on the Port of Anchorage project put the Maritime Administration's (MARAD) ongoing and future port projects at risk. Notably, we found that MARAD acted contrary to the intent of the Small Business Administration's 8(a) program by steering the first Port of Anchorage contract to the Port's preferred firm. According to MARAD's documentation, this project's cost estimate grew from $211 million in 2003 to $1 billion as of January 2011, with scheduled completion slipping by 8 years. Further, MARAD representatives informed us that the Municipality is considering scaling down the project, but they did not have a revised cost estimate at the time we concluded our review. According to MARAD officials, prior to 2011 the Agency's leadership made a policy decision that abdicated programmatic and technical control to local port officials, which contributed to problems with the project. We also found weaknesses in MARAD's contract management of its Port of Guam and Hawaii Harbors projects, including a lack of established contract administration plans, required contractor performance evaluations, and independent Government estimates.

- **Air Traffic Control Optimum Training Solution (ATCOTS):** In 2010, we made several recommendations to improve the Federal Aviation Administration's (FAA) management of its ATCOTS contract, which was awarded in 2008 to provide controller training support, reduce total training time and costs, and develop training innovations. Despite FAA's efforts to address recommendations from our 2010 report, we continue to identify weaknesses in program and contract management. Notably, FAA did not identify training needs, as we recommended, before exercising an option to continue the contract even though it experienced $89 million in cost overruns for the first 4 years. While FAA reduced the number of contractor instructors by 44 percent to prevent future cost overruns, this required FAA to perform more internal training—a cost FAA has not quantified. In addition, FAA was unable to achieve key contract goals to reduce controller training times or produce sufficient training innovations, as the average time to certify controllers increased by 41 percent from fiscal year 2009 through fiscal year 2012. Finally, FAA did not effectively use cost incentives to control contract spending for the first 4 years, and award fees were not linked to the achievement of contract goals. We plan to issue our report by January 2014.

IMPROVING MANAGEMENT OVERSIGHT OF RECIPIENTS' CONTRACT PRACTICES TO ENSURE PROGRAM INTEGRITY AND EFFICIENT USE OF LIMITED FUNDS

DOT's Disadvantaged Business Enterprise (DBE) program—a high-dollar recipient program—requires close management attention to mitigate the risk of fraud, waste, and abuse. DOT will need to closely monitor grant recipients' contract award practices to ensure ineligible firms do not receive awards.

- **Overseeing DBE Contract Practices:** In April 2013, we reported deficiencies in the Department's management of its multibillion-dollar DBE program. Specifically, DOT did not provide comprehensive and standardized DBE guidance or sufficient training to recipients—the State and local transportation agencies who implement the program—or assign a DOT organization to integrate and manage the program. In addition, DOT does not regularly assess the effectiveness of the Operating Administrations' oversight of DBE recipients, which was inadequate to ensure compliance with program requirements, such as applicant eligibility. For example, State certification staffs were unsure of how to calculate an applicant's personal net worth—a key factor in determining DBE eligibility. Such weaknesses increase the risk that ineligible firms will be certified as DBEs. Fraud also remains prevalent in the DBE program, with 40 percent of our active procurement and grant fraud investigations involving DBE fraud as of October 31, 2013. From October 2012 through October 2013, our DBE investigations resulted in 16 indictments, 20 convictions, and financial recoveries over $10.3 million. Finally, the Department has not fully met its regulatory program objective to help DBE firms succeed in the marketplace, as most certified DBEs never receive work on Federal projects. However, because DOT does not assess its achievement of this or other regulatory objectives, it cannot assess program effectiveness or identify needed changes.

- **Preventing Suspended and Debarred Firms From DBE Participation:** DOT must strengthen controls over its DBE program to prevent suspended and debarred firms from participating in the program. Federal regulations exclude these firms from receiving federally funded contracts. However, our review of 26 State DBE directories identified 3 suspended or debarred firms listed as eligible to receive federally funded DBE awards, raising concerns that the total number of suspended or debarred firms currently listed in State DBE directories may be higher than our review indicated. Accordingly, we issued a management advisory to DOT in September 2013 noting that its DBE program may lack the guidance and safeguards to prevent award of DBE work to suspended or debarred firms.

