
Office of Inspector General

Audit Report

Airport Financial Reports

Federal Aviation Administration

Report Number: AV-1998-201
Date Issued: September 11, 1998





**U.S. Department of
Transportation**

Office of the Secretary
of Transportation

Office of Inspector General

Memorandum

Subject: ACTION: Report on Audit of Airport Financial
Reports, Federal Aviation Administration
AV-1998-201

Date: September 11, 1998

From:


Lawrence H. Weinrob
Assistant Inspector General for Auditing

Reply to
Attn of: JA-1

To:

Federal Aviation Administrator

We are providing this report for your information and use. Your August 24, 1998 comments to our July 20, 1998 draft report were considered in preparing this report. A synopsis of the report follows this memorandum.

In your comments to our draft report, you concurred with eight of nine recommendations and promised to take actions to implement the recommendations. FAA partially concurred with one recommendation. FAA agreed to implement the recommendation but indicated that it may take 3 months longer to implement than we recommended. We consider your comments and actions taken or planned to be responsive to all recommendations. The recommendations are considered resolved subject to the follow-up provisions of Department of Transportation Order 8100.1C.

If I can answer any questions or be of further assistance, please contact me on (202) 366-1992, or Alexis M. Stefani, Deputy Assistant Inspector General for Aviation, on (202) 366-0500.

Attachment

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Airport Financial Reports

Federal Aviation Administration

Report No. AV-1998-201

September 11, 1998

Objective and Scope

The objective of the audit was to assess the Federal Aviation Administration's (FAA) implementation of legislation intended to curb prohibited airport revenue diversions. Specifically, we reviewed implementation of Sections 111 and 112 of the Federal Aviation Authorization Act of 1994 which require (a) airport sponsors¹ to prepare annual airport financial reports and (b) FAA to establish policies and procedures on permitted and prohibited use of airport revenue. We also reviewed implementation of Section 805 of the Federal Aviation Reauthorization Act of 1996 which requires airport sponsors to obtain annual audit certifications that airport funds are used consistent with Federal laws. We reviewed 71 airport financial reports and visited 6 airports and their sponsors during the period November 1997 to February 1998.

Background

The Airport and Airway Improvement Act of 1982, as amended and codified in Title 49, United States Code, Chapter 471, requires an airport owner or operator, as the airport's sponsor, receiving Federal assistance to use airport revenues for airport and airport-related purposes only. Any other use of airport revenue is considered a prohibited revenue diversion. Although airport sponsors sign written assurances (called grant assurances) that airport revenue will be used consistent with these provisions, prohibited airport revenue diversions have occurred at airports across the nation. From August 1991 to March 1998, the Office of Inspector General issued 56 audit reports identifying over \$233 million in prohibited airport revenue diversions.

Congress passed legislation in Fiscal Years (FY) 1994 and 1996 intended to curb such diversions. The first piece of legislation was the Federal Aviation Authorization Act of 1994. Section 111 of this Act requires airport sponsors to provide the Secretary of Transportation an annual report of amounts and sources of airport revenues and expenses, including transactions between the airport and any governmental unit. In March and July 1996, FAA issued Federal Register notices requiring commercial

¹ An airport sponsor is generally a public agency (e.g., a city or local authority) that owns the airport.

service airport² sponsors to annually file an Operating and Financial Summary and a Financial Governmental Payment Report (airport financial reports). Under Section 112 of this Act, FAA was required to establish policies and procedures on permitted and prohibited airport revenue use not later than November 21, 1994. As of August 1998, FAA had not yet issued final policies or procedures.

The second piece of legislation intended to improve the effectiveness of oversight of airport revenues was the Federal Aviation Reauthorization Act of 1996. Section 805 directs FAA to require airport sponsors to include, as part of an annual audit,³ a review of, and opinion on, airport revenue use (referred to as an audit certification). The audit certification is intended to provide reasonable assurance that airport funds are used consistent with Federal laws and grant assurances. In June 1997, FAA issued a Federal Register notice and modified grant assurances to require airport sponsors to ensure the annual audits include an audit certification on revenue use. In addition, Section 805 establishes administrative and civil remedies available to FAA for recovering prohibited airport revenue diversions, including withholding Federal funds that would otherwise be made available to the airport sponsor and initiating civil action to recover the amount of the prohibited airport revenue diversion plus interest.

Results and Principal Findings

Four years after Congress legislated requirements associated with airport revenue use, FAA has not taken the required action. Although required by the Federal Aviation Authorization Act of 1994, 4 years ago, FAA has not yet issued final policies or procedures addressing permitted and prohibited airport revenue uses. In our opinion, FAA has not taken reasonable or timely steps to implement congressional direction in the 1994 legislation. Nor has the agency been sufficiently responsive to direction provided in congressional hearing language in 1996⁴ and additional legislative requirements in the Federal Aviation Reauthorization Act of 1996⁵.

² A commercial service airport is a publicly owned airport with scheduled service, which enplanes 2,500 or more passengers annually.

³ The Single Audit Act of 1984, as amended, requires non-Federal entities annually expending \$300,000 or more in Federal grant awards to have an annual audit of their financial statements and Federal grant awards.

⁴ During congressional hearings, Congress affirmed its continued concern about revenue diversions and lack of FAA action and stated that the Committee “. . . continues to have significant concerns about the diversion of airport revenue for non-airport purposes and the failure of FAA to take timely and firm action in some cases.”

⁵ The Federal Aviation Reauthorization Act of 1996 directs FAA to require airport sponsors to include an audit certification, in its annual audit. Furthermore, the Act provides additional tools for FAA to increase enforcement efforts. These tools include withholding Federal funds and seeking civil penalties.

FAA must send a clear message to responsible managers that they are accountable for implementing airport revenue use legislation. In addition, the agency needs to finalize its performance goals for effectively implementing revenue use legislation, in accordance with the Government Performance and Results Act of 1993. As a result of these short comings, administrative and civil remedies available to FAA under Section 805 of the Federal Aviation Reauthorization Act of 1996 have not been used to the appropriate extent for recovering prohibited airport revenue diversions. Office of Inspector General reports have identified \$190.3 million in prohibited revenue diversions in the 4 years since Congress passed legislation intended to curb such diversions. FAA should finalize policies on permitted and prohibited use of airport revenue, and use performance plans and the appraisal system to hold managers accountable for implementing airport revenue use legislation and policies.

FAA agreed to issue a final airport revenue use policy by December 31, 1998 or sooner, if possible. FAA also agreed to finalize its performance goal, establish methods to measure its progress toward the goal, and include specific performance standards on airport revenue use in the FY 1999 performance plans of senior officials in the Office of Associate Administrator for Airports.

