FINANCIAL STATEMENTS FOR FISCAL YEARS 2001 AND 2000

Federal Aviation Administration

Report Number: FI-2002-082
Date Issued: February 27, 2002

U.S. Department of Transportation
Office of the Secretary of Transportation
Office of Inspector General

Memorandum

Subject: INFORMATION: Report on Financial Statements for Fiscal Years 2001 and 2000, FAA FI-2002-082

Date: February 27, 2002

From: Kenneth M. Mead
Inspector General

Reply To Attn. of: Meche:x61496

To: The Secretary

I respectfully submit the Office of Inspector General (OIG) report on the Federal Aviation Administration (FAA) Financial Statements for Fiscal Years (FY) 2001 and 2000. For the first time starting with FY 2001, the Office of Management and Budget requires comparative financial statements to be presented covering 2 years. This report is required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994.

This report presents our unqualified opinion on the FY 2001 FAA Consolidated Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position, and Combined Statement of Budgetary Resources and Statement of Financing as of, and for the year ended, September 30, 2001; and our qualified opinion on the FY 2000 FAA Consolidated Balance Sheet and Statement of Net Cost as of, and for the year ended, September 30, 2000.

Since the tragic events of September 11, the aviation community has seen a dramatic reduction in air travel. This has resulted in steep declines in revenues available to fund FAA and its programs. Since September 11, expected revenues to the Airport and Airway Trust Fund have dropped by about $2.4 billion, or about 20 percent below original projections. Congress also authorized supplemental appropriations of about $600 million from the trust fund to increase security. These events and actions will result in a substantial draw down of the trust fund's uncommitted balance. We estimate that the uncommitted balance could drop from $7.3 billion at the beginning of FY 2002 to about $4.3 billion by the end of FY 2002.

To assist us, the Department of the Treasury (Treasury) Office of Inspector General audited the schedule of assets and liabilities, and the related schedule of activity for the Airport and Airway Trust Fund accounts (referred to as the Corpus account) administered by the Treasury Bureau of Public Debt. The Treasury OIG issued an unqualified opinion on these schedules. The General Accounting Office (GAO) performed agreed-upon procedures on tax revenue receipts at the Internal Revenue Service and distributions to the FAA Corpus account, and identified no material discrepancies.

FAA engaged KPMG LLP to audit the property, plant, and equipment accounts on the FAA Financial Statements. KPMG recommended that the net book value of FAA property be reduced by $138 million. FAA made the adjustments and KPMG issued an unqualified opinion on FAA property, plant, and equipment as of September 30, 2001. KPMG also cited FAA property accounting as a material weakness and made six recommendations. FAA agreed with the recommendations. As part of our work, we also recommended adjustments of about $184 million to the reported net book value of FAA property. FAA made these adjustments prior to the KPMG audit.

In addition to the material weakness for FAA property accounting, we identified three FY 2001 issues involving internal control weaknesses and compliance with laws and regulations. While they are important, they did not affect our audit opinion.

- FAA needs to do more to determine whether funds obligated on inactive transactions are needed. We identified $45 million of obligations that were no longer needed. FAA adjusted its financial records accordingly.

- FAA was not in compliance with the Federal Financial Management Improvement Act of 1996 because the Department of Transportation (DOT) accounting system did not provide the data for preparing the FAA Financial Statements, did not comply with the U.S. Government standard general ledger, and did not comply with the requirements for implementing managerial cost accounting standards. FAA also needs to enhance security over financial information systems. DOT plans to have a compliant accounting system by January 2003 and FAA plans to secure its financial systems by May 2003.

  FAA is making good progress and has implemented a cost accounting system in its largest line of business, Air Traffic Services. FAA still needs to implement the cost accounting system in its other four lines of business. FAA is developing its Cru-X labor distribution system, but this system has a serious flaw that must be corrected so that air traffic controllers cannot override the system's internal clock to record any start or stop time. FAA plans to have its cost accounting system fully operational early in calendar year 2003.

- The performance measures presented in the Management Discussion and Analysis did not provide information about the cost-effectiveness of programs nor relate to the Statement of Net Cost. The FY 2001 performance measures were based on FY 2000 rather than FY 2001 performance data. None of the measures was linked to the cost of achieving targeted results.

We are making three recommendations in this report. Issues that are common to FAA and other DOT agencies will be addressed in our report on the DOT Consolidated Financial Statements for FYs 2001 and 2000.

A draft of this report was provided to the FAA and DOT Chief Financial Officers on February 22, 2002. They agreed with the report.

We appreciate the cooperation and assistance of FAA and DOT representatives. If we can answer questions or be of any other assistance, please call me at (202) 366-1959, or John Meche at (202) 366-1496.

Attachments

#

TABLE OF CONTENTS

Due to the volume of information contained in this document, please call 202-366-1496 to obtain a copy of the attachments to this report.