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## Memorandum

Date: January 28, 2020

Subject: INFORMATION: Audit Announcement | FAA Oversight of the National Airspace System Inventory | Project No. 20F3012F000  
Federal Aviation Administration

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

To: Federal Aviation Administrator

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On December 11, 2019, the Office of Inspector General (OIG) issued its audit report on the Federal Aviation Administration's (FAA) Franchise Fund,<sup>1</sup> which described weaknesses in the Fund's inventory controls at FAA's Logistics Center (AML).<sup>2</sup> Specifically, AML does not have a detailed aging report for tracking the age of its inventory supporting the National Airspace System (NAS), which might include items that are 30 or more years old. As such, OIG could not determine if FAA is overstating the Fund's inventory value, reported as \$656 million in 2018.

We also reported on the results from an independent public accountant's review of FAA's financial statements for fiscal years 2018 and 2017. KPMG LLP found that the Agency's controls were not designed and implemented to ensure the accuracy of the inventory data. As a result, FAA's inventory and related expenses could be inaccurate, increasing the risk that misstatements will be recorded in the general ledger. More recently, KPMG reviewed FAA's financial statements for fiscal years 2019 and 2018 and identified a significant deficiency in FAA's design and implementation of specific inventory controls for receiving and recording inventory.<sup>3</sup>

We are initiating an audit of FAA's oversight of its NAS inventory. Our audit objective will be to determine if FAA has effective oversight controls for

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<sup>1</sup> *FAA Needs to Improve Oversight and Enhance Transparency in Its Franchise Fund* (OIG Report No. FI2020012), December 11, 2019. OIG reports are available on our website: <https://www.oig.dot.gov/>.

<sup>2</sup> As of September 30, 2019, FAA reported a total of \$691 million in inventory, of which \$683 million (99 percent) belongs to the Franchise Fund, based on FAA's fiscal year 2019 financial statement.

<sup>3</sup> *Quality Control Review of the Independent Auditor's Report on the Federal Aviation Administration's Audited Consolidated Financial Statements for Fiscal Years 2019 and 2018* (OIG Report No. QC2020009), November 14, 2019.

managing the NAS inventory, including controls to appropriately account for excess, obsolete, or unserviceable items.

We plan to begin our audit in the coming weeks and will contact your audit liaison to schedule an entrance conference. We will conduct our work at FAA headquarters, AML in Oklahoma City, and other FAA locations, as necessary. If you have any questions, please contact me at (202) 366-1407 or Kevin Dorsey, Program Director, at (202) 366-1518.

cc: DOT Audit Liaison, M-1  
FAA Audit Liaison, AAE-100