Airport financial reports need improvement. We reviewed 71 airport financial reports and found 56 (79 percent) contained incomplete and inaccurate information. We found reports that did not include required information on Federal grant payments received, capital expenditures made, or schedules of property or services the airport provided to other governmental units. We also found inconsistent information on airport financial reports. For example, we found that while an airport sponsor reported revenues and other receipts totaling \$1.1 million and expenditures totaling \$731,000, no net revenue surplus/(loss) was reported when a revenue surplus of \$369,000 was apparent. An inconsistency such as this raises questions on the completeness and accuracy of the financial information reported by the sponsor. At one airport visited, we identified \$3 million in potential airport revenue diversions that were not reported or not fully disclosed in the airport's financial reports. Incomplete and inaccurate financial information reported by airport sponsors diminishes FAA's ability to detect and react to prohibited airport revenue diversions. Airport sponsors attributed the errors, in part, to unclear FAA instructions.

FAA agreed to implement our recommendations to improve airport financial reports including updating report forms, making industry and airport sponsors aware of financial reporting requirements, and issuing interim guidance to sponsors on completing and filing annual airport financial reports.

FAA has not resolved questioned financial transactions timely. In its review of 374 financial reports, FAA questioned 78 financial transactions at 71 airports during July 1996 through November 1997. FAA has not followed up on 39 of these transactions, which had been unresolved from 3 to 16 months. The questioned transactions included potential airport revenue diversions such as services airports provided to governmental units without reimbursement. Since FAA has not finalized its policies on airport revenue use, we did not quantify the dollar amount associated with the questioned financial transactions.

FAA agreed to investigate and resolve airport revenue issues identified by its reviews of airport financial reports, and adjust personnel assignments to prevent backlogs of unresolved issues.

Two thirds of the airport sponsors we visited were not aware of audit certification requirements. Although 464 airport sponsors were required to obtain audit certifications on airport revenue use during annual audits conducted after June 2, 1997, FAA has not done an adequate job to make sponsors aware of the audit certification requirements. For example, although FAA revised Grant Assurance Number 25 to include the audit certification requirements, it did so by publishing the revised assurance in a June 2, 1997 Federal Register notice. This notification was not effective and four of the six airport sponsors we visited were not aware of the revision or requirements. We concluded audit certification requirements may not be met unless FAA provides clear and lucid additional guidance to airport sponsors. One way FAA can provide guidance to effectively increase sponsor awareness is to include audit certification requirements in an FAA advisory circular, sent directly to all impacted sponsors and airports, highlighting the requirement to include an audit certification in its annual audit. Another way would be to work with Office of Management and Budget to include audit procedures in the single audit compliance supplement.

FAA promised to submit to the Office of Management and Budget (OMB) a draft compliance supplement revision to OMB's single audit guidance to clarify reporting requirements for reviews and opinions on use of airport revenues, and take additional actions to make industry and airport sponsors aware of audit certification requirements.

Recommendations

We recommend that the Federal Aviation Administrator:

- Finalize and publish policies and procedures on permitted and prohibited use of airport revenue by the end of the Fiscal Year. These policies and procedures are essential for the effective implementation of the laws and we see no persuasive reason why they can not be issued by September 30, 1998.
- Finalize FAA's performance goals for effectively implementing revenue diversion legislation, as required by the Government Performance and Results Act of 1993.
- Use performance plans, performance appraisal systems, and award systems to hold responsible managers accountable for implementing airport revenue use legislation and policies. This is an important element of personnel reform.
- Revise and clarify airport financial report forms and instructions to ensure that airport sponsors submit accurate, consistent, and complete financial information.
- With the airport industry and airport sponsors, hold workshops and forums, or develop other means such as advisory circulars, to make sponsors aware of, understand, and comply with airport financial reporting and audit certification requirements.
- Take action on financial transactions previously questioned during FAA's review of airport financial reports.
- Evaluate potential airport revenue diversions identified in this report and take corrective action on those determined to be prohibited revenue diversions.
- Establish milestones for taking the above corrective actions and report these milestones to the Secretary of Transportation as well as the chairman and ranking members of the appropriations and authorizing committees.

Management Position

FAA concurred with eight recommendations in the report. FAA agreed to:

- Finalize its performance goal on the use of airport revenue and establish methods to measure expected results by September 30, 1998.
- Incorporate specific performance standards on airport revenue use in FY 1999 performance plans.
- Update airport financial report forms and instructions by February 1, 1999.
- Take additional actions to make industry and airport sponsors aware of financial reporting and single audit requirements, including issuing interim guidance and an advisory circular.
- Investigate and resolve airport revenue issues identified by FAA, and devote more personnel to review airport financial reports.
- Send an inquiry to each airport sponsor regarding the potential airport revenue diversions identified in this report.
- Establish milestones for implementing the recommendations and report the milestones to the chairman and ranking minority members of the FAA's authorizing and appropriations committees.

While FAA agreed with our recommendation to issue a final policy on airport revenue use, FAA did not agree to issue the policy by the end of FY 1998. Instead, FAA agreed to issue the policy by the end of December 1998 or sooner, if possible.

Office of Inspector General Comments

Actions taken and planned by FAA are responsive to our recommendations and should enhance FAA's ability to curb prohibited airport revenue diversions and to provide better oversight of airport financial reports and audit certifications on the use of airport revenues. We continue to believe the final policy on use of airport revenue is essential for the effective implementation of the laws. The issuance of this policy should be a top priority with a goal of issuance much sooner than December 1998.

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I. INTRODUCTION

Background

The Airport and Airway Improvement Act of 1982, as amended and codified in Title 49, United States Code, Chapter 471, directs all airport sponsors¹ receiving airport improvement program grants to provide specific written assurances (known as grant assurances) to the Secretary of Transportation. One such assurance states that revenue generated by the airport will be used for the capital or operating costs of the airport, the local airport system, or other facilities owned or operated by the airport owner or operator; and directly and substantially related to the air transportation of passengers or property.

Despite this grant assurance, prohibited airport revenue diversions occur. From August 1991 to March 1998, the Office of Inspector General issued 56 audit reports identifying over \$233 million in prohibited airport revenue diversions. However, Congressional, Federal Aviation Administration (FAA), and Office of Inspector General focus and attention to airport revenue has resulted in greater compliance with this grant assurance.