RELATED PRODUCTS

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

- *Management Advisory—Suspended or Debarred Firms Are Listed on State DBE Directories as Eligible for DBE Participation*, September 24, 2013
- *DOT Does Not Fully Comply With Revised Federal Acquisition Regulations on the Use and Management of Cost-Reimbursement Awards*, August 5, 2013
- *MARAD Has Taken Steps To Develop a Port Infrastructure Development Program but Is Challenged in Managing Its Current Port Projects*, August 2, 2013
- *Weaknesses in the Department's Disadvantaged Business Enterprise Program Limit Achievement of Its Objectives*, April 23, 2013
- *Improvements to DOT's Governance Processes Are Needed To Enhance Oversight of Major IT Investments*, March 27, 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 Timothy Barry, Principal Assistant Inspector General for Investigations, at (202) 366-1967.

CHAPTER 7

BUILDING A SECURE AND MODERN INFORMATION TECHNOLOGY INFRASTRUCTURE

Securing DOT's information technology (IT) infrastructure remains a top priority since breaches by computer hackers have placed a number of major entities at risk and exposed individuals' personal information to unauthorized access. For the last 3 fiscal years, the Department has declared the deficiencies in its information security program to be a material weakness. In addition, to build a secure and modern IT infrastructure, DOT needs an enterprise architecture (EA)—a blueprint for aligning DOT's strategic vision with its IT infrastructure. An effective EA looks beyond immediate IT needs, uses a standardized technology platform, and ensures new IT projects fit into the overall strategy.

KEY CHALLENGES

- Securing information technology infrastructure
- Protecting sensitive information
- Building an effective departmentwide EA program

SECURING INFORMATION TECHNOLOGY INFRASTRUCTURE

Last year, we reported that the Department improved its information security program by enhancing its cyber security policy and guidance and establishing a repository for software security baselines. However, DOT's information systems still remained vulnerable to significant security threats and risks because the program did not meet key Office of Management and Budget (OMB) and Federal Information Security Management Act (FISMA) requirements to protect agency information and systems. As a result, in 2012, DOT again declared its information security deficiencies a material weakness in its annual assurance statement, which is required by the Federal Managers' Financial Integrity Act.[42]

We determined that the Department's Office of the Chief Information Officer (OCIO), the modal Administrators, and their CIOs could do more to build and sustain strong information security practices. For example, all Operating Administrations' CIOs are still in the process of completing information security procedures for several key areas, including capital planning for IT security and developing continuous monitoring guidance and implementing practices. While DOT has taken actions, such as establishing a repository of secure software settings and acquiring sophisticated security monitoring software, it has been slow to address both our FISMA 2012 recommendations and self-identified weaknesses. Specifically, in 2012 we reported that over 2,000 actions to remediate security weaknesses were behind schedule. We also identified weaknesses in critical Office of the Secretary (OST) and Federal Aviation Administration (FAA) systems. For example, OST's Common Operating Environment (COE), which provides key services, such as email and Internet access to non-FAA Operating Administrations, is vulnerable to hackers. In addition, our ongoing work on air traffic control systems continues to identify weaknesses in access controls and incident reporting that FAA needs to remediate. We plan to issue our 2013 FISMA report later this year. Cooperation between the Department and the Operating Administrations to continue addressing these deficiencies will be key to building a strong information security program—one that can quickly adapt to and avert new cyber threats.

[42] Federal Managers' Financial Integrity Act, P. L. No. 97–255 (1982).

PROTECTING SENSITIVE INFORMATION

In fiscal year 2013, the Department demonstrated its commitment toward providing privacy protections through progress on its plan to identify, reduce, and protect personally identifiable information (PII) collected and stored by its systems. OMB emphasized the importance of protecting PII and provided agencies with simple and cost-effective steps to reduce the volume of data collected, limit access to it, and use encryption and strong authentication procedures.[43] The Department plans to complete these actions by the end of fiscal year 2014; in the meantime, we continue to identify weaknesses that could expose sensitive data. For example, in June 2013 we reported that PII data in FAA's Civil Aviation Registry were not encrypted or adequately protected from compromise through strong authentication techniques. We also found that numerous configuration deficiencies in the system's software rendered the Registry vulnerable to attacks and unauthorized access. FAA states that it will implement upgrades to correct the software vulnerabilities and establish data encryption by the end of 2013. Our September 2013 report on the Department's COE similarly identified sensitive data that were not adequately protected from hackers or malicious insiders. OST plans to complete actions to secure the COE by the end of fiscal year 2014.

