Memorandum

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

Subject: ACTION: Report on Financial Management Practices and Internal Controls, NTSB
FI-2003-004

Date: December 11, 2002

From: Kenneth M. Mead
Inspector General

Reply to
Attn of: Meche:x61496

To: Acting Chairman
National Transportation Safety Board

This report presents our audit results on financial management practices and internal controls at the National Transportation Safety Board (NTSB). Our audit objective was to determine whether NTSB made progress designing and implementing internal controls over financial management practices as recommended in recent oversight reports by PricewaterhouseCoopers, LLP (PwC) and the General Accounting Office (GAO). Our audit scope and methodology are discussed in Exhibit A.

INTRODUCTION

In April 2000, we testified[1] that poor internal controls existed in NTSB's Rapidraft Payment System and that two NTSB employees embezzled about $94,000 using rapidrafts. Rapidrafts are checks that NTSB employees were authorized to use in support of daily operations and accident investigations. As a result of the embezzlements, NTSB engaged PwC to review its financial management processes.

Congress also requested that GAO review the PwC findings and NTSB internal controls over selected Fiscal Year (FY) 1999 expenditures. To put more focus on financial management and internal controls at NTSB, Congress passed Public Law 106-424 in November 2000 giving the Department of Transportation, Office of Inspector General (OIG) the responsibility for auditing NTSB's financial management and business operations.

RESULTS IN BRIEF

NTSB made progress implementing and improving its management controls over financial activities. As we recommended, NTSB abolished the use of rapidrafts and

[1]Report on National Transportation Safety Board: Rapidraft Payment System, Testimony of Kenneth M. Mead Before the Budget Committee Task Force on Housing and Infrastructure, U.S. House of Representatives, April 13, 2000.

implemented a purchase card program using Government credit cards.[2] NTSB also outsourced travel claim examinations and payments to the U.S. Treasury's Bureau of Public Debt, and implemented 56 of the 72 PwC and GAO recommendations. NTSB also entered into an agreement with the Department of Interior to use its Federal Financial System, a fully integrated financial management system certified by the Joint Financial Management Improvement Program (JFMIP). Notwithstanding these improvements, a series of internal control weaknesses still exist. Key issues that warranted management attention and action are described below. As we brought these issues to its attention during the audit, NTSB took immediate action to correct the weaknesses in its procedures and controls.

Correcting Internal Control Weaknesses

Material internal control weaknesses exist in NTSB's budgetary, payments, receipts, and financial reporting practices. Although weaknesses were known, NTSB had not directed sufficient management attention to correcting weaknesses in budgetary controls, prompt payments, receipts, and material internal controls.

- **Budgetary Controls.** Obligations should be recorded when they are created, yet in our limited tests, about $2.3 million of the $4 million obligations we tested were not recorded timely. The Office of Management and Budget (OMB) does not provide agencies with the full amount of their annual appropriations at the beginning of the fiscal year. Appropriations are administratively apportioned on a quarterly basis to ensure obligations are expended at a controlled rate, which reduces the possibility that funding deficiencies could occur at yearend.

  Because obligations were not recorded timely, we found that $1.3 million was not recorded against the appropriate quarterly apportionments which reduced the reliability of NTSB's fund control procedures. For example, obligations totaling $100,500 for long-distance telephone service for the first quarter of FY 2002 were not recorded when the obligation document was signed, and none was recorded against the first quarter apportionment. NTSB needs to determine whether or not the circumstances under which the FY 2002 obligations were recorded create a reportable violation of the Antideficiency Act within Title 31, United States Code (U.S.C.), Section 1341(a). NTSB plans to update its Board Order addressing obligations and provide training on proper recording of obligations.

- **Prompt Payments.** NTSB was not complying with the Prompt Payment Act (the Act). The Act requires that interest be paid automatically if payment is

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[2] As a result of our survey work on this project, we decided to review NTSB's purchase programs as a separate audit. Those results will be included in a separate report to be issued later.

not made within 30 days of receipt of a proper invoice, or 7 days after goods are delivered or services completed, whichever occurs later. Our 13 sampled transactions, totaling about $421,000, were paid from 9 to 82 days late. Notwithstanding routine late payments, NTSB stopped paying interest penalties in March 2000 without justification. When we brought this to its attention in April 2002, NTSB began paying interest on late payments.

- **Academy Tuition Receipts**. For courses it conducts, we found that NTSB did not establish adequate procedures for handling cash and setting tuition rates. For one training course, we found no justification or approval for the various tuition prices charged to students. Furthermore, NTSB did not provide cash receipts to students, which are needed to validate whether the cash collected by the Academy staff was forwarded to the Chief Financial Officer (CFO) for deposit. For one of the two courses reviewed, the advertised tuition price was $1,800; however, we identified four students who paid $250 in cash. For students from poor countries, the Academy Director reduced the amount charged from $1,800 to $250, but provided no evidence or approved policy to support that claim. NTSB has since revised its policies to require reconciliation of Academy and CFO records.

- **Reported Material Internal Control Weaknesses.** As part of our work, we reviewed NTSB's 2001 statement on compliance with the Federal Managers' Financial Integrity Act of 1982. To its credit, NTSB reported four material weaknesses for internal accounting and administrative controls. The status of the four material weaknesses follows.

