16C.89AA1 Target #1 Obtain an unmodified audit opinion on the FAA`s FY16 financial statements. This goal requires both an unmodified audit opinion and no material weaknesses identified by external independent auditors. Due September 30, 2016.

Special Designations: OSI, STI

Commentary (July 2016)

We have prepared the Q3 financial statements--a large deliverable--and KPMG has completed their review with relatively little comment. Thus far, the only findings KPMG has issued are two repeat findings related to the Logistics Inventory System (LIS). One is for improper segregation of duties, and the other is for failure to address a system vulnerability. Those findings were issued and then immediately closed by KPMG because of the replacement of LIS with LCSS.

There are currently two areas of concern:

1. Due to a significant number of issues encountered following LCSS go-live, we requested to delay delivery of certain reconciliations to mid August. One of those reconciliations has been completed. Other reconciliations will be completed in the near future, for which the extent of unreconciled conditions is not fully known at this writing.
2. KPMG has identified 4 exceptions in which FAA contractors provided services to FAA in September 2015 and FAA paid for those services in October 2015, but FAA failed to follow the established process for "accepting" the value of those services in the PRISM system as of September 30. That "acceptance" process, had it been conducted, would have generated the required behind the scenes accounting entries including a liability and an expense for the value of the services provided. Because KPMG considers 4 exceptions too many to accept without the aggregate impact quantified, they requested that FAA identify a methodology for determining the total value of goods and services received and unpaid by FAA in FY 2015--but not accrued in FAA's books and records as of September 30. Because all the data necessary for this analysis is not available from the system, we anticipate this analysis to be challenging.

Commentary (June 2016)

The financial statements audit is progressing on schedule with two areas of concern explained in the following paragraphs. We are now preparing the Q3 financial statements--a large deliverable due to KPMG at the end of July. Thus far, the only findings KPMG has issued are two repeat findings related to the Logistics Inventory System (LIS). One is for improper segregation of duties, and the other is for failure to address a system vulnerability. Those findings were issued and then immediately closed by KPMG because of the replacement of LIS with LCSS.

Due to a significant number of issues encountered following LCSS go-live, KPMG agreed to delay their testing of inventory balances until the end of July to allow time for completion of reconciliation activities. Work to finish these activities is on track for the end of July.

On May 1, effective for April reporting, DOT implemented Treasury's Centralized Accounting and Reporting System (CARS). CARS entails an entirely new way of tracking and handling cash differences between our books and that of Treasury, and for reconciling cash. Working closely with ESC, we have made steady progress in defining required new processes and in improving out-of-balance conditions that resulted at CARS go-live. At present, about 60% of our 50+ accounts with Treasury have out-of-balance conditions (down from about 100% at go-live), but we do not consider those out-of-balance conditions to be material.

Status Table (Qualitative Metric)

Period	Actual
10/2015	Yellow
11/2015	Yellow
12/2015	Yellow
01/2016	Yellow
02/2016	Yellow
03/2016	Yellow
04/2016	Yellow
05/2016	Yellow
06/2016	Yellow
07/2016	Yellow

✓ Indicates that the item is complete.