Congress augmented the 1982 Act by passing additional legislation in Fiscal Years (FY) 1994 and 1996. Both were intended to curb such diversions. One law requires FAA to establish and publish policies and procedures on permitted and prohibited airport revenue use. The legislation also requires airport sponsors to submit airport financial reports to be used to detect prohibited airport revenue diversions. The other law specifies that FAA is to issue regulations requiring airport sponsors to obtain audit certifications on the use of airport revenues from their independent auditors.

Policies and Procedures on Permitted and Prohibited Airport Revenue Use. The Federal Aviation Authorization Act of 1994, Section 112 (enacted August 23, 1994), amends Title 49, United States Code, Section 47107 and requires that FAA establish and publish policies and procedures on airport revenue use not later than November 21, 1994 (90 days after the date of enactment). These policies and procedures are required to identify permitted and prohibited use of airport revenues.

On February 26, 1996, 15 months after the required date for final policies and procedures, FAA issued a notice in the Federal Register proposing policies and procedures concerning the use of airport revenue and requesting public

¹ An airport sponsor is generally a public agency (e.g., a city or local authority) that owns the airport.

comments. The notice discussed the requirement that revenue at a public airport receiving Federal grants generally be used only for airport purposes. The notice proposed definitions of airport revenue and revenue diversion, the permitted and prohibited uses of airport revenue, and procedures for monitoring compliance with the revenue use requirement. FAA issued a supplemental notice in the Federal Register on December 18, 1996 incorporating comments received on the February 1996 Federal Register notice but not finalizing the policies or procedures or setting forth clarification as to permitted and prohibited uses of airport revenue.

Airport Financial Reports. The Federal Aviation Authorization Act of 1994, Section 111 (a), also amends Title 49, United States Code, Section 47107 (a) (19), to require that:

. . . the airport owner or operator . . . submit to the Secretary and make available to the public an annual report listing in detail--

(A) all amounts paid by the airport to any other unit of government and the purposes for which each such payment was made; and

(B) all services and property provided to other units of government and the amount of compensation received for provision of each such service and property.

Section 111 (b) provided that, within 180 days of enactment (February 20, 1995), the Secretary would prescribe a reporting format for airport financial reports.

Reporting instructions issued by FAA in a notice in the March 18, 1996 Federal Register required commercial service airport² sponsors to submit annually to FAA two airport financial reports, an Operating and Financial Summary and a Financial Governmental Payment Report. The Operating and Financial Summary is intended to show amounts and sources of airport revenues and expenses, and any revenue surplus or loss. The Financial Governmental Payment Report is intended to show amounts paid by the airport to any governmental unit, the purposes for each payment, and amounts or other compensation received by the airport for all services and property provided to governmental units.

² A commercial service airport is a publicly owned airport with scheduled service, which enplanes 2,500 or more passengers annually.

In a notice in the July 29, 1996 Federal Register, FAA stated that airport financial reports were due on the 120th day following the end of the sponsor's FY, beginning the first FY ending after the date of the notice. Fiscal Year end dates vary among airport sponsors. For the first reporting year (airport FYs ended after July 29, 1996), FAA determined airport financial reports were required from airport sponsors for 467 commercial service airports.

FAA's Office of Airport Safety and Standards is responsible for the overall management of the airport financial reporting program. This includes determining which airport sponsors must file reports, ensuring reports are received, and reviewing reports for completeness and compliance with restrictions on use of airport revenues. If the Office of Airport Safety and Standards identifies a potential revenue diversion during review of an airport financial report, it generally directs the responsible FAA Regional Airports Division to determine if the questioned transaction is a prohibited airport revenue diversion, and if so, to take immediate and appropriate corrective action.

Audit Certifications and Recovery of Prohibited Airport Revenue Diversions. As a result of frustrations expressed by Congress over FAA's failure to enforce airport revenue use provisions, the Federal Aviation Reauthorization Act of 1996, Section 805 (enacted October 9, 1996), further amended Title 49, United States Code, Section 47107 (m). The section directs the Federal Aviation Administrator to issue regulations that require a recipient of an airport project grant or other Federal assistance to:

... include as part of an annual audit conducted under sections 7501 through 7505 of title 31 [Single Audit Act of 1984³], a review and opinion of the review [audit certification] concerning the funding activities with respect to an airport that is the subject of the project grant (or other Federal assistance) and the sponsors, owners, and operators (or other recipients) involved.

Section 805 also requires that the reviews:

... provide reasonable assurances that funds paid or transferred to sponsors are paid or transferred in a manner consistent with applicable

³ The Single Audit Act of 1984, as amended, requires non-Federal entities annually expending \$300,000 or more in Federal grant awards to have an annual audit of their financial statements and Federal grant awards.

requirements of this chapter [Title 49, United States Code, Chapter 471] and any other applicable provision of law (including regulations promulgated by the Secretary or Administrator).

To implement the audit certification requirements of Section 805, FAA modified Grant Assurance Number 25, "Airport Revenues," in a June 2, 1997 Federal Register notice. Grant Assurance Number 25, in part, requires airport sponsors to ensure independent auditors annually review and provide an opinion in their audit reports on the use of airport revenues, and indicate in their reports if fund payments or transfers to an airport sponsor are consistent with applicable provisions of law.

Section 805 also amends Title 49, United States Code, Section 47107 (n) and establishes administrative and civil remedies for recovering prohibited airport revenue diversions. These remedies include withholding Federal funds that would otherwise be made available to the airport sponsor upon determination by FAA that a prohibited diversion occurred and notification to the sponsor that reimbursement to the airport is required. Failure by the sponsor to reimburse the airport may result in FAA civil action under which the sponsor will be liable for a civil penalty in the amount of the prohibited airport revenue diversion plus interest.

Objective, Scope, and Methodology

The objective of the audit was to assess FAA's implementation of legislation intended to curb prohibited airport revenue diversions. Specifically, we reviewed implementation of Sections 111 and 112 of the Federal Aviation Authorization Act of 1994 which require (a) airport sponsors to prepare annual airport financial reports and (b) FAA to establish policies and procedures on permitted and prohibited use of airport revenue. We also reviewed implementation of Section 805 of the Federal Aviation Reauthorization Act of 1996 which requires airport sponsors to obtain annual audit certifications that airport funds are used consistent with Federal laws.

The audit was conducted in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States and included such tests of records as were considered necessary. We performed our audit from November 1997 to February 1998, and covered airport financial reports for airport sponsors' FY 1996. We also reviewed selected airport financial reports for FY 1997. The audit was conducted at FAA's Office of Airport Safety and

Standards; Western-Pacific, Southern, Great Lakes, and Southwest Regional Airports Divisions; Orlando, Memphis, Chicago, and Detroit Airports District Offices; and selected airports and airport sponsors.

