



United States
General Accounting Office
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Accounting and Information
Management Division

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June 11, 1999

The Honorable John R. Kasich
Chairman, Committee on the Budget
House of Representatives

Subject: Financial Management: Briefing on the Federal Aviation Administration
Property, Plant, and Equipment Accountability Review

Dear Mr. Chairman:

This letter responds to your request that we (1) identify the key issues the Federal Aviation Administration (FAA) must resolve in order to achieve accountability over its property, plant, and equipment (PP&E) and (2) determine the status of FAA's efforts to resolve these issues. This letter summarizes the information provided during a May 19, 1999, briefing to your office on these two areas. The briefing slides are enclosed.

FAA has spent billions of dollars on air traffic control modernization, of which a significant portion has resulted in the acquisition of PP&E. FAA is required to maintain accountability for these assets from the time they are acquired until their ultimate disposition.

We concluded from analyzing the Department of Transportation (DOT) Office of Inspector General (OIG) workpapers related to its audit of the fiscal year 1998 financial statements that FAA's systems, procedures, and controls do not ensure that accountability is maintained for PP&E on an ongoing basis. Further, many problems in PP&E result from the lack of a reliable system to accumulate the cost of projects and record these costs in appropriate PP&E accounts. The OIG found that substantial portions of the incurred costs were improperly charged to expense accounts instead of being recorded as assets and that FAA's historical records necessary to support and permit the verification of PP&E balances are incomplete or inaccurate. Further, the OIG found that FAA does not move project costs from the work-in-process account to appropriate operating asset accounts in a timely manner. Although FAA has not actively focused on improvements in the past, it now has extensive efforts underway to establish historical PP&E costs and reduce the work-in-process backlog. It has also recently begun to address systems issues.

In January 1999, we designated FAA's financial management as a high-risk area because of serious and long-standing accounting and financial reporting weaknesses. These weaknesses, including those described above, render FAA vulnerable to waste, fraud, and abuse; undermine its ability to manage its operations; and limit the reliability of financial

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information provided to the Congress. FAA's high-risk designation means we will be giving sustained attention to monitoring its efforts to correct its financial management deficiencies.

We conducted our work from July 1998 through May 1999 in accordance with generally accepted government auditing standards. We requested comments on our draft briefing slides from FAA. We received some clarifying comments that we incorporated into our slides as appropriate.

We are sending copies of this letter to Representative John Spratt, Ranking Minority Member of your Committee; the Honorable Rodney Slater, Secretary of Transportation; the Honorable Jane Garvey, Administrator, FAA; and Carl Schellenberg, Chief Financial Officer, FAA. We are also sending copies of this letter to the Honorable Kenneth Mead, Inspector General, DOT, and the Honorable Jacob Lew, Director, Office of Management and Budget. Copies will also be made available to others upon request.

If you have any questions about this letter or the earlier briefing, please contact me at (202) 512-9508 or John Fretwell, Assistant Director, at (202) 512-9382.

Sincerely yours,



Linda M. Calbom
Director, Resources, Community,
and Economic Development, Accounting
and Financial Management Issues

Enclosure

(913860)

GAO Accounting and Information Management
Division

FEDERAL AVIATION ADMINISTRATION

Property, Plant, and Equipment
Accountability Review

Status Briefing for the House Budget Committee
May 19, 1999

GAO Contents

- Objectives
- Scope and Methodology
- Background
- Major Issues
 - Work-in-Process
 - Real Property
 - Personal Property
- Actions Being Taken by FAA

GAO Objectives

- Identify the key issues FAA must resolve in order to achieve accountability over its Property, Plant, and Equipment (PP&E)
- Determine the status of FAA's efforts to resolve key issues

GAO Scope and Methodology

- Used OIG FY 1998 audit work results
 - Test counts
 - Workpapers
 - Audit report and testimonies
- Made site visits to Chicago, Atlanta, New York, and Atlantic City
- Used FAA information
 - Interviewed FAA officials
 - Reviewed FAA documents
- Analyzed results
- Performed work from July 1998 through May 1999 in accordance with GAGAS

GAO Background--FY 1998 Financial Statement
Audit Results

Net PP&E reported at 9/30/98 was \$8.4 billion after depreciation--42 percent of total assets

- OIG unable to issue an opinion due in part to significant deficiencies in accounting for PP&E
- OIG reported that PP&E was significantly understated due to improper expensing of capital assets

GAO Background--Comparison of Budget to Reported PP&E

- FAA has reported spending approximately \$25.7 billion on capital improvement programs from 1982-1998
- At 9/30/98 FAA reported \$11.9 billion in gross PP&E (before depreciation)
- FAA has not fully accounted for the \$13.8 billion difference

