



FAA

Report QC2024015
January 31, 2024

Quality Control Review of the Management Letter for the Federal Aviation Administration's Audited Consolidated Financial Statements for Fiscal Years 2023 and 2022



Quality Control Review of the Management Letter for the Federal Aviation Administration's Audited Consolidated Financial Statements for Fiscal Years 2023 and 2022

Required by the Chief Financial Officers Act of 1990

Federal Aviation Administration | QC2024015 | January 31, 2024

What We Looked At

This report presents the results of our quality control review (QCR) of the management letter that KPMG issued on its audit, under contract with us, of the Federal Aviation Administration's (FAA) consolidated financial statements for fiscal years 2023 and 2022. This management letter discusses internal control matters that KPMG was not required to include in its audit report.

What We Found

Our QCR disclosed no instances in which KPMG did not comply, in all material respects, with U.S. generally accepted Government auditing standards.

Our Recommendations

KPMG made eight recommendations to FAA in its management letter. FAA concurred with all eight recommendations.

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Memorandum

Date: January 31, 2024

Subject: INFORMATION: Quality Control Review of the Management Letter for the Federal Aviation Administration's Audited Consolidated Financial Statements for Fiscal Years 2023 and 2022 | Report No. QC2024015

From: Dormayne "Dory" Dillard-Christian 
Assistant Inspector General for Financial Audits

To: Federal Aviation Administrator

I am pleased to transmit the attached management letter related to the audit of the Federal Aviation Administration's (FAA) consolidated financial statements for fiscal years 2023 and 2022. KPMG LLP completed the audit under contract with us. The contract required KPMG to perform the audit in accordance with generally accepted Government auditing standards and the Office of Management and Budget's Bulletin 24-01, *Audit Requirements for Federal Financial Statements*. KPMG issued an auditor's report¹ that included a clean (unmodified) opinion on FAA's financial statements.

KPMG also issued, and is responsible for, a management letter, dated November 30, 2023 (see attachment), identifying nine internal control matters² that require FAA management's attention. KPMG was not required to include these matters or the related recommendations in its auditor's report. We conducted a quality control review (QCR) of the management letter.

¹ See *Quality Control Review of the Independent Auditor's Report on the Federal Aviation Administration's Audited Consolidated Financial Statements for Fiscal Years 2023 and 2022* (OIG Report No. QC2024006), November 14, 2023. OIG reports are available on our website at <http://www.oig.dot.gov>.

² Three of these nine matters are deficiencies related to DOT's internal controls and those of the Department's shared services center, the Enterprise Services Center (ESC), but also affect FAA's control environment. KPMG made recommendations to DOT and ESC to address these deficiencies, but FAA is not required to take any corrective actions. We discuss these control deficiencies and recommendations in our report entitled *Quality Control Review of the Management Letter for the Department of Transportation's Audited Consolidated Financial Statements for Fiscal Years 2023 and 2022* (OIG Report No. QC2024016), January 31, 2024.

We appreciate the cooperation and assistance of FAA's representatives and KPMG. If you have any questions, please contact me, or Ingrid Harris, Program Director.

cc: The Secretary
DOT Audit Liaison, M-1
FAA Audit Liaison, AAE-001

Summary of Independent Auditor's Management Letter

In its management letter, KPMG reported the following deficiencies pertaining to general information technology controls, entity level controls, and business process controls.

Privileged Windows Authentication Controls

FAA policy establishes password setting configurations for Windows servers within the FAA.gov domain, including the procurement system. However, FAA did not design or implement controls to ensure policy compliance. Specifically, privileged user passwords were set at a minimum of 8 characters instead of using multi-factor authentication (MFA) or a minimum length of 16 characters as required by policy. Password age was also not configured as required.

Ineffective Review of Service Organization System Access Requests and Existing Employee Access

DOT uses various service organizations to perform select operations on its behalf. In fiscal year 2022, FAA management's internal controls over provisioning user access requests and monitoring user access for the service organization's system were not operating effectively. These deficiencies were not adequately addressed in fiscal year 2023. FAA also did not design monitoring activities to ensure that the controls over new user access requests and appropriateness of existing user access were operating as intended.