We reviewed laws, regulations, and policies on airport financial reports and audit certification requirements. We also judgmentally selected and reviewed 71 (19 percent) of 374 airport financial reports submitted to FAA as of November 1997 for the FYs ended after July 29, 1996. We visited airports and airport sponsors in Long Beach, California; Memphis, Tennessee; Tampa, Florida; Chicago, Illinois; Detroit, Michigan; and El Paso, Texas. We selected for review airports that were among the nation's largest, and that had potential revenue diversions or a prior history of revenue diversions. We reviewed airport and airport sponsor documentation supporting the information in airport financial reports. We also discussed audit certification requirements with airport sponsors and the American Institute of Certified Public Accountants.

We also reviewed FAA's draft FY 1999 Performance Plan for compliance with the Government Performance and Results Act of 1993. Neither the Office of Inspector General nor the General Accounting Office has performed audits of FAA's implementation of airport financial reporting and audit certification requirements.

II. FINDINGS AND RECOMMENDATIONS

Finding A. Four Years After Congress Legislated Requirements Associated With Airport Revenue Use, FAA Has Not Taken The Required Action

Although required by the Federal Aviation Authorization Act of 1994, 4 years ago, FAA has not yet issued final policies or procedures addressing permitted and prohibited airport revenue uses. In our opinion, FAA has not taken reasonable or timely steps to implement congressional direction in the 1994 legislation. Likewise, FAA has not been sufficiently responsive to direction provided in congressional hearing language in 1996 and additional legislative requirements in the Federal Aviation Reauthorization Act of 1996.⁴

FAA must send a clear message to the managers responsible for this program that they are accountable for implementing airport revenue use legislation. In addition, FAA must finalize the performance goal of ensuring 100 percent of airport revenue is expended for the capital or operating costs of the airport, and develop methods to measure expected results, as required by the Government Performance and Results Act of 1993. Because airport revenue use legislation has not been implemented, administrative and civil remedies available to FAA under Section 805 of the Federal Aviation Reauthorization Act of 1996 have not been used to the appropriate extent for recovering prohibited airport revenue diversions. Office of Inspector General reports have identified \$190.3 million in prohibited revenue diversions in the nearly 4 years since Congress passed legislation intended to curb such diversions.

Background

In 1982, Congress directed all airport sponsors receiving airport improvement program grants to provide a specific written assurance that airport revenue will only be used for airport and airport-related purposes. Despite this assurance, between August 1991 and July 1994, the Office of Inspector General issued 26 audit reports identifying more than \$43.4 million in prohibited airport revenue diversions at airports across the nation. Also, a House of Representatives review conducted in December 1993 concluded more FAA

⁴ During congressional hearings, Congress affirmed its continued concern about revenue diversions and lack of FAA action. The Federal Aviation Reauthorization Act of 1996 directs FAA to require airport sponsors to include an audit certification and provides additional tools for FAA to increase enforcement efforts.

oversight was needed to ensure airport sponsors comply with Federal law on airport revenue use. Congress passed two laws in FYs 1994 and 1996 intended to curb such diversions.

The first law required FAA to establish policies and procedures concerning permitted and prohibited use of airport revenue, and required sponsors to submit airport financial reports for use in detecting prohibited airport revenue diversions. The second law required airport sponsors to ensure independent auditors provide audit certifications on the use of airport revenues and established administrative and civil remedies available to FAA for recovering prohibited airport revenue diversions.

Results

Four years after Congress established the requirements that FAA issue/establish policies and procedures on permitted and prohibited airport revenue use, FAA has not finalized them.

Section 112 of the Federal Aviation Authorization Act of 1994 requires that FAA establish policies and procedures concerning the use of airport revenue by November 21, 1994 (90 days after the date of enactment). These policies and procedures are required to identify permitted and prohibited airport revenue uses. On February 26, 1996, 15 months after the deadline, FAA issued a Federal Register notice proposing revenue use policies and procedures and requesting public comments. On December 18, 1996, FAA issued a supplemental Federal Register notice incorporating comments received on the February 1996 Federal Register notice.

In the supplemental notice, FAA did not finalize these policies and procedures. The public comment period for the December 18, 1996, Federal Register notice ended on February 18, 1997. However, as of July 1, 1998, 16 months after the end of the public comment period, and almost 4 years after Congress legislated this requirement, FAA has not finalized its policies and procedures. As a result, administrative and civil remedies available to FAA under Section 805 of the Federal Aviation Reauthorization Act of 1996 have not been used to the appropriate extent for recovering prohibited airport revenue diversions.

Despite the FY 1994 legislation intended to curb prohibited airport revenue diversions, the Office of Inspector General identified \$175.1 million in such diversions in 21 audit reports issued between August 1994 and September 1996. Further, FAA has cited the absence of final policies and procedures as a reason it cannot resolve some open airport revenue issues.

FAA needs to finalize and publish these policies and procedures. We do not see any persuasive reason why this can not be done by the end of this Fiscal Year.

Airport financial reporting requirements became effective 2 years after the Act.

The Federal Aviation Authorization Act of 1994 was enacted August 23, 1994. Section 111 (a) of the Act requires airport owners or operators to submit detailed airport financial reports to FAA for use in detecting prohibited airport revenue diversions. Section 111 (b) provided that, within 180 days of enactment, FAA would prescribe a reporting format for airport financial reports.

Based on the enactment date, the reporting format should have been in effect by February 20, 1995. However, FAA did not make the reporting format available to airport sponsors until March 18, 1996. The FAA Office of Airport Safety and Standards attributed delays to the complexities involved in designing the airport financial report forms. Because of the delays, airport financial reporting requirements became effective for sponsors' Fiscal Years that ended after July 29, 1996, which was nearly 2 years after the legislation was enacted.

Audit certification requirements were implemented 8 months after the Act.

The Federal Aviation Reauthorization Act of 1996 was enacted October 9, 1996. Title VIII, Section 802 (a) (4) of the Act states that FAA has not enforced airport revenue diversion rules adequately and must have additional tools to increase enforcement efforts. Section 802 (b) (2) states that one purpose of the Act is to impose financial reporting requirements designed to identify instances of prohibited revenue diversions. Section 805 (a) directs the Federal Aviation Administrator to issue regulations requiring a recipient of an airport project grant or other Federal assistance to include, as part of an annual audit, a review on the use of airport revenues and an opinion of the review (referred to as an audit certification). To implement audit certification requirements, FAA modified Grant Assurance Number 25, "Airport Revenues," in a June 2, 1997 Federal Register notice.