  - NTSB's accounting system was no longer supported by the vendor. NTSB entered into an agreement with the Department of Interior to use its financial systems that became fully operational during September 2002. Management needs adequate financial systems and internal controls to make decisions on spending funds, ensure appropriations are not exceeded, and accurately record transactions.
  - Asset management policies and procedures were inadequate. NTSB conducted an initial inventory of its assets and is beginning its effort to estimate asset values. Accurate records are necessary to advise Congress and the public on how funds are used, to identify the financial position of agencies, and to provide stewardship for their assets.
  - Proper segregation of duties in payroll did not exist, thereby exposing NTSB to unnecessary risks. This was resolved with implementation of the Department of Interior's integrated system in September 2002. Segregating duties provide reasonable assurance that only actual employees are on NTSB's payroll and that payments are proper.

- NTSB's timekeeping system does not contain management controls to ensure proper recording. Specifically, NTSB does not have a consistent practice to approve, track, and report employee leave and overtime. NTSB plans to test a new leave and overtime request system by December 2003.

Establishing a Hotline

After we discussed the merits of a Hotline in April 2002, NTSB established a Hotline in July 2002. Until then, NTSB did not have a Hotline to provide management with a mechanism to become aware of wasteful or unlawful practices, and to establish a strong internal control mechanism by letting employees know that management is serious about fraud, waste, abuse, or mismanagement.

Financial Reporting

NTSB has set the goal of preparing its first financial statements covering FY 2002 operations rather than waiting until next fiscal year. This is an excellent management decision. To enhance financial accountability and reporting in the Federal Government, Congress requires Federal agencies to prepare annual financial statements that must be independently audited. NTSB is exempt from this requirement. However, NTSB was appropriated about $68 million during FY 2002, and Congress is working on legislation to make agencies of this size, including NTSB, subject to this requirement beginning in FY 2003.

To obtain an unqualified (clean) audit opinion on financial statements, agencies should comply with laws and regulations and have adequate internal controls and property accountability procedures in place and operating effectively. NTSB still has to implement prior recommendations to eliminate material internal control weaknesses, and prepare annual financial statements that will pass independent audits. For example, NTSB had not obtained evidence supporting the dates its assets were put into use and had not obtained historical costs or evidence to establish acquisition costs of its assets. This is a labor-intensive process; however, without the resulting information, NTSB will not be able to use its new automated financial system to compute the net book value of its assets and annual depreciation expense for its financial statements, both key elements for financial statement reporting. NTSB has initiated a study to determine asset values.

In addition to NTSB implementing the 16 remaining PwC and GAO recommendations (Exhibit B), we are making 10 new recommendations in this report to further enhance compliance and strengthen internal controls at NTSB. NTSB agreed with all of our recommendations and is taking, or had taken, corrective actions.

FINDINGS AND RECOMMENDATIONS

A. Correcting Internal Control Weaknesses

Material internal control weaknesses exist within NTSB financial operations. Although these weaknesses were known, NTSB had not directed sufficient management attention to correcting internal control weaknesses over expenditures of about $68 million in FY 2002. Office of Management and Budget (OMB) Circular A-123 defines management controls as the organization, policies, and procedures used by agencies to reasonably ensure that (1) programs achieve their intended results; (2) resources are used consistent with agency mission; (3) programs and resources are protected from waste, fraud, and mismanagement; (4) laws and regulations are followed; and (5) reliable and timely information is obtained, maintained, reported, and used for decisionmaking.

NTSB made progress implementing and improving its management controls over financial activities. As we recommended, NTSB abolished the use of rapidrafts and implemented a purchase card program using Government credit cards. NTSB outsourced travel claim examinations and payments to the U.S. Treasury's Bureau of Public Debt, and implemented 56 of the 72 PwC and GAO recommendations. NTSB also entered into an agreement with the Department of Interior to use its Federal Financial System, a fully integrated financial management system certified by JFMIP. Notwithstanding these improvements, a series of internal control deficiencies still exist. Key issues warranting management attention and action are described below.

Budgetary Controls. Title 31, U.S.C., Section 1501 establishes minimum requirements for recording obligations. Specifically, the law requires:

> An amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of a binding agreement between an agency and another person (including an agency) that is . . . executed before the end of the period of availability for obligation of the appropriation or fund used for specific goods to be delivered, real property to be bought or leased, or work or service to be provided.

GAO also issued guidance[3] concerning rules of obligations that states:

> Once one of the criteria is met [for recording an obligation], . . . the agency . . . must at that point record the transaction as an obligation.

[3] Principles of Federal Appropriations Law, GAO/OGC-92-13, Volume II, Chapter 7, Obligation of Appropriations.

OMB provides NTSB with quarterly limitations on obligations through the apportionment process. NTSB Order 1500, titled Administrative Control of Funds, states:

> Incurrence of obligations, or issuance of authorizations to incur obligations, either separately or combined, in excess of fund availability is a violation of this Order and the Antideficiency Act. Receipt of additional funds after a violation has occurred neither mitigates the violation nor eliminates a factor in determining whether a report [of violation] must be submitted.

To determine whether NTSB was recording obligations as required, we judgmentally selected about $4 million in obligations from about $6.3 million of obligation documents issued between October 1, 2001 and March 31, 2002. Our sample excluded obligations for payroll, travel, and purchase card transactions.

