
Office of Inspector General

Audit Report

FAA LACKS EFFECTIVE INTERNAL CONTROLS FOR OVERSIGHT OF ACCOUNTABLE PERSONAL PROPERTY

Federal Aviation Administration

Report Number: FI-2016-016

Date Issued: January 20, 2016





Memorandum

U.S. Department of
Transportation

Office of the Secretary
of Transportation
Office of Inspector General

Subject: **ACTION**: FAA Lacks Effective Internal Controls
for Oversight of Accountable Personal Property
Federal Aviation Administration
Report Number FI-2016-016

Date: January 20, 2016

From:

 for

Louis C. King
Assistant Inspector General for Financial and
Information Technology Audits

Reply to
Attn. of: JA-20

To: Federal Aviation Administrator

As of March 31, 2014, the Federal Aviation Administration (FAA) reportedly owned approximately \$733 million of non-capitalized accountable personal property (hereafter referred to as personal property).¹ FAA uses the Automated Inventory Tracking System (AITS) to record and track its personal property purchases; however during our 2013 purchase card audit,² we determined that FAA purchase cardholders and property control officials did not always follow agency policy for tracking personal property acquired with Government purchase cards, increasing the risk that Government property could be lost or stolen. We initiated this audit as a follow up to that review. Our audit objectives were to (1) determine whether FAA has implemented effective internal controls for managing non-capitalized accountable personal property (i.e., personal property) and (2) assess the extent of compliance with those controls.

We conducted this audit in accordance with generally accepted Government auditing standards. We reviewed FAA property management policies and related property reports and interviewed property officials to understand FAA's internal control environment. As part of this audit, we selected a statistical sample of 312 personal property assets recorded in AITS, which allowed us to project the

¹ Property represents tangible assets that have a useful life of 2 or more years, are not intended for sale in the ordinary course of business, and are to be used or available for use by an entity. Personal property includes all assets other than real estate. FAA defines accountable personal property as property costing \$5,000 or more; or is vulnerable to loss, theft, and misuse regardless of cost.

² *Actions Needed To Enforce Controls Over Purchase Cards* (OIG Report No. FI-2013-116), July 25, 2013. OIG reports are available on our Web site at <http://www.oig.dot.gov>.

total number of assets that could not be located and the total number of inaccurate and incomplete asset records. Exhibit A provides more details on our scope and methodology.

RESULTS IN BRIEF

FAA has not fully implemented effective internal controls for managing personal property. This is largely because FAA property managers within the Aviation Logistics Organization (ALO) lack the authority to direct FAA custodial area managers and custodians to adhere to FAA policy in the performance of their custodial duties. In addition, FAA's property management oversight does not fully apply key internal controls prescribed by the Government Accountability Office (GAO).³ For example, FAA has not established effective policies that enforce management's directives, such as top level performance reviews of custodians and review of key performance measures. Absent such controls, FAA cannot hold key personnel accountable or measure the effectiveness of its controls and practices over its personal property.

While FAA established documentation requirements to accurately track personal property, property custodians and other FAA employees did not comply with these requirements, and custodians are not consistently held responsible for safeguarding personal property. Specifically, custodians did not perform required inventories, record newly acquired IT equipment, update records upon transfer, or remove obsolete IT assets from property records. FAA officials also did not adhere to FAA policy governing the replacement of outgoing custodians at cost centers⁴ or management of assets at large cost centers. The weaknesses in FAA's controls and the resulting non-compliances have contributed to a high volume of missing assets and inaccurate and incomplete asset data in AITS. Based on our sample, we estimate that FAA may not be able to locate approximately 15,000 personal property assets on record, with a combined acquisition value of more than \$32.5 million.⁵ We also estimate that approximately 36,000 personal property asset records with an acquisition cost of \$164 million have incomplete or inaccurate information in the AITS database.⁶

We are making recommendations to improve FAA's controls for safeguarding and tracking personal property and maintaining the overall accuracy of its property records.