Timely Recording of Procurement Obligations

A contracting officer (CO) or other qualified individual with delegated authority may enter into contracts, orders, leases, or agreements, and may obligate funds on behalf of the Government. As part of this process, the CO works within the procurement system to create the contract or contract modification document, sign the award document, obtaining bilateral agreement if required, and maintain the executed agreement. Once approved, an award obligation is generated in the

procurement system, and interfaces with the financial system where obligations are automatically recorded. FAA did not timely record a contract modification within the general ledger or document a bilaterally executed contract modification that was incurred outside of the Agency's standard business process.

Completeness and Accuracy of Future Minimum Lease Payments Disclosure

FAA occupies real property leased from the General Services Administration (GSA) and has authority to enter leases with non-GSA parties. FAA discloses future payments for these leases in its lease disclosure, maintaining separate populations for future GSA and non-GSA lease payments. However, management's controls were not operating effectively to ensure the population of future lease payments were complete and accurate. Specifically, one non-GSA lease was incorrectly excluded from the population and two leases (one GSA and one non-GSA) had updates to their costs that were not reflected in the population.

Timely Recording of Costs to Completed Asset Accounts

FAA's property, plant, and equipment (PP&E) consists of land, buildings, construction in progress (CIP), and other assets. FAA discloses different classes of capitalized assets in its PP&E Disclosure. Quarterly, within its CIP account, FAA accrues for assets that have been completed but not yet capitalized in its system, in addition to accruing for certain trailing costs associated with completed assets with its PP&E accrual. FAA's controls were not designed to completely record trailing costs for completed assets to the corresponding in-use asset account. Specifically, one project was identified with a CIP balance totaling \$16,848,194 for which all project assets had been completed as of September 30, 2023.

Non-LOI Input Controls

Annually, FAA estimates and records a grant accrual for non-letter of intent (LOI) grant expenses incurred but not reported related to its Airport Improvement Program grants. The accrual estimate is calculated as the average billing cycle multiplied by both the average daily grant disbursements and a cost multiplier.

FAA's controls were not designed effectively to ensure that the data inputs used to calculate the estimate were consistent with management's non-LOI accrual methodology. Specifically, the population used to determine the average billing cycle contained certain transactions related to non-Airport Improvement Program grants that were not relevant to the accrual and had substantially different average billing cycles than the average Airport Improvement Program grant.

Recommendations

To strengthen FAA's information system and business process controls, KPMG recommended that FAA management:

1. Require privileged users on the Windows virtual machine environment to authenticate using MFA. If it is not technically feasible, then we recommend that Windows security settings are updated to require a minimum password length for privileged accounts to 16 characters and maximum password age to be updated to 60 days.
2. Design and implement documented control activities to monitor the effective operation of its existing process controls related to:
 - a. Provisioning of new access requests for the service organization's system; and
 - b. Monitoring FAA employees' access to the service organization's system.
3. Take measures to ensure that FAA has sufficient control operator personnel available to support the annual recertification of FAA employees with system access within the reporting timeline prescribed by DOT.
4. Design and implement a procedure to identify and timely record contracting actions within the general ledger that were executed outside of the standard business process (i.e., CO authorizations documented outside of the procurement system).
5. Update its procurement policy to define the period of time permitted to document a contractor's oral agreement.
6. Reinforce existing controls, to review individual lease payment schedules upon lease commencement or modification to ensure that the schedules are consistent with the underlying terms of the lease.
7. Design and implement procedures within its existing PP&E Accrual to obtain a complete listing of trailing costs related to completed assets and

accrue for such assets that have remaining CIP balances as of the period-end.

8. Design and implement procedures to verify the completeness and accuracy of the non-LOI accrual average billing cycle data input used in the estimate calculation.

FAA concurred with KPMG's eight recommendations. FAA provided a detailed action plan to address the findings issued to it in the management letter. In accordance with DOT Order 8000.1C, the corrective actions taken in response to the findings are subject to follow up.

Quality Control Review

We performed a QCR of KPMG's management letter and related documentation. Our review disclosed no instances in which KPMG did not comply, in all material respects, with generally accepted Government auditing standards.