We found that $2.3 million of the $4 million was not recorded in the financial system at the time the obligations were created. OMB does not provide agencies with the full amount of their annual appropriations at the beginning of the fiscal year. Appropriations are administratively apportioned on a quarterly basis to ensure obligations are expended at a controlled rate, which reduces the possibility that funding deficiencies could occur at yearend.

Because obligations were not recorded timely, we found that about $1.3 million of these obligations was not charged as required against the appropriate OMB quarterly apportionment of funds, which reduced the reliability of NTSB's fund control procedures. For example, obligations totaling $100,500 for long-distance telephone service for the first quarter of FY 2002 were not recorded when the obligation document was signed. Instead, NTSB recorded the obligations when it paid the bills. All of these bills were paid during the second quarter of FY 2002. Accordingly, none of the $100,500 was charged against the first quarter apportionment.

NTSB also ordered security guard services, beginning on October 1, 2001. The estimated cost was $184,000 for the first quarter of FY 2002. NTSB did not record this obligation in its financial system until April 5, 2002, after receiving additional money from OMB on February 7, 2002.

These situations occurred because of poor control over obligation documents and NTSB employees' lack of understanding regarding rules for recording obligations. The CFO needs to work with the General Counsel to determine whether or not the circumstances under which FY 2002 obligations were recorded create a reportable violation of the Antideficiency Act.

Prompt Payments. The Prompt Payment Act (the Act) requires that interest be paid automatically if payment is not made within 30 days of receipt of a proper invoice, or 7 days after the goods are delivered or services completed, whichever occurs later. To implement the Act, NTSB Order 1530, titled Cash Management, dated January 24, 1996, provides this guidance to NTSB employees:

> If payment for goods and services is not processed by the due date, interest penalties will be paid by the NTSB in accordance with the percentage rate established by the U.S. Treasury . . . .

To obtain payments for goods or services provided on purchase orders, vendors mail invoices to the CFO office. Before making payments, the CFO sends the invoices to NTSB ordering officials for validation that the goods or services were received. To control this process, the CFO maintained a tracking log for invoices, and asked that the ordering officials return the validated invoices within 3 business days so they could be paid within 30 days.

From October 1, 2001 through March 19, 2002, the CFO's invoice tracking log contained 322 invoices that had been validated and returned. We found that 187 (58 percent) invoices were not returned to the CFO office within 3 business days as required. The delays ranged from 1 to 92 business days, and averaged 11 days.

To determine the impact of these delays on making timely payments, we judgmentally selected 13 invoices totaling $421,000. On average, NTSB took 28 business days to validate the invoices and return them to the CFO. All 13 invoices were paid late, ranging from 9 to 82 days after the due date. Notwithstanding late payments, NTSB did not pay interest penalties on these invoices. Not only did NTSB not comply with the Act, but we found its purchase card vendor suspended two offices' purchase cards in December 2001 due to late payments. NTSB's accounting system automatically computes interest penalties based on late payments. However, for the 13 invoices, we found that NTSB staff input the wrong dates, which prevented the accounting system from computing interest penalties.

We brought this issue to the attention of the CFO in April 2002 to determine why NTSB was not automatically paying interest on late payments. We were unable to find any justification for NTSB's nonpayment of interest on late payments as required by the Act. The CFO took immediate action to direct the accounting office to pay interest penalties on late payments, which we confirmed.

Academy Tuition Receipts. Title 31, U.S.C., Section 3512(c)(1)(c) provides that agencies establish internal accounting controls that reasonably ensure that revenues applicable to agency operations are accounted for properly. The GAO "Standards for Internal Control in the Federal Government" identifies segregation of duties as a required control activity and provides that key duties and responsibilities need to be divided to reduce the risk of error, waste, or fraud. No individual or group should be allowed to control all key aspects of an event.

Title 49, U.S.C., Part 1115(c) authorizes NTSB to collect fees for certain activities, such as providing safety training, and requires the CFO to review fees, rents, and other charges imposed by NTSB for services and suggest revisions, where necessary.

We reviewed the NTSB Academy's charging and collecting of fees, which total about $107,000 annually. For the 7 months ended April 30, 2002, NTSB conducted three training courses. To test controls over fees and collections, we selected two courses (Basic Accident Investigator and Family Assistance) with collections totaling about $33,000. We found that different tuition was charged students attending the investigator's training course without adequate justification or approval. For example, although the advertised tuition price was $1,800, we found that four students paid $250 in cash. The Academy did not give cash receipts to students, which were needed to establish proper accountability. For three students, the cash was turned over to the CFO. For the other student, a personal check from an Academy employee for $250 was presented to the CFO as payment for the course.

The Academy Director stated that students from poor countries were charged lower tuition, but could provide no written evidence to support that $250 was the actual rate approved and charged. Furthermore, the CFO was not aware of the reduced rate and had not approved the reduced tuition.

The Academy Director received all tuition receipts from credit card payments, checks, and cash and forwarded them to the CFO without supporting documentation. For example, the CFO was not provided a roster of students along with the rates charged individual students in order to independently verify amounts submitted by the Academy. This lack of segregation of duties over administering the training program and handling cash receipts represents an internal control weakness. NTSB revised its policies to require reconciliation of Academy and CFO records.

Reported Material Internal Control Weaknesses. The Federal Managers' Financial Integrity Act (FMFIA) of 1982 provides that internal accounting and administrative controls for each executive agency shall be established to reasonably ensure that: (1) obligations and costs comply with applicable law; (2) funds and assets are safeguarded against waste, loss, unauthorized use, and misappropriation; and (3) revenues and expenditures are accounted for and properly recorded. Agency managers are required to continuously monitor, assess, and improve internal management controls associated with their programs.

