



FISCAL YEAR 2003
PERFORMANCE AND
ACCOUNTABILITY
REPORT



The National Transportation Safety Board is an independent Federal agency charged by Congress with determining the cause (s) of every civil aviation accident in the United States, most public-use aircraft accidents, and significant accidents in the other modes of transportation — railroad, highway, marine, pipeline, and hazardous materials — and issuing safety recommendations aimed at preventing future accidents.



NTSB At A Glance

Established, April 1, 1967

Headquarters

490 L'Enfant Plaza, SW
Washington, DC 20594
www.nts.gov

FY 2003 Budget, \$71.9 million

Employees, 429

Regional Offices, 10



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NTSB Vital Role In Transportation Safety

Since its inception, the NTSB has played a vital role in maintaining public confidence in our Nation's transportation systems. Following the February 1, 2003, loss of the space shuttle Columbia, NASA requested the Safety Board's assistance in the investigation. The Board's extensive experience in major accidents involving fires, explosions, aerodynamic breakups, and wreckage reconstruction made it a logical partner for this difficult task. The Safety Board provided expert assistance in the search for the location of components based on examination of radar data, atmospheric data, and trajectory analysis; and also assisted with wreckage retrieval, shuttle reconstruction, and the design and implementation of a database for logging each recovered piece of wreckage. More than forty NTSB investigators brought expertise from multiple technical, scientific and engineering disciplines to support the Columbia investigation efforts.

In addition to the demands of overseeing the safety of the U.S. transportation system, the NTSB has been increasingly called upon to participate in foreign accident investigations especially where American equipment or operators are involved.

The globalization of the economy, as well as our acknowledged leadership in accident investigation, demands NTSB participation in these foreign investigations both to ensure the safety of U.S. aviation exports and to continue to demonstrate the need for one level of safety worldwide.

NTSB meets its important safety mission through several lines of business that work together to prevent future accidents. These lines of business are:

- **The Office of Aviation Safety:** investigates aviation accidents and incidents, and proposing probable causes of these accidents and incidents for Board approval. In conjunction with other offices, this office also formulates

aviation safety recommendations. The staff of the Office is located in our Washington Headquarters and in ten regional offices located in major cities throughout the United States.

- **The Office of Highway Safety:** investigates highway accidents involving issues with wide-ranging safety significance, such as bridge collapses, multiple fatalities on public transportation, and grade crossings. Safety recommendations may be issued to Federal, state, and local agencies, operators, manufacturers, and trade associations. This office also examines the safety programs of such agencies as the Federal Highway Administration and the National Highway Traffic Safety Administration.
- **The Office of Marine Safety:** investigates marine accidents on the navigable waters or territorial seas of the United States and accidents involving U.S. merchant vessels worldwide, under regulations prescribed jointly by the Board and the Department of Transportation. The Office of Marine Safety also investigates accidents involving U.S. public vessels and non-public vessels, and accidents that involve U.S. Coast Guard safety functions. Safety recommendations may be issued to agencies such as the U.S. Coast Guard, U.S. Army Corps of Engineers, shipping firms, and maritime trade organizations.
- **The Office of Railroad, Pipeline, and Hazardous Materials Investigations:** is a multi-modal investigative office within the NTSB.

The office's Railroad Division investigates accidents and incidents involving passenger and freight railroads as well as commuter rail transit systems. These accidents typically involve collisions or derailments, some of which lead to the release of hazardous-materials.

The Pipeline Division investigates accidents occurring during the transport of natural gas or other hazardous liquids, such as gasoline or

propane, through underground pipeline systems. Pipeline accident investigations focus on accidents that involve fatalities or that result in substantial property or environmental-damage.

The Hazardous Materials Division investigates accidents in which public safety is threatened by the release of hazardous substances. Hazardous materials accident investigations may include analysis of the performance and integrity of hazardous materials containers, such as rail tank cars and highway cargo tanks.

- **The Office of Research and Engineering:** provides technical support to accident investigations, and conducts safety studies that examine safety issues in all modes of transportation. The Board's Flight Data Recorder, Cockpit Voice Recorder, and Materials Laboratories are located in this office. The office provides computer and data processing support for all of the Board's organizations, including the management of all mainframe and microcomputer hardware and software and all electronic imaging and archiving hardware and software. The office also maintains the Board's aviation accident database, providing periodic statistical reviews of aviation accidents, and responds to public inquiries for Board reports and safety studies.
- **The Office of Safety Recommendations and Accomplishments:** helps to ensure that the Board issues appropriate and effective recommendations for enhancing safety in all modes of transportation. The office also coordinates the "Most Wanted" Safety Recommendations Program, which was established to increase the public's awareness of, and support for, action to adopt safety steps that can help prevent accidents and save lives.
- **The NTSB Academy:** provides comprehensive education and training for those who improve safety by conducting independent transportation accident investigations; to foster an environment that

encourages transportation safety initiatives and technical research; and to promote uniform programs that ensure compassion, understanding, and assistance for those affected by transportation tragedies.

- **The Office of Transportation Disaster Assistance:** coordinates the resources of the Federal government and other organizations to support the efforts of the local and state government and the airlines to meet the needs of aviation disaster victims and their families.

A Message From The Chairman

I am pleased to present the National Transportation Safety Board's Performance and Accountability Report for FY 2003, prepared under the guidance of the Office of Management and Budget's (OMB) Bulletin No. 01-09. This Performance and Accountability Report contains the Board's financial statements, as required by the Accountability of Tax Dollars Act of 2002; a selection of performance information and a report on the Board's material weakness, as required by the Federal Managers' Financial Integrity Act (Integrity Act).

The information provided in this report serves as a mechanism for fiscal and programmatic accountability. It is an accounting to the American people on our stewardship of the funding we received from them in FY 2003 to fulfill our mission.

The NTSB strives to meet the highest standards of effectiveness, efficiency, and integrity. The Board's reputation for impartiality and thoroughness has enabled it to achieve success in shaping transportation safety improvements in all modes of transportation for decades, and to become recognized as the world's premier accident investigation agency.

Although not required, the NTSB prepared financial statements for FY 2002 that marked the first time in the history of the Board that financial statements have been prepared. Building from this valuable experience and accomplishment in FY 2002, we developed this report with an eye toward providing an integrated presentation of the Board's programmatic, financial, and management performance.

Brown & Company Certified Public Accountants, PLLC, an Independent Public Accounting firm engaged by The Department of Transportation, Office of Inspector General, has audited the Board's FY 2003 consolidated financial statements included in this report and has issued an unqualified (clean) opinion indicating that our statements present fairly the financial position of the National Transportation Safety Board. This achievement demonstrates both our continued dedication to sound financial management and the reliability of the financial data upon which we base our critical decisions.

The Integrity Act requires the Board to annually evaluate its management controls and identify any material weaknesses. This requirement covers all of the Board's programs and administrative functions. As we work to serve the American people, we must administer our programs as efficiently and economically as possible. To do this, we rely on our system of management controls to provide reasonable assurance that our financial activities comply with applicable laws, our items of value are safeguarded, and our operations are accounted for properly.

We have evaluated our management controls and find that they comply with the requirements of the Act. No new material weaknesses that would put the Board's overall system of management controls at risk were identified. To improve our efficiency and effectiveness, we are working on one prior year weakness, which has not yet been corrected, improved management controls to ensure proper recording of time. The Board is aggressively pursuing resolution with the implementation of newly developed software. We have also evaluated our financial management system as required by the Federal Managers' Financial Integrity Act and find that it generally conforms to governmental financial system requirements.

The performance goals contained in this report, taken as a whole, summarize our success in achieving the performance goals we established for FY 2003. The Board continues to aggressively improve our performance planning practices to ensure that, in the future, our goals are results driven and outcome oriented.

Just as the NTSB is the world's premier accident investigation agency, it is our vision that the Board becomes a premier financial management agency in the Federal government. The submission of our Performance and Accountability Report is another step toward that vision.

Ellen Engleman Connors
Chairman

Management's Discussion and Analysis

OVERVIEW

The National Transportation Safety Board (NTSB) is an independent Federal agency charged by Congress to determine the cause(s) of every civil aviation accident in the United States, most public-use aircraft accidents, and significant accidents in other modes of transportation (highway, marine, rail, hazardous materials, and pipeline), and to conduct special investigations and safety studies. NTSB investigators also serve as U.S. accredited representatives as specified in international treaties for aviation accidents overseas involving U.S. registered and manufactured aircraft or major components.

The Safety Board determines the probable cause(s) of:

- all U.S. civil aviation accidents and certain public-use aircraft accidents;
- selected highway accidents;
- railroad accidents involving passenger trains or any train accident that results in at least one fatality or major property damage;
- major marine accidents and any marine accident involving a public and a nonpublic vessel;
- pipeline accidents involving a fatality or substantial property damage;
- releases of hazardous materials in all forms of transportation; and
- selected transportation accidents that involve problems of a recurring nature.

In addition to determining the probable cause(s) of transportation accidents and promoting transportation safety, the Board evaluates the effectiveness of other government agencies' safety programs, maintains the government's official database of civil aviation accidents, coordinates Federal assistance to the families of victims of

catastrophic transportation accidents, and serves as the "court of appeal" for airmen, mechanics, and mariners when certificate action has been taken by the Federal Aviation Administration (FAA) or the U.S. Coast Guard (USCG) Commandant, or when civil penalties have been assessed by the FAA.

Most importantly, the Safety Board makes safety recommendations, as a result of its investigations and safety studies, to Federal, state, and local government agencies and the transportation community regarding actions that should be taken to prevent accidents.

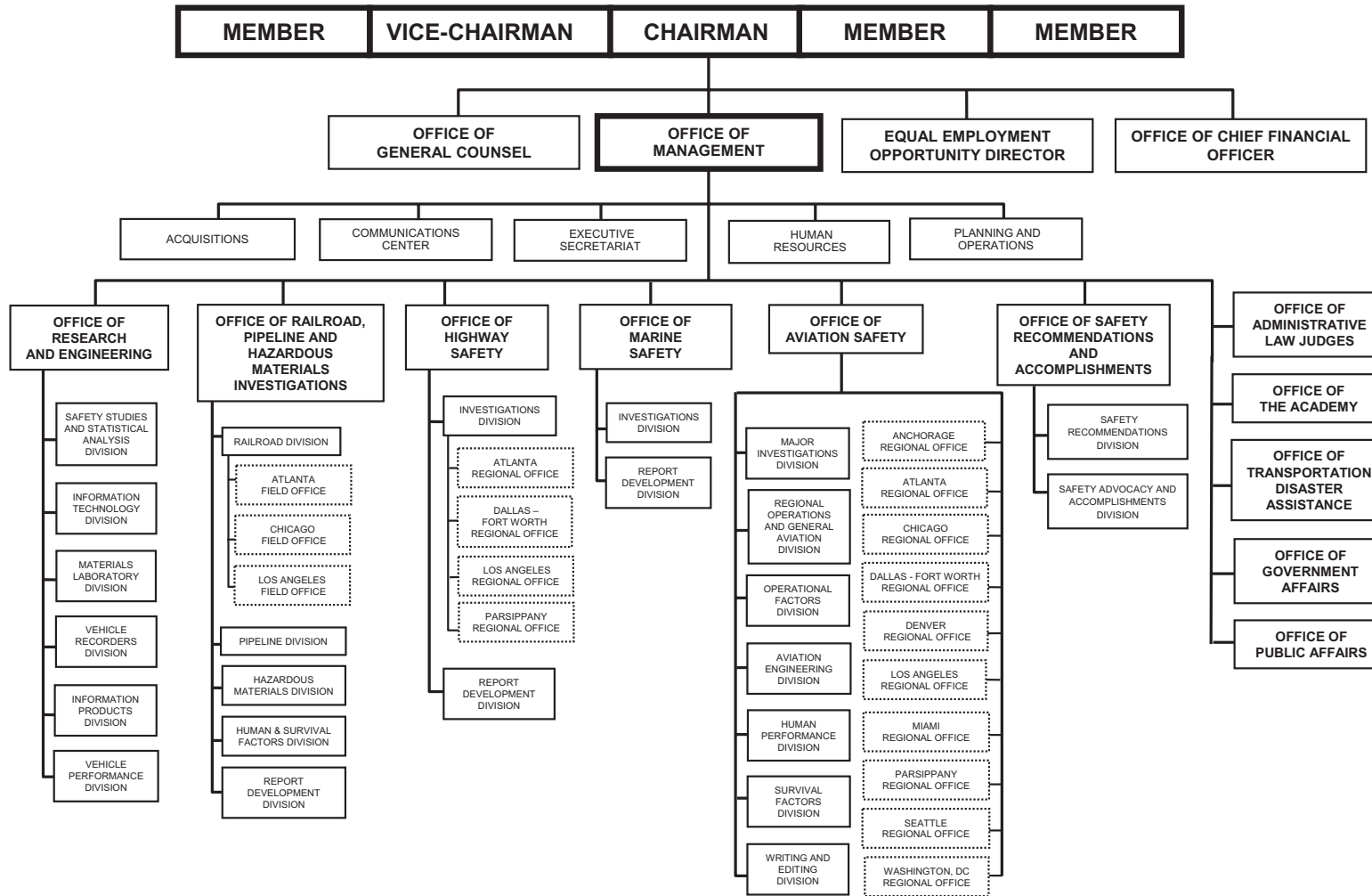
Safety recommendations are the focal point of the Board's efforts to improve the safety of the Nation's transportation system. Since 1967, the NTSB has issued more than 12,100 recommendations in all transportation modes to more than 2,200 recipients. Although it has no regulatory or enforcement powers, the Board's reputation for impartiality and thoroughness has enabled it to achieve an acceptance rate of more than 82 percent of its safety recommendations.