BUILDING AN EFFECTIVE DEPARTMENTWIDE EA PROGRAM

An agency's EA program helps management understand its current technology infrastructure, define future infrastructure needs to facilitate the accomplishment of its mission, and develop a transition plan. Despite years of effort towards creating an EA, DOT still lacks comprehensive EA policy and procedures, direction in the selection of EA development tools, performance measures, and an approved plan to build a departmentwide EA. Absent this blueprint, the Department faces significant challenges in maximizing its return on IT investments through cost savings, reduced duplicative systems, aligned information technology and mission, and effective information security spending—all critical elements in an environment of limited resources and increased security risks.

RELATED PRODUCTS

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

- *Security Weaknesses in DOT's Common Operating Environment Expose Its Systems and Data to Compromise*, September 10, 2013
- *FAA's Civil Aviation Registry Lacks Information Needed for Aviation Safety and Security Measures*, June 27, 2013
- *FISMA 2012: Ongoing Weaknesses Impede DOT's Progress Toward Effective Information Security*, November 14, 2012
- *DOT Does Not Have an Effective Enterprise Architecture Program for Management of Information Technology Changes*, April 17, 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.

[43] OMB Memorandum M-07-16, Safeguarding Against and Responding to the Breach of Personally Identifiable Information, May 22, 2007.

EXHIBIT

COMPARISON OF FISCAL YEARS 2014 AND 2013 TOP MANAGEMENT CHALLENGES

Fiscal Year 2014 Challenges	Fiscal Year 2013 Challenges
• Improving FAA's Oversight of the Aviation Industry and the Operations of the National Airspace System	• Enhancing FAA's Oversight and Use of Data To Identify and Mitigate Safety Risks
• Identifying and Addressing Root Causes of Problems With NextGen and Setting Investment Priorities	• Ensuring the Next Generation Air Transportation System Advances Safety and Air Travel
• Continuing Actions To Strengthen Highway, Transit, and Pipeline Safety	• Strengthening Existing Surface Safety Programs and Effectively Implementing New Safety Requirements
• Improving Oversight of Surface Infrastructure Investments and Implementing Statutory Requirements	• Maximizing Surface Infrastructure Investments With Effective Program Oversight and Execution of New Legislative Requirements
• Implementing Requirements To Address the Federal Railroad Administration's Expanded and Traditional Responsibilities	• Adequately Overseeing Administration of High Speed Intercity Passenger Rail Grant Funds
• Managing Acquisitions and Contracts To Achieve Results and Save Taxpayer Dollars	• Ensuring Effective Management of DOT's Acquisitions To Maximize Value and Program Performance
• Building a Secure and Modern Information Technology Infrastructure	• Managing and Securing Information Systems To Efficiently Modernize Technology Infrastructure and Protect Sensitive Data from Compromise
	• Overseeing Administration of Key Transportation Assets To Ensure Their Success and Sustainability
	• Strengthening Financial Management Over Grants To Better Use Funds, Create Jobs, and Improve Infrastructure

APPENDIX. DEPARTMENT RESPONSE

Memorandum

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

Subject: **ACTION**: Management Comments on Office of Inspector General Report on Top Management Challenges 2014

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

Reply to Attn of:

To: Calvin L. Scovel III
Inspector General

The Department carefully considers and constructively acts upon each of the products and issues identified by the Office of Inspector General (OIG). The Department's actions focus on both macro and micro levels, including both large scale issues and individual programmatic elements. At the macro level, crosscutting the OIG top management challenges report identifies important issues that assist the Department's management in fulfilling our mission to:

- Ensure the safety of the Nation's transportation systems in the air, land and on the water,
- maintain and grow the Nation's transportation infrastructure to provide sound highways, bridges and rail systems that efficiently move people and goods both across the country and across town,
- refine financial systems and controls and oversee compliance both internally and externally to ensure that the Department is a sound and effective steward of taxpayer funds, and
- ensure that the Department has secure and effective internal systems and processes, and provide the strategic vision, programs, guidance and oversight necessary to effectively and expeditiously accomplish our missions.

On a micro level, the Department provides clear and detailed responses to each and every OIG report that served as the foundation for its top management challenges report. The Department has developed strong processes for managing the interactions with the OIG, that include developing detailed responses to every OIG report and working with the OIG to ensure resolution, to the greatest extent possible on every report and every on individual recommendation. The Department further maintains a Recommendation Action Tracking System that provides frequent detailed metrics to management throughout the Department to

APPENDIX. DEPARTMENT RESPONSE

track and encourage completion of action on these recommendations until agreement is reached with the OIG that we have indeed accomplished the recommended action.