³ GAO's Standards for Internal Control in the Federal Government, known as the Green Book, sets internal control standards for Federal entities.

⁴ Cost centers represent accounting sub-units within FAA organizations. They are also used to manage accountable property. Each cost center has an assigned property custodian responsible for oversight.

⁵ Our estimates of 14,567 and \$32.5 million have precisions of +/- 0.3 and 0.1 percent respectively at the 90 percent confidence level.

⁶ Our estimates of 36,085 and \$164.3 million have precisions of +/- 0.4 and 0.7 percent respectively at the 90 percent confidence level.

BACKGROUND

The effective, efficient use of property is the responsibility of all FAA employees. FAA employs approximately 46,000 personnel at more than 675 locations nationwide and abroad. FAA's organizational structure has four lines of business: (1) Air Traffic (ATO), (2) Airports (ARP), (3) Aviation Safety (AVS) and (4) Commercial Space Transportation (AST). The ALO is responsible for developing and communicating FAA property management policy to the lines of business.

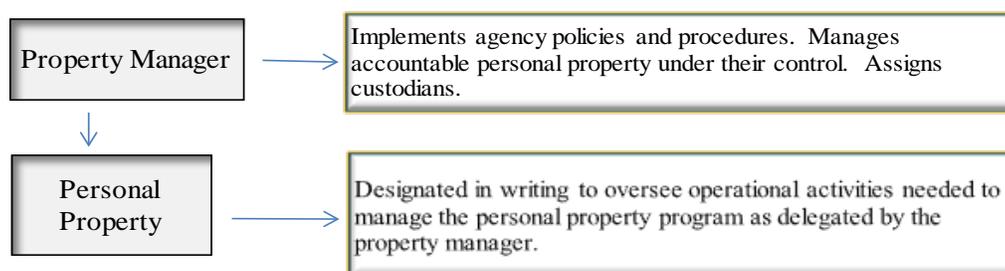
FAA Order 4600.27B describes how FAA manages its property, including roles and responsibilities. It also reflects Federal laws on how to manage property. FAA distinguishes two types of personal property: (1) capitalized property costing \$100,000 or more, which is reported in its annual financial statements, and (2) non-capitalized property having an acquisition cost of less than \$100,000, which is monitored and tracked in a non-financial system. Examples of non-capitalized property include personal computers, servers, test equipment, digital cameras, utility vehicles, heavy equipment, and tools. FAA's Personal Property Process and Procedure Guide (Guide)⁷ requires employees to safeguard property to minimize the potential for waste, fraud, or theft of Government-owned personal property. For example, laptop computers are especially vulnerable since they are portable, have significant resale value, and often contain sensitive data that can be used to exploit individuals or organizations. At FAA, management of personal property is assigned by region⁸ and cost center, and each cost center is assigned a Property Custodian. As of March 31, 2014, the AITS database included 2,330 cost centers.

Key officials in the property management structure include, but are not limited to the (1) Property Manager, (2) Personal Property Officer (PPO), (3) Custodial Area Managers, and (4) Custodians (see figure 1).

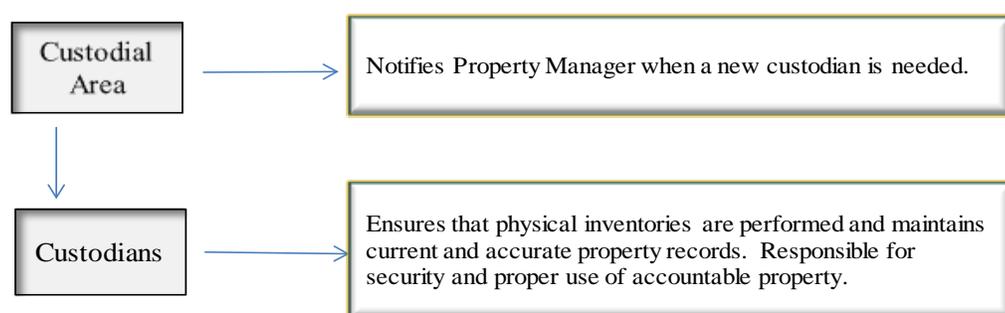
⁷ FAA's Personal Property Process and Procedure Guide, v2.2, June 28, 2013, includes detailed controls and procedures, and states that the FAA standard for taking inventory of property on a 3-year basis, called a Triennial Inventory.

