



Memorandum

**U.S. Department of
Transportation**

Office of the Secretary
of Transportation

Office of Inspector General

Subject: INFORMATION: Notification of Audit on
FAA Oversight of New Entrant and Low-Cost
Air Carriers

Date: July 15, 2003

From: 
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Assistant Inspector General
for Aviation Audits

Reply to
Attn of: JA-10; x60500

To: Acting Assistant Secretary for Aviation and International Affairs
Acting Assistant Administrator for Financial Services/CFO

While many major airlines are experiencing financial difficulties and reducing their operations, new entrant and low-cost air carriers have experienced significant growth. The Federal Aviation Administration (FAA) defines new entrant air carriers as air carriers that have been in operation less than 5 years. Low-cost air carriers are air carriers that have low unit operating costs and charge relatively low fares compared to other air carriers.

FAA has developed special procedures that require enhanced surveillance of new entrant air carriers to ensure they have and maintain sufficient resources and expertise to safely accommodate their growth. FAA has also developed specific procedures for monitoring all air carriers during periods of growth or major change. In addition, the Office of the Secretary of Transportation (OST) is responsible for performing follow-up economic reviews of new entrant and rapidly growing air carriers to ensure that these air carriers have the financial resources and management qualifications to support stable growth.

The Office of Inspector General plans to conduct an audit to evaluate FAA and OST procedures for monitoring new entrant and low-cost air carriers. Specifically, we will determine whether:

- 1) FAA and OST have effectively implemented procedures to heighten surveillance of new entrant and low-cost air carriers during periods of rapid growth, and
- 2) FAA's risk-based surveillance system is used effectively to target identified risk areas and to aid FAA in allocation of inspector resources.

We will contact your audit liaison officer within the next week to arrange an entrance conference. If you have any questions or need additional information, please contact Lou E. Dixon, Program Director, at (404) 366-3770 or Mary E. (Liz) Hanson, Project Manager, at (404) 562-3778.

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cc: FAA Chief of Staff, AOA-2
FAA Audit Liaison, ABU-100
OST Audit Liaison, M-1