As a result, of employing both the top down macro approach, and the bottoms up micro approach, the Department has continuously achieved significant progress addressing both the overall issues enumerated in the OIG management challenges report and the individual component reports and recommendations that form its basis.

The Department is pleased with the constructive relationship that continues to develop with its OIG. The OIG provides useful information from its unique and independent perspective on our programs and operations. As the government continues to adapt to constraints on resources, we will continue to rely on OIG that provides useful insights to aid management in further improving programmatic performance while identifying additional efficiencies and potential cost savings.

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

The Improper Payments Information Act of 2002 (P. L. 107-300) requires agencies to review their programs and activities to identify those susceptible to significant improper payments. IPIA was amended on July 22, 2010, by the Improper Payments Elimination and Recovery Act (IPERA) of 2010 (P. L. 111-204). IPERA strengthens the requirements for government agencies to carry out cost-effective programs for identifying and recovering overpayments, also known as "recapture auditing."

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

U.S. DEPARTMENT OF TRANSPORTATION (DOT) PROCESS

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

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

For fiscal year (FY) 2013 reporting, DOT conducted the above four-step process for the 12-month period of April 1, 2012, to March 31, 2013. For FY 2013, DOT also achieved the following accomplishments related to IPERA: developed a Do Not Pay Implementation Plan to be in compliance with the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012 (P. L. 112–248) and provided a high-dollar quarterly report to the DOT Office of Inspector General (OIG) and the OMB and posted it on the DOT Web site.

The following sections provide information on the Risk Assessment, Statistical Sampling, Corrective Actions, and Recapture and Improvement Payment Reporting.

I. RISK ASSESSMENT

DOT's Programmatic Improper Payment Risk Assessment leverages the Assessable Units (AU) Risk Profiles compiled as part of the ongoing compliance with the Federal Managers Financial Integrity Act (FMFIA). This assessment identified four programs as being at high risk for FY 2013 due to the volume of payments made annually, coupled with the fact that Federal funds within these programs are further administrated outside the agency by third parties, listed in Table 1.

The fifth program, the Federal Railroad Administration (FRA) High-Speed Intercity Passenger Rail (HSIPR) Program was selected, because it is a new program to DOT.

Table 1 lists the high-risk programs and the disbursements population selected for FY 2013 testing.

TABLE 1. HIGH-RISK PROGRAMS SELECTED FOR TESTING

Operating Administration	Program Name	Disbursements (Based on Actual Data) ($ millions)
Federal Aviation Administration (FAA)	Airport Improvement Program (AIP)	$3,517.55
Federal Transit Administration (FTA)	Formula Grant (FG)	$8,518.14
	Capital Improvement Grant (CIG)	$2,386.29
Federal Highway Administration (FHWA)	Federal-Aid Grant Program	$45,203.59
Federal Railroad Administration (FRA)	High-Speed Intercity Passenger Rail (HSIPR) Program	$751.51

DOT is in the process of completing a revised department wide risk assessment for reporting in FY 2014, which will include the 14 Operating Administrations (OA) programs and funding activities. Basing information on the results of this risk assessment, DOT will determine if the in-scope programs for FY 2013 are still considered high-risk programs and/or if additional programs should be considered as being at high risk. For FY 2014 reporting, under OMB Circular A-123, Appendix C, the threshold for determining whether a program is at high risk for improper payments is reduced from 2.5 to 1.5 percent and $10 million or $100 million in improper payments (regardless of the error rate).

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

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

II. STATISTICAL SAMPLING

The sampling approaches have not changed from the previous year. The DOT OAs obtained the data extracts from a single source—DOT's financial system of record, Delphi. In addition, to verify both sample integrity and the accuracy of extrapolated programmatic improper payment estimates, DOT OAs collaborated closely with the Office of Inspector General (OIG) IPERA statistician to develop sampling and extrapolation methodologies mutually agreed upon by both parties and in compliance with the OMB requirements.

Sample results provided an overall improper payment point estimate of the percentage of improper payment dollars at the 90 percent confidence level within precision requirements of 2.5 percent.

Table 2 lists the results of the DOT improper payment testing.