By December 31 of each year, agency heads are to report to the President and to Congress on agencies' internal control systems. On January 3, 2002, NTSB submitted its 2001 FMFIA assessment report, which identified four material internal control weaknesses as follows.

- NTSB's accounting system was no longer supported by the vendor. NTSB entered into an agreement with the Department of Interior to use its financial systems, which meet JFMIP requirements. Management needs adequate financial systems and internal controls to make decisions on spending funds, ensure appropriations are not exceeded, and accurately record transactions. The systems were implemented during September 2002.

- Asset management policies and procedures for controlling inventory were inadequate. NTSB initiated action to develop an inventory of its property, plant, and equipment; however, the initial inventory was inadequate. The dates that assets were placed into use and the asset values had not been identified. See Finding C for details. Accurate records are necessary to advise Congress and the public on how funds are used, to identify the financial position of the agencies, and to provide stewardship for Government assets.

- Proper segregation of duties in payroll did not exist. Payroll duties were not segregated within the Human Resources Department to ensure that staff authorized to make changes in the Consolidated Personnel Management Information System also could not make changes to employee time records in the Integrated Personnel Payroll System. This exposed NTSB to unnecessary risks. Segregating these duties provide reasonable assurance that only actual employees are on NTSB's payroll and payments are proper. Segregation of duties was resolved upon implementation of the Department of Interior systems in September 2002.

- NTSB's timekeeping system does not contain management controls to ensure proper recording of employees' time. Specifically, NTSB does not have a consistent practice to approve, track, and report employee leave and overtime. NTSB plans to test a new leave and overtime request system by December 2003.

NTSB has multiple corrective actions underway in the four areas. A new financial system is operational, segregation of duties in payroll was accomplished, and policies and procedures over asset management are being implemented. However, more work remains to be accomplished to eliminate material internal control weaknesses.

RECOMMENDATIONS

We recommend that the NTSB Chief Financial Officer:

A1. Provide immediate training to NTSB employees on appropriate rules for recording obligations and reissue NTSB Order 1500 to include more specific guidance on controlling and recording obligations timely.

A2. Review all FY 2002 obligation documents and make entries to record all obligations against the appropriate quarterly apportionment of funds. Provide the results to the NTSB General Counsel.

A3. Working with the NTSB General Counsel, determine whether or not the circumstances under which FY 2002 obligations were recorded create a reportable violation of the Antideficiency Act.

A4. Reemphasize to NTSB ordering officials that invoices must be validated and returned within 3 business days, and establish follow-up procedures on invoices that are not returned on time.

A5. Direct the accounting officer to ensure the proper dates are input into the accounting system for automatic calculation of interest penalties on late payments.

A6. Notify the Academy Director that the CFO must approve reductions in established tuition rates in advance.

MANAGEMENT COMMENTS

A draft of this report was provided to the NTSB Acting Chairman on November 12, 2002. The Acting Chairman responded on November 22, 2002, and concurred with all recommendations as stated below. The complete text of management comments is in the Appendix.

Recommendation A1: Concur. NTSB has taken a number of steps to improve its performance in recording obligations. At the monthly meetings with the Administrative Officers, a standing agenda item is the importance of providing the information for the timely obligation of expenses. The Acting Chairman sent an "All Hands" message that made clear the actions that each employee needs to perform to ensure the timely obligation for expenses. The CFO will periodically sample transactions to determine whether the staff is following this directive. NTSB is working on a revision to Board Order 1500 to be completed by March 31, 2003.

<u>Recommendations A2 and A3</u>: Concur. On May 1, 2002, NTSB replaced its accounting system with a new financial system and transferred only the open obligations to the new financial system. As it would not be advisable to resurrect the old accounting system to record obligations, as an alternative course of action NTSB will review obligation documents and compare them to the apportionment. If this analysis reveals that the apportionment would have been exceeded if the obligations had been recorded against the appropriate quarter, NTSB will provide the results to the General Counsel. NTSB completed FY 2002 with a positive balance in its appropriation and did not exceed the apportionment for any of the intervening quarters.

<u>Recommendations A4 and A5</u>: Concur. The new financial management system is an integrated tracking register in which all incoming invoices are recorded before they are sent to the program offices for payment. NTSB has continued to emphasize the importance of meeting the deadline to validate and return invoices during the monthly Administrative Officers meetings. The message was communicated to the Board staff via a notice in the employee newsletter and at the Administrative Officers meetings. Finally, vendors have been identified in the NTSB financial system as subject to the Prompt Payment Act, which means that interest will be automatically paid.

<u>Recommendation A6</u>: Concur. On May 17, 2002, the CFO issued a policy on collection activities including the provision that waivers/reduced tuition may be granted to students from certain countries. The CFO will notify the Academy Director that any change in the waiver/reduced rate policy must be approved in advance by the CFO. In addition, a total prohibition on accepting cash was instituted on May 17, 2002.

OIG RESPONSE

Actions taken and planned by NTSB are reasonable, and NTSB's alternative course of action for Recommendation A2 is acceptable. Please provide an estimated completion date for the proposed alternative analysis for Recommendation A2.