GAO Background--Comparison of Budget to Reported PP&E

- Some portion properly charged to expense
 - Terminated or cancelled programs
 - Services unrelated to property acquisition
- Some portion is acquisition of spare parts (inventory)
- Through 4/27/99 an additional \$3B has been identified to capitalize

GAO Major Issues

- FY 1998 financial statement audit disclosed serious weaknesses in accounting for reported property and equipment
 - Work-in-Process--\$4.5 billion
 - Real Property--\$2.6 billion
 - Personal Property--\$4.6 billion

GAO Work-in-Process--Issues Identified During
FY 1998 Audit

OIG test results showed that

- Completed project costs are not transferred out of work-in-process on a timely basis
 - \$1.3 billion backlog at September 30, 1998
- Audit trail does not always exist from recorded costs to supporting documentation (e.g., invoices, contracts)
- Status of project completion was not accurate

GAO Work-in-Process--Issues Identified During
FY 1998 Audit

- Controls not established to ensure timely implementation of recently updated capitalization policy
- Procedures and controls do not exist to accumulate full costs by project for purchased items or services

GAO Work-in-Process--Issues Identified During
FY 1998 Audit

- Procedures not established to ensure database has correct beginning balances for the implementation of the planned cost accounting system
- Controls do not exist to ensure expenses are recorded in the appropriate fiscal year

GAO Work-in-Process--Conclusions

- Backlog of completed projects remaining in work-in-process results in accounting misclassifications and unrecorded depreciation
- Lack of a reliable system for accumulating project costs continues to be a weakness in maintaining the accountability for all PP&E

GAO Real Property--Issues Identified During FY 1998 Audit

- Work-in-process backlog results in understatement of real property
- Documentation not maintained to support recorded values
 - For example, a power supply system was recorded at \$20 million but only \$3.6 million in costs could be documented
- Asset activity not properly recorded
 - For example, \$1 million was recorded for a building demolished 10 years ago
- System does not have the capability to calculate and track depreciation

GAO Real Property--Conclusion

Real property system does not accurately record and control land, buildings, and other structures

GAO Personal Property--Issues Identified During
FY 1998 Audit

- Improper expensing of capital assets
 - For example, review of 5 systems identified over \$1 billion in unrecorded assets
- Capitalization not timely
- Detailed accounting information not maintained
- Spare parts recorded as personal property

GAO Personal Property--Issues Identified During
FY 1998 Audit

- Property systems not integrated with each other or the general ledger
- System maintains property records at an aggregated level rather than for individual parts
- System does not have the capability to calculate and track depreciation

GAO Personal Property--Issues Identified During
FY 1998 Audit

- Procedures not established to allocate technical support costs to specific projects
- Procedures for adjusting accounting records not established

GAO Personal Property--Conclusions

- Recorded account balances were materially understated as of 9/30/98
- Personal property system, procedures, and controls do not ensure that accountability is maintained for equipment on an on-going basis

GAO Actions Being Taken by FAA to Improve
Accountability for PP&E

Overall

- Comprehensive effort underway to identify all major PP&E assets and to develop accurate, supportable historical cost information for those assets
- Estimated timeframe for completion
 - Work-in-process
 - Backlog--6/30/99
 - Documentation for active jobs--9/30/99
 - Real property--9/30/99
 - Personal property--7/31/99

Actions Being Taken by FAA to Improve Accountability for PP&E

Work-in-Process

- \$1.3 billion identified in completed project costs backlog as of 3/31/99
 - 99.5 percent of baseline
 - New backlog of approximately \$143 million accumulated since 6/30/98
- Defined documentation requirements to support costs
- Established process to monitor the timeliness of capitalizing the costs for commissioned systems

GAO Actions Being Taken by FAA to Improve
Accountability for PP&E

Real Property

- Compiled supporting documentation for \$674 million in assets as of 3/31/99
 - 84 percent complete
- Designed valuation model for certain assets where historical cost is not available
 - 25 percent complete as of 3/31/99

GAO Actions Being Taken by FAA to Improve Accountability for PP&E

Personal Property

- Created prototype package for valuation using contracts as support for centrally procured equipment
 - Baseline used--amounts provided for the modernization of air traffic control facilities and equipment by project
- Completed analysis of \$6.6 billion in major facility and equipment program costs as of 4/27/99
 - 13 of 43 projects complete

Actions Being Taken by FAA to Improve Accountability for PP&E

Systems Improvements

- **Process Improvement Plan has been developed to modify existing business practices to ensure progress achieved can be sustained over the long-term**
- **Efforts continue to develop a cost accounting system that is capable of accumulating the full cost of program activities on a timely basis**
 - **Projected for partial implementation by 6/99 and full implementation by 3/01**

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