U.S. DEPARTMENT OF TRANSPORTATION

OFFICE OF INSPECTOR GENERAL

Quality Control Review of the Management Letter for the National Transportation Safety Board's Audited Financial Statements for Fiscal Years 2019 and 2018

Report No. QC2020026

April 8, 2020

Quality Control Review of the Management Letter for the National Transportation Safety Board's Audited Financial Statements for Fiscal Years 2019 and 2018

Required by the Accountability of Tax Dollars Act of 2002

National Transportation Safety Board | QC2020026 | April 8, 2020

What We Looked At

This report presents the results of our quality control review (QCR) of Allmond & Company, LLC's management letter related to the audit it conducted, under contract with us, of the National Transportation Safety Board's (NTSB) financial statements for fiscal years 2019 and 2018. In addition to its audit report on NTSB's financial statements, Allmond issued a management letter that discusses internal control matters that it was not required to include in its audit report.

What We Found

Our QCR of Allmond's management letter disclosed no instances in which Allmond did not comply, in all material respects, with generally accepted Government auditing standards.

Recommendations

Allmond made three recommendations in its management letter. NTSB concurred with all recommendations.

April 8, 2020

The Honorable Robert L. Sumwalt, Chairman
National Transportation Safety Board
490 L'Enfant Plaza, SW
Washington, DC 20594

Dear Chairman Sumwalt:

I am pleased to transmit the enclosed management letter related to the audit of the National Transportation Safety Board's (NTSB) financial statements for fiscal years 2019 and 2018. Allmond & Company, LLC, of Landover, MD, completed the audit under contract with us. The contract required Allmond to perform the audit in accordance with generally accepted Government auditing standards and Office of Management and Budget's Bulletin 19-03, *Audit Requirements for Federal Financial Statements*. Allmond issued an auditor's report[1] that included a clean (unmodified) opinion on NTSB's financial statements.

Allmond also issued, and is responsible for, a management letter, dated November 6, 2019 (see enclosure), identifying two internal control matters that require NTSB management's attention. Allmond was not required to include these matters or the related recommendations in its auditors' report.

Allmond's Management Letter

In its management letter, Allmond reported the following matters involving NTSB's internal control and operations that require management's attention.

[1] See *Quality Control Review of the Independent Auditor's Report on the National Transportation Safety Board's Financial Statements for Fiscal Years 2019 and 2018* (OIG Report Number QC2020007), November 12, 2019

Preparation and Review of Interim Financial Statement Footnote Disclosures

Allmond reported that existing control procedures were not adequately designed and implemented at the appropriate level of precision to ensure agreement between the financial statement footnotes or that all account balances were complete and accurate. Allmond identified one instance in which two footnotes did not agree with each other and one instance in which a footnote amount did not agree with the amount in the adjusted trial balance.

Documentation of the Review and Approval of Journal Vouchers

Allmond reported that established policies and procedures for the review and approval of manual journal vouchers were not followed. Allmond identified two sample items over $800,000 for which there was no evidence of the second- and third- level management review required by NTSB standard operating procedures for journal vouchers.

Recommendations

Allmond made three recommendations to enhance NTSB's policies and procedures over financial, accounting, and system controls:

1. Enhance existing policies and procedures to ensure that the account balances, line items, and all corresponding balances reported in the agency's trial balance are complete, accurate, and classified according to their economic substance.

2. Enhance existing policies and procedures to ensure that the account balances and line items reported in the financial statement footnotes agree with the agency's adjusted trial balance for the corresponding reporting period.

3. Enforce existing policies and procedures regarding the review and approval of manual journal vouchers to ensure that all required levels of review are completed and the process is properly documented.

NTSB officials concurred with the three recommendations and committed to implementing corrective actions.

Our QCR

We performed a quality control review (QCR) of Allmond's management letter and related documentation. Our QCR disclosed no instances in which Allmond did not comply, in all material respects, with generally accepted Government auditing standards.

We appreciate the cooperation and assistance of NTSB's representatives and Allmond. If you have any questions about this report, please call me at (202) 366-1407 or George Banks, Program Director, at (202) 420-1116.

Sincerely,

Louis C. King
Assistant Inspector General for Financial and
Information Technology Audits

Enclosure

Enclosure

Independent Auditor’s Management Letter

NATIONAL TRANSPORTATION SAFETY BOARD
MANAGEMENT REPORT
SEPTEMBER 30, 2019

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MANAGEMENT LETTER REPORT

Chairman, National Transportation Safety Board
Inspector General, U.S. Department of Transportation

We audited the National Transportation Safety Board (NTSB) financial statement as of September 30, 2019 and for the year then ended and issued our report dated November 6, 2019 under separate cover.

In planning and performing our audit, we considered NTSB internal control to determine auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal controls. Though not considered to be a material weakness or significant deficiency, we noted two matters involving internal control that are presented in this letter for NTSB's management's attention and consideration.

The purpose of this report is solely for the information and use of NTSB management. We appreciate your assistance and cooperation during the audit and look forward to serving you in the near future.

Sincerely,

Allmond & Company, LLC

Lanham, MD
November 6, 2019

Allmond & Company audited the accompanying balance sheet of the National Transportation Safety Board (NTSB) as of September 30, 2019 and 2018, and the related statements of net cost, statements of changes in net position, and statements of budgetary resources for the years then ended (the financial statements).We noted two additional matter involving the internal control and NTSB operations that we think warrant management's attention; however, neither issue was considered a significant deficiency and/or a material weakness.

Under standards issued by the American Institute of Certified Public Accountants, a deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatement on a timely basis. A material weakness is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit the attention by those charged with governance. There were no significant deficiencies or material weaknesses noted during our audit of NTSB's FY 2019 financial statements.

We noted the following control deficiencies during our audit:

1. Preparation and Review of Interim Financial Statement Footnote Disclosures
2. Documentation of the Review and Approval of Journal Vouchers

These conditions are discussed in detail in the findings outlined below:

FINDING 1: Improvements Needed over the Preparation and Review of Interim Financial Statement Footnote Disclosures

CONDITION:

During our review of NTSB's financial statements and footnotes for the interim reporting period ended June 30, 2019, we noted the following:

- The amounts reported for the Acquisition Value and Accumulated Depreciation (Amortization) of Assets Under Capital Lease in Note 4, General Property, Plant, and Equipment, net, of the June 30, 2019 interim financial statements and footnotes ($24,169,774 and ($19,226,624), respectively) did not agree with the amounts reported in Note 7, Leases, ($23,731,941 and ($18,788,791), respectively).
- Undelivered Orders at the End of the Period reported in Note 11 of the June 30, 2019 interim financial statements and footnotes ($15.3 million) did not agree to the balance of total undelivered orders reported per the June 30, 2019 adjusted trial balance ($12.8 million).

CRITERIA:

The Government Accountability Office (GAO), Standards for Internal Controls in the Federal Government, (issued September 2014), Principle 10 – Design Control Activities, 10.03, Accurate and Timely Recording of Transactions, states, "Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded."

CAUSE:

- Existing control procedures are not adequately