Many safety features currently incorporated into airplanes, automobiles, trucks, trains, pipelines, marine vessels, and in the transportation of hazardous materials, had their genesis in NTSB recommendations. Examples include floor-level aisle path lighting and ground proximity warning systems now installed on airliners, the installation of headshields, shelf couplers, and thermal protection on rail hazardous materials tank cars, redesign of the off-throttle steering systems on personal watercraft, smoke detectors and sprinklers aboard cruise ships, and rear-seat lap/shoulder belts and center high-mounted brake lights on automobiles.

HISTORY AND STRUCTURE OF THE BOARD

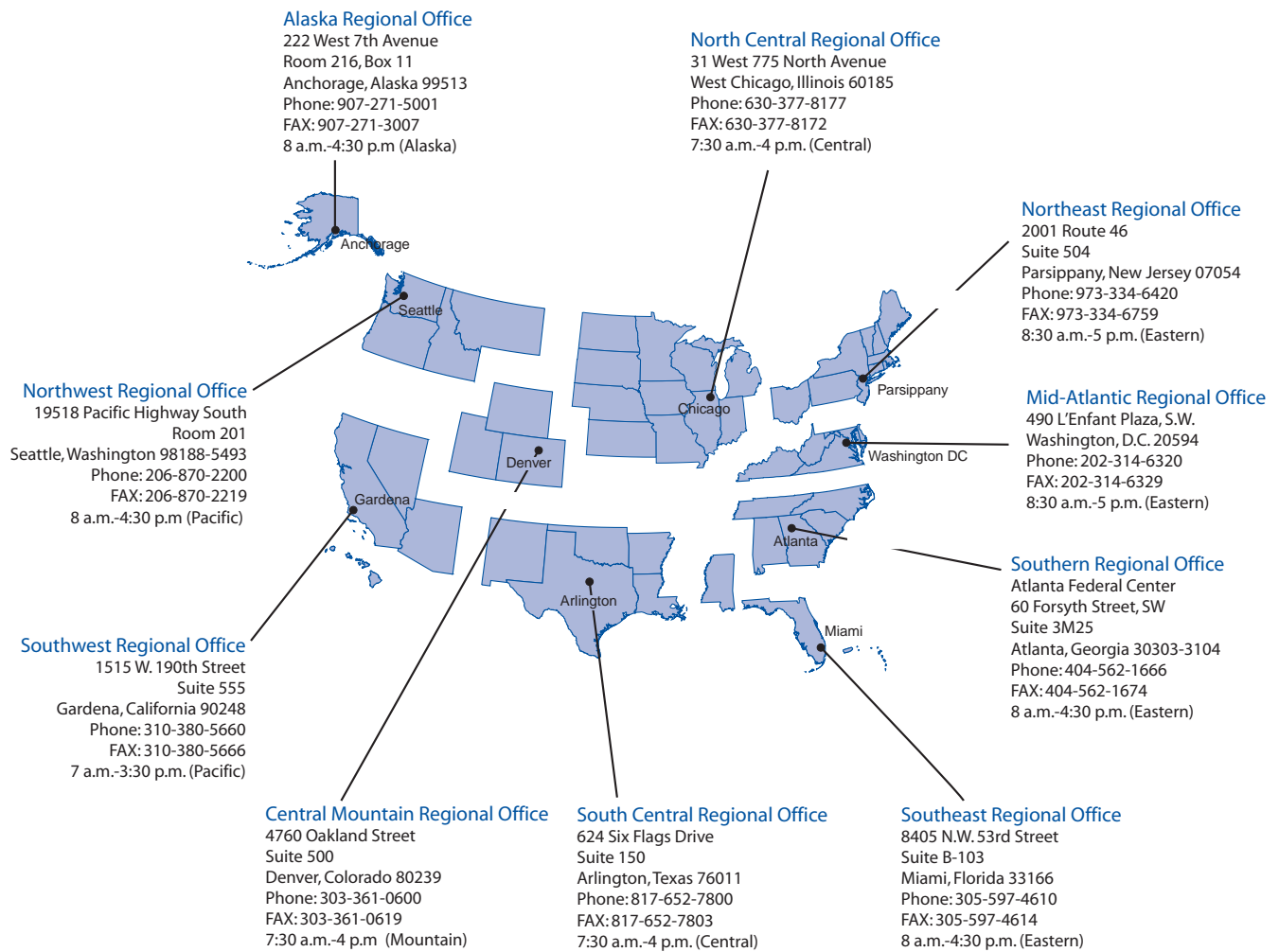
The NTSB opened its doors on April 1, 1967, initially relying on the U.S. Department of Transportation (DOT) for funding and administrative support. Although its charter is the Independent Safety Board Act of 1974, the origins of the Safety Board can be found in the Air Commerce Act of 1926, in which Congress charged the Commerce Department with investigating the causes of aircraft accidents. The rules of the Board are located in Chapter VIII, Title 49 of the Code of Federal Regulations (CFR). Since its inception, the Board has investigated more than 114,000 aviation accidents, and at least 10,000 accidents in the surface transportation modes. In so doing, it has become one of the world's premier accident investigation agencies. On call 24 hours a day, 365 days a year, NTSB investigators travel throughout the country and to every corner of the world to investigate transportation accidents and to develop factual records and safety recommendations.

National Transportation Safety Board



The Board consists of five Members appointed by the President with the advice and consent of the Senate. The President appoints the Chairman and Vice Chairman for 2-year terms. The Chairman is additionally confirmed by the Senate, and serves as the agency chief executive and administrative officer. The Board Members, in conjunction with the Chairman, establish policies on transportation safety issues; review and approve major accident reports, safety studies, and safety recommendations; and decide appeals of NTSB Administrative Law Judge Initial decisions regarding Federal Aviation Administration and Coast Guard certificate actions. They also preside over accident or other transportation safety hearings, testify before Congressional committees, and participate in go-teams on major investigations.

NTSB Regional Offices



MISSION

The basic components of the NTSB's mission are to:

- Maintain public confidence in the Nation's transportation systems by thoroughly and independently determining the probable cause(s) of transportation accidents and significant incidents and issuing timely and feasible safety recommendations to prevent future accidents, save lives, and reduce injuries and property damage.
- Ensure that survivors and families of victims of transportation accidents receive timely, compassionate assistance from the operator, other government agencies, and community service organizations.
- Provide aviators and mariners with fair, timely, independent appellate review of certificate actions taken by the FAA and the U.S. Coast Guard.
- Ensure effective stewardship of the resources provided.
- To provide comprehensive education and training for those who improve safety by conducting independent transportation accident investigations.

The Safety Board's proactive approach in preventing and/or reducing the severity of future transportation accidents is unique. It independently addresses real world tangible problems, allows full industry participation in its investigations, issues safety recommendations instead of regulations, and disseminates its reports and findings to as wide an audience as possible. It also provides oversight of the regulatory agencies in transportation and is the safety advocate for millions of Americans traveling through our nation's skies, roads, rails, and waterways each day. As a small, manageable organization, we react quickly to changes in the transportation environment to meet the public's needs. The NTSB is the model for a government agency that works better and costs less.

OPERATIONS

Each year, the NTSB investigates more than 2,000 aviation accidents and hundreds of accidents in the surface modes. The Board leverages its limited resources through the "party system" by which it designates government agencies, organizations, or corporations as parties to the investigation. By law, the FAA is a party to each aviation accident investigation. The NTSB has wide discretion over which other organizations it designates as parties. Only those entities that can provide expertise required for the investigation are granted party status and only those persons who can provide the Board with needed technical or specialized expertise are permitted to serve on the investigative team. Individuals representing organizations in legal or litigation positions are not assigned to the investigation. All party members report to the NTSB.

In a major investigation, the Board establishes investigative groups made up of specialists from the parties and led by a Safety Board investigator as group chairman. The groups formed vary depending on the mode of transportation and the nature of the accident, and examine areas such as company operations; aircraft structures; systems and power plants; rail and highway vehicle operations; rail track and signals; pipeline operations; vehicle, bridge, highway, and marine engineering; human factors; survival factors; hazardous materials; radar and vehicle recorder data; meteorology; and regulatory oversight. Eventually, investigative group chairmen prepare a factual report that is verified for accuracy by each of the party representatives in the group. The factual reports are placed in the public docket, and, after the completion of a formal technical review by the team, they constitute the factual record of the investigation.

Safety recommendations may be issued at any time during an investigation, and the Board also may hold a public hearing as part of a major transportation accident investigation. The purpose of the hearing is two-fold: first, to gather sworn testimony from subpoenaed witnesses on issues

identified by the Board during the course of the investigation, and, second, to allow the public to observe the progress of the investigation.

Parties do not participate in the analytical or report-writing phases of NTSB investigations; however, they are invited to submit their proposed findings of probable cause and proposed safety recommendations directly to the Board. These submissions are made part of the public docket. The Board deliberates over reports during public “Sunshine Act” Board meetings in Washington, D.C. Non-Safety Board personnel, including parties and family members, may observe the proceedings, but they do not participate in these meetings.

THE PRESIDENT'S MANAGEMENT AGENDA

The National Transportation Safety Board has made the following progress in meeting requirements of the President's Management Agenda.

Strategic Management of Human Capital: The Board has established an initiative to review and update all employee position descriptions to support equitable performance reviews and workforce development as well as better align resources to support mission performance. In the area of employee training, the NTSB recently established a relationship with the Gov Online Learning Center to support the development of our workforce with one-stop access to high quality e-Training products and services. The Board also is creating individual, integrated training plans for each employee and office. During fiscal year 2004, the Safety Board plans to implement QuickHire, an automated system for the review and assessment of applicants for NTSB vacancies. In addition to the applicant review and assessment capability, this system also can automatically respond to candidates, tracks their progress through the hiring process, and archive all records for future use.

Competitive Sourcing: In accordance with the Federal Activities Reform Act (P. L. 105-270), NTSB has submitted a detailed Commercial Activities Inventory of all commercial activities performed by in-house employees as part of an effort to determine whether recurring commercial activities should be operated under contract with commercial sources, in-house using Government facilities and personnel, or through interservice support agreements (ISSAs).

During fiscal year 2001, the NTSB began outsourcing its travel voucher processing (via Travel Manager) and travel voucher audit functions to the Department of Treasury's Bureau of Public Debt. As a result, standard edits, such as verification of applicable per diem rates and mathematical calculations are performed on each voucher and reimbursements are deposited in employee bank accounts within three business days of claim approval. In addition, approximately 20 percent of vouchers are selected for comprehensive post-payment audits to ensure compliance with the Federal Travel Regulation and other relevant Federal regulations and NTSB policies. In fiscal year 2003, these functions were moved to the Department of Interior's National Business Center to facilitate integration with the Board's financial management system.