B. Establishing a Hotline

NTSB did not have a Hotline to facilitate the reporting of allegations of fraud, waste, abuse, or mismanagement. A Hotline establishes a strong internal control mechanism by letting employees know that management is serious about fraud, waste, and abuse. It also provides management with a mechanism to become aware of wasteful practices. The Inspector General Act (IG Act) of 1978, as amended, gives Inspectors General the authority to:

> Receive and investigate complaints or information from an employee . . . concerning the possible existence of an activity constituting a violation of law, rules, or regulations, or mismanagement, gross waste of funds, abuse of authority or a substantial and specific danger to the public health and safety.

The IG Act also states:

> The Inspector General shall not, after receipt of a complaint or information from an employee, disclose the identity of the employee without the consent of the employee, unless . . . such disclosure is unavoidable during the course of the investigation.

Issues that should be reported through the Hotline include: contract or procurement fraud; computer crimes; bribery, kickbacks, and gratuities; product substitution; false statements and false claims; conflicts of interest; travel fraud; theft and abuse of Government property; environmental, health, and safety violations; and other violations of Federal laws and regulations.

RECOMMENDATION

B. We recommend that the NTSB Chief Financial Officer establish a Business Operations and Financial Accountability Hotline within NTSB under the control of the OIG and publicize its existence and purpose.

MANAGEMENT COMMENTS

NTSB established the Hotline in July 2002. After consulting with the Inspector General's staff, NTSB plans to periodically publicize the existence of the Hotline through the employee newsletter and messages on employees' leave and earning statements. The notice will be published in the December 2002 newsletter.

OIG RESPONSE

Actions taken and planned by NTSB are reasonable.

C. Financial Reporting

To obtain an unqualified (clean) opinion on annual financial statements, agencies such as NTSB need good financial management systems and internal controls that are operating effectively. To improve the financial management and reporting capabilities of the Federal Government, Congress passed the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. These Acts require that executive agencies submit annual audited financial statements to OMB that reflect the overall financial position of the agencies, including assets, liabilities, and results of operations. Although NTSB is exempt from submitting audited financial statements, Congress is working on legislation to extend the requirement to NTSB, beginning with FY 2003.

To its credit, NTSB set its own goal to prepare financial statements for FY 2002 to get a head start on the pending congressional requirement. This is an excellent management decision. However, more work needs to be done. As discussed earlier, 16 of 72 PwC and GAO recommendations to correct internal control deficiencies have not been implemented, 3 of which relate to material internal control weaknesses. Exhibit B describes the 16 recommendations requiring additional work by NTSB to correct internal control weaknesses. Additionally, we identified significant new control weaknesses in recording obligations and compliance with laws and regulations.

OMB Bulletin 01-02, Audit Requirements for Federal Financial Statements, provides that auditors submit an audit report on the principal financial statements, internal control, and compliance with laws and regulations.[4] To prepare financial statements, NTSB will need to comply with significant accounting principles codified in the Statements of Federal Financial Accounting Standards (SFFAS), the most significant being SFFAS 4 (Managerial Cost Accounting Standards), and SFFAS 6 (Property, Plant, and Equipment [PP&E]). For example, SFFAS 6 requires that PP&E be recorded at cost and an estimated useful life of the asset should be set. This allows the cost incurred in one accounting period to be systematically allocated over the estimated useful life of the asset as depreciation expense.

Proper valuation of PP&E is a Governmentwide problem. NTSB's practice had been to expense the costs of assets when acquired, rather than capitalize and depreciate the asset over its useful life. Because of this, NTSB did not always retain documents to support acquisition costs and dates assets were put into use. SFFAS 6 provides that when historical cost information necessary to comply with recognition and measurement provisions for PP&E has not been maintained, estimates are required. Developing supportable estimates is a time-consuming process.

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[4] Our work for this report was not designed to ensure that NTSB complied with all requirements for preparing annual financial statements.

As PwC recommended, NTSB conducted a physical inventory of PP&E. However, inventory procedures were inadequate because the dates that the individual items were put into use were not determined. These dates are essential for determining the useful life and computing depreciation for individual items.

To fairly present PP&E on its financial statements, NTSB needs to perform a wall-to-wall inventory at all locations and obtain actual documentation of acquisition cost, if available. For PP&E for which supportable acquisition cost information is unavailable, estimates should be made using the costs of similar assets; information received by contacting vendors; capital budget information; inspection reports; and the current costs of similar assets adjusted for inflation.

RECOMMENDATIONS

We recommend that the NTSB Chief Financial Officer:

C1. Require that a wall-to-wall inventory be performed of all PP&E and initiate searches for documents supporting the acquisition dates and costs.

C2. Develop estimates of asset values and dates the assets were put into service using acceptable alternative methods for those assets that NTSB lacks historical records.

C3. Improve the action plan to include specific milestones for implementing the remaining 16 PwC and GAO recommendations.

MANAGEMENT COMMENTS

Recommendations C1 and C2: Concur. The CFO has reviewed the financial records from FY 1998 to the present for information on capital assets. All purchases over the capital asset threshold were reviewed. This provided the assurance that NTSB captured all equipment purchases that exceed its threshold. This review included examining invoices to determine current net book value. NTSB has completed the review for the period October 1, 1997 through June 30, 2002, and is completing the review for the fourth quarter to calculate the property, plant and equipment amount for NTSB's financial statements.