⁸ In addition to its headquarters location, FAA has nine regional offices strategically located across the country and at the Mike Monroney Aeronautical Center.

Figure 1. Key Positions and Their Responsibilities for Accountable Property



Lines of Business (ATO, ARP, AVS, AST)



Source: FAA Personal Property Process & Procedure Guide v2.2 (The Guide)

FAA HAS NOT IMPLEMENTED EFFECTIVE CONTROLS OVER PERSONAL PROPERTY

FAA has not fully implemented effective controls for managing personal property. FAA property managers within ALO lack the authority to hold FAA custodial area managers and custodians accountable for maintaining accurate records, and FAA's current practices for managing personal property do not fully incorporate Federal internal control standards.

FAA Does Not Hold Custodians Accountable for Maintaining Accurate Inventory Records

According to FAA policy, property managers are responsible for carrying out agency policies related to the property under their control. For example, they must advise and assist FAA employees on property policy, make accurate and timely updates to the property record, and oversee property custodians assigned to

designated custodial areas. Custodians are required to create and maintain accurate property records, take and maintain inventories, and advise employees of their responsibility to properly use and care for property. However, FAA's policies do not provide property managers with the authority needed to hold custodians accountable for maintaining accurate or timely property records.

Also, FAA's organizational structure further distances the managers and the custodians. While property managers and PPOs are within the ALO organization, and ALO develops FAA's property policy, most of FAA's personal property (and property custodians) reside outside of FAA headquarters and therefore, outside of ALO's administrative control. FAA's property accountability is further diminished because custodians are not evaluated by their direct supervisor on performance of their custodial duties. Consequently, FAA lacks controls that ensure custodians perform required duties such as recording property transactions on time and performing triennial inventories.

FAA Lacks Key Controls for Managing Personal Property

FAA has not fully implemented key controls outlined in GAO's Green Book (see table 1). For example, ALO does not evaluate the accuracy of inventory records and has not established an inventory accuracy goal or a method to measure inventory accuracy. Also, FAA lacks a control to ensure that property custodians conduct counts of assets and compare results to control records. Lastly, while accurate and timely records are an integral component of overall inventory accuracy, records were not up to date and did not accurately document new acquisitions, changes to asset status, and asset disposal.

Table 1. GAO and FAA Comparison of Key Controls for Property Management

GAO Recommended Control	Description of Control	FAA's ALO Current Practices
Top-level reviews of actual performance	Management tracks major entity achievements and compares these to the plans, goals, and objectives set by the entity.	ALO has not established a goal for inventory accuracy.
Reviews by management at the functional or activity level	Management compares actual performance to planned or expected results throughout the organization and analyzes significant differences.	ALO has no method for determining actual performance except for monitoring the completion of required triennial periodic inventories.
Physical control over vulnerable assets	Management establishes physical controls to secure and safeguard vulnerable assets. Management periodically counts and compares such assets to control records. (Triennial Inventory)	Triennial inventories are not consistently performed by property custodians.
Establishment and review of performance measures and indicators	Management establishes activities to monitor performance measures and indicators.	FAA has not established performance measures for custodians regarding the completion of inventory counts and the accuracy of the AITS record. ALO lacks the authority to enforce such measures.
Accurate and timely recording of transactions	Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions.	ALO cannot determine if transactions are properly recorded and accurate and timely updates are made to AITS for new acquisitions, or changes to an assets status and/or asset disposal.

Source: OIG analysis of GAO and FAA property controls.