TABLE 2. SAMPLE TEST RESULTS

Operating Administration and Program Name	FY 2013 Payment Sampling Population ($ millions)	FY 2013 Sample Size ($ millions) – Stage 1	FY 2013 Sample Size ($ millions) – Stage 2	FY 2013 Est. Error Amount ($ millions)	FY 2013 Est. Error %
Federal Aviation Administration (FAA) Airport Improvement Program (AIP)	$3,517.55	$118.05	$17.83	$2.42	0.07%
Federal Transit Administration (FTA) Formula Grant (FG)	$8,518.14	$297.10	$8.14	$62.55	0.73%
FTA Capital Improvement Grant (CIG)	$2,386.29	$708.37	$53.45	$0.84	0.04%
Federal Highway Administration (FHWA) Federal-Aid Grant Program	$45,203.59	$434.71	$216.28	$91.44	0.20%
Federal Railroad Administration (FRA) High-Speed Intercity Passenger Rail (HSIPR) program	$751.51	$366.44	$219.82	$0	0.00%

III. CORRECTIVE ACTIONS

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

TABLE 3.1. CORRECTIVE ACTIONS FOR FAA

Risk Factor	Corrective Action	Target Completion Date
Category of Error—Application of the Incorrect Federal Share		
Identified instances of grantees applying the incorrect Federal share	Develop a formal communication plan and associated training to be delivered to the grantees, especially related to the reimbursement processing. This communication/training would also include adherence to the correct application of Federal share.	5/31/2014

TABLE 3.2. CORRECTIVE ACTIONS FOR FTA

Risk Factor	Corrective Action	Target Completion Date
Category of Error—Application of the Incorrect Federal Share		
Identified instances of grantees applying the incorrect Federal share	Enforce policies and procedures around the review and approval of grantee payment requests, including the correct application of Federal share.	3/31/2014
	Develop and provide mandatory training to grantees on the policies and procedures surrounding the application of the correct Federal share.	6/30/2014
Category of Error—Incorrect Payment Amount		
Incorrect reimbursement amount	Revise reimbursement processing Standard Operating Procedures, with emphasis on matching vendor invoices to grantee reimbursement requests.	5/31/2014
Category of Error—Insufficient Documentation		
Missing audit/certification to confirm purchased items have been received	Develop a checklist of supporting documentation required for payments.	3/31/2014
	Perform internal reviews/spot checks of payment request packages to confirm required supporting documentation was provided before payment.	Ongoing
Category of Error—Application of Incorrect Payroll Rate		
Grantee paid incorrect overtime rate to an employee	Revise payroll policies and procedures, highlighting the requirement to compare the employee's hourly rate to the rate applicable to each pay period.	2/28/2014

TABLE 3.3. CORRECTIVE ACTIONS FOR FHWA

Risk Factor	Corrective Action	Target Completion Date
Category of Error—Incorrect Payment Amounts		
Incorrect reimbursement amount	Revise reimbursement processing Standard Operating Procedures, with emphasis on matching vendor invoices to grantee reimbursement.	5/30/2014
Category of Error—Insufficient Documentation		
Insufficient documentation to support and/or validate financial transactions	Provide payment documentation requirements and instructions to the grantees, emphasizing the requirement that invoices that do not contain complete invoice backup documentation should not be paid.	6/30/2014
Category of Error—Ineligible Service		
Payment of invoices for charges incurred before the grant agreement	Conduct refresher training for accounts payable employees and implement a checklist to incorporate the review of invoices, for dates and application to the correct grant.	6/30/2014

Fund Stewardship

Although DOT identifies its five largest grant programs as susceptible to significant improper payment rates, none of these five programs reported significant rates of improper payments of 2.5 percent and $10 million or $100 million, as defined by IPERA, in FY 2012 or FY 2013. To prevent any increases of the improper payments rates and to achieve complete elimination of improper payments, DOT's OAs stress the importance of proper fund stewardship with its Grant recipients via various Grantee Review programs.

- **FAA.** Through a grant and sponsor oversight process, continuous throughout the duration of the grant, FAA promotes proper fund stewardship. FAA receives quarterly reports on each grant to assess sponsor performance under every grant agreement. On a broader level, FAA uses a risk-based approach that increases the level of review of sponsor documentation, depending on the risk level of the Grantee.
- **FTA.** FTA uses the State Management Reviews and Triennial Reviews to ensure proper compliance with Federal Grant regulations. In addition to stressing proper financial oversight, FTA Grantee reviews delve into various focus areas, such as legal compliance, technical compliance, and procurement processes at the State and local level.
- **FHWA.** Under its Financial Integrity Review and Evaluation (FIRE) program, FHWA subjects States and territories not selected as part of the IPERA sample to a similar billing review process. The FIRE program also incorporates additional reviews, including focus areas such as inactive projects, grant administration at the local level, and procurement at the local level using Federal funds.
- **FRA.** Under a comprehensive, risk-based oversight program, FRA conducts routine monitoring, including periodic reviews of projects, as part of the management and administration of the HSIPR program. The routine monitoring activities center on recipient compliance with the FRA agreement and on the approved budget, schedule, and fund stewardship. Routine monitoring highlights potential areas of concern and opportunities for training and technical assistance.

