

**QUALITY CONTROL REVIEW OF
AUDITED FINANCIAL STATEMENTS FOR
FY 2007 AND FY 2006**

Federal Aviation Administration

Report Number: QC-2008-005

Date Issued: November 9, 2007



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 2007 and FY 2006,
Federal Aviation Administration
Report Number: QC-2008-005

Date: November 9, 2007

From: Calvin L. Scovel III
Inspector General

Reply to
Attn. of: JA-20

To: The Secretary
Acting Federal Aviation Administrator

The audit of the Federal Aviation Administration's (FAA) Financial Statements as of and for the years ended September 30, 2007, and September 30, 2006, was completed by KPMG LLP of Washington, D.C. (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, as amended; Generally Accepted Government Auditing Standards; and Office of Management and Budget Bulletin 07-04, "Audit Requirements for Federal Financial Statements."

In its fiscal year 2006 report, dated November 3, 2006, KPMG qualified its opinion because FAA was unable to provide sufficient evidence to support the accuracy and completeness of the Construction in Progress¹ (CIP) account balance or related transactions that might have occurred affecting net cost. Because of the significance of the CIP balance and adjustments that might have resulted from management's review of CIP, FAA was unable to represent that the CIP account balance totaling \$4.7 billion as of September 30, 2006, was fairly stated.

During fiscal year 2007, FAA executed an extensive corrective action plan, including a complete review of the CIP balance reported as of September 30, 2006. FAA's review of CIP resulted in a material restatement of its fiscal year 2006 financial statements, including the reclassification of \$1.7 billion

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.

from CIP to in-use property and more than \$900 million from CIP to expense. The restated CIP balance as of September 30, 2006, was, then, \$2.1 billion.

KPMG concluded that FAA's consolidated financial statements presented fairly, in all material respects, the financial position of FAA as of September 30, 2007 and September 30, 2006, and its net costs, changes in net position, and budgetary resources, for the years then ended, in conformity with accounting principles generally accepted in the United States. However, as discussed in KPMG's report, internal controls related to the timely processing of transactions and accounting for Property, Plant, and Equipment and CIP continues to be a material weakness. In addition, the report presented two significant deficiencies, and one instance of noncompliance with laws and regulations.

Material Weakness

1. Timely Processing of Transactions and Accounting for Property, Plant, and Equipment, including the Construction in Progress Account

Significant Deficiencies

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

Noncompliance with Laws and Regulations

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

KPMG made 12 recommendations for corrective action; we agree with all and, therefore, are making no additional recommendations. FAA concurred with the material weakness, significant deficiencies, and noncompliance; agreed with the recommendations; and committed to implementing corrective action during fiscal year 2008. 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.