PROPERTY CUSTODIANS DID NOT COMPLY WITH FAA POLICY FOR MANAGING PERSONAL PROPERTY

Property custodians and other FAA employees did not adhere to established policy for tracking and monitoring personal property. Specifically, custodians did not perform required triennial inventories, record newly acquired IT equipment in the property system, or remove obsolete IT assets from property records. FAA officials did not notify property management of outgoing custodians at cost centers or ensure the adequate oversight of assets at large cost centers. The weaknesses in FAA's controls and the resulting non-compliances have contributed to a high volume of missing assets and inaccurate and incomplete asset data in AITS.

Property Custodians Did Not Perform Required Triennial Inventories

For 190 (or 8 percent) FAA cost centers, property custodians did not complete triennial inventories as required by the Guide. Specifically, these cost centers did not have a recorded inventory in AITS that was completed and certified within the last 3 years. Additionally, almost 98 percent of these cost centers were *never* inventoried; yet, these cost centers contained 9,165 assets with an acquisition value of more than \$26 million.

Property managers are not required to notify custodians that a triennial inventory is coming due, and it is the property custodian's responsibility to ensure that inventories are conducted in a timely manner in accordance with FAA policy. An FAA property official noted that automated notifications in AITS indicating that an inventory is coming due would be a useful tool to assist property custodians with meeting this requirement.

Physical inventories validate the official property record by ensuring property records are complete and accurate. These inventories reduce the risk of (1) undetected theft and loss, (2) unexpected shortages, and (3) unnecessary purchases of property already on hand. When inventories are not completed on schedule, assets are at risk for theft and loss.

After we notified FAA of our finding, FAA officials agreed to implement controls and are actively working to ensure managers have conducted certified inventories of accountable property in all cost centers within the last 3 years.

Property Custodians Did Not Record Newly Acquired IT Equipment or Update the Property Record Upon Transfer

Property custodians did not record 59 of 652 IT assets⁹ received from FAA's Strategic Acquisition of Various Equipment and Supplies (SAVES)¹⁰ vendor between December 2013 and February 2014. FAA policy requires that these assets be recorded in AITS within 30 days of receipt. After we notified FAA of our finding, FAA personnel confirmed the existence of these assets and recorded them in AITS, more than 2 months after their receipt.

FAA has not established an oversight control to determine when custodians fail to enter IT equipment received from the SAVES vendor in the property system. Also, FAA uses an internal IT service management tool (REMEDY) for managing and documenting the receipt of IT equipment and the initial receipt and entry process for these assets does not allow data from the REMEDY system to interface with AITS which—absent compensating controls—contributes to the risk of missing

⁹ Including laptops and computer tablets.

¹⁰ The SAVES program simplifies the purchase process for IT equipment and other office supplies.

AITS entries, manual entry errors in AITS, and an overall inconsistency between the two systems. Not accounting for IT assets upon receipt increases the risk that these assets can be lost or stolen.

At the Kansas City staging area—which receives, stores, and distributes computers across FAA—AITs records were not updated within 30 days of transferring newly acquired IT assets to FAA users. We randomly selected a sample of 20 line items from a shipping document and identified 4 (20 percent) that had incorrect location information in the property record. These items were shipped to a regional office and held in storage for future issuance. The property custodians did not update the location information for these assets until more than 60 days later when the computers were finally issued to FAA employees. This lack of accountability further increases the risk that computers may be lost or stolen.

Property Custodians Did Not Remove Obsolete IT Assets From Property Records

Property custodians did not maintain accurate inventory records or certified inventory counts, which allowed obsolete and possibly nonexistent computers to remain on the property records. FAA did not perform a comprehensive review to update or remove the old records after transferring to a new property management system (AITs) in 2006.¹¹ We found more than 20,000 computer systems manufactured in 2006 or earlier recorded in the AITS database, as of March 31, 2014.¹² Because computer workstations have only a 3- to 4-year life cycle, it is unlikely these systems were still in use (see table 2).