IV. IMPROPER PAYMENT REPORTING

Table 4.1 summarizes improper payment amounts for the high-risk programs. Improper payment percent (IP%) and improper dollar (IP$) results are provided from last year's and this year's testing of payments. Data for projected future year improvements are based on the timing and significance of completing corrective actions.

TABLE 4.1. IMPROPER PAYMENT REDUCTION OUTLOOK

Program	PY Outlays ($M)	PY IP%	PY IP$ ($M)	CY Outlays (3M)	CY IP %	CY IPS (SM)
Federal Aviation Administration (FAA) Airport Improvement Program (AIP)	$3,653	0.64%	$23.38	$3,933	0.07%	$2.75
Federal Transit Administration (FTA) Formula Grant (FG)	$8,092	0.44%	$35.60	$9,911	0.73%	$72.35
FTA Capital Improvement Grant (CIG)	$2,113	0.00%	$0.00	$2,386	0.04%	$0.95
Federal Highway Administration (FHWA) Federal-Aid Grant Program	$41,742	0.22%	$91.83	$41,455	0.20%	$82.91
Federal Railroad Administration (FRA) High-Speed Intercity Passenger Rail (HSIPR) program	$768	0.96%	$7.37	$2,326	0.00%	$0

Program	CY+1 Est. Outlays ($M)	CY+1 IP %	CY+1 IP$ ($M)	CY+2 Est. Outlays ($M)	CY+2 IP %	CY+2 IP$ ($M)	CY+3 Est. Outlays ($M)	CY+3 IP %	CY+3 IP$ ($M)
Federal Aviation Administration (FAA) Airport Improvement Program (AIP)	$3,554	0.50%	$17.77	$3,250	0.50%	$16.25	$3,063	0.50%	$15.32
Federal Transit Administration (FTA) Formula Grant (FG)	$10,820	0.50%	$54.10	$10,346	0.50%	$51.73	$10,387	0.50%	$51.94
FTA Capital Improvement Grant (CIG)	$2,553	0.25%	$6.38	$2,605	0.25%	$6.51	$2,114	0.25%	$5.21
Federal Highway Administration (FHWA) Federal-Aid Grant Program	$41,955	0.25%	$104.89	$42,509	0.25%	$106.27	$43,043	0.25%	$107.61
Federal Railroad Administration (FRA) High-Speed Intercity Passenger Rail (HSIPR) Program	$1,323	0.25%	$3.31	$1,641	0.25%	$4.10	$2,084	0.25%	$5.21

CY = current year. PY = prior year.

Overpayment and Underpayment Details

Table 4.2 provides overpayment and underpayment breakouts for DOT's high-risk programs.

TABLE 4.2. EXTRAPOLATED OVERPAYMENT / UNDERPAYMENT PROGRAMMATIC ESTIMATE

		Gross Total (Based on Actual Data)		Overpayment Total (Based on Actual Data)		Underpayment Total (Based on Actual Data)	
Operating Administration	Program Name	Est. Error Amount ($ millions)	Est. Error (%)	Est. Error Amount ($ millions)	Est. Error (%)	Est. Error Amount ($ millions)	Est. Error (%)
Federal Aviation Administration (FAA)	Airport Improvement Program (AIP)	$2.42	0.07%	$2.42	0.07%	$0	0.00%
Federal Transit Administration (FTA)	Formula Grant (FG)	$62.55	0.73%	$62.55	0.73%	$0	0.00%
	Capital Investment Grant (CIG)	$0.84	0.04%	$0.84	0.04%	$0	0.00%
Federal Highway Administration (FHWA)	Federal-Aid Grant Program	$91.44	0.20%	$90.38	0.20%	$1.06	0.00%
Federal Railroad Administration (FRA)	High-Speed Intercity Passenger Rail (HSIPR) program	$0	0.00%	$0	0.00%	$0	0.00%
DOT		**$157.25**		**$156.19**		**$1.06**	

RECAPTURE OF IMPROPER PAYMENTS REPORTING

DOT contracted with a recovery audit firm to conduct the annual recovery audit. The contractor worked to recover identified departmental overpayments and to identify opportunities for departmental payment process improvements. The contractor, working closely with DOT's internal shared service provider, did not identify any systemic payment process weaknesses. Overpayments resulted from individual cases of duplicate payments due to human input errors, sales tax billing errors, open credit on statements, and other miscellaneous overpayments.