Also during FY 2003, the Board analyzed its transactional accounting function and determined that this activity could be more economically supported by another government agency. Three positions were outsourced as a result

Although the majority of the Board's positions that support our accident investigation and safety promotion activities do not lend themselves to competitive sourcing, the Safety Board traditionally has leveraged its small technical and investigative staff by its use of the “party system.” For a typical major accident, NTSB investigation teams may consist of experts in as many as 14 different specialties. Each Safety Board expert manages a group of specialists from industry and from other government agencies in collecting the facts and determining the conditions and circumstances

surrounding the accident. Without the infusion of additional NTSB monies, the parties multiply by a factor of 10 or more the investigative and technical resources devoted to determining the probable cause(s) of a transportation accident. The specific investigative groups vary, depending on the nature of the accident, but could include areas such as structures, systems, powerplants, human performance, fire and explosion, meteorology, radar data, event recorders, maintenance records, and witness statements, among others. While the NTSB investigators consider the information, analyses and opinions of other government and industry specialists, their conclusions must be completely independent of any interests that might be represented by the industry or other government agency specialists.

Improved Financial Performance: The Accountability of Tax Dollars Act of 2002 extended the requirement for audited financial statements to most agencies. Although not required, the NTSB prepared financial statements for fiscal year 2002. This marked the first time in the history of the Board that financial statements have been prepared. The Board met the requirement for audited financial statements for fiscal year 2003. The Board also has instituted a rigorous oversight process for agency purchase cards and carefully monitors employee travel card accounts to ensure proper use and timely payments. As a result, the Board's delinquency rate of less than one percent is significantly less than the government-wide rate of seven percent.

The Board implemented the Federal Financial System (FFS), Federal Personnel/Payroll System (FPPS), and the Interior Department Electronic Acquisitions System – Procurement Desktop (IDEAS-PD) under a cross-servicing agreement with the Department of Interior (DOI) in fiscal year 2002. In fiscal year 2003, Travel Manager support was added to the suite of systems cross-serviced by DOI. The FPPS, IDEAS-PD and Travel Manager systems are integrated with and pass source data to FFS, eliminating the duplication of effort and error rates associated with manually

entering the data to each system. The implementation of these systems has enhanced greatly the Board's ability to perform its financial management and business operations. The Board is prepared to meet applicable Performance and Accountability Reporting deadlines.

Expanded Electronic Government: In addition to improving financial operations at the Board, the use of IDEAS-PD has enabled the Board to take full advantage of the e-procurement portal, www.FedBizOpps.gov, to provide potential vendors with easy, real-time access to agency solicitations.

The Board's internet website provides citizens with online research tools, including access to our publications and the aviation accident database. The Board is developing the capability to allow pilots to file accident reports online and to provide access to safety recommendations and surface transportation databases. During the first 10 months of fiscal year 2003, the NTSB website averaged almost 13,000 visits per day and provided an average of more than 29,000 downloaded copies of its publications each month.

Plans also are underway to make the Board's docket system accessible online. The docket system was modeled after the one used by the Department of Transportation. While some modifications were made to accommodate requirements of the Board's specific mission, the development and implementation of the system was expedited by using developers from the DOT system on a cross-agency servicing agreement.

The NTSB Academy offers descriptions of course offerings online, and attendees are able to register from the web site, as well. Rentals for the Board's Conference Center may be arranged through the web site. Additionally, the Board uses web-based access and electronic data transfer for other administrative and mission functions, including timekeeping and personnel systems, publishing, and file-sharing with parties to investigations.

In the area of employee training, the NTSB recently established a relationship with the Gov Online Learning Center to support the development of our workforce with one-stop access to high quality e-Training products and services.

During fiscal year 2004, the Safety Board plans to implement QuickHire, an automated system for the review and assessment of applicants for NTSB vacancies. In addition to the application review and assessment capability, this system can automatically respond to candidates, track their progress through the hiring process, and archive all records for future use. In the coming fiscal year, the Board also plans to offer webcasting of its Board meetings and public hearings, which will make our proceedings more accessible to the public.

Budget and Performance Integration: Transportation safety is the primary goal of the Board. The Board accomplishes this goal through the investigation of transportation accidents, and the issuance of safety studies and recommendations, and by advocating for the implementation of these recommendations with industry and at all levels of government.

The Board's enabling legislation also supports two collateral goals. These are: ensuring that survivors and families of victims of transportation disasters receive timely, effective, complete and compassionate assistance from the operator, other government agencies, and community service organizations and fair, timely, and independent adjudication of appeals made by aviators and mariners for the review of certificate actions taken by the FAA and the U.S. Coast Guard.

The Board also is authorized to provide comprehensive education and training for those who improve safety by conducting independent transportation accident investigations; to foster an environment that encourages transportation safety initiatives and technical research; and to promote uniform programs that ensure compassion, understanding, and assistance for those affected by transportation tragedies.

PERFORMANCE GOALS

PRIMARY MISSION ACTIVITY ACCOMPLISHMENTS

The NTSB's mission does not lend itself to traditional performance goals, outputs, and outcomes. However, the results of its efforts include the independent investigation of thousands of accidents in all modes of transportation and in the transportation of hazardous materials. Safety improvement recommendations emanating from these investigations ultimately produce the desired outcome for the Board's mission activities: safer transportation for our citizens.

As mentioned previously, many safety features currently incorporated into airplanes, automobiles, trains, pipelines and marine vessels had their genesis in NTSB recommendations. During fiscal year 2003, the Safety Board closed 143 safety recommendations following acceptable action that had been taken by recommendation recipients in response to the Board's prompting.

For the first time since 1975, the number of "open" safety recommendations on the NTSB's books dipped below 1,000.

One of the Board's Chairman strategies to minimize the open recommendations was to use the "SWAT" Team approach. SWAT, or Safety With A Team, includes frequent meetings with U.S. Department of Transportation and industry leaders to address open NTSB recommendations.

The current number of open safety recommendations is 989 and 335 relate to aviation, 339 to highway, 125 to marine, 113 to rail, 47 to pipeline, and 30 intermodal.

AVIATION

- Runway incursions
- Aircraft icing
- Child restraints
- Flight operational procedures
- Cargo operations
- Operational oversight
- Maintenance procedures
- Airport issues
- Hazardous materials
- Survivability
- Air traffic control
- Alaska aviation safety
- Medical issues

HIGHWAY

- Rail-highway grade crossings
- Medical oversight
- Commercial truck safety
- School bus safety
- Motor carrier operations
- Child passenger safety
- Human fatigue
- Cargo tanks
- Oversize-overweight vehicles
- Occupant protection

MARINE

- Safety management systems
- Emergency response
- Navigational aids and systems
- Recreational boating safety

RAILROAD

- Rail inspections
- Hazardous materials and rail tank cars
- Dispatcher training
- Human fatigue and hours-of-service

PIPELINE

- Cathodic pipeline protection
- Corrosion-caused pipeline failures
- Gas company maps and records
- Hazardous material and plastic pipeline standards
- Excavation damage prevention

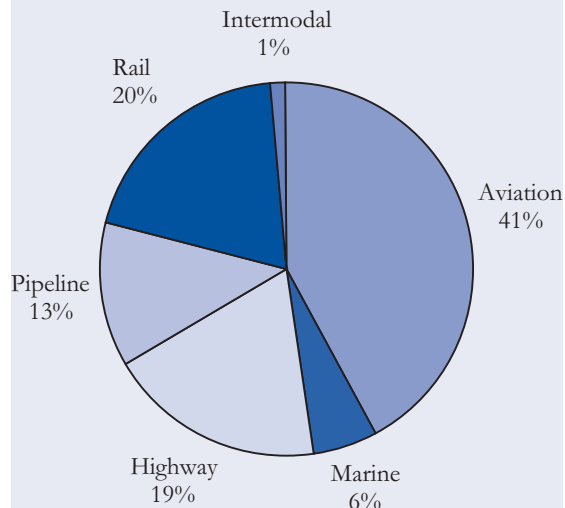
INTERMODAL

- Bulk container hazardous material safety

NTSB issues safety recommendations as a result of the investigation of transportation accidents and incidents. In a recent six-month period, the Safety Board closed 78 recommendations because they had been successfully implemented. They include:

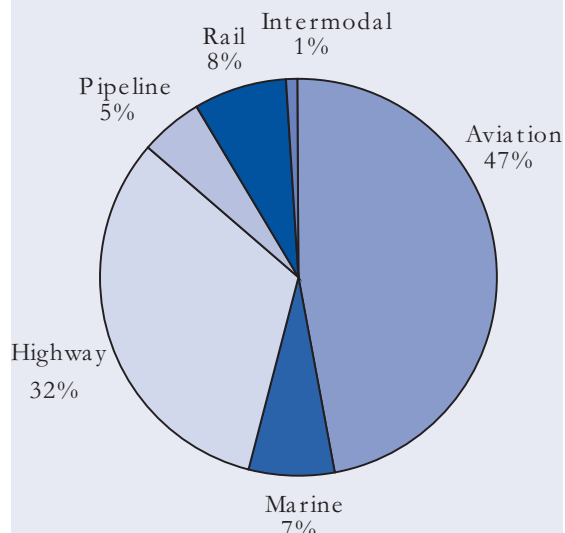
- Better terrain depictions on aviation charts and maps, an upgrade spurred by the crash of an American Airlines 757. The jet hit a mountain ridge on nighttime approach to Cali, Colombia, killing 160 of the 164 on board in 1995.
- Improved standards to detect corrosion, to track corrosion-caused pipeline failures; and new toughness standards for new pipes installed in gas and hazardous liquid pipelines.
- Upgraded standards and better disclosure of medical conditions and medications affecting fitness to pilot commercial vessels, stemming from the Star Princess cruise ship accident in Alaska in 1997. The cruise ship struck a huge submerged rock. There were no deaths or injuries to the 2,200 passengers and crew, but the cost of repairs and delays in returning the ship to service topped \$27 million.
- Fatigue awareness training and information for Union Pacific Railroad and Canadian National Railway employees as a result of collisions between freight trains in Kansas in 1997, and Michigan in 2001.
- Better inspection criteria to detect reversed air brake lines, and dual air brake systems on heavy trucks.
- Inspection and replacement of static port heaters on MD-80, MD-90, and DC-9 aircraft to prevent fires.
- New rules requiring air traffic controllers to state an aircraft's location in relation to the takeoff runway when a combination of intersection and full length departures is routinely being used at an airport. This is aimed at addressing an issue on the Board's "Most Wanted" list – Runway Incursions.

Safety Recommendations Closed with Acceptable Action in FY 2003 through August 20, 2003
Total 143 (Recommendations originally issued between 1987 and 2002)



The following chart shows the breakdown by transportation mode of the 117 new recommendations that were issued so far during FY 2003.

Safety Recommendations Issued in FY 2003 through August 20, 2003 - Total 117



At present, the Board's current staffing of 429 supports the following:

- Less than one complete accident investigation team for the Office of Marine Safety. Yet in a three week time frame, the NTSB launched on two major accidents – The SS Norway cruise ship in Miami, Florida, and the Taki Tooo fishing vessel that overturned on Father's Day in Oregon.
- One full team for railroad, one team for pipeline, and one team for hazardous materials investigations. Yet from October 1, 2002, until September 2003, the NTSB launched on 12 accidents, including the natural gas explosion in a Wilmington, Delaware house that injured 15 people and the anhydrous ammonia spill on a tank farm in Calamus, Iowa.
- Fewer than three complete teams for the Office of Aviation Safety, with our aviation regional offices staffed at 80 percent. In a 100-day period from March until June, the regional aviation staff launched on 90 accidents.
- Fewer than three complete teams for the Office of Highway Safety. With nearly 43,000 deaths on our Nation's highways last year, it is crucial that the Safety Board continue focusing on hard core drunk driving, driver distractions, primary seatbelt legislation and child safety seats. From March until August 2003, the Safety Board launched on high profile accidents such as a 100-car pileup in western Maryland, the Santa Monica, California accident that killed 10 people in a pedestrian market place, and the accident in Linden, New Jersey that killed six people and involved a driver with .326 BAC.

The NTSB also has international responsibility to support foreign accidents involving U.S. manufacturers and carriers. To participate as the accredited U.S. representative, Aviation Safety staff from the regions or headquarters must leave their current duties. Examples of such accidents include the July 8, 2003 crash of a Boeing 737-200 airplane during its approach to Port Sudan Airport, Sudan, which killed 116 passengers and crew, and the

July 29, 2003 crash of a chartered Swearingen Metro SA226-TC airplane into mountainous terrain at Mount Kenya National Park, Kenya, killing the 2 pilots and all 12 American-citizen passengers. It also should be noted that U.S. aviation exports provide a trade credit for the U.S. in the balance of trade and is an important part of our economy that we must protect.

The NTSB was able to achieve these significant results despite devoting more than 40 of its staff to the support of the Columbia Shuttle investigation.