Table 2. Number of Computers with Manufactured Dates of 2006 or Earlier

Manufactured Date	Number of IT Assets
2000 or Earlier	4,815
2001 – 2004	5,959
2005 – 2006	9,749

Source: OIG analysis of AITS data (IT Assets) as of March 31, 2014

We also identified approximately 6,600 active records in AITS for computer equipment that FAA previously exchanged through the Information Technology Asset Management System (ITAMS). FAA uses the ITAMS database to track old IT equipment exchanged with Dell for credit on future purchases. Once confirmed, applicable IT records should be archived from AITS.

¹¹ Personal Property In-Use management System (PPIMS). AITS was to be an interim system until Asset Supply Chain Management (ASCM) could be established. However, ASCM was eventually cancelled after about 2 years and never became operational.

¹² The analysis was performed utilizing manufactured dates National Stock Numbers (NSN) that denote computers and computer systems including laptops, PDA's desktops and tablets.

FAA's Personal Property Management regulation, FAA Order 4600.27B, requires custodians and delegates to track accountable assets in FAA's property management system when changes in ownership, location, and/or use occur. The property custodian should maintain current and accurate custodial records and notify the PPO of any discrepancies in the property record.

After we notified FAA of our finding, FAA agreed to prepare a mass mailing to property custodians to remind them of their responsibility to maintain accurate property records and work to assign custodial coverage for all cost centers with personal property.¹³ FAA also agreed to develop agency wide procedures for timely archiving records for IT equipment exchanged via the ITAMS program.

FAA Did Not Replace Outgoing Property Custodians

FAA had 41 cost centers with personal property that did not have an assigned custodian. In total, these cost centers included 1,997 assets with an acquisition value of about \$4 million. This occurred because the PPO was not always notified when a custodian left the agency or transferred to another cost center. Also, the PPO was not made aware of reorganizations that consolidated or added cost centers.

FAA's Guide requires the custodial area manager to notify an FAA property manager whenever there is a change in custodianship, and the property manager is responsible for designating a new custodian. However, FAA did not have a control to ensure that property managers periodically determine which cost centers are without custodial leadership at any given time. When FAA cost centers with accountable property do not have assigned custodians to safeguard assets, these assets are at greater risk for theft and loss and it may go undetected.

AITIS Property Records Were Inaccurate and Included Missing Assets

FAA could not physically locate 32 of the 312 personal property assets in our statistical sample. In addition, FAA's property records as of March 31, 2014, contained incomplete or inaccurate records for 76 of 312 assets¹⁴ tested. Based on our sample, we estimate that FAA may not be able to locate approximately 15,000 personal property assets on record, with a combined acquisition value of more than \$32.5 million.¹⁵ We also estimate that approximately 36,000 personal

¹³ On July 14, 2015, OIG was notified that on June 30, 2015, ALO prepared and distributed a mass mailing to property custodians outlining their custodial duties.

¹⁴ Our universe included 257,564 assets valued at less than \$100 thousand per asset.

¹⁵ Our estimates of 14,567 and \$32.5 million have precisions of +/- 0.3 and 0.1 percent respectively at the 90 percent confidence level.

property asset records with an acquisition cost of \$164 million have incomplete or inaccurate information in the AITS database¹⁶ (see table 3).

Table 3. Statistical Property Record Testing Results (FAA-wide)¹⁷

Category	Projected # of Issues	Projected Acquisition Cost of Assets (In Thousands)
FAA Could Not Locate Asset	14,567	\$32,467
Incomplete or Inaccurate AITS Data	36,085	\$164,303

Source: OIG analysis of random statistical sample of personal property as of March 31, 2014.

Many of these problems occurred at large IT cost centers where management controls did not conform to the Guide:

- We identified 13 assets that could not be found and 10 assets with inaccurate records in our sample of 95 IT asset records tested at 1 cost center that had more than 13,000 assets. The most recent triennial inventory for this cost center was completed on September 30, 2013.
- We identified 13 assets that could not be found and 36 assets with inaccurate property records in our sample of 76 asset records tested at another large IT cost center that had more than 13,000 assets.
- Lastly, a third large IT cost center location had inaccurate records for 20 of 48 asset records tested. This particular cost center manages IT assets at the end of their lifecycle. Property custodians did adhere to FAA policy by transferring the assets into this cost center for exchange via ITAMS, and the assets were eventually exchanged for credit. However, the property records were not updated—in some instances this was the case long after the assets had been exchanged.

