

**QUALITY CONTROL REVIEW OF
AUDITED FINANCIAL STATEMENTS FOR
FY 2006 AND FY 2005**

Federal Aviation Administration

Report Number: QC-2007-009

Date Issued: November 14, 2006



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 2006 and FY 2005, Federal Aviation Administration
Report Number: QC-2007-009

Date: November 14, 2006

From: Calvin L. Scovel III *Calvin L. Scovel III*
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, 2006 and September 30, 2005, was completed by KPMG LLP 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; Generally Accepted Government Auditing Standards; and Office of Management and Budget Bulletin 06-03, "Audit Requirements for Federal Financial Statements."

KPMG concluded that, except for the Construction in Progress¹ (CIP) balance and transactions, the consolidated financial statements present fairly, in all material respects, the financial position of FAA as of September 30, 2006 and September 30, 2005, 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.

KPMG qualified its opinion because FAA was unable to provide sufficient evidence to support the accuracy and completeness of the CIP account balances or related transactions that may have occurred affecting net cost. In addition, because of the significance of the CIP balance, and adjustments that might result from management's review of CIP, FAA was unable to represent that the CIP account balance totaling \$4.7 billion, reported as a component of Property, Plant,

¹ Construction in Progress is a component of the Property, Plant, and Equipment line, and represents assets that are under construction or that have not yet been placed into service.

and Equipment in the footnote disclosure to the FAA Balance Sheet, was fairly stated as of September 30, 2006.

The report presented one material internal control weakness, three reportable conditions, and two instances of noncompliance with laws and regulations.

Material Weakness

1. Timely Processing of Transactions and Accounting for the Construction in Progress Account

Reportable Conditions

1. Monitoring of Grants
2. Information Technology Controls over FAA and Third-Party Systems and Applications
3. Management Oversight and Reporting of Inventory

Noncompliance with Laws and Regulations

1. *Federal Financial Management Improvement Act of 1996 (FFMIA)*
2. *Antideficiency Act*

KPMG made 28 recommendations for corrective actions; we agree with them and, therefore, are making no additional recommendations. FAA concurred with the material weakness, reportable conditions, and noncompliance; agreed with the recommendations; and committed to implementing corrective actions during fiscal year 2007. 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, Office of Financial Management, and KPMG representatives. If we can answer any questions, please call me at (202) 366-1959, or Rebecca C. Leng, Assistant Inspector General for Financial and Information Technology Audits, at (202) 366-1496.

Attachment

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