



# Memorandum

**U.S. Department of  
Transportation**

Office of the Secretary  
of Transportation

Office of Inspector General

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Subject: INFORMATION: Notification of Audit on  
FAA Oversight of Financially-Distressed Air  
Carriers, Project No. 03A3009A000

Date: March 26, 2003

From: David A. Dobbs  
Assistant Inspector General  
for Aviation Audits

Reply to  
Attn of: JA-10:x60500

To: John F. Hennigan  
Acting Assistant Administrator  
for Financial Services/CFO

Many airlines are currently in a precarious financial condition. Airline revenue and profits have dropped substantially, with many airlines reporting record losses in 2001 and 2002. As airlines restructure operations, such as consolidating aircraft maintenance facilities and reducing staffing levels, they must also continually monitor the safety of their operations.

The Federal Aviation Administration (FAA) has two systems to monitor air carrier safety: the Air Transportation Oversight System (ATOS)—FAA's new data—and risk-based approach for performing air carrier inspections, and the Safety Performance Analysis System (SPAS)—a computer risk analysis tool to aid inspectors in determining areas to inspect. FAA also has special procedures to increase surveillance of airlines during periods of financial distress.

The Office of Inspector General plans to conduct an audit to evaluate FAA's oversight of financially-distressed air carriers. We will determine whether:

- 1) Action taken by FAA to monitor financially-distressed air carriers is effective; and

- 2) ATOS and SPAS have been used effectively to monitor financially-distressed air carriers by providing the data and tools inspectors need to conduct the work.

Our audit will include visits to FAA Headquarters and field offices responsible for monitoring air carriers. In addition, we plan to visit air carriers to determine what operational changes they have made and what actions they are taking to ensure safety is maintained. We will contact your audit liaison to arrange an entrance conference. If you have any questions or need additional information, please contact Lou E. Dixon, Program Director, at (404) 562-3770 or Robin P. Koch, Project Manager, at (404) 562-3776.

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