Exhibit. List of Acronyms

CIP	construction in progress
CO	contracting officer
DOT	Department of Transportation
ESC	Enterprise Services Center
FAA	Federal Aviation Administration
GSA	General Services Administration
MFA	multi-factor authentication
LOI	letter of intent
OIG	Office of Inspector General
PP&E	property, plant, and equipment
QCR	quality control review

Attachment. Independent Auditor's Management Letter



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

November 30, 2023

Administrator, Federal Aviation Administration
Inspector General, U.S. Department of Transportation
Washington, DC

Ladies and Gentlemen:

In planning and performing our audit of the consolidated financial statements of the U.S. Department of Transportation (DOT), Federal Aviation Administration (FAA) as of and for the year ended September 30, 2023, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*, we considered the FAA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FAA's internal control. Accordingly, we do not express an opinion on the effectiveness of the FAA's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and/or significant deficiencies and therefore, material weaknesses and/or significant deficiencies may exist that were not identified. In accordance with *Government Auditing Standards*, we issued our report dated November 9, 2023 on our consideration of the FAA's internal control over financial reporting in which we communicated certain deficiencies in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. In addition to the significant deficiency noted above, we identified the following deficiencies in internal control related to general information technology and entity level controls, and business process controls that are summarized in Exhibit I for your consideration.

This purpose of this letter is solely to describe the deficiencies in internal control identified during our audit. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP

A. General Information Technology and Entity Level Controls

Weakness Exists in FAA Privileged Windows Authentication Controls (NFR DOT-2023-FAA-IT-02)

Background/Condition

The FAA Default Domain Active Directory (AD) policy establishes password settings configurations for Windows servers within the FAA.gov domain, which includes FAA's procurement system. Account management functions for AD accounts are managed by the Account Management Team within the Infrastructure & Operations Service (AIT).

Management did not design or implement controls in the Windows virtual machine environment to ensure compliance with the FAA Information Security and Privacy: Policy (IS&P). Specifically, operating system software running on Windows virtual machines that comprise the procurement system environment was configured to require that privileged user passwords be set to a minimum length of eight characters. However, the IS&P requires multi-factor authentication (MFA) unless it is not technically feasible in which case a minimum password length of 16 characters is required. Additionally, the maximum password age for privileged Windows accounts was configured as 180 days, while the IS&P requires a maximum password age of 60 days.

Recommendation

We recommend that FAA management require privileged users on the Windows virtual machine environment to authenticate using MFA. If it is not technically feasible, then we recommend that Windows security settings are updated to require a minimum password length for privileged accounts to 16 characters and maximum password age to be updated to 60 days.

Weakness exists with the DOT Cybersecurity Compendium (NFR DOT-2023-OCIO-IT-01)

Background/Condition

The Office of the Chief Information Officer (OCIO) developed the Departmental Cybersecurity Compendium, supplement to DOT Order 1351.77 Departmental Cybersecurity Policy. The policy was last updated in March 2018. The Departmental Cybersecurity Policy guidance is required to be implemented by all operating administrations (OAs) within DOT.

During Fiscal Year (FY) 2023, the DOT OCIO was unable to update the DOT Cybersecurity Compendium to include two missing National Institute of Standards and Technology (NIST) controls for moderate-impact systems, specifically, control System and Communications Protection (SC) Process Isolation SC-39, and control enhancement Contingency Planning (CP) Contingency Plan CP-2(8) as required by NIST or ensure tailoring and rational decisions were documented for their removal. Further, the OCIO did not define and document control tailoring requirements for the Department and components when controls deviate from NIST or Agency requirements.

Recommendations

We recommend that the OCIO:

1. Revise the website containing the policy documentation to ensure all documents are consistent and contain the same listing of required controls for moderate-impact systems.

2. Additionally, the OCIO should document any Department-wide tailoring decisions within the appropriate security documentation, as required by NIST.
3. Finally, the OCIO should define and document control tailoring requirements for the Department and Operating Administrations (OAs).