In addition to its specific safety accomplishments and new recommendations of the past fiscal year, the Safety Board achieved significant positive results in other areas as well, including:

- The Office of General Counsel serves as legal advisor to the Board which reviews denials by the Administrator of the Federal Aviation Administration of applicants for airman certificates and orders of the Administrator modifying, amending, suspending, or revoking certificates or imposing certain civil penalties, and appeals from the decisions of the Commandment, U.S. Coast Guard, suspending, revoking, or denying seamen licenses, certificates, or documents. The Office of General Counsel eliminated its backlog of FAA enforcement cases and now processes cases on a timelier basis.
- During FY 2003 the Office of Safety Recommendations and Accomplishments testified 21 times in 11 states on legislation to promote Safety Board recommendations. In addition, the Board issued 140 safety recommendations and closed 176 recommendations during the Fiscal Year.
- The Office of Research and Engineering completed 155 cases in the materials lab; performed readouts on 55 Cockpit Voice Recorders, 76 Flight Data Recorders, and 18 rail recorders; processed about 3,225 requests for public records and approximately 425

FOIA requests. During the past fiscal year, the NTSB website received approximately 13,000 "hits" per day and provided more than 345,000 downloaded copies of its publications.

- The Office of Highway Safety completed seven major reports and launched on nine accidents.
- The Office of Marine Safety led the investigations of three fatal major marine accidents involving passenger vessels and also assisted the US Coast Guard with their investigation of a fatal cargo vessel accident. These investigations all were conducted in accordance with the Safety Board's new Memorandum Of Understanding with the US Coast Guard, which was signed in September 2002.
- The Office of Railroad, Pipeline, and Hazardous Materials Investigations completed 7 major accident reports that were adopted by the board and launched investigators to 10 accident sites.
- The Office of Aviation Safety is comprised of 80 investigators who investigate or monitor all domestic aviation accident and incidents and all foreign aviation accident and incidents involving U.S. manufactured aircraft or aircraft components. During FY 2003, the Office of Aviation Safety: held one public hearing, completed three significant accident investigations, launched on 5 foreign accident investigations, and created 63 safety recommendations. In FY 2003, the Office of Aviation Safety initiated 1,991 accident investigations. During this same period the office completed 1,809 accident investigations.

OTHER MISSION AND SUPPORT ACTIVITY ACCOMPLISHMENTS

Although the NTSB's primary mission activities do not lend themselves to traditional performance goals, outputs, and outcomes, the following specific goals and accomplishments are provided for other areas:

Chief Financial Officer

Goal: Achieve 98 percent compliance with the Prompt Payment Act for the timely payment of vendors.

The Board achieved compliance rate of 99 percent with the Prompt Payment Act. This goal was met by moving the transactional processing activities to the Department of Interior's National Business Center.

Goal: Ensure that all reports to Treasury are submitted within the established timeframes.

The Board submitted its FACTS reports to Treasury within the specified timeframes. In order to meet the timeframes, The Board put into place a monthly closing of the books process that included timely reconciliation of the fund balance with Treasury.

In addition to meeting its goals for fiscal year 2003, The Office of the Chief Financial Officer achieved an unqualified (clean) opinion on our first ever-audited Consolidated Financial Statements. A credible Federal Managers' Financial Integrity Act review was completed for the year.

Administrative Law Judges

The Office of Administrative Law Judge serves as the "court of appeal" for airmen, mechanics, and mariners when the Federal Aviation Administration (FAA) or the U.S. Coast Guard (USCG) Commandant has taken certificate action, or when the FAA has assessed civil penalties.

Goal: Provide the notice of hearing to appellant at least 30 days prior to the hearing.

The Office of Administrative Law Judges met its goal to provide the notice of hearing at least 30 days prior to hearing. In FY 2003, the Office of Administrative Law Judges provided 294 notices to appellants within 30 days.

Goal: Reach a decision at the ALJ level on emergency cases within 30 days of the filing of an appeal in order to

facilitate a final decision by the Board within the 60-day statutory timeframe.

The Office of Administrative Law Judges met its goal of conducting hearings and rendering decisions in emergency cases within 30 days of the filing of an appeal. During FY 2003, the office rendered decisions on 140 emergency appeals and held 29 emergency hearings.

Goal: Make rulings on Petitions for Review of the Administrator's determination that an emergency exists in air safety within the 5-day statutory timeframe.

The Office of Administrative Law Judge's made rulings on 47 petitions challenging the Administrator's Determination that an Emergency Exists in Air Safety within the statutory timeframe.

NTSB Academy

Goal: Provide ten courses to NTSB and non-NTSB transportation professionals.

In 2003 the Academy opened the doors of the new facility. They integrated their business into the NTSB operations, established a staff and developed policies and procedures. In addition they delivered 12 courses attended by over 500 people, doubling the number of those taught in 2002. Seventy of the students were NTSB staff. Academy students come from accident investigation agencies around the world; past as well as potential future parties to Safety Board investigations, such as equipment manufacturers and unions; disaster relief agencies, including the American Red Cross; and representatives from local, state and federal law enforcement agencies. A total of 16 foreign countries were represented at Academy courses in 2003: Brazil, Canada, Chile, France, Germany, Ireland, Japan, Korea, Monaco, Peru, South Africa, Spain, Sweden, Taiwan, The Netherlands, and the United Kingdom.

FUTURE PERFORMANCE CHALLENGES

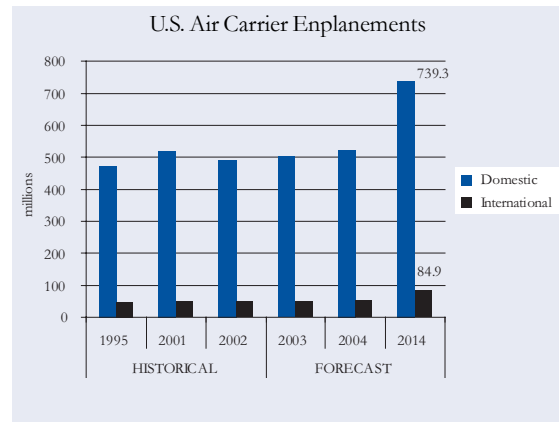
Like most Federal agencies, the Safety Board faces many challenges in its efforts to perform its mission well so that desired results are achieved consistently. For the NTSB, these challenges include being able to respond to an ever-increasing number of accidents that are likely to occur simply because of the increase in exposure to accidents that is a byproduct of the growth in the transportation industry (past, present, and future), and being able to respond to these accidents with the technical competence necessary to determine the probable cause(s) of accidents and to formulate valuable safety recommendations.

Transportation Industry Growth

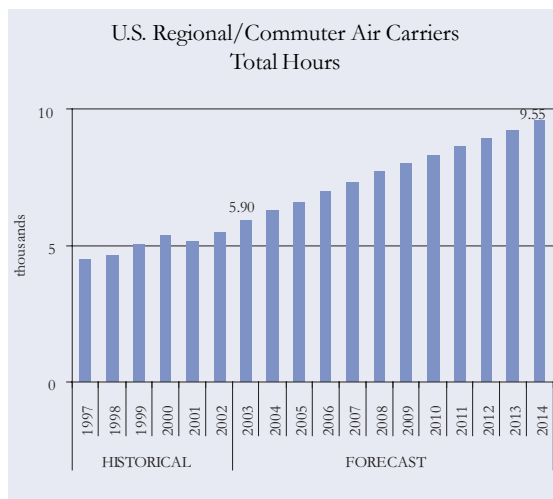
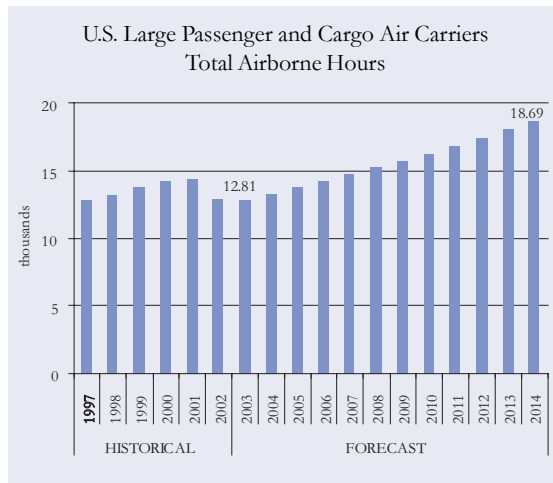
AVIATION

There are fewer than three complete teams for the Office of Aviation Safety, with our aviation regional offices understaffed by 20 percent. Further, in a seven-month period from March through October 2003, the regional staff launched on 165 accidents. Despite a marked decrease in major air carrier traffic during late 2001 and early 2002, activity is forecast to meet or exceed pre-9/11 levels by 2004 and continue a growth trend through 2014. U.S. air carrier enplanements are forecast to increase 4.4 percent between 2003 and 2004, and increase at an average 3.6 percent annually through 2014. Similarly, large air carrier flight hours are forecast to increase by 3.1 percent annually throughout the forecast period.

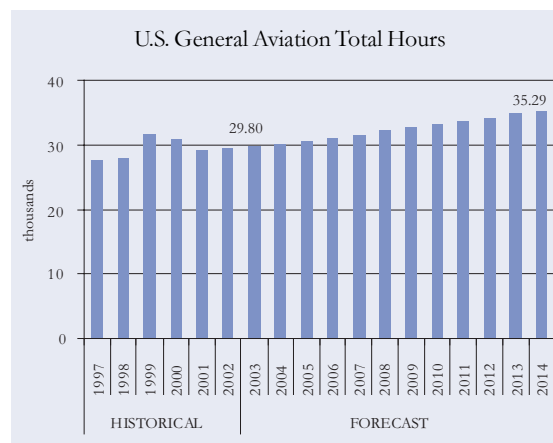
One effect of the economic restructuring of the aviation industry post-9/11 has been a shift toward regional/commuter aircraft. Regional air carrier activity dropped only slightly during 2001, and has shown continued growth since. Regional air carrier enplanements are forecast to increase 9.8 percent between 2003 and 2004, and increase at an average 5.6 percent throughout 2014. Flight hours for these operators are forecast to increase 6.7 percent between 2003 and 2004, and 4.7 percent annually through 2014.



The increase in flight hours for regional air carrier activity is of interest to the NTSB because accident rates for smaller aircraft in commercial operations, as typified by both scheduled and non-scheduled Part 135 flight operations, are substantially higher (more than 10 times higher) than for larger jets operating in Part 121 operations.



General aviation activity also decreased during 2001, but began an increase in 2002 that is forecast to continue through 2014.



RAILROAD

According to FRA data, annual passenger train ridership surged during 2001. Ridership during 2002 returned to pre-2001 levels with 503 million passengers, which represents a 14.4 percent increase since 1998. The FRA also reports that the total train miles increased 7 percent from 683 million miles in 1998 to 729 million miles in 2002. In addition there were about 11 billion passenger miles traveled on light rail, trolley, and commuter rail.



Similarly, forecast data from the American Railway Car Institute indicates a sharp increase in activity after several years of decline. New freight car deliveries are predicted to increase from approximately 14,600 in 2002, to 21,600 in 2003, and 28,800 in 2004. Class 1 American railroads in the United States laid more than 13 million cross ties last year and placed 745 new locomotives into

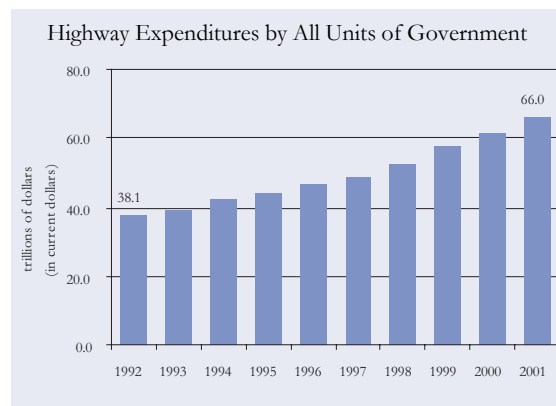
service. They operated 99,797 miles of track in 2002, up 2 percent from 2001.

HIGHWAY

The Federal Highway Administration (FHWA) reported that vehicle miles traveled increased in 2002 to 2.83 trillion, up from 2.78 trillion in 2001. According to the National Highway Traffic Safety Administration (NHTSA), the number of persons killed in traffic accidents increased 1.5 percent to 42,815 during 2002, the highest level since 1990. NHTSA estimates the economic cost of an average roadway fatality at \$977,000 and the cost associated with a critically injured crash survivor at \$1.1 million. This equates to an economic impact of motor vehicle crashes on America's roadways of \$230.6 billion a year, or an average of \$820 for every person living in the United States.