Since enactment of the FY 1996 legislation, the Office of Inspector General has issued nine audit reports between October 1996 and March 1998 which identified \$15.2 million in prohibited airport revenue diversions. Additionally, three audits of potential revenue diversions are underway. To date, these

audits have identified approximately \$5.2 million in likely diversions. Some of the issues raised in these reports have not been resolved because FAA is waiting to issue its final policies and procedures related to permitted and prohibited revenue uses.

FAA must take full advantage of the tools available to ensure implementation of and compliance with airport revenue use legislation.

FAA's delays in implementing airport revenue use legislation and finalizing policies have resulted in prohibited revenue diversions continuing after enactment of legislation intended to curb such diversions. In addition, FAA is not taking full advantage of the administrative and civil remedies available for recovering prohibited airport revenue diversions because it still has not published its final policies and procedures related to permitted and prohibited revenue use. Office of Inspector General reports have identified \$190.3 million in prohibited revenue diversions in the nearly 4 years since Congress passed legislation intended to curb such diversions. The House of Representatives Committee on Transportation and Infrastructure, in House Report 104-714, dated July 26, 1996, stated that the Committee "... continues to have significant concerns about the diversion of airport revenue for non-airport purposes and the failure of FAA to take timely and firm action in some cases."

Finalizing the organization's performance goals and related outcome measures on airport revenue use should be an organizational priority. FAA's Office of the Associate Administrator for Airports drafted a performance goal of ensuring 100 percent of airport revenue is expended for the capital or operating costs of the airport. In addition, a working group met in December 1997 to develop outcome measures applicable to this performance goal. However, as of July 1, 1998, outcome measures have not been established. FAA officials in the Office of Airport Safety and Standards indicated they are aware of the requirement to have performance plans completed in time to meet the reporting requirements specified in the Government Performance and Results Act of 1993. To meet reporting requirements and provide a means to prevent and detect prohibited airport revenue diversions, FAA should finalize its performance goals and develop methods for measuring expected results. These goals should be included in the performance plans of the responsible program managers.

Responsible FAA managers should be held accountable for implementing airport revenue use policies. Our review found, the Performance Plan for the Director, Office of Airport Safety and Standards includes an objective to

“Protect Federal Investment” and a measurement that the Director “-Ensure airports maximize and expend their revenues to benefit aviation.” Also, the Performance Plan for the Manager, Airport Compliance Division, Office of Airport Safety and Standards, includes an expectation that the holder of the position “...Assures that policies, guidelines, directions, and procedures established by upper management are supported, adhered to, and fully implemented.” FAA must send a clear message to responsible managers that they are accountable for implementing airport revenue use legislation. Annual performance plans, annual performance appraisal systems, and award systems must be used to hold these managers accountable.

Recommendations

We recommend that the Federal Aviation Administrator:

1. Finalize and publish policies and procedures on permitted and prohibited use of airport revenue by the end of this Fiscal Year.
2. Finalize FAA’s performance goals for effectively implementing revenue diversion legislation, as required by the Government Performance and Results Act of 1993.
3. Use performance plans, performance appraisal systems, and award systems to hold responsible managers accountable for implementing airport revenue use legislation and policies.
4. Establish milestones for implementing the above recommendations, and report these milestones to the Secretary of Transportation as well as the chairman and ranking members of the appropriations and authorizing committees.

Management Position

FAA partially concurred with Recommendation 1, and concurred with Recommendations 2 through 4.

Regarding Recommendation 1, FAA stated that issuing final policy on use of airport revenue will be a top priority of the Administrator and Associate Administrator for Airports. FAA stated it will make every effort to publish the final policy by the end of December 1998, or sooner if possible, subject to completion of the review and administrative process required for publication of a major policy document.

For Recommendations 2, FAA agreed to finalize the performance goal on the use of airport revenue and establish methods to measure expected results by September 30, 1998.

For Recommendation 3, FAA will incorporate a more specific performance standard on airport revenue use compliance in the FY 1999 performance plans of the Associate Administrator for Airports, the Director the Office of Airport Safety and Standards, and the Manager of the Airports Compliance Division. FAA also agreed that managers should be held accountable through their performance appraisals for the failure to accomplish all of the objectives of their performance plans.

Regarding Recommendation 4, FAA indicated that milestones for implementing the recommendations are included in its specific response to each recommendation. In addition, FAA stated that a summary of its plan to implement the recommendations, with milestone dates, will be forwarded to the chairman and ranking minority members of the FAA's authorizing and appropriations committees at the time the Office of Inspector General releases its final report.

Audit Comments

The corrective actions planned are responsive to the report's recommendations and should enhance FAA's ability to curb prohibited airport revenue diversions. We continue to believe the final policy on use of airport revenue is essential for the effective implementation of the laws. FAA should make the final policy on revenue use a top priority and issue it sooner than December 1998.

Finding B: FAA Did Not Provide Effective Oversight of Airport Financial Reporting and Audit Certification Requirements

Airport financial reports we reviewed were not complete and accurate, and financial transactions questioned by FAA during review of airport financial reports were not resolved timely. We also found that approximately 20 percent of airport sponsors were delinquent in filing airport financial reports. Additionally, although FAA issued a Federal Register notice to implement the new audit certification requirement on airport revenue use, four of the six airports we visited were not aware of this requirement. These conditions occurred because: (1) public information on the audit certification requirement was not adequate, (2) airport sponsors were not aware of, did not understand, or did not fully comply with airport financial reporting requirements; and (3) FAA had not finalized policies on appropriate revenue uses. Because of these conditions, FAA is unable to fully use the tools and sanctions provided by Congress to ensure compliance with revenue use requirements.

Airport financial reports need improvement.

We reviewed 71 airport financial reports and found 56 (79 percent) contained incomplete and inaccurate information. We found reports that did not include required information on Federal grant payments received, capital investments made, or cash balances on the Operating and Financial Summaries; or a schedule of property or services the airport provided to its sponsor or other governmental units on the Financial Governmental Payment Report. We also found inconsistent information on airport financial reports that raised questions on the completeness and accuracy of the financial information reported by the sponsor. Incomplete or inaccurate financial information reported by airport sponsors diminishes FAA's ability to detect prohibited airport revenue diversions.

Examples of incomplete, inaccurate, and inconsistent information found during our review of airport financial reports are discussed below.

The sponsor for Cleveland Hopkins Airport did not report any grant payments received on the Operating and Financial Summary although two airport improvement program grants totaling \$4.3 million were awarded in FY 1996 for apron improvements. Further, the sponsor did not report any capital expenditures on the Operating and Financial Summary nor did it report services and property provided to other governmental units, by the

airport, on its Financial Governmental Payment Report. These transactions are typical at airports across the nation and would normally be expected to be shown on airport financial reports.