Recommendation C3: Concur. NTSB will review the original action plan that was developed for the remaining 11 PwC recommendations and the 5 open GAO recommendations, and make adjustments that are deemed appropriate to resolve the remaining recommendations as rapidly as possible.

OIG RESPONSE

Actions taken and planned by NTSB are reasonable. Please provide estimated completion dates for the review of fourth quarter capital asset purchases and for adjusting the original action plan.

ACTION REQUIRED

Actions taken and planned by NTSB are reasonable. Within 30 days, please provide estimated completion dates for Recommendations A2, C2, and C3. We will follow up to ensure corrective actions have been taken.

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

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EXHIBIT A. SCOPE AND METHODOLOGY

We reviewed the PwC report dated January 12, 2001, and the GAO report dated September 28, 2001. Both addressed NTSB's internal control weaknesses. We also reviewed policies and procedures and interviewed NTSB financial and program managers to determine whether the 72 PwC and GAO recommendations were implemented. Our focus was to identify whether NTSB made progress correcting internal control weaknesses disclosed by PwC and GAO reports. Our sampling methodology was limited to determining whether NTSB took action to improve its internal control structure and these controls were operating effectively.

We reviewed accounting books and records and tested transactions associated with internal controls. For significant accounting cycles including budget, payments, receipts management, and financial reporting, we reviewed records and corroborating documents, including purchase orders, contracts, interagency agreements, invoices, training rosters, and receipts.

For budgetary controls, we reviewed NTSB policy for budgetary accounting; laws and regulations; and GAO guidance for accounting for obligations and appropriations. From obligating documents totaling $6.3 million issued from October 1, 2001 through March 31, 2002, we judgmentally selected obligations totaling $4 million. Our sample excluded obligations for payroll, travel, and purchase card transactions. We compared dates that agreements were effective to dates shown as obligated within NTSB's accounting system.

For compliance with the Prompt Payment Act, we reviewed NTSB policy for cash management and laws and regulations. We reviewed 13 of 322 invoices received for payments from October 1, 2001 through March 19, 2002. Invoices totaling about $421,000 were judgmentally selected from the 187 invoices that were not returned to the CFO office within 3 business days. We reviewed the NTSB accounting system's Payments Management Parameter Table, Entity Maintenance Screen, and Register Invoice Screen which provide the ability to override the calculation of interest for late payments.

For NTSB Academy tuition receipts, we reviewed laws and regulations, flowcharted the Academy's cash collection process, and interviewed pertinent NTSB management and employees to identify internal control procedures. For the 7 months ended April 30, 2002, NTSB Academy conducted three training courses. We selected two courses (Basic Accident Investigator and Family Assistance) to test the controls over fees and collections. We traced the tuition collected by the Academy to the CFO records to verify whether tuition receipts were deposited.

We reviewed NTSB's annual FMFIA assessment report submitted to the President and Congress on January 3, 2002. We also evaluated some of NTSB's ongoing actions to prepare annual financial statements in accordance with the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. This review was not conducted to ensure NTSB complied with all the requirements for preparing annual financial statements.

We performed our audit work from December 2001 through October 2002 at NTSB Headquarters in Washington, DC. The audit was conducted in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States.

EXHIBIT B. RECOMMENDATIONS NOT FULLY IMPLEMENTED

PwC Recommendations
1. **Policies and Procedures** -- Codify, update, and create policies and procedures that were outdated, not in written form, not comprehensive, or not being followed. Policy on procurement of goods and services remains to be updated.
2. **On-Line Payment and Accounting Collection (OPAC)** -- Revise procedures so all OPAC transactions are recorded within the accounting system to create complete and reliable accounting records. NTSB revised its procedures for recording OPAC transactions, but the transactions were not recorded timely.
3. **Invoice Tracking Procedures** -- Consider making a copy of any invoice sent to another office for review and approval, record date sent, and follow up to ensure timely return from the outside office so that prompt payment can be made. Invoice tracking log was prepared but outside offices were not held accountable for returning the invoices timely so vendors could be paid timely.
4. **Track Outstanding Accounts Payable** -- Develop an ability to track outstanding accounts payable to enable visibility of invoices that have been held before final payment and ensure that NTSB is in compliance with the Prompt Payment Act.
5. **Track Leave and Overtime** -- NTSB plans to test a new leave and overtime request system by December 2003.
6. **Security of Bi-Weekly Payroll Reports with Sensitive Data --** The Chief Financial Officer is researching for methods to print payroll reports without sensitive data.
7. **Central Review of Fixed Assets** -- Centralized review process is needed to ensure fixed assets are properly classified during requisition process to entry into the accounting system.
8. **Control Receipt of Fixed Assets --** Develop procedures to control receipt of fixed assets at both Headquarters and regional offices.
9. **Measure Labor Cost by Project --** Project accounting system does not measure labor cost by project. NTSB is in the process of implementing this recommendation.
10. **Controls over NTSB Academy Receipts** -- Proper cash handling processes are needed.
11. **Interagency Agreements** -- Review records to ensure all interagency agreements using OPAC, receivable or payable, are on file and current. All interagency agreements were not on file and current during the audit, but the CFO revised procedures to ensure fiscal year 2003 interagency agreements are forwarded to the CFO's office for safekeeping. As a result, interagency agreements were not obligated timely within the accounting records.
GAO Recommendations
12. **Revise administrative policies and procedures --** Better policies and procedures are needed.
13**. Monitoring performance** -- Monitor performance of those responsible for initiating, processing, reviewing, and approving each type of financial transaction and adequacy of supporting documentation.
14. **Pre-purchase determination of funds availability and approval to use available funds** -- NTSB employees contacted vendors before receiving proper written approval that funds were available.
15. **Estimated Aggregate Annual Compensation** -- Develop a specific procedure for determining estimated aggregate annual compensation, award and bonus amounts and amounts eligible for executive retention allowances. A draft procedure has been developed but not yet issued.
16. **Review calendar year 1999, 2000, and 2001 computations of aggregate annual compensation, award and bonus payments, and deferrals and retention allowance payments for all applicable NTSB employees** -- This action has been delayed because the procedure described in #15 was not completed.