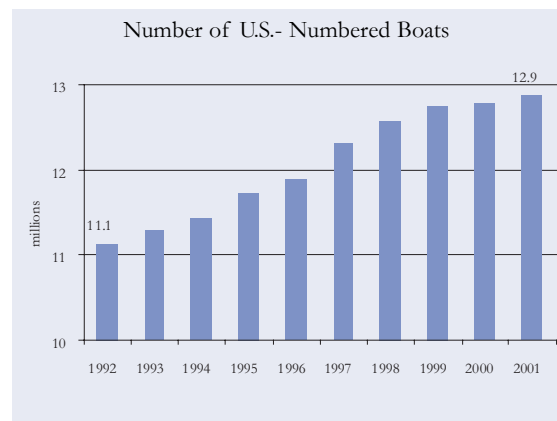
The FHWA reported that passenger vehicle miles traveled increased from 2.25 to 2.75 billion miles between 1992 and 2000 – a 22 percent increase. At the same time, there was little change in highway capacity, which increased only 0.2 percent nationally from 8.11 million miles in 1992 to 8.25 million miles in 2000. Road transit ridership also continues to increase. The number of passenger miles traveled by transit increased from 38 billion miles in 1995 to 45 billion miles in 2000. This represents an average annual increase of 3.8 percent that is likely to continue.

Finally, the FHWA reports that highway expenditures by all units of government increased 73.3 percent from 38.1 trillion in 1992 to 66.0 trillion in 2001.



MARINE

Over the past decade the marine industry has grown substantially and has become vastly more complex. Passenger cruise travel in 2003 increased by 7 percent over 2002 levels and is forecast to grow 7.5 percent annually over the next 5 years. Total inland waterway transport of material and goods is also growing: the Maritime Administration forecasts an increase of 1.3 percent per year, to more than 836 million tons by 2020. There are more than 6,200 tugboats and towboats and more than 32,000 barges that transport 800 million tons of goods and services in the U.S. each year. Annually, Americans take an estimated 134 million ferry trips per year. Sea trade, Mississippi tank barge traffic, container ship tonnage, oil imports to the U.S., U.S. dry bulk exports, off shore oil production, cruise ship capacity and domestic passenger service will all experience growth. United States Coast Guard data indicates more than a 16 percent increase in numbered boats between 1992 and 2001. And the Maritime Administration estimates the increase is the number of recreational boats to run approximately 1.2 percent per year.

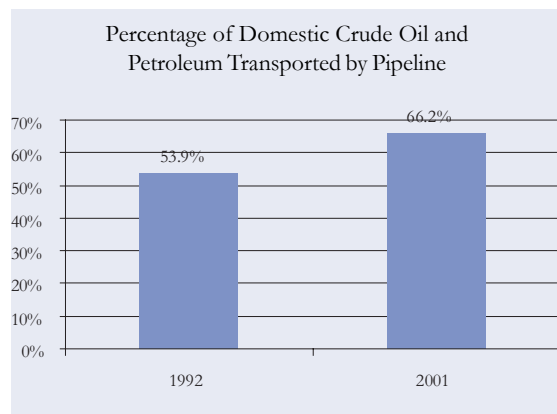


PIPELINE/HAZARDOUS MATERIALS

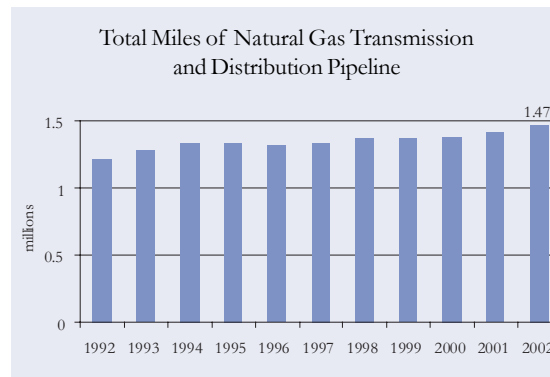
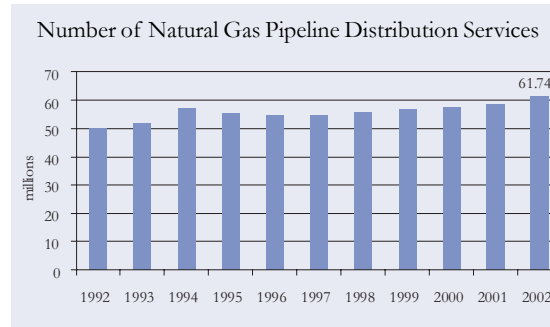
Pipelines provide a vital transportation service by transporting flammable, explosive, or toxic products, but can pose a danger to people, property, or the environment if they fail. Construction at residences, work places, and shopping areas near once-isolated, high pressure gas transmission and hazardous liquid pipelines

increases the threat of pipeline failure caused by excavation damage. Historically, excavation damage has been the number one cause of pipeline accidents. Accidents in the future could also be more severe because new development means more people and property would be exposed in the event of a failure. A majority of the nation's supplies of crude oil and petroleum products, and virtually all of its natural gas supplies, are transported through a network of about 2 million miles of pipelines.

The Association of Oil Pipelines reports a continued increase in the percentage of domestic crude oil and petroleum being delivered by pipelines. During the 10 years between 1992 and 2001, that value increased from 54 to 66 percent. The total amount of crude oil and petroleum products transported by pipeline in the U.S. was 576 billion ton miles in 2001.



According to the Department of Transportation, Office of Pipeline Safety, the total miles of natural gas transmission and main pipelines in the U.S. grew from 1,216,000 miles in 1992 to 1,471,253 miles in 2002 — an increase of 21 percent. The number of natural gas pipeline distribution services in the U.S. grew from 50.1 million in 1992 to 61.7 million in 2003 — an increase of 23 percent.



Technological Advances in the Transportation Industry

AVIATION

The number of lives saved as a result of the Safety Board's work cannot be accurately determined. However, it is indisputable that the recommendations issued by the Safety Board have, in fact, prevented aviation accidents around the world and therefore saved many lives. As technological advances are introduced into new airplanes and the air space system, new problems and challenges will arise to further tax the Safety Board's already limited resources. To continue to protect the flying public, the Safety Board needs to keep pace with the aviation industry.

Recently-evolved Complex Issues

- Fly-by-wire airplanes
- Satellite navigation
- Aging aircraft systems
- Code-sharing/open-sky agreements
- Foreign maintenance
- Composite materials

- Aircraft systems modeling
- New investigative techniques
- Runway Incursion Avoidance Systems
- Pilot Training (e.g., recovery from in-flight upsets)

RAILROAD

Through the investigation of railroad accidents, the Safety Board continues to formulate meaningful safety recommendations and enlighten industry, regulators and the public on the true cause of accidents. However, the amount and complexity of the data that must be analyzed by accident investigators continues to increase. For instance, the use of digital video cameras to record a train crew's view in the direction of travel provides investigators with an additional tool for use in the investigation of rail accidents. Other new recording devices may capture such items as track conditions, signal indications, and the mechanical condition of passing trains. Railroads are also utilizing new inspection tools, such as a gage restraint measuring systems that more accurately indicate gage conditions. In the future, sensors placed on the rails may give an indication of the compressive loads created by thermal expansion, and these may be monitored and tied to signal systems.

In the area of mechanical considerations, new materials are reducing the wear of critical components such as wheels and brake valves. More AC locomotives are in service and the expanded use of high-adhesion locomotives places more emphasis on train control issues. These improvements in combination with electronic control of brake valves are being used on some mineral freight trains such as coal and ore. The automatic application of brakes via two-way end-of-train devices is also becoming more common on freight trains.

Positive Train Control (PTC), which has been on the Safety Board's list of the Most Wanted safety improvements since its inception, is nearing the testing stage in isolated sections on several railroads. PTC has long been used to protect Amtrak trains in the Northeast corridor of the United States. Signal systems are evolving away from wayside signals and pole lines, and more toward locomotive cab signals and coded track circuits. Another advance in rail technology allows locomotives to be operated by

remote control without crewmembers on board. Currently confined mostly to yard operations, remote control of locomotives is becoming increasingly common and may expand beyond yard use in the future.

HIGHWAY

Areas of increased usage of technologies for heavy commercial vehicles include:

- Fatigue detection devices and monitoring techniques;
- Vehicle dynamics and stability control systems; Rollover warning systems;
- Vehicle diagnostics/prognostics systems;
- Electronically controlled braking;
- Brake out-of-adjustment alert;
- Rear-end collision warning systems;
- Lane change/merge collision warning systems;
- Lane departure warning systems;
- Commercial Vehicle Information Systems Network;
- Roving Inspection Van;
- Roadside inspection technologies;
- Brake inspection technologies;
- Vehicle event data recorders;
- Accident reconstruction data recorders;
- European tachographs; and
- Real-time data recording and reporting.

Areas of increased used of technologies for light duty passenger cars, pickups, and vans include

- Adaptive cruise control and collision warning;
- Night vision enhancement;
- Heads up displays on instrument panel;
- Electronically controlled vehicle stability and rollover protection systems;
- Advanced air bag technology for both frontal and side air bags;
- Electronic on-board vehicle event data recorders and crash recorders;
- Lighting technological advances;
- Youthful driver monitoring devices; and
- Advanced belt restraint and integrated seating systems.

MARINE

It should be noted that four of the five major accidents in 2003 were marine, the NTSB launched on the SS Norway cruise ship in Miami, Florida, the Taki Tooo fishing vessel that overturned, in Oregon, the Staten Island Ferry Andrew J. Barberi that crashed into a concrete maintenance pier and resulted in the death of ten passengers, injuries to 70 others, and extensive property damage, and in New York, the dry cargo vessel Stellamare listed on to its side while in process of lifting a 300 ton generator using shipboard crane. There were eighteen people were on board at time and three were missing. Areas of technological advances in the marine area are satellite navigation and advanced communications, integrated bridge systems, and Voyage Data Recorders.

With the advent of the Global Positioning System (GPS), advanced electronic navigation systems, electronic charting, and communications systems with encoded GPS are becoming the industry standard. Experience shows that total reliance on such systems can lead to accidents, and additional training and safeguards may be needed.

The modern ships bridge today contains electronic controls for propulsion systems, navigation, fire protection, communication and cargo monitoring. However, the unanticipated results of electronic failures such as loss of steerage indicate that adequate redundancies and system protections have not been fully thought through.

Voyage Data Recorders (VDRs) are being required on large ships. The information they can provide would be extremely valuable in preventing accidents, as well as improving the economic and safe operation of the vessels that use them. Downloading and preserving data from VDRs requires specialized training and equipment.

Automatic Identification Systems (AIS) are being considered for all ships of 300 gross tons and higher, and for all passenger ships. This system will require ships to be outfitted with identification transponders similar to those used in aviation. AIS provides the capability to automatically transmit to appropriately-

equipped shore stations, other ships and aircraft, information including ship identity, type, position, course, speed, navigational status, and other safety-related information and automatically receive such information from similarly-fitted ships. The system also has the capability to monitor and track ships and to exchange data with shore-based facilities.

PIPELINE

The increasing complexity of pipeline accident investigations demands significantly more time to conduct investigations as well as advanced technical expertise. Potential safety issues include pipeline construction, corrosion control, maintenance, operations, cathodic protection, pipeline control systems, operator qualifications, offshore pipeline operations, storage facilities, training, excavation damage, environmental damage, and recently-mandated integrity management programs for hazardous liquid pipeline and natural gas transmission and distribution systems.

Safety Board investigators must evaluate complex pipeline control software, instrumentation, information displays, and operator actions before and after an emergency condition. Following an accident, it is vitally important to capture all data necessary to determine the conditions under which the pipeline was being operated, and to identify any operator inputs that may have contributed to the failure. The Safety Board must determine if persons operating pipeline systems, inspecting or testing the integrity of pipelines, or responding to reported leaks are adequately qualified and trained to perform their assigned duties.

Compressor stations, liquefied natural gas facilities, and underground storage facilities are becoming more automated and complex. In addition, with the advent of compressed natural gas vehicles, compressed natural gas refueling stations are becoming more commonplace. Safety Board staff must stay current and knowledgeable on accepted industry practices, codes and standards of gas transmission pipelines, compressor stations, liquefied natural gas facilities, underground storage facilities, and compressed natural gas refueling stations.