The City of Atlanta, sponsor for William B. Hartsfield Atlanta International Airport, did not reflect airport payments to other governmental units on its Financial Governmental Payment Report for such services as law enforcement and firefighting. Instead, the sponsor reported a single entry of \$5 million for indirect costs presumably allocated to the airport and paid to the sponsor. The City of Atlanta's method of reporting indirect airport costs was not consistent with other airport financial reports we reviewed. Without detailed information on what indirect costs were allocated, FAA can not assess if such costs were commensurate with the services provided to the airport.

The Operating and Financial Summary for Pocatello Regional Airport showed revenues and other receipts totaling \$1.1 million and expenditures totaling \$731,000. The sponsor reported no net revenue surplus/(loss) when a revenue surplus of \$369,000 was apparent. Inconsistent information such as this raises questions regarding the accuracy of other financial information reported by the airport sponsor.

The Port of Bellingham, sponsor for Bellingham International Airport, indicated on its Financial Governmental Payment Report that the total of cash and investments held in airport accounts at the end of the sponsor's FY could not be determined. The sponsor reported that separate accounts were not maintained for the airport that is operated as a department of the Port. Without separate accounts for airport cash and investments, prohibited airport revenue diversions are unlikely to be detected.

We visited six airport sponsors and confirmed that complete and accurate information was not always reported to FAA on airport financial reports. Results of our airport sponsor visits are discussed below.

All six airport sponsors we visited provided property to other units of government, but omitted this required information from their airport financial reports. Five of the six airports did receive compensation for the property. However, the Memphis Shelby County Airport Authority, sponsor for Memphis International Airport, provided approximately 11 acres of airport property to the City of Memphis and did not receive compensation. The City has occupied this property since the Airport Authority was created in 1969. This non-payment by the City resulted in

lost revenue to the airport of \$56,454 per year.⁵ Since there is a 6-year statute of limitation for recovering improperly diverted airport funds, the City of Memphis may be liable to the Airport Authority for approximately \$339,000.

During our review at Memphis International Airport, we identified a \$3 million likely airport revenue diversion not fully disclosed on airport financial reports. The Financial Governmental Payment Report for the Memphis International Airport showed a \$9.2 million payment to the City of Memphis for a construction project administered by the Tennessee Department of Transportation. Although the payment to the City was for a large amount and the project description was vague, FAA did not question the payment. We found \$6.2 million of the payment was justified,⁶ but the other \$3 million in airport funds was provided to cover possible contract award overruns, which did not materialize. Since airport revenues are to be used only for the capital or operating costs of the airport, the Airport Authority should recover the \$3 million. Although the airport sponsor was aware of the overpayment, its Director of Finance is waiting until the project is completed in 2000 before seeking recovery.

While FAA provided instructions to sponsors on completing and submitting airport financial report forms, sponsors we contacted stated instructions were not sufficiently clear. For example, some airport sponsors viewed grant payments received as restricted revenue not subject to financial reporting requirements. Other sponsors were unsure whether depreciation of airport property should be reported. Further, all sponsors we visited were uncertain what property or services provided to other units of government and compensation received from those units should be reported.

Based on our review of airport financial report forms and our discussions with airport sponsors, we concluded FAA should work with the airport industry and airport sponsors to ensure sponsors are aware of, understand, and comply with airport financial reporting requirements.

Office of Airport Safety and Standards staff indicated that, “as time permits”, airport financial report forms will be revised to ensure accurate and consistent reporting. In addition, the staff plans to follow-up with sponsors who have omitted obvious information (such as grant payments or capital expenditures)

⁵ The potential revenue diversion amount was based on Memphis Shelby County Airport Authority’s lease rate of \$0.12 per square foot for undeveloped property.

⁶ The \$6.2 million airport payment to the City of Memphis was for contracts awarded.

from their reports. However, FAA has not established target dates for completing these actions. Completing these actions expeditiously will help ensure that airport sponsors provide accurate, consistent, and complete financial information to FAA for its use in detecting prohibited airport revenue diversions.

FAA has not resolved questioned financial transactions timely.

FAA reviewed 374 airport financial reports and questioned 78 financial transactions at 71 airports. However, 39 of the transactions remained unresolved for 3 to 16 months from the sponsor's date of filing for various reasons. Of the remaining 39 questioned transactions, 32 were either resolved or in the process of being resolved by FAA Headquarters, and 7 were referred to FAA Regional Offices for action and resolution.

Since FAA has not finalized its policies on airport revenue use, we did not quantify the dollar amount associated with questioned financial transactions. Questioned financial transactions included services provided by an airport to a sponsor or other governmental unit without compensation; airport payments exceeding the value of services received; and leases of airport property to a sponsor or other governmental unit for nominal or no rent. Examples of questioned financial transactions awaiting FAA action are discussed below.

The Financial Governmental Payment Report submitted in April 1997 by the Houston Airport System disclosed the Houston Intercontinental Airport did not receive compensation for a helicopter hangar and operations space provided to the Houston Police Department.

Allegheny County indicated on its April 1997 Financial Governmental Payment Report that employees of Greater Pittsburgh International Airport were working for other County divisions without apparent compensation to the airport.

The June 1996 Financial Governmental Payment Report for the Monterey Peninsula Airport showed that 7.6 acres of airport property, valued at approximately \$2 million, were used as a golf course by the United States Navy. The report indicated that the airport received no compensation for the Navy's use of this property.

The City of Brownsville indicated on its September 1996 Financial Governmental Payment Report that the Brownsville/South Padre Island

International Airport paid the \$10,961 as its prorata share of the City's Community Development Fund. There was no indication that this use of airport revenue was for airport or airport-related purposes.

Office of Airport Safety and Standards staff stated timely action on questioned financial transactions has not always been taken because of higher priority work. In addition, staff stated FAA's policies on appropriate revenue uses have not been finalized, causing delays in follow-up action on certain categories of costs, such as providing airport property to other governmental units at less than fair market value.

Although some questioned financial transactions concerned revenue use policy issues, FAA has not established an estimated date when the policies will be finalized. As a result, potential airport revenue diversions relating to these transactions remained unresolved. Finding A of this report recommends that FAA finalize its policies and procedures on airport revenue use by September 30, 1998.

Airport sponsors were not submitting airport financial reports timely.

FAA identified 467 commercial service airports whose sponsors were required to submit airport financial reports to FAA. As of November 1997, 93 (20 percent) of the 467 airport sponsors had not submitted the reports. Of the 93 reports, 43 (46 percent) were 8 months or more past due.