TABLE 2. PAYMENT RECAPTURE AUDIT REPORTING

Program or Activity	DOT Total
Type of Payment	**Contracts and Grants**
Amount Subject to Review for CY Reporting	$57.3 billion
Actual Amount Reviewed and Reported (CY)	$57.3 billion
Amount Identified for Recovery (CY)	$1,432,200
Amount Recovered (CY)	$1,199,046
% of Amount Recovered out of Amount Identified (CY)	83.7%
Amount Outstanding (CY)	$233,154
% of Amount Outstanding out of Amount Identified (CY)	16.3%
Amount Not Collectable (CY)	$0
% of Amount Not Collectable out of Amount Identified (CY)	0.0%
Amounts Identified for Recovery (PY)	$536,840
Amount Recovered (PY)	$395,086
Cumulative Amounts Identified for Recovery (CY + PY)	$1,969,040
Cumulative Amounts Recovered (CY + PY)	$1,594,132
Cumulative Amounts Outstanding (CY + PY)	$374,954
Cumulative Amounts Not Collectable (CY + PY)	$0

CY = current year. PY = prior year.

TABLE 3. PAYMENT RECAPTURE AUDIT TARGETS

Type of Payment	CY Amount Identified	CY Amount Recovered	CY Recovery Rate (Amount Recovered /Amount Identified)	CY+1 Recovery Rate Target	CY+2 Recovery Rate Target	CY+3 Recovery Rate Target
Contract	$1,432.2	$1,199.0	83.7%	90.0%	90.0%	90.0%

CY = current year.

TABLE 4. AGING OF OUTSTANDING OVERPAYMENTS

TYPE OF PAYMENT	CY Amount Outstanding (0 to 6 Months)	CY Amount Outstanding (6 Months to 1 Year)	CY Amount Outstanding (More Than 1 Year)
N/A	N/A	$233,154	N/A

N/A = Not applicable.

TABLE 5. DISPOSITION OF RECAPTURED FUNDS

Type of Payment	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activites	Original Purpose	Office of Inspector General	Returned to Treasury
Contract	N/A	$0	N/A	$1,199.046	N/A	$0

N/A = Not applicable.

TABLE 6. OVERPAYMENTS RECAPTURED OUTSIDE OF PAYMENT RECAPTURE AUDITS

Type of Payment	Amount Identified (CY)	Amount Recovered (CY)	Amount Identified (PY)	Amount Recovered (PY)	Cumulative Amount Identified (CY+PY)	Cumulative Amount Recovered (CY+PY)
Post-Payment Review	$37,818	$35,391	$10,550	$0	$48,368	$35,391

CY = current year. PY = prior year.

Table 3 Notes

DOT's recovery auditor completed its identification of overpayments in February 2013. Recovery of overpayments occurs throughout the audit process and will continue through 2013. The current recovery rate of 83.7 percent mirrors past recovery rates of 80 to 90 percent.

Table 6 Notes

Overpayments identified during DOT's Post-Payment Review were identified during the audit process ending in November 2013. DOT is in the process of continuing with the recovery of these payments.

Accountability

DOT has implemented various Grantee Review programs, as highlighted in PART III of this IPERA Reporting Details Section, to hold States and local agencies accountable for improper payments. All review programs stress the importance of reducing and recapturing improper payments, and the focus on improper payments is now an ongoing concern, not just an annual review exercise.

DOT's various Operating Administrations use a vast network of regional offices to ensure that DOT maintains regular communication with Grantees and with State and local officials. Operating Administrations ensure that Grantees understand the purpose of Grant Reviews during each step of the review process. This constant communication, along with the aid of Grantee staff, has enabled DOT to not only maintain a low rate of improper payments, but also achieve success in recapturing payments identified as both improper and recoverable.

Agency Information Systems and Other Infrasturcture

DOT currently possesses the internal controls, human capital, and information systems necessary to maintain improper payment levels at the targeted programmatic rate.