The offshore pipeline infrastructure is also rapidly expanding. Breaks in offshore hazardous liquid pipeline systems can seriously pollute coastal areas, and the technology in this field is extremely specialized and dynamic. Even the pipeline regulations in this area are specialized, since offshore pipeline systems are subject to Minerals Management Service (Department of the Interior) regulations, rather than Department of Transportation regulations.

In addition, highly advanced in-line inspection tools are being developed that incorporate a variety of sensors to reveal pipeline anomalies such as buckles, cracks, and loss of wall thickness. These sophisticated inspection tools will provide a reliable record of changes in pipeline conditions to help ensure pipeline integrity. The pipeline industry is rapidly moving toward the use of risk management techniques to make decisions affecting public safety. Safety Board investigations will need to analyze modern risk management principles, the various tools now available for conducting risk assessments, pipeline risk management programs, in-line inspection technologies, continuous improvement principles, and quality assurance standards as they are applied to the pipeline industry.

HAZARDOUS MATERIALS

According to the American Chemistry Council, chemicals have an impact upon every sector of the economy and are an essential contributor to the nation's standard of living – from the production of synthetic fabrics, life-saving medicines, packaging materials, adhesives and paints, automobile parts, and composite materials for aircraft, to fertilizers and agricultural applications. The Department of Transportation (DOT), in a 1998 study, revised its estimate of the number of hazardous materials shipments in transportation from 500,000 to 800,000 per day. The number of hazardous materials incidents to the DOT in the past 10 years (1993-2002) has increased by nearly 20 percent.

Notwithstanding the growing volume and the increasing number of shipments of hazardous materials in every mode of transportation, technological advances are also impacting the transportation of hazardous materials and presenting

new challenges for the Safety Board. Advances in the design and construction of hazardous materials containers and packaging are ongoing. Use of nonmetallic materials for hazardous materials containers, such as cylinders and smaller pressure vessels, is likely to become more common. Research and development of stronger and improved steels is also continuing and is likely to have a significant impact upon the design and construction of bulk containers such as tank cars, cargo tanks, and intermodal bulk containers. Advances in information technology also will affect tracking of hazardous materials shipments through the transportation system and enhance technical resources available to emergency responders when a release of hazardous materials occurs.

The Safety Board also expects that pollution response and containment technology will improve and become more effective.

National and world events will also influence the safe transportation of hazardous materials. Because of the events of September 11, 2001, security of hazardous materials in transportation is of primary importance. The long-term impact upon safety from the increased allocation of resources within the DOT and the transportation industry to address security issues is unknown at this time. Also, while many security initiatives are likely to be compatible with hazardous materials safety, others may not be compatible and, may actually reduce the level of safety. Nationally, the permanent repository for spent nuclear fuel is scheduled to begin accepting shipments of spent fuel within the next 10 years. Most of this fuel will likely be transported over the nation's highway and railroads. The controversy surrounding the transportation of this material will also present future challenges to the Safety Board's investigative staff.



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

Memorandum

Subject: INFORMATION: Quality Control Review of
Fiscal Year 2003 Audited Financial Statements,
National Transportation Safety Board
QC-2004-032

Date: January 30, 2004

From: Kenneth M. Mead
Inspector General

Reply to
Attn of: JA-20:x61496

To: Chairman
National Transportation Safety Board

The audit of the National Transportation Safety Board's (NTSB) Financial Statements, as of and for the year ended September 30, 2003, was completed by Brown and Company CPAs, PLLC (Brown and Company) of Arlington, Virginia. We performed a quality control review of the audit work to ensure that it complied with applicable standards. These standards include the Accountability of Tax Dollars Act of 2002; Government Auditing Standards; and Office of Management and Budget Bulletin 01-02, Audit Requirements for Federal Financial Statements.

The Brown and Company audit report presented an unqualified opinion, also known as a "clean" opinion, on the financial statements, and we concur with this opinion. You and your team should celebrate this clean opinion as a significant accomplishment. This is the first year that NTSB has been required to prepare audited financial statements. I compliment you and your team on achieving this clean opinion in the first year.

The report presented one material internal control weakness related to employee timekeeping. You had already reported this problem to the President in your December 2003 Federal Managers' Financial Integrity Act report. The report also identified one instance of noncompliance with the Anti-Deficiency Act, as amended. As you may recall, this issue was previously reported to the President.

In our opinion, the audit work performed by Brown and Company complied with applicable standards. Because NTSB was taking action to address the material weakness and instance of noncompliance, the report did not include recommendations. Therefore, a response to this report is not required.

We appreciate the cooperation and assistance of NTSB and Brown and Company representatives. If we can answer questions or be of any further assistance, please call me at (202) 366-1959, or Ted Alves at (202) 366-1496.

Attachment



BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Chairman
National Transportation Safety Board
Washington, DC

We have audited the accompanying balance sheet of the National Transportation Safety Board (NTSB) as of September 30, 2003, and the related statements of net cost, changes in net position, financing, and budgetary resources for the year then ended (collectively referred to as the financial statements). These financial statements are the responsibility of the NTSB's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the NTSB as of September 30, 2003, and its net cost, changes in net position, budgetary resources, and financing for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 12, 2004 on our consideration of the NTSB's internal control over financial reporting and a report dated January 12, 2004 on its compliance with laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

The "Management's Discussion and Analysis" (MD&A) is not a required part of the basic financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board and OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A. However, we did not audit the information and, accordingly, express no opinion on it.

Arlington, Virginia
January 12, 2004

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BROWN & COMPANY CPAs, PLLC
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Chairman
National Transportation Safety Board
Washington, DC

We have audited the financial statements of the National Transportation Safety Board (NTSB) as of and for the year ended September 30, 2003, and have issued our report thereon dated January 12, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered the NTSB's internal control over financial reporting by obtaining an understanding of the NTSB's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect NTSB's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or non-compliance may nevertheless occur and not be detected. However, we noted a certain matter involving the internal control and its operation that we consider to be a material weakness as described in the following paragraph.

This matter was identified in the fiscal year 2002 FMFIA report as a repeat condition and concerns the Employee Timekeeping Verification and Validation system. It was noted that improved management controls are needed to ensure the proper recording of time and attendance data. NTSB is currently making progress in addressing this weakness and anticipates having the new system implemented during fiscal year 2004.

In addition, with respect to internal control related to performance measures reported in "Management's Discussion and Analysis," we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

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This report is intended solely for the information and use of the management of the NTSB, the DOT OIG, OMB, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company

Arlington, Virginia
January 12, 2004

 BROWN & COMPANY CPAS, PLLC 


BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Chairman
National Transportation Safety Board
Washington, DC

We have audited the financial statements of the National Transportation Safety Board (NTSB) as of and for the year ended September 30, 2003, and have issued our report thereon dated January 12, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the NTSB is responsible for complying with laws and regulations applicable to the NTSB. As part of obtaining reasonable assurance about whether the NTSB's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 01-02, including certain requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the NTSB.

The results of our tests of compliance disclosed no instances of noncompliance with other laws and regulations discussed in the preceding paragraph, exclusive of FFMIA that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

Under FFMIA, we are required to report whether the NTSB's financial management systems substantially comply with applicable Federal accounting standards and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with certain FFMIA section 803(a) requirements.

The results of our tests disclosed no instances in which the NTSB financial management systems did not substantially comply with the above-mentioned requirements discussed in the preceding paragraph.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.

Subsequent to fiscal year (FY) 2003, NTSB disclosed to Congress a noncompliance with the Anti-deficiency Act involving a FY 2001 failure to properly recognize a significant capital lease liability and establish the related obligation for the present value of the lease payments.

This report is intended solely for the information and use of the management of NTSB, the DOT OIG, OMB, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

Arlington, Virginia
January 12, 2004

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LIMITATIONS OF THE FINANCIAL STATEMENTS

Responsibility for the integrity and objectivity of the financial information presented in the financial statements lies with NTSB management. The accompanying financial statements are prepared to report the financial policies and results of the operations of NTSB, pursuant to the requirements of Chapter 31, of the United States Code section 3515(b). While these statements have been prepared from the books and records of NTSB in accordance with formats prescribed in Office of Management and Budget guidance on *Form and Content of Agency Financial Statements*, these financial statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The financial statements should be read with the realization that NTSB is an agency of the Executive Branch of the United States Government, a sovereign entity. Accordingly, unfunded liabilities reported in the statements cannot be liquidated without the enactment of an appropriation, and ongoing operations are subjected to enactment of appropriations.

MANAGEMENT INTEGRITY: CONTROLS, COMPLIANCE AND CHALLENGES

NTSB conducts an annual review of the adequacy of the Board's management accountability and controls program in accordance with Federal Managers' Financial Integrity Act of 1982. The results of this review are included in the Chairman's Statement of Assurance sent to the President on December 31, 2003. The Chairman's assurance is based on NTSB responses to the General Accounting Office Internal Control and Evaluation Tool (GAO-01-1008G) and on the NTSB Risk Assessment for An Accountability Unit conducted in accordance with Office of Management and Budget's guidance and Circular A-123, Management Accountability and Control.

For the Board, there was no current year material weakness, but one prior year material weaknesses, Employee Timekeeping Verification and Validation—improved management controls are needed to

ensure proper recording of time. The Board continues to make progress in addressing this weakness and plans to eliminate this material weakness during the coming year.

DISCUSSION AND ANALYSIS OF FINANCIAL STATEMENTS

NTSB's FY 2003 financial statements report the Agency's financial position and results of operations on an accrual basis. These annual financial statements are comprised of a Balance Sheet, Statement of Net Costs, Statement of Changes in Net Position, Statement of Budgetary Resources, Statement of Financing, and related notes that provide a clear description of the Agency and its mission as well as the significant accounting policies used to develop the statements.

CONSOLIDATED BALANCE SHEET

The major components of the Consolidated Balance Sheet are assets, liabilities, and net position.

Assets. Assets represent Agency resources that have future economic benefits.

NTSB's assets totaled \$57.2 million in FY 2003. Fund balances with Treasury—mostly undisbursed cash balances from appropriated funds—comprised over 57 percent of the total assets.

NTSB does not maintain any cash balances outside of the U.S. Treasury and does not have any revolving or trust funds. About .2 percent of NTSB's assets were comprised of accounts receivable, which reflects funds owed to NTSB by other Federal agencies under reimbursable agreements, funds owed to NTSB by the public, and the value of equipment less accumulated depreciation.

Liabilities. Liabilities are recognized when they are incurred regardless of whether or not they are carried by budgetary resources. In FY 2003, NTSB had total liabilities of \$39.8 million. The largest components of NTSB's liabilities were a capital lease liability at \$23.7 million, an actuarial FECA liability at \$6 million, and accrued leave \$3.6 million.

Accounts payable reflect funds owed primarily for contracts and other services. Accrued leave and payroll/benefit liabilities are the estimated charges for salary and unfunded annual and sick leave that has been earned but not paid.

Net Position. NTSB's net position, which reflects the difference between assets and liabilities and represents the Agency's financial condition, totals \$17.4 million. This amount is broken into two categories: unexpended appropriations (amounts related to undelivered orders and unobligated balances) at \$24.9 million and cumulative results of operations (net results of operations since inception plus the cumulative amount of prior period adjustments) at \$-7.5 million. The downward amount in net position was primarily the result of the liabilities not covered by budgetary resources such as FECA and annual leave.

CONSOLIDATED STATEMENT OF NET COST

The Consolidated Statement of Net Cost represents the net cost to operate the Agency. Net costs are comprised of gross costs less earned revenues, are reported by the NTSB's major programs. NTSB's FY 2003 net cost of operations was \$70.5 million: \$75.2 million in gross costs less \$4.7 million in earned revenues.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

The Consolidated Statement of Changes in Net Position reports the changes in net position during the reporting period. NTSB ended FY 2003 with a change net position total of \$-7.5 million. The negative change in net position was primarily the result of the liabilities not covered by budgetary resources, accrued FECA, and annual leave.

COMBINED STATEMENT OF BUDGETARY RESOURCES

The Combined Statement of Budgetary Resources focuses on how budgetary resources (appropriations and reimbursables) were made available, the status of those resources (obligated or unobligated) at

the end of the reporting period, and the relationship between the budgetary resources and outlays (collections and disbursements). NTSB's FY 2003 budgetary resources totaled \$94.9 million and were primarily made up of budget authority funds (\$72.5 million) and unobligated balance (\$21 million).

