

**QUALITY CONTROL REVIEW OF
AUDITED FINANCIAL STATEMENTS FOR
FY 2005 AND FY 2004**

Federal Aviation Administration

Report Number: QC-2006-010

Date Issued: November 14, 2005



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 2005 and FY 2004
Federal Aviation Administration
QC-2006-010

Date: November 14, 2005

From: Kenneth M. Mead
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, 2005, and September 30, 2004, was completed by KPMG LLP (KPMG) 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 the Office of Management and Budget Bulletin 01-02, "Audit Requirements for Federal Financial Statements."

The KPMG audit report concluded that the financial statements presented fairly, in all material respects, the financial position of the FAA as of September 30, 2005, and September 30, 2004, 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.

In fiscal year 2005, FAA continued to refine its Delphi-related processing, procedures, and controls but experienced difficulties in the timely processing of transactions and the reconciliations of significant financial accounts. As a result, FAA was not able to prepare reliable financial statements in a timely manner during the year and at year-end. It was necessary for FAA to make over \$2.0 billion of adjustments to year-end balances to prepare complete and accurate financial statements, and these statements were not available until 4 weeks after the end of the fiscal year.

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

Material Weakness

1. Timely Processing of Transactions and Reconciliation of Accounts.

Reportable Conditions

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

Noncompliances With Laws and Regulations

1. Federal Financial Management Improvement Act of 1996 (FFMIA).
2. Department of Transportation and Related Agencies Appropriations Act of 1997 (Public Law 104-205).
3. Anti-deficiency Act, as amended.

KPMG made 18 recommendations for corrective actions in its report. We agree with the KPMG recommendations, and therefore, we are not making any additional recommendations. FAA concurred with the material weakness, reportable conditions, and noncompliances, and agreed with the recommendations. FAA committed to implement corrective actions during fiscal year 2006. 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 and KPMG representatives. If we can answer any questions, please call me at (202) 366-1959 or Ted Alves, the Principal Assistant Inspector General for Auditing and Evaluations, at (202) 366-1992.

Attachment

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