The errors at these three cost centers occurred primarily because each had only one custodian, responsible for thousands of IT assets, which were located at multiple sites. However, to ensure appropriate oversight of personal property, FAA policy states that property custodians should have managerial responsibility onsite in the custodial area for which the property resides. FAA currently uses Electronic Asset Verification (EAV) to verify the existence of more than 50,000 IT equipment property records. While EAV could assist FAA with larger IT cost centers, FAA does not have an automated interface between the EAV software and

¹⁶ Our estimates of 36,085 and \$164.3 million have precisions of +/- 0.4 and 0.7 percent respectively at the 90 percent confidence level.

¹⁷ As represented in these projections, our findings indicate that the property record as of March 31, 2014, included a significant number of assets that are no longer in use or were previously exchanged via the ITAMS program.

AIMS, which could automatically update AIMS records with information collected by EAV.

Assets Were Not Recorded in AIMS or Were Mislabeled or Associated With Wrong Cost Centers

We performed “floor-to-record”¹⁸ testing to determine the completeness of the AIMS property records and further test the accuracy of the AIMS records at three FAA locations (FAA headquarters, the Mike Monroney Aeronautical Center, and the William J. Hughes Technical Center (WJHTC)). We selected a total of 270 personal property assets at those locations and traced the assets to the AIMS property records and verified specific asset information (i.e., cost center, physical location, barcode, and serial number). We determined 24 of the 270 assets were not recorded in AIMS. In addition, we identified 58 instances where the selected assets were recorded in AIMS but had mislabeled information (i.e., barcode or serial number) on the asset, or had incorrect location or cost center information. This occurred because custodians did not always maintain complete and accurate property records, and property managers, while responsible for managing property under their control, did not verify that custodians updated AIMS records when IT management moved computers between cost centers and locations. Lastly, while ALO is responsible for policy development, it lacks the authority to hold approximately 1,800 custodians responsible for performing this collateral or secondary duty as assigned. Until FAA holds custodians accountable, property will continue to go unaccounted for or be incorrectly documented in the AIMS property record.

CONCLUSION

Property such as portable computers greatly enhances the efficiency and effectiveness of FAA operations. However, such assets are by nature susceptible to loss or theft. Strong internal controls must be in place to safeguard such property from fraud, waste, or abuse. While FAA has developed policies to track this property, it has not taken the necessary steps to ensure that managers and custodians fully comply with its policy. Until FAA takes the necessary actions to enforce compliance and hold custodians accountable, it will be unable to decrease the risk that Government property is lost or stolen.

¹⁸ Floor-to-record testing involved visually identifying applicable personal property within a designated custodial area, documenting the AIMS identification number along with other identifiable information included on the asset, and then checking the information, including cost center location directly to the AIMS property record.

RECOMMENDATIONS

We recommend that FAA:

1. Notify custodial area managers of their responsibility to maintain custodians for all cost centers and property custodians of their responsibility for ensuring accurate, complete, and timely physical inventories in accordance with FAA policy and procedures.
2. Develop and implement a measurable approach that holds custodians accountable for the completeness and accuracy of property records within their cost centers.
3. Implement an automatic alert function to officially notify and remind property custodians when a required triennial inventory is coming due.
4. Develop and implement a plan to conduct and certify inventory counts for all cost centers with non-capitalized accountable property that are identified in FAA's property management system and resolve discrepancies in accordance with FAA policy.
5. Establish a control that ensures that all IT assets acquired using the SAVES contract are recorded in FAA's property management system within 30 days.
6. Develop agency-wide procedures for the timely update of records for IT equipment exchanged via the ITAMS program.
7. Develop a timeline for completion and continue performing a comprehensive review of all FAA cost centers with accountable property in FAA's property management system to identify old or inactive cost centers, transfer affected property in accordance with FAA policy, and block custodians and delegates from adding new property to these cost centers.
8. Evaluate opportunities to expand the use of EAV in property management, including an automated solution that enables information from EAV to automatically update property records.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