CONSOLIDATED STATEMENT OF FINANCING

The Combined Statement of Financing links proprietary and budgetary accounting information, and reconciles obligations incurred with the net cost of operations. While the budgetary accounting system tracks resources and the status of those resources on a cash basis, the financial accounting system facilitates the translation of the use of budgetary resources into financial statements on an accrual basis. Resources that do not fund operations include changes in undelivered orders and assets purchased during the period, while costs that do not require resources include depreciation.

For FY 2003, the resources used to finance NTSB activities totaled \$67.9 million, which was comprised chiefly of budgetary resources (obligations incurred less offsetting collections) as well as non-budgetary resources (costs incurred by others for NTSB without reimbursement). The resources used to finance the net cost of operations totaled \$70.1 million, while the net cost of operations totaled \$70.5 million, which agrees with the amount displayed on the Consolidated Statement of Net Cost.

Accrual Basis of Accounting

Method of accounting that recognizes revenue when earned rather than when collected, and recognizes expenses when incurred rather than when paid.

When: The order is placed.

Then: The obligation is recorded as an undelivered order.

When: The materials are received and accepted.

Then: The obligational authority is expended and an accounts payable is recorded.

When: The payment is made.

Then: An outlay occurs and the account payable is cleared.

NATIONAL TRANSPORTATION SAFETY BOARD

Balance Sheet
As of September 30, 2003

Assets

Intragovernmental:	
Fund balance with Treasury (Note 2)	\$ 32,781,283
Accounts receivable	\$ 110,217
General property and equipment, net (Note 3)	24,301,429
	\$ 24,411,646
Total Assets	\$ 57,192,929

Liabilities

Intragovernmental:	
Accounts payable	\$ 851,326
Employer contribution and payroll taxes payable	224,535
Accrued FECA liability (Note 4 and Note 6)	1,179,824
Accrued Interest Payable	105,805
Other liabilities	58,347
Total Intragovernmental	\$ 2,419,837
Accounts payable	\$ 2,158,208
Accrued payroll and benefits	1,913,177
Actuarial FECA liability	6,000,368
Capital lease liability	23,731,941
Accrued leave (Note 5)	3,580,301
	\$ 37,383,995
Total Liabilities	\$ 39,803,832

Contingencies (Note 1)

Net Position

Unexpended appropriations	\$ 24,877,751
Cumulative results of operations	(7,488,654)
Total Net Position	\$ 17,389,097
Total Liabilities and Net Position	\$ 57,192,929

The accompanying notes are an integral part of these statements.

NATIONAL TRANSPORTATION SAFETY BOARD

Statement of Net Cost
For the Period Ending September 30, 2003

	Aviation Safety	Surface Transportation Safety	Research & Engineering	Totals
Intragovernmental gross costs	\$ 5,318,362	\$ 2,183,824	\$ 7,437,060	\$ 14,939,246
Less: Intragovernmental earned revenue	(224,134)	(96,057)	(320,192)	(640,383)
Intragovernmental net costs	<u>\$ 5,094,228</u>	<u>\$ 2,087,767</u>	<u>\$ 7,116,868</u>	<u>\$ 14,298,863</u>
Gross costs with the public	\$ 30,216,482	\$ 10,664,244	\$ 19,359,418	\$ 60,240,144
Less: earned revenues from the public	(3,973,819)	(30,175)	(53,644)	(4,057,638)
Net costs with the public	<u>\$ 26,242,663</u>	<u>\$ 10,634,069</u>	<u>\$ 19,305,774</u>	<u>\$ 56,182,506</u>
Net Cost of Operations	<u>\$ 31,336,891</u>	<u>\$ 12,721,836</u>	<u>\$ 26,422,642</u>	<u>\$ 70,481,369</u>

The accompanying notes are an integral part of these statements.

NATIONAL TRANSPORTATION SAFETY BOARD

Statement of Changes in Net Position
For the Period Ending September 30, 2003

	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	\$ (3,390,123)	\$ 33,196,758
Prior period adjustments (Note 9)	(6,093,513)	
Beginning balances, as adjusted	<u>\$ (9,483,636)</u>	<u>\$ 33,196,758</u>
Budgetary Financing Sources:		
Appropriations received		\$ 72,450,000
Other adjustments (rescissions, etc)		(10,674,690)
Appropriations used	\$ 70,094,317	(70,094,317)
Other Financing Sources:		
Imputed financing from costs absorbed by others	2,382,034	
Total Financing Sources	<u>\$ 72,476,351</u>	<u>\$ (8,319,007)</u>
Net Cost of Operations, per accompanying statement	<u>\$ (70,481,369)</u>	
Ending Balances	<u>\$ (7,488,654)</u>	<u>\$ 24,877,751</u>

The accompanying notes are an integral part of these statements.

NATIONAL TRANSPORTATION SAFETY BOARD

Statement of Budgetary Resources For the Period Ending September 30, 2003

Budgetary Resources:

Budget authority:	
Appropriations Received	\$ 72,450,000
Unobligated balance:	
Unobligated Balance, Brought Forward, October 1	21,010,041
Spending from Offsetting Collections	4,698,021
Recoveries of prior year obligations, actual	2,611,470
Permanently not available:	
Enacted rescissions	(470,925)
Cancellation of expired appropriation	(1,496,394)
Authority Unavailable Pursuant to Public Law	(3,890,000)
Total Budgetary Resources	\$ 94,912,213

Status of Budgetary Resources:

Obligations Incurred:	
Direct	
Category A	\$ 71,674,406
Category B	382,556
Reimbursable: Category B	801,870
	\$ 72,858,832
Unobligated Balance	
Balance currently available	\$ 13,310,871
Balance not available	8,742,510
Total Unobligated Balances	\$ 22,053,381
Status of Budgetary Resources	\$ 94,912,213

Relationship of Obligations to Outlays:

Obligated Balance, net, beginning of period	\$ 16,538,631
Obligated Balance, End of Period:	
Undelivered Orders	\$ (13,340,630)
Accounts Payable	28,984,992
	\$ 15,644,362
<u>Outlays</u>	
Disbursements	\$ 71,141,556
Collections	(4,698,021)
Net Outlays	\$ 66,443,535

The accompanying notes are an integral part of these statements.

NATIONAL TRANSPORTATION SAFETY BOARD

Consolidated Statement of Financing For the Period Ending September 30, 2003

Resources Used to Finance Activities

Budgetary Resources Obligated	
Obligations Incurred	\$ 72,858,832
Less: Spending authority from offsetting collections and recoveries	(7,309,492)
Net obligations	\$ 65,549,340
Imputed financing from costs absorbed by others	2,382,034
<i>Total resources used to finance activities</i>	<u>\$ 67,931,374</u>

Resources Used to Finance Items not Part of the Net cost of Operations

Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	\$ 24,732,970
Resources that fund expenses recognized in prior periods	(16,747,083)
Budgetary offsetting collections and receipts that do not affect net cost of operations	(6,093,513)
Resources that finance the acquisition of assets	266,043
<i>Total resources used to finance items not part of the net cost of operations</i>	<u>\$ 2,158,417</u>
<i>Total resources used to finance the net cost of operations</i>	<u>\$ 70,089,791</u>

Components of the Net Cost of Operations that will not require or Generate Resources in the Current Period

Components Requiring or Generating Resources in Future Periods:	
Increase in annual leave liability	\$ 883,840
Change in accounts receivable balance	(15,885)
Change in accounts payable	(256,601)
Unfunded FECA liability	(1,179,824)
Total components of Net Cost of Operations that will require or generate resources in future periods	\$ (568,470)
Components not Requiring or Generating Resources:	
Depreciation and amortization	960,048
<i>Total components of net cost of operations that will not require or generate resources in the current periods</i>	<u>\$ 391,578</u>

<i>Net Cost of Operations</i>	<u><u>\$ 70,481,369</u></u>
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The accompanying notes are an integral part of these statements.

Note 1

Summary of Significant Accounting Policies

REPORTING ENTITY

The accompanying financial statements present the financial position, net cost of operations, changes in net position, budgetary resources, and financing of the National Transportation Safety Board (NTSB). The NTSB is an independent agency charged with determining the probable cause(s) of transportation accidents and promoting transportation safety. The financial activity presented relates primarily to the execution of the NTSB's congressionally approved budget. The NTSB began operations in 1967 and, although independent, it relied on the U.S. Department of Transportation (DOT) for funding and administrative support. In 1975, under the Independent Safety Board Act, all organizational ties to DOT were severed. The NTSB is not part of DOT, or affiliated with any of its modal agencies. The laws specific to the Board are located in Chapter VIII, Title 49 of the Code of Federal Regulations.

BASIS OF ACCOUNTING AND PRESENTATION

These financial statements reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized as incurred, without regard to receipt or payment of cash. Budgetary accounting is designed to recognize the obligation of funds according to legal requirements. Budgetary accounting is essential for compliance with legal constraints and controls over the use of Federal funds.

These financial statements have been prepared from the books and reports of NTSB in accordance with U.S. generally accepted accounting principles (GAAP) for the Federal government, the Office of Management and Budget Bulletin No. 01-09, Form and Content of Agency Financial Statements (OMB Bulletin No. 01-09). NTSB did not prepare audited financial statements for FY 2002 and therefore, there is no presentation of comparative information for the FY 2003 statements.

ASSETS

Intragovernmental assets are those assets that arise from transactions with other Federal entities. Entity assets are available for use by the entity in its operations while nonentity assets are assets held by the entity but not available for use by the entity in its operations.

FUND BALANCE WITH U.S. TREASURY

The NTSB does not maintain cash in commercial bank accounts. The U.S. Treasury processes cash receipts and disbursements. Funds with the U.S. Treasury consist of appropriated and deposited funds that are available to pay current liabilities and finance authorized purchase commitments.

ACCOUNTS RECEIVABLE

NTSB's accounts receivable represent amounts due from current and non-current employees for salary overpayments. NTSB has deemed these receivables to be fully collectible. Accordingly, no allowance for uncollectible accounts is recognized.

GENERAL PROPERTY AND EQUIPMENT

The Office of the Chief Financial Officer has established a capitalization policy for general property and equipment (P&E). General P&E is reported at acquisition cost. The capitalization threshold is established at \$25,000. General P&E consists of items that are used by NTSB to support its mission. Depreciation on these assets is calculated using the straight-line method with a half-year of depreciation taken in the year of acquisition.

The land and buildings in which the NTSB operates are primarily leased from commercial entities. The General Services Administration (GSA) provides some of the facilities occupied by the NTSB. GSA charges the NTSB a Standard Level Users Charge (SLUC) that approximates the commercial rental rates for similar properties.

LIABILITIES

Liabilities represent amounts that are likely to be paid by the NTSB as the result of transactions or events that have already occurred; however, no liabilities are paid by the NTSB without an appropriation. Intragovernmental liabilities arise from transactions with other Federal entities.

ACCOUNTS PAYABLE

Accounts payable consist of amounts owed for goods, services and other expenses received but not yet paid.

ACCRUED PAYROLL AND BENEFITS

Accrued Payroll and Benefits represents salaries, wages and benefits earned by employees, but not disbursed as of September 30, 2003. Accrued payroll and benefits are payable to employees and are therefore not classified as intragovernmental.

ANNUAL, SICK, AND OTHER LEAVE

Annual leave is recognized as an expense and as a liability as it is earned; the liability is reduced as leave is taken. Each year, the balance in the accrued annual, restored, and compensatory leave account is adjusted to reflect current leave balances and pay rates. Sick leave and other types of non-vested leave are expensed as taken.

EMPLOYEE RETIREMENT PLANS

Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS)
NTSB employees participate in one of two retirement programs, either the CSRS or the FERS, which became effective on January 1, 1987. Most NTSB employees hired after December 31, 1983, are automatically covered by FERS and Social Security.

For CSRS covered employees, the NTSB withheld 7.0% of gross earnings. The NTSB matches the withholding, and the sum of the withholding and the matching funds is transferred to the Civil Service Retirement System.

For each fiscal year the Office of Personnel Management (OPM) calculates the U.S. Government's service costs for covered employees, which is an estimate of the amount of funds that, if accumulated annually and invested over an employee's career, would be enough to pay that employee's future benefits. Since the U.S. Government's estimated FY 2003 service cost exceeds contributions made by employer agencies and covered employees, this plan is not fully funded by the NTSB and its employees. For FY 2003, NTSB recognized \$2.4 million as an imputed cost and as an imputed financing source for the difference between the estimated service cost and the contributions made by NTSB and its employees.