On February 18, 1998, FAA's Associate Administrator for Airports issued additional procedures to bring all airports into compliance with the financial reporting requirements. These procedures, which include sending notices to airport sponsors who are delinquent in filing financial reports and withholding discretionary grant awards from airport sponsors who fail to respond, should ensure airport financial reports are filed timely.

On March 20, 1998, FAA reported to Congress that 78 (17 percent) of the 467 airport sponsors had not submitted the reports. Office of Airport Safety and Standards staff told us on June 12, 1998 that the additional procedures issued in February 1998 have resulted in 445 (95 percent) of the 467 airport sponsors submitting first year airport financial reports. The staff indicated that additional follow-up action will be taken for airport sponsors who remain delinquent in filing financial reports and discretionary grant awards may be withheld from sponsors who fail to submit the reports. However, as of July 8, 1998, FAA has not received airport financial reports from 17 airport sponsors and has not taken any decisive action to obtain these reports.

Two thirds of the airport sponsors we visited were not aware of audit certification requirements.

While the six airport sponsors we visited had not engaged independent auditors for their current Fiscal Years, four sponsors were not aware of the requirements to include reviews and opinions on airport revenue use during the annual audit. In addition, a representative from the national office of the American Institute of Certified Public Accountants told us his organization was not aware of Section 805 requirements. The Institute representative stated independent auditors perform annual audits based on airport sponsors' engagement letters. Further, the representative stated auditors are encouraged to follow suggested audit procedures issued by the Office of Management and Budget (OMB). These OMB procedures do not require specific audit certification on airport revenue use. Therefore, unless the airport sponsors are aware of, and include, the requirements in their engagement letters, independent auditor reports may not include the required audit certification.

We identified 464 airport sponsors required to comply with the audit certification requirements of Section 805. FAA should work with the airport industry and airport sponsors to ensure sponsors are aware of, understand, and comply with the audit certification requirement. One way FAA can increase sponsor awareness is to include Section 805 audit certification requirements in an advisory circular. FAA Advisory Circular 150/5100-10A, Accounting Records Guide for Airport Improvement Program Sponsors, is in revision; and the current draft includes a section on the audit responsibilities for the sponsor and sponsor's independent auditor. The draft circular, however, does not address Section 805 requirements. Another way FAA can ensure compliance with the audit certification requirement is to work with the OMB to establish mandatory audit procedures that require reviews and opinions on airport revenue use during annual audits conducted by independent auditors. Without additional guidance to airport sponsors or mandatory audit procedures established by the OMB, audit certification requirements of Section 805 may not be met.

Recommendations

We recommend the Federal Aviation Administrator:

1. Revise and clarify airport financial report forms and instructions to ensure that airport sponsors submit accurate, consistent, and complete financial information.

2. With the airport industry and airport sponsors, hold workshops and forums, or develop other means such as advisory circulars, to make sponsors aware of, understand, and comply with airport financial reporting and audit certification requirements.
3. Take action on financial transactions previously questioned during FAA's review of airport financial reports.
4. Evaluate potential airport revenue diversions identified in this report and take corrective action on those determined to be prohibited revenue diversions.
5. Establish milestones for revising and clarifying financial report forms and instructions and taking action on questioned financial transactions and potential airport revenue diversions identified by the FAA or the Office of Inspector General; and report these milestones to the Secretary of Transportation as well as the chairman and ranking members of the appropriations and authorizing committees.

Management Position

FAA concurred with all five recommendations.

For Recommendation 1, FAA agreed to issue updated airport financial reporting forms and instructions by February 1, 1999. In early 1999, FAA also plans to submit to OMB a draft compliance supplement revision to OMB single audit guidance to clarify the reporting requirements for reviews and opinions on the use of airport revenues.

Regarding Recommendation 2, FAA stated it has taken and agrees to take additional actions to make industry and airport sponsors aware of financial reporting and audit certification requirements. In addition to making presentations at airport conferences, by September 30, 1998, FAA will issue interim guidance to airport sponsors on completing and filing annual airport financial reports and on the requirement for a review and opinion on airport revenue use. Also, by November 30, 1998, FAA plans to issue an advisory circular which incorporates audit certification requirements.

For Recommendation 3, FAA agreed to investigate and resolve airport revenue issues identified during reviews of airport financial reports. FAA indicated that 34 revenue related transactions required further review and provided

explanations for the delays in resolving the issues. On August 3, 1998, FAA adjusted the assignment of personnel reviewing airport financial reports to prevent the accumulation of a backlog of unresolved airport revenue issues.

For Recommendation 4, FAA stated that by August 15, 1998, Airports Division Offices would send airport sponsors inquiries concerning potential airport revenue diversions identified in this report. FAA will use Office of Airports procedures to follow-up on issues identified in financial reports and will initiate action under Title 14, Code of Federal Regulations, Part 16, if appropriate.

Regarding Recommendation 5, FAA stated milestones for implementing the recommendations are included in its specific response to each recommendation. FAA also stated that a summary of its plan to implement the recommendations, with milestone dates, will be forwarded to the chairman and ranking minority members of the FAA's authorizing and appropriations committees at the time the Office of Inspector General releases its final report.

Audit Comments

The corrective actions taken and planned are responsive to the report's recommendations and should enhance FAA's ability to provide better oversight of airport financial reports and audit certifications on the use of airport revenues.

MAJOR CONTRIBUTORS TO THIS AUDIT

The following is a listing of the audit team members who participated on the audit of Airport Financial Reports, Federal Aviation Administration.

Robin K. Hunt	Program Director
Larry Arata	Project Manager
Robert Lastrico	Auditor
Alan Dethlefson	Auditor
Susan Lier	Auditor
Johanna Bachand	Auditor



U.S. Department
of Transportation
**Federal Aviation
Administration**

Office of the Administrator

800 Independence Ave., S.W.
Washington, D.C. 20591

SEP 14 1998

The Honorable John McCain
Chairman, Committee on Commerce,
Science, and Transportation
United States Senate
Washington, DC 20510-6125

Dear Mr. Chairman:

I appreciated the opportunity to speak with you this week. As we discussed, I am looking forward to meeting with you on some of the work we are doing at the Federal Aviation Administration (FAA).

I would like to commend you for the leadership you have taken to eliminate illegal diversion of airport revenue. I assure you that the FAA takes this issue very seriously also. We have been working very diligently to issue the final policy statement and to implement the airport financial reporting requirements.