EXHIBIT C. MAJOR CONTRIBUTORS TO THIS REPORT

THE FOLLOWING INDIVIDUALS CONTRIBUTED TO THIS REPORT.

Name	Title
Terrence Letko	Program Director
Donald St. Pierre	Project Manager

APPENDIX. MANAGEMENT COMMENTS

National Transportation Safety Board
Washington, D.C. 20594

Office of the Chairman

November 22, 2002

Kenneth M. Mead
Inspector General
Department of Transportation
400 7th Street S.W.
Washington, D.C. 20590

Dear Mr. Mead:

Thank you for the opportunity to provide comments to the draft report on Financial Management Practices and Internal Controls. I agree with the general conclusions and am providing the following comments on the recommendations contained in the report.

We are pleased that you have recognized a number of actions that we have taken to improve our financial management practices including the preparation of financial statements, the implementation of new financial systems and a strengthened FMFIA process. In preparation of the 2002 FMFIA process, we provided formal training to the Office Directors, Deputy Directors and Division Directors. Among the topics covered were: understanding management controls; conducting a management control review; and corrective action plans.

If you have any questions, please call me at 314-6010 or Steven Goldberg at 314-6210 if you have any questions or need additional information.

Sincerely,

Carol J. Carmody

Carol J. Carmody
Acting Chairman

Enclosure

Recommendations and Responses

Recommendation 1. Provide immediate training to NTSB employees on the appropriate rules for recording obligations and reissue NTSB Order 1500 to include more specific guidance on controlling and recording obligations timely.

Response: Concur. We have taken a number of steps to improve our performance in recording obligations. In February 2002, NTSB implemented Procurement Desktop (PD), a procurement system. In May 2002, NTSB implemented the Federal Financial Software (FFS). The PD interfaces with FFS, which is an improvement over the previous systems lack of communication.

All transactions more than $2,500 are required to be processed through the PD. When a Purchase Request is entered into the PD, it automatically checks the funding availability in FFS and if the funds are available, a commitment is created. The Purchase Request follows a pre-determined approval chain. A Purchase Request cannot be processed without the pre-determined approvals recorded in PD. After the Purchase Request is properly approved, the Contracting Officer completes the process by issuing a Purchase Order. PD communicates this information to FFS converting the commitment into an obligation.

In addition, all invoices are reviewed for the required data elements described in the Prompt Payment Act including the NTSB fund document or purchase order number. Any invoice without a valid NTSB fund document or purchase order number is returned unpaid to the vendor. Also, on March 16, 2001, the CFO prohibited the practice of “bill-the-agency.”

At the monthly meetings with the Administrative Officers, a standing agenda item is the importance of providing the information for the timely obligation of expenses, particularly in the area of interagency agreements. The Acting Chairman sent an “All Hands” message reminding employees of the importance of timely obligation of expenses.

All interagency agreements except those accomplished with the government purchase card, regardless of dollar value, are required to be processed through the PD system. These transactions follow the same approval chains for the commitment and obligation of funds for commercial agreements. In addition, now that the government has implemented the Intra-governmental Payment and Collection (IPAC) system, one of the required data elements is a customer generated agreement number. Consequently, the number of incoming IPAC charges without a valid agreement number should be reduced to a minimum.

The Acting Chairman sent an "All Hands" message that made clear the actions that each employee needs to perform to ensure the timely obligation for expenses. As you suggested, the CFO will periodically sample transactions to determine whether the staff is following this directive.
In addition, we are working on a revision to NTSB Board Order 1500 to be completed by the second quarter of FY 2003, Finally, the CFO is planning to release a specific policy on reimbursable agreements by the end of the first quarter of FY 2003.

Recommendation 2. Review all FY2002 obligation documents and make entries to record all obligations against the appropriate quarterly apportionment of funds. Provide the results to the NTSB General Counsel.

Response: Concur. For the reasons set about below, we plan an alternative course of action to address this recommendation. On May 1, 2002, we replaced the legacy accounting system with a new financial system. At that time, only the open obligations were transferred to the new financial system. It would not be advisable to resurrect the legacy accounting system to record obligations that have since been liquidated. We did complete FY 2002 with a positive balance in our appropriation and we did not exceed the apportionment for any of the intervening quarters. As an alternative course of action, we will review the obligation documents and compare them to the apportionment. If this analysis reveals that the apportionment would have been exceeded if the obligations had been recorded against the appropriate quarter, we will provide the results to the NTSB General Counsel for their review under 31 U.S.C. § 1341.

