

**QUALITY CONTROL REVIEW OF THE
AUDITED FINANCIAL STATEMENTS FOR
FISCAL YEAR 2006**

*Federal Aviation Administration
Administrative Services Franchise Fund*

*Report Number: QC-2007-006
Date Issued: November 13, 2006*



Memorandum

**U.S. Department of
Transportation**

Office of the Secretary
of Transportation
Office of Inspector General

Subject: **ACTION:** Quality Control Review of the
Audited Financial Statements for Fiscal Year
2006, Federal Aviation Administration
Administrative Services Franchise Fund
Report Number: QC-2007-006

Date: November 13, 2006

From: Rebecca C. Leng *Rebecca Leng*
Assistant Inspector General for Financial and
Information Technology Audits

Reply to
Attn. of: JA-20

To: Federal Aviation Administrator
Mike Monroney Aeronautical Center Director

The audit of the Federal Aviation Administration Administrative Services Franchise Fund's Balance Sheets as of September 30, 2006 and September 30, 2005, and the related statements of net cost, changes in net position, financing, and budgetary resources for the year ended September 30, 2006, was completed by KPMG LLP of Oklahoma City (see Attachment). We performed a quality control review of the audit work to ensure that it complied with applicable standards. These standards include Generally Accepted Government Auditing Standards; and Office of Management and Budget Bulletin 06-03, "Audit Requirements for Federal Financial Statements."

KPMG concluded that the Franchise Fund's Balance Sheets as of September 30, 2006 and September 30, 2005, and the related statements of net cost, changes in net position, financing, and budgetary resources for the year ended September 30, 2006, were presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States.

The report presented the following four reportable internal control weaknesses and two instances of noncompliance with laws and regulations.

Reportable Conditions

1. Failure to Obtain Signed Agreements Prior to Start of Services
2. Discrepancies within the Accounts Receivable Aging
3. Miscommunication and the Need for Proper Research
4. Information Technology Controls over FAA and Third-Party Systems and Applications

Noncompliance with Laws and Regulations

1. *Department of Transportation and Related Agencies Appropriations Act of 1997*
2. *Federal Financial Management Improvement Act of 1996 (FFMIA)*

KPMG made 16 recommendations for corrective actions in its report. We agree with them and are, therefore, making no additional recommendations. Franchise Fund officials concurred with the reportable conditions and instances of noncompliance, and agreed with the recommendations. Franchise Fund officials committed to implementing corrective actions during fiscal year 2007. In accordance with DOT Order 8000.1C, the corrective actions taken in response to the recommendations are subject to follow-up.

In our opinion, the audit work performed by KPMG complied with applicable standards.

We appreciate the cooperation and assistance of Federal Aviation Administration, Franchise Fund, and KPMG representatives. If we can answer any questions, please call me at (202) 366-1496; or Earl C. Hedges, Program Director, at (410) 962-1729.

Attachment

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