B. Business Process Controls

Ineffective Review of Service Organization System Access Requests and Existing Employee Access (NFR FAA-2023-01)

Background/Condition

DOT engages various external parties to perform select operations on its behalf. These service organizations include, but are not limited to, a payroll provider to process personnel actions and payroll transactions.

As reported in FY2022, FAA management's internal controls over provisioning FAA user access requests and monitoring user access for the service organization's system were not operating effectively. During FY2023, management did not design and implement monitoring activities to address the cause of the deficiencies identified in the prior year.

Management did not adequately design monitoring activities to ensure that the controls over new user access requests, and appropriateness of existing user access for the service organization's system were operating as intended. Additionally, five individuals were each responsible for performing the annual recertification of hundreds of users on an abbreviated reporting timeline established by DOT.

Recommendations

We recommend that FAA management:

1. Design and implement documented control activities to monitor the effective operation of its existing process controls related to:
 - a. Provisioning of new access requests for the service organization's system; and
 - b. Monitoring FAA employees' access to the service organization's system.
2. Take measures to ensure that FAA has sufficient control operator personnel available to support the annual recertification of FAA employees with system access within the reporting timeline prescribed by DOT.

Weakness in the Timely Recording of Procurement Obligations (NFR FAA-2023-02)

Background/Condition

Per FAA's *Procurement Guidance*, a Contracting Officer (CO) "or other qualified individual delegated procurement authority, acting within the scope of his or her delegated authority, may enter into contracts, orders, leases or agreements and may obligate funds on behalf of the Government." As part of the contracting process, the CO works within the procurement system to create the contract or contract modification document. The CO signs the award document, obtaining bilateral agreement if required, and maintains the executed agreement. When the CO approves the award document in the procurement system, an award obligation is generated in the procurement system, which interfaces with the financial system. Once the order information interfaces, the financial system automatically records the obligation.

For a contract modification incurred outside of its standard business process, management did not timely record the modification within the general ledger or document the bilaterally executed modification with CO and contractor signature. Specifically, we identified:

- a. One instance in which FAA incurred an obligation in one accounting period but recorded the obligation in a subsequent accounting period.
- b. Two instances in which a contracting officer authorized an obligation by email that was verbally accepted by the contractor, but not documented with a bilaterally executed contract modification until more than five months after the contractor's acceptance.

Recommendations

We recommend that FAA:

1. Design and implement a procedure to identify and timely record contracting actions within the general ledger that were executed outside of the standard business process (i.e., CO authorizations documented outside of the procurement system).
2. Update its procurement policy to define the period of time permitted to document a contractor's oral agreement.

Completeness and Accuracy of the Future Minimum Lease Payments (FMLP) Disclosure (NFR FAA-2023-03)

Background/Condition

The FAA occupies real property that is leased from the General Services Administration (GSA). FAA also has separate leasing authority to enter into leases with non-GSA parties. FAA discloses future payments for both cancellable and non-cancellable operating leases within its lease disclosure. FAA maintains separate populations for future GSA and non-GSA lease payments to support its disclosure.

Management's controls were not operating effectively to ensure that the population of future operating lease payments is complete and accurate. Specifically, we identified:

- a. One Non-GSA lease with future operating lease payments that was incorrectly excluded from the population.
- b. One GSA lease and one Non-GSA lease where updates to the costs resulting from a renewal or modification were not reflected in the population.

Recommendation

We recommend that FAA reinforce existing controls, to review individual lease payment schedules upon lease commencement or modification to ensure that the schedules are consistent with the underlying terms of the lease.

Weakness in the Timely Recording of Costs to Completed Asset Accounts (NFR FAA-2023-04)

Background/Condition

Per FAA's *Financial Manual* Volume 8.1.4, FAA's Property, Plant, and Equipment (PP&E) consists of land, buildings, other structures, construction in progress (CIP), automated data processing (ADP) hardware and software (intangible), equipment, vehicles, aircrafts, and assets under capital lease. FAA discloses different

classes of capitalized assets in its PP&E Disclosure such as CIP, Personal Property, and Real Property. Prior to the capitalization of completed assets, FAA accumulates costs for assets under construction within its CIP account. Quarterly, FAA accrues for assets within its CIP account that have been completed but not yet capitalized within its system in addition to accruing for certain trailing costs associated with completed assets with its PP&E accrual.

