

**QUALITY CONTROL REVIEW OF THE  
AUDITED BALANCE SHEET FOR FY 2005**

*Federal Aviation Administration  
Administrative Services Franchise Fund*

*Report Number: QC-2006-013  
Date Issued: November 15, 2005*




# Memorandum

**U.S. Department of  
Transportation**

Office of the Secretary  
of Transportation  
Office of Inspector General

Subject: ACTION: Quality Control Review of the  
Audited Balance Sheet for FY 2005  
Federal Aviation Administration  
Administrative Services Franchise Fund  
Report Number QC-2006-012

Date: November 15, 2005

From: Theodore P. Alves   
Principal Assistant Inspector General  
for Auditing and Evaluation

Reply to  
Attn. of: JA-20

To: Federal Aviation Administrator  
Mike Monroney Aeronautical Center Director

The audit of the Federal Aviation Administration's Administrative Services Franchise Fund Balance Sheet as of September 30, 2005, was completed by KPMG LLP of Oklahoma City, Oklahoma (see Attachment). We performed a quality control review of the audit work to ensure that it complied with applicable standards. These standards include the Chief Financial Officers Act; Generally Accepted Government Auditing Standards; and the Office of Management and Budget Bulletin 01-02, "Audit Requirements for Federal Financial Statements."

The KPMG audit report concluded that the Balance Sheet as of September 30, 2005, presents fairly, in all material respects, the financial position of the Franchise Fund as of September 30, 2005, in conformity with accounting principles generally accepted in the United States. The report presented one material internal control weakness related to financial statement preparation and oversight and three reportable internal control weaknesses related to inventory procedures, obtaining signed agreements, and reconciling advances received from others. KPMG made 15 recommendations regarding the internal control weaknesses. Management concurred with KPMG's findings and recommendations and agreed to implement corrective actions.

The KPMG audit report also included two instances of non-compliance with significant laws, regulations, contracts, or grants. KPMG found that the Franchise Fund was not in substantial compliance with the Federal Financial Management

Improvement Act of 1996 (FFMIA) because four key FAA financial systems did not conform with the compliance categories of FFMIA listed in OMB Circular No. A-127. KPMG also found that the Franchise Fund did not comply with the Department of Transportation and Related Agencies Appropriations Act of 1997, which requires the Franchise Fund to be paid prior to performance of services. KPMG noted that the Franchise Fund routinely performed work for its customers without being paid in advance. KPMG made two additional recommendations to correct these instances of non-compliance. Management concurred with KPMG's recommendations and agreed to implement corrective actions.

This is the first year the Franchise Fund prepared a stand-alone balance sheet for audit. We congratulate the Franchise Fund for obtaining an unqualified or "clean" opinion on its September 30, 2005 balance sheet.

In our opinion, the audit work performed by KPMG complied with applicable standards. In accordance with Department of Transportation Order 8000.1C, the corrective actions taken in response to the recommendations are subject to follow-up.

We appreciate the cooperation and assistance of the Federal Aviation Administration, the Franchise Fund, and KPMG representatives. If we can answer any questions, please call me at (202) 366-1992 or Rebecca Leng, the Assistant Inspector General for Information Technology and Computer Security, at (202) 366-1496.

Attachment

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