We provided FAA with our draft report on December 10, 2015, and received its response on January 11, 2016, which is included as an appendix to this report. FAA concurred with all eight of our recommendations and proposed appropriate actions and completion dates. In addition, for recommendation 1, FAA requested

closure, stating that it transmitted an AITS message to all custodians, delegates, and AITS users, which reinforced their responsibilities in records maintenance, inventory completion and verification, custodian change inventories, lost/damaged/destroyed property reporting, and property end-of-use disposition. However, we are requesting additional support from FAA to demonstrate that the distribution of this message reached all the intended recipients.

ACTIONS REQUIRED

We consider all eight recommendations as resolved but open pending completion of the planned actions for recommendations 2 through 8 and receipt of the follow-up support for recommendation 1. In accordance with DOT Order 8000.1C, we request that FAA provide our office with this information within 30 days of the date of this report.

We appreciate the courtesies and cooperation of FAA representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-4350 or George Banks, Program Director, at (410) 962-1729.

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cc: DOT Audit Liaison, M-1
FAA Audit Liaison, AAE-100
FAA Assistant Administrator for Finance and Management, AFN-1

EXHIBIT A. SCOPE AND METHODOLOGY

We conducted our work from March 2014 through December 2015 in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit objectives were to (1) determine if FAA has implemented effective internal controls for managing non-capitalized accountable property and (2) assess the extent of compliance with those controls.

To gain an understanding of internal controls and FAA property management, we interviewed representatives from FAA's, Aviation Logistics Organization (ALO-400). We interviewed property managers, personal property officers, custodians, and delegates. We discussed FAA's controls for safeguarding accountable property from waste and abuse and controls for ensuring the accuracy of the AITS record.

We reviewed FAA Order 4600.27B and implementing guidance contained in FAA's Personal Property Process and Process Guide, v2.2 (June 28, 2013). We also reviewed and compared GAO's "Standards for Internal Control" to FAA's policy for accountable property oversight.

To identify if assets are recorded in AITS within 30 days of receipt, we used a file of FAA "SAVES" purchases during the period December 2013 to February 2014 and confirmed the serial numbers were recorded in the AITS universe. We also randomly selected 20 items received at the FAA IT staging area and shipped to FAA users in June 2014 and we used the item barcode and serial numbers to identify if the transfer dates recorded in the FAA live database.

To identify if custodians removed obsolete IT assets from property records, we analyzed the March 31, 2014 ATIS database to identify computer systems with National Stock Class codes 7010, 7020, 7021, 7022, 7025 and 7040. We eliminated all items coded with "0" as non-accountable property. We also sorted this listing of computers by year of manufacture to identify all computers manufactured in 2006 or earlier.

To identify property custodians that did not complete triennial inventories within a three year period, we analyzed and combined three separate files to identify all those cost centers without an inventory on record, going back to March 31, 2011.

The files included a certified inventory report, and two reports that identified cost centers without an inventory on record.

Additionally, we performed statistical sample testing to determine if the property records were accurate. We extracted the universe of 257,564 accountable assets valued at less than \$100 thousand from the AITS property management system. We selected a stratified statistical sample in 2 Stages. We aggregated the 257,564 assets by location and stratified these 16,296 locations into 2 strata where Stratum 1 had 3 locations with total asset values of more than \$10 million and Stratum 2 had 16,293 locations with total asset values of \$10 million or less. For Stage 1 Stratum 1 we selected all 3 locations, and for Stage 1 Stratum 2 we selected 17 out of 16,293 locations. We selected the 17 locations with probability proportional to size with replacement where size was the total amount of assets at a location. We then selected Stage 2 which was a stratified sample of a total of 312 out of 38,203 assets with probability proportional to size with replacement within a stratum where size was the value of an asset. The strata were made up of the 20 locations selected in Stage 1. Two assets were selected twice because of the 'with replacement' sample design which reduced the number of unique assets in our sample to 310. We used this sample design because of the ease in computing the precision. Our sample design allowed us to estimate the number and amount of assets with completeness issues with 90 percent confidence and a precision of less than 1 percent of the universe. Sample items were tested to verify the existence of the asset, and the accuracy and completeness of the AITS record.