Management's controls were not designed to completely record trailing costs for completed assets to the corresponding in-use asset account. Specifically, we identified one project with a CIP balance totaling \$16,848,194 for which all project assets had been completed as of September 30, 2023.

Recommendation

We recommend that FAA design and implement procedures within its existing PP&E Accrual to obtain a complete listing of trailing costs related to completed assets and accrue for such assets that have remaining CIP balances as of the period-end.

Weaknesses in Controls over the Inputs to the Non-LOI Grant Accrual (NFR FAA-2023-05)

Background/Condition

Annually, the FAA estimates and records a grant accrual for non-letter of intent (non-LOI) grant expenses incurred but not reported related to its Airports grants. The accrual estimate is calculated as the average billing cycle multiplied by both the average daily grant disbursements and the cost multiplier. The average billing cycle is determined using the population for the number of grant disbursements, which is the population of grants open all year with at least one disbursement. This file is summarized to calculate the ratio of the count of grants open all year and the corresponding number of grant disbursements, which is then used to determine the average billing cycle.

Management's controls were not designed effectively to ensure that the data input used was consistent with management's non-LOI accrual methodology. Specifically, the population used to determine the average billing cycle contained certain transactions related to non-Airport grants that were not relevant to the accrual and had substantially different average billing cycles than the average Airport grant.

Recommendation

We recommend that management design and implement procedures to verify the completeness and accuracy of the non-LOI accrual average billing cycle data input used in the estimate calculation.

Weakness in Controls Over Documenting Journal Vouchers (NFR DOT-2023-02)

Background/Condition

Each of the DOT OAs have Interagency Agreements with the Enterprise Service Center (ESC), in which the ESC prepares, approves, and posts various journal vouchers (JV) for the OAs. ESC policy requires that all such entries go through an appropriate level of review and each step is performed by a different individual. Approvers review each journal voucher to ensure that the entry is appropriate. This review includes ensuring the entry is complete, accurate, and supported by adequate documentation. Approvers and posters are required to sign the related JV Coversheet at the time of their involvement to evidence the appropriate segregation of duties occurs.

Controls were not operating effectively to:

- a. Ensure the appropriate segregation of duties is documented in accordance with policy. Specifically, we identified one journal voucher in which the AMK-330 poster did not sign the JV Coversheet at the time of posting.
- b. Validate the journal voucher is consistent with the supporting documentation in accordance with policy. Specifically, we identified two journal vouchers in which the supporting documentation referenced a trading partner that was not included within the corresponding attribute field in the approved journal voucher.

Recommendation

We recommend that the ESC enforce its existing policy and provide additional training to personnel involved in the manual JV process, specifically the appropriate timing and documentation related to segregation of duties in addition to reviewing each JV to ensure its completeness and consistency with the supporting documentation.

Weakness in Controls over the Maintenance and Review of the JV Control Log (NFR DOT-2023-03)

Background/Condition

The ESC AMK section managers perform a monthly review of the journal voucher control log of all manual journal entries posted by ESC. During this review the monthly control log is compared to a complete listing of JV batch names within the financial system posted during the same period. The control operator will identify and resolve any variance identified during the performance of the control, including instances where JVs per the control log are excluded from the financial system, manual journal entries in the financial system are excluded from the control log, and duplicate sequential JV control numbers are used.

Controls were not designed effectively to ensure that discrepancies are identified in the JV Control Logs and are documented and remediated in accordance with policy. Specifically, we identified a duplicate JV control number in one JV Control Log and these duplicate JV numbers were subsequently used when the JV was posted to the financial system. Additionally, we identified 2 instances in which the OA Approver per the Control Log was not consistent with the approver who signed the JV Coversheet.

Recommendations

We recommend that ESC:

1. Review and update the JV Control Log reconciliation process to ensure it is properly designed to identify all potential deviations from policy throughout the fiscal year.
2. Create monitoring procedures over the JV Control Log to ensure complete and accurate documentation over manual JVs is maintained.

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