Recommendation 3. Work with the NTSB General Counsel as to whether or not the circumstances under which FY 2002 obligations were recorded create a reportable violation of the Anti-deficiency Act.

Response: See response to recommendation number 2.

Recommendation 4. Reemphasize to NTSB ordering officials that invoices must be validated and returned within 3 business days, and establish follow-up procedures on invoices that are not returned on time.

Response: Concur. On April 3, 2001, the CFO issued the policy that established the three-business day response time for approval of invoices. Under the legacy accounting system, a stand-alone invoice log was manually maintained to track the status of invoices. A feature of the current financial management system is an integrated tracking register in which all incoming invoices are recorded before they are sent to the program offices for payment. As part of this registration process each incoming invoice is reviewed to ensure that it meets the requirements of the Prompt Payment Act. Invoices that do not meet the criteria are returned to the vendor unpaid.

We have continued to emphasize the importance of meeting the deadline to validate and return invoices during the monthly Administrative Officers meetings. Along with the reminder of the importance of the meeting the timeframe, we are also stressing that it is important to accurately report the acceptance date as the actual date that the goods or services were received. The message was communicated to the Board staff via a notice in the employee newsletter and at the Administrative Officers meetings.

We view this process of reemphasizing the invoice timeframe and the accurate reporting of the acceptance date as a continual effort through meetings with the responsible officials and the mass mediums that are available within the Board.

Recommendation 5. Direct the accounting officer to ensure the proper dates are input into the accounting system for automatic calculation of interest penalties on late payments.

Response: Concur. On September 9, 2002, the CFO issued an amendment to the invoice tracking policy that clearly states that all invoices are to be date stamped with the time clock when received. In addition, the receipt date is inputted into the financial system. Also, the task of recording the invoices into the financial system was assigned to an employee that is not involved with the processing of the invoices for payment.

Finally, the vendors have been identified in our financial system as subject to the Prompt Payment Act, which means that interest will be automatically paid to these vendors. NTSB has been making the appropriate Prompt Payment Act interest payments since May 2002.

Recommendation 6. Notify the Academy Director that the CFO must approve reductions in established tuition rates in advance.

Response: Concur. On May 17, 2002, the CFO issued a policy on collections activities that included the following provision on reductions in established tuition rates:

> "Waivers/reduced tuition may be granted to students from countries listed on the World Bank Group Classification of Economies as developing, low income, and lower-middle income, severely indebted or moderately indebted. The list is at: http://www.worldbank.org/data/databytopic/class.htm
>
> Requests for deferred payments will be determined on a case-by-case basis. Consideration will be given to requests from individuals whose participation is in the best interest of the NTSB."

The CFO will notify the Academy Director that any change in the waiver/reduced rate policy must be approved in advance by the CFO.

In addition, a total prohibition on accepting cash was instituted. This prohibition was formalized on May 17, 2002. The Board is a member of the Department of Treasury Plastic Card Network. This is a collection mechanism that the Financial Management Service manages for Federal departments and agencies. As a result, the majority of the tuitions are collected via credit card. Once the funds are collected, our Agency Locator Code is credited through *CA$H-LINK*. These collections are reflected in our financial management system.

Recommendation 7. We recommend that the NTSB Chief Financial Officer establish a Business Operations and Financial Accountability Hotline within NTSB under the control of the OIG and publicize its existence and purpose.

Response: Concur. We established the Hotline in July 2002. After consulting with the Inspector General's staff, we plan to publicize the existence of the Hotline through the NTSB employee newsletter and through a message on the employees' leave and earning statements. Periodically we will repeat the message through these mass mediums. The notice will be published in the December 2002 edition of the newsletter.

Recommendation 8. Require that a wall-to-wall inventory be performed of all PP&E and initiate searches for documents supporting the acquisition dates and costs.

Response: Concur. We will perform an existence test on the capital assets after completing the review of the financial records from FY 1998 to the present for information on capital assets. We reviewed the financial records of all transactions that exceeded the capitalization threshold for the last five years; the review was not limited to the equipment budget object class. This review provided the assurance that we have captured all of the purchases of equipment that exceed our threshold.

Recommendation 9. Develop estimates of asset values and dates the assets were put into service using acceptable alternative methods for those assets that NTSB lacks historical records.

Response: Concur. The CFO has reviewed the financial records from FY 1998 to the present for information on capital assets. All purchases over the capital asset threshold were reviewed, regardless whether the expense was originally classified into the equipment budget object class. This review included examining the invoices to determine the exact nature of the purchased item. In addition, we determined current net book value by reviewing purchase date information and applying the half-year depreciation convention in year of purchase, per the NTSB capitalization policy. We have completed the review for the period October 1, 1997 through June 30, 2002. We are completing the review of the activity for the fourth quarter to calculate the property, plant and equipment amount for our financial statements.

Recommendation 10. Improve the action plan to include specific milestones for implementing the remaining 16 PwC and GAO recommendations.

Response: Concur. The PricewaterhouseCooper report contained 54 recommendations and in a subsequent report GAO made an additional 18 recommendations. The action plan initially developed subdivided the 54 recommendations into 106 separate tasks that included the responsible office and a projected completion date. We used a similar process to address the 18 GAO recommendations.

We will review the original action plan for that was developed for the remaining 11 PwC recommendations and the five open GAO recommendations. We will make adjustments to the action plan that we deem appropriate to resolve these remaining recommendations as rapidly as possible.