We also performed floor to record testing on 270 non-capitalized accountable property assets at nine FAA cost centers visited to determine if the AITS records are complete. We verified the AITS record by comparing asset and serial numbers, as well as the cost center and location of the asset, as identified in AITS.

Our audit work was conducted at FAA headquarters, Mike Monroney Aeronautical Center, William J. Hughes Technical Center, FAA's Kansas City, MO IT Staging Area, and other field offices in Washington D.C. and nationwide.

EXHIBIT B. ENTITIES VISITED OR CONTACTED

Federal Aviation Administration (FAA) Headquarters, Washington D.C.

FAA's Mike Monroney Aeronautical Center, Oklahoma City, Oklahoma

FAA's William J. Hughes Technical Center, Atlantic City, New Jersey

FAA IT Staging Area, Kansas City, Missouri

Other FAA Field Offices located in Washington, D.C. and Nationwide

EXHIBIT C. MAJOR CONTRIBUTORS TO THIS REPORT

Name	Title
George Banks	Program Director
Brian Frist	Project Manager
Christina Lopez	Analyst
Francisco Ramos Hilerio	Auditor
Scott Williams	Analyst
Petra Swartzlander	Senior Statistician
Andrea Nossaman	Writer-Editor

APPENDIX. AGENCY COMMENTS

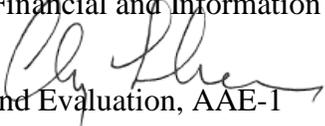


Federal Aviation Administration

Memorandum

Date: January 11, 2016

To: Louis C. King, Assistant Inspector General for Financial and Information Technology Audits

From: H. Clayton Foushee, Director, Office of Audit and Evaluation, AAE-1 

Subject: Federal Aviation Administration's (FAA) Response to Office of Inspector General (OIG) Draft Report: FAA Oversight of Accountable Property

The FAA is in the process of strengthening internal controls for managing non-capitalized accountable personal property by establishing effective policies that enforce management directives. On September 4, 2015, the Agency published an updated FAA Order (4600.27C) to improve custodian compliance and to ensure the accuracy of asset data. We are also currently developing and implementing both short- and long-term process improvements that will result in more effective and efficient management and oversight of the FAA's accountable property.

Old or inactive cost centers are being identified and closed, and property is being transferred to the appropriate, active cost centers. We are developing a standard National Personal Property Oversight and Evaluation Program with metrics to assess the effectiveness of the agency's property management system, incorporating the automatic physical inventory notification requirements into the requirements documents, and developing system requirements in anticipation of acquiring a new property system in fiscal year 2018.

In reviewing the recommendations contained in the draft report, the Agency concurs with the recommendations as written. For recommendation 1, on July 22, 2015, we transmitted an Automated Inventory Tracking System (AITS) message to all custodians, delegates, and AITS users which reinforced their responsibilities in records maintenance, inventory completion and verification, custodian change inventories, lost/damaged/destroyed property reporting, and property end-of-use disposition in accordance with FAA Order 4600.27C. We believe we have met the intent of recommendation 1 and request that it be closed.

The Agency plans to complete actions on recommendations 2, 3, 4, and 8 by March 31, 2016. Actions for recommendation 7 are projected for completion by June 30, 2016 and actions for recommendations 5 and 6 are scheduled for completion by September 30, 2016. The FAA appreciates the opportunity to offer additional perspectives on the OIG draft report. Please contact H. Clayton Foushee at (202) 267-9000 if you have any questions or require additional information regarding these comments.