Memorandum

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

Subject: ACTION: Quality Control Review of Audited Financial Statements for FY 2004 and FY 2003, Federal Aviation Administration
QC-2005-006

Date: November 10, 2004

From: Kenneth M. Mead
Inspector General

Reply to Attn. of: JA-20

To: The Secretary
Federal Aviation Administrator

The audit of the Federal Aviation Administration's (FAA) Financial Statements as of and for the years ended September 30, 2004, and September 30, 2003, was completed by KPMG LLP (KPMG) of Washington, DC (see Attachment). We performed a quality control review of the audit work to ensure that it complied with applicable standards. These standards include the Chief Financial Officers Act; Government Auditing Standards; and the Office of Management and Budget Bulletin 01-02, "Audit Requirements for Federal Financial Statements."

The KPMG audit report concluded that the financial statements presented fairly, in all material respects, the financial position of the FAA as of September 30, 2004 and September 30, 2003, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations, for the years then ended, in conformity with accounting principles generally accepted in the United States. We concur with this unqualified or "clean" opinion.

FAA deserves credit for addressing significant challenges this year. FAA encountered difficulties when it implemented the Department of Transportation's (DOT) Delphi accounting system and FAA's new procurement system in November 2003. Because it has implemented more disciplined financial management processes over the last 3 years, for the most part, FAA was able to identify problems, track financial activities that were not properly processed, and develop timely corrective action plans.

The report presented no material internal control weaknesses but did present the following five reportable internal control conditions:

1. Implementation of a New Financial Accounting System,
2. Cost Accounting Information,
3. Reconciliations of Fund Balance with Treasury,
4. Information Technology Controls over FAA and Third-Party Systems and Applications, and
5. Cost Reimbursable Contracts.

The report also identified instances of noncompliance with the Federal Financial Management Improvement Act of 1996. FAA's financial management system did not substantially comply with Federal financial management system requirements.

KPMG made 23 recommendations for corrective actions. We agree with the KPMG recommendations. In a November 1, 2004 response to the draft report, the FAA Chief Financial Officer concurred with the reportable conditions and non-compliance, agreed with the recommendations, and committed to implement corrective actions during FY 2005. In accordance with DOT Order 8000.1C, the corrective actions taken in response to the recommendations are subject to follow-up.

In our opinion, the audit work performed by KPMG complied with applicable standards.

We appreciate the cooperation and assistance of FAA and KPMG representatives. If we can answer any questions, please call me at (202) 366-1959 or Ted Alves, the Assistant Inspector General for Financial and Information Technology Audits, at (202) 366-1496.

Attachment

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