LIST OF ACRONYMS

A

AATF	Airport and Airway Trust Fund
ADA	Americans With Disabilities Act
ADA	Anti-Deficiency Act
AEC	Atomic Energy Commission
AFR	Agency Financial Report
AICPA	American Institute of Certified Public Accountants
AIP	Airport Improvement Program
APR	Annual Performance Report
ARRA	American Recovery and Reinvestment Act of 2009
AU	Assessable Units

B

BBEDCA	Balanced Budget and Emergency Deficit Control Act
BCA	Budget Control Act

C

CASTLE	Consolidated Automation System for Time and Labor Entry
CDM	Continuous Diagnostic and Monitoring
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act of 1980
CFO	Chief Financial Officer
CFO Act	Chief Financial Officers Act of 1990
CIO	Chief Information Officer
COE	Common Operating Environment
CSRS	Civil Service Retirement System
CY	current year

D

DHS	Department of Homeland Security
DOL	Department of Labor
DOT	Department of Transportation

E

ERAM	En Route Automation Modernization system
ESC	Enterprise Services Center

F

FAA	Federal Aviation Administration
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FBWT	Fund Balance with Treasury
FCRA	Federal Credit Reform Act of 1990
FECA	Federal Employees Compensation Act Benefits
FEGLI	Federal Employees Group Life Insurance Program
FEHB	Federal Employees Health Benefit Program
FEMA	Federal Emergency Management Agency
FERS	Federal Employee Retirement System
FFGAs	Full Funding Grant Agreements
FFMIA	Federal Financial Management Improvement Act of 1996
FHWA	Federal Highway Administration
FIRE	Financial Integrity Review and Evaluation
FISMA	Federal Information Security Management Act of 2002
FMCSA	Federal Motor Carrier Safety Administration
FMFIA	Federal Managers' Financial Integrity Act of 2002
FRA	Federal Rail Administration
FTA	Federal Transit Administration
FY	Fiscal Year

G

GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GHG	Greenhouse Gas
GSA	General Services Administration
GTAS	Governmentwide Treasury Account Symbol Adjusted Trial Balance System

H

HTF	Highway Trust Fund

I

IG	Inspector General
IPERIA	Improper Payments Elimination and Recovery Improvement Act
IPIA	Improper Payments Information Act of 2002
IRS	Internal Revenue Service

J, K

L

LUST	Leaking Underground Storage Tank

M

MAP-21	Moving Ahead for Progress in the 21st Century
MARAD	Maritime Administration
MD&A	Management's Discussion and Analysis
MOU	Memorandum of Understanding

N

NAS	National Airspace System
NATCA	National Air Traffic Controllers Association
NHTSA	National Highway Traffic Safety Administration
NRC	Nuclear Regulatory Commission

O

OA	Operating Administration
OI	Other Information
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	U.S. Office of Personnel Management
OST	Office of the Secretary
OTA	U.S. Treasury Office of Tax Analysis

P

PAR	Performance and Accountability Report
PCB	polychlorinated biphenyls
PHMSA	Pipeline and Hazardous Materials Safety Administration
PIV	Personal Identity Verification
P. L.	Public Law
PP&E	Property, Plant & Equipment
PRIIA	Passenger Rail Investment Improvement Act of 2008
PY	prior year

Q

QCR	Quality Control Review

R

RCRA	Resource Conservation and Recovery Act of 1976
R&D	Research and Development
RD&T	Research, Development and Technology
RITA	Research and Innovative Technology Administration
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship Information

S

SAFETEA-LU	Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users
SAS	Statement on Auditing Standards
SBR	Statement of Budgetary Resources
SCA	Statement of Custodial Activity
SCNP	Statement of Changes in Net Position
SFFAS	Statement of Federal Financial Accounting Standards
SLSDC	U.S. Saint Lawrence Seaway Development Corporation
SNC	Statement of Net Cost
SOS	Schedule of Spending
SSAE	Statements on Standards for Attestation Engagements
STB	Surface Transportation Board

T

TBD	to be determined
TEU	Twenty Foot Equivalent
TIFIA	Transportation Infrastructure Finance and Innovation Act
TSCA	Toxic Substances Control Act

U

UDO	Undelivered Orders
USC	United States Code
USMMA	U.S. Merchant Marine Academy
USSGL	United States Standard General Ledger

V

VMT	Vehicle-Miles Traveled

W

WCF	Working Capital Fund

X, Y, Z