FERS contributions made by employer agencies and covered employees exceed the U.S. Government's estimated FY 2003 service cost. For FERS covered employees the NTSB made contributions of 10.7% of basic pay. Employees contributed .80% of gross earnings. Employees participating in FERS are covered under the Federal Insurance Contribution Act (FICA) for which the NTSB contributes a matching amount to the Social Security Administration.

Thrift Savings Plan (TSP)

Employees covered by CSRS and FERS are eligible to contribute to the U.S. Government's TSP, administered by the Federal Retirement Thrift Investment Board. The NTSB makes a mandatory contribution of 1% of basic pay for FERS-covered employees. FERS employees are eligible to contribute up to 12% of basic pay to their TSP account. In addition, NTSB makes matching contributions, of up to 5% of basic pay, for employees who contribute to the Thrift Savings Plan. Contributions are matched dollar for dollar for the first 3 percent of pay contributed each pay period and 50 cents on the dollar for the next 2 percent of pay. CSRS participants may contribute up to 7% of their gross pay, but there is no governmental matching contribution. The maximum amounts that either FERS or CSRS employees may contribute to the plan in calendar year 2003 is \$11,000 for those under age fifty and \$12,000 for those fifty and older.

The NTSB financial statements do not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, which may be applicable to NTSB employees and funded by NTSB. Such reporting is the responsibility of OPM.

CONTINGENCIES

A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. A contingent liability is recognized when a past event or exchange transaction has occurred, and a future outflow or other sacrifice of resources is measurable and probable. A contingency is not disclosed in the Notes to the Financial Statements when any of the conditions for liability recognition are met but the chance of the future event or events occurring is remote. A contingency is disclosed in the Notes to the Financial Statements when any of the conditions for liability recognition are not met and the chance of the future confirming event or events occurring is more than remote but less than probable.

The NTSB is not a party to any legal actions which are likely to result in a material liability. Accordingly, no provision for loss is included in the financial statements.

REVENUES AND OTHER FINANCING SOURCES

Appropriations

Most of NTSB's operating funds are provided by congressional appropriations of budget authority. The NTSB receives appropriations on annual, multi-year and no-year bases. NTSB receives financial resources from the following appropriations:

Annual Salaries and Expenses Appropriation

Annual one-year appropriations are provided by Congress and are available for obligation in the fiscal year for which it was provided to fund the overall operation of the NTSB.

Supplemental Salaries and Expenses Appropriation

Supplemental appropriations provided by Congress to fund extraordinary investigations, such as those following the TWA Flight 800, Egypt Air Flight 990, and Alaska Airlines Flight 261.

No Year Emergency Fund Appropriation

A no-year Emergency Fund appropriation was provided by the Congress to fund extraordinary accident investigation costs. Emergency Fund disbursements are made at the discretion of the NTSB, but must be reported to the Congress. A no-year appropriation is available for obligation without fiscal year limitation. The NTSB's Emergency Fund currently is limited to \$2,000,000.

Emergency Response Fund Appropriation

In fiscal year 2002, as a result of the September 11, 2001 events, the NTSB received a multi-year appropriation for \$650,000 that was made available for fiscal years 2002 and 2003.

Imputed Financing Sources

In accordance with OMB Bulletin No. 01-09, all expenses should be reported by agencies whether or not these expenses would be paid by the agency that incurs the expense. The amounts for certain expenses of the NTSB, which will be paid by other Federal agencies, are recorded in the "Statement of Net Cost." A corresponding amount is recognized in the "Statement of Changes in Net Position" as an "Imputed Financing Source." These imputed financing sources primarily represent unfunded pension costs of NTSB employees.

STATEMENT OF NET COST

Sub-Organization Program Costs

The NTSB Statements of Net Cost and Changes in Net Position are presented by Responsibility Segment. These Responsibility Segments are based on the NTSB's mission and funding sources. The major programs that comprise the Responsibility Segments are: Aviation Safety, Surface Transportation Safety, and Research and Engineering.

Earned Revenue

The NTSB received a \$3.9 million payment from the Government of Egypt related to the investigation of the Egypt Air Flight 990. As of September 30, 2002, this transaction was reflected as a liability on the balance sheet as NTSB intended to remit the funds to the U.S. Treasury during FY 2003. However, during the second quarter of fiscal year 2003, the Office of Management and Budget authorized NTSB to treat the funds received from the Government of Egypt as an offsetting collection to NTSB's FY 2000 emergency supplemental no-year appropriation. As a result, funds available for FY

2003 appropriation spending increased. Additionally, during the second quarter of FY 2003, \$3.9 million was reported to the U.S. Treasury as appropriations permanently not available, which represented a one-time reduction in the appropriation (PL 106-246). These transactions offset each other as NTSB retained the funds received from the Government of Egypt and a like amount was reduced from NTSB's FY 2003 appropriation. The \$3.9 million received from the Government of Egypt is reported as earned revenue from the public during FY 2003.

Earned revenues collected by NTSB also include amounts collected from the public for information provided under the Freedom of Information Act (FOIA), training academy programs and rental of conference room space.

NET POSITION

Net position is the residual difference between assets and liabilities and comprises Unexpended Appropriations and Cumulative Results of Operations.

Unexpended appropriations include appropriations not yet obligated or expended, represented by the unobligated balances and undelivered orders of NTSB's appropriated funds. Multi-year appropriations remain available to NTSB for obligation in future periods. Unobligated balances associated with appropriations that expire at the end of the fiscal year remain available for obligation adjustments, but not for new obligations, until that account is closed, five years after the appropriations expire. Cumulative Results of Operations is the Net Result of NTSB's operations since inception.

USE OF ESTIMATES

The preparation of financial statements in accordance with the accounting principles described above requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Actual results could differ from those estimates.

Note 2

Fund Balances With The U.S. Treasury

The NTSB cash receipts and disbursements are processed by the U.S. Treasury. Non-Federal receipts are deposited in commercial banks, which transfer the receipts to the U.S. Treasury. Funds with the U.S. Treasury represent appropriated funds available to finance expenditures.

Fund Balance With The U.S. Treasury

Funds	Entity	Non-Entity	Total
Intragovernmental: Appropriated Funds	\$32,722,936		\$32,722,936
Deposit Funds-Suspense		\$58,347	58,347
Total	\$32,722,936	\$58,347	\$32,781,283

Status of Fund Balance with Treasury	Total
Unobligated Balance	
Available	\$13,310,871
Unavailable	8,742,510
Obligated Balance Not Yet Disbursed	10,669,555
Deposit Funds-Suspense	58,347
Total	\$32,781,283

Note 3

Property And Equipment, Net

Property and equipment consisted of the following as of September 30, 2003:

Property and Equipment

Classes of Fixed Assets	Service Life (Years)	Acquisition Value	Accumulated Depreciation	Net Book Value
Desktop and laptop computers and peripherals	3	\$582,064	\$ 485,053	\$ 97,011
Other ADP and Tele-comm equipment (servers, routers)	5	366,286	79,498	286,788
Furniture	5	383,487	191,744	191,743
Investigative equipment	5	39,500	35,550	3,950
Software	3	-	-	-
Leasehold Improvements	7	628,163	44,869	583,294
Capital lease	20	23,731,941	593,298	23,138,643
Totals		\$25,731,441	\$1,430,012	\$24,301,429

Note 4**Accrued FECA Liability**

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for NTSB employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by the NTSB.

FECA liability includes two components: (1) the accrued liability which represents money owed for claims paid by the DOL through the current fiscal year, for which billing to and payment by the NTSB will occur in a subsequent fiscal year, and (2) the liability for future costs which represents the expected liability for approved compensation cases beyond the current fiscal year. Estimated future costs have been actuarially determined, and are regarded as a liability to the public because neither the costs nor reimbursement have been recognized by DOL. FECA liability is included in Liabilities Not Covered by Budgetary Resources, as described in Note 6.

The NTSB accrues liabilities based on estimates of funds owed to other Federal government entities for services provided, but not yet billed. The accruals for Workers Compensation and Unemployment Compensation represent the estimated liability for the current fiscal year; for money owed, but not billed; and for claims, which were paid by the Department of Labor, but not yet billed to the NTSB.

Note 5
Accrued Annual Leave

Accrued annual leave consists of employees' unpaid leave balances at September 30, 2003 and reflects wage rates in effect at fiscal year end. Accrued annual leave is included in Liabilities Not Covered by Budgetary Resources, as covered in Note 6.

Note 6

Liabilities Covered and Not Covered By Budgetary Resources

Liabilities Not Covered by Budgetary Resources result from the receipt of goods and services, or the occurrence of events, for which appropriations, revenues, or other financing sources necessary to pay the liabilities have not yet been made available through Congressional appropriation. These include FECA and annual leave liability. Liabilities Covered by Budgetary Resources are those for which budgetary resources are available in the current fiscal year. NTSB's liabilities covered and not covered by budgetary resources are as follows:

Liabilities Covered and Not Covered by Budgetary Resources

Liabilities Covered by Budgetary Resources	
Employer Contribution and Payroll Taxes Payable	\$224,535
Other Liabilities	58,347
Accounts Payable	3,009,534
Accrued Payroll	1,913,177
Liabilities Not Covered by Budgetary Resources	
Capital Lease Liability	23,731,941
Accrued Unfunded Annual Leave	3,580,301
Accrued Interest Payable	105,805
Accrued Unfunded FECA Liability	7,180,192
Total Liabilities Covered and Not Covered by Budgetary Resources	\$39,803,832

Note 7 Leases

The NTSB has commitments under cancelable leases for office space. These leases have terms that extend up to 10 years. The majority of buildings in which the NTSB operates are leased from commercial companies. Under their lease agreement with the General Services Administration (GSA), the NTSB is charged rent that is intended to approximate commercial rental rates.

The NTSB has a 20-year capital lease for training academy space. The total future payments disclosed for the academy include estimates for services and utilities.

The NTSB also has leases for copiers, postage meters and vehicles. Copiers and postage meters are leased on an annual basis and vehicles are leased from GSA for three years. Future payments due:

Future Operating Lease Payments

Fiscal Year	Space Rental	Copiers/Postage Meter	Vehicle	Totals
2004	\$6,797,082	\$1,014	\$4,000	\$6,802,096
2005	6,797,082	1,014	4,000	6,802,096
2006	7,021,689	1,014		7,022,703
2007	7,021,689	1,014		7,022,703
2008	7,021,689	1,014		7,022,703
2009 and beyond	12,388,425			12,388,425
Total Future Lease payments	\$47,047,656	\$5,070	\$8,000	\$47,060,726

Future Capital Lease Payments

Fiscal Year	Space Rental
2004	\$ 2,580,120
2005	2,603,381
2006	2,627,535
2007	2,652,618
2008	2,678,668
2009 and beyond	40,884,682
Total Future Lease Payments	\$54,027,004

Note 8**Statement Of Budgetary Resources**

The Statement of Budgetary Resources compares budgetary resources with the status of those resources. As of September 30, 2003, budgetary resources were \$94.9 million and outlays for the year were \$66.4 million. The amount of direct obligations incurred against amounts apportioned under Category A is \$71.9 million.

Legal arrangements affecting the use of unobligated balances during FY 2003 include restriction on use of certain unobligated balances. The restriction applies to the unobligated balance of \$8.7 million.

Note 9
Prior Period Adjustments

The accompanying Statement of Changes in Net Position includes two items that have been presented as prior period adjustments. Prior period adjustments are limited to corrections of errors and accounting changes with retroactive effect that can either increase or decrease net position of their nature. The prior period adjustments presented in the accompanying statement are as follows:

ACTUARIAL FECA LIABILITY

The liability of \$6.0 million is comprised of current year and prior year amounts. The liability attributed to prior fiscal years totals \$5.4 million. The current year balance is reflected as a Change in Actuarial Liability and is included in the Statement of Net Cost. The prior year liability is reflected as a Prior Period Adjustment on the Statement of Changes in Net Position.

PROPERTY AND EQUIPMENT

A prior period adjustment in the net amount of \$640,005 representing a reduction of \$1.4 million in cost capitalized in FY 2002 for property equipment acquisitions has been subsequently identified as operating expense transactions.

WE WELCOME YOUR COMMENTS!

Thank you for your interest in the National Transportation Safety Board's FY 2003 Financial Statements. We welcome your comments on how we can make this report a more informative document for our readers. We are particularly interested in your comments on the usefulness of this information and the manner in which it is presented. Please send your comments to cfofeedback@ntsb.gov or write to:



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