The Department of Transportation Office of Inspector General (OIG) recently completed the "Report on the Audit of Airport Financial Reports." The OIG audited the FAA implementation of the provisions of 49 U.S.C. § 47107(a)(19) and § 111(b) of the Federal Aviation Administration Authorization Act of 1994, which require airport operators to file certain annual reports with the Secretary of Transportation, and § 47107(n), which requires a review and opinion on revenue use as a part of a local government single audit.

The OIG has provided a copy of its findings for your review. We will use the OIG audit findings and recommendations to make the annual report and single audit programs work as efficiently and effectively as possible in monitoring the use of airport revenue for compliance with Federal requirements. The FAA makes the following specific commitments:

Recommendation A1: Finalize and publish policies and procedures on the use of airport revenue by the end of this fiscal year.

The FAA and the Department will make every effort to publish the final policy by the end of December 1998, or sooner if possible, if the necessary legal and policy review can be completed in that time.

Recommendation A2: Finalize the FAA's Government Performance and Results Act performance goal for effectively implementing revenue diversion legislation.

The FAA Office of Airports will finalize the Office of Airports' performance goal on the use of airport revenue and will establish methods to measure expected results by September 30, 1998, to be effective for FY 1999.

Recommendation A3: Use performance plans, performance appraisal system, and the award system to hold responsible managers accountable for implementing airport revenue use legislation and policies.

The FAA will incorporate a more specific performance standard on airport revenue use compliance in the FY 1999 performance plans of the Associate Administrator for Airports, the Director of Airport Safety and Standards, and the Manager of the Airports Compliance Division.

Recommendation A4: Establish milestones for implementing the above recommendations, and report these milestones to the Secretary of Transportation, as well as the chairman and ranking members of the appropriations and authorizing committees.

The FAA milestones for implementing the recommendations are indicated in our response to each recommendation. By a similar letter, the FAA responses and implementation dates are being provided to the committee leadership.

Recommendation B1: Revise and clarify airport financial report forms and instructions to ensure that airport sponsors submit accurate, consistent, and complete financial information.

FAA will review the reporting forms and instructions to identify potential changes to improve clarity and eliminate confusing or ambiguous guidance. The updated forms and instructions will be issued by February 1, 1999, for use by airport sponsors effective May 1, 1999, in order that any changes will not create an inconsistency among airport reports in any 1 year. This will avoid the use of two different sets of forms for filing reports on calendar year 1998 and will apply any new requirements to all reports submitted for fiscal years ending in calendar year 1999 (and later).

The FAA will submit to the Office of Management and Budget, through the Office of the Secretary of Transportation, a draft revision to the compliance supplement to the OMB guidance on Single Audit Act audits, for the next general revision currently scheduled for early 1999, to reflect the requirement for the review and opinion on airport revenue use.

Recommendation B2: Work with the airport industry and airport sponsors, holding workshops and forums, or developing other means, such as advisory circulars, to make sponsors aware of, understand, and comply with airport financial reporting and audit certification requirements.

To date, the FAA Office of Airport Safety and Standards has made a number of presentations on airport financial reports to FAA regional airport division personnel and to industry groups at national and regional airport conferences. The FAA will continue this practice at every opportunity, including the American Association of Airport Executives (AAAE) National Airports Conference in September 1998, and the Airports Council International-North America (ACI-NA) Regional Conference and Exhibition in October 1998. The FAA will also contact ACI-NA and AAAE staff to arrange presentations at appropriate committee meetings of those organizations.

At each FAA regional airport conference during the next 12 months, the Office of Airport Safety and Standards will conduct a briefing and seminar on airport financial reporting and the annual audit certification requirement at each of the FAA region annual airport conferences.

By September 30, 1998, the FAA will issue interim guidance, in the form of a letter to sponsors, on the completion and filing of annual financial reports and on the requirement for a review and opinion of revenue use in single audits. The guidance will specifically inform sponsors that the airport revenue review and opinion must be included in the auditor's engagement letter to ensure that it is accomplished as part of the single audit.

The FAA has already incorporated the audit certification requirements into advisory circulars. The FAA issued an advisory circular on the single audit requirements on August 31, 1998, and issued an advisory circular on financial reporting requirements on September 10, 1998.

All letter guidance to sponsors and advisory circulars will be sent to ACI-NA and AAAE for publication in industry newsletters and will be posted on the FAA's Airports internet web site at the time they are issued.

Recommendation B3: Take action on financial transactions previously questioned during FAA's review of airport financial reports.

The FAA, in accordance with Office of Airports procedures in effect, will investigate and resolve airport revenue issues identified by an FAA review of the airport financial reports. Of the 34 transactions identified from review of reports as presenting a revenue use issue meriting further review but not yet referred for investigation, the FAA agrees that 19 should have been forwarded to the appropriate regional office for review or

otherwise resolved earlier. All 19 have been forwarded for review as of July 31. The remaining items are either in headquarters review or already being investigated in another proceeding (such as a regional investigation). In accordance with Office of Airports procedures already in effect, regional offices will provide airport operators 30 days to respond to the region's inquiry on a questioned transaction, and determine whether the transaction is or is not a permissible use of airport revenue within 60 days of receiving the airport operator's response.

Recommendation B4: Evaluate potential airport revenue diversions identified in this report and take corrective action on those determined to be prohibited revenue diversions.

FAA regional Airports Division offices will send an inquiry to each sponsor identified in the OIG report by August 15. In accordance with Office of Airports procedures in effect for followup on issues identified in financial reports, regional offices will provide airport operators 30 days to respond to the region's inquiry on the questioned transaction, and determine whether the practice is or is not a permissible use of airport revenue within 60 days of receiving the airport operator's response. If the review of a matter indicates that the airport has diverted revenue and has not taken appropriate corrective action in response to the FAA notification, the FAA will initiate action under 14 CFR Part 16.

Recommendation B5: Establish milestones for revising and clarifying financial report forms and instructions and taking action on questioned financial transactions and potential airport revenue diversions identified by the FAA or OIG; and report these milestones to the Secretary of Transportation, as well as the chairman and ranking members of the appropriations and authorizing committees.

The FAA milestones for implementing the recommendations are indicated in our response to each recommendation. By a similar letter, the FAA responses and implementation dates are being provided to the committee leadership.

In closing, we believe the OIG recommendations will be very useful in building on the substantial amount of work the FAA has already done to implement the airport financial reports program, and will enhance the effective monitoring and enforcement of airport revenue use requirements.

If you would like any further information on the FAA's implementation of the program and our response to the OIG audit recommendations, please contact me or Ms. Suzanne Sullivan, Assistant Administrator for Government and Industry Affairs, at (202) 267-3277.

Sincerely,


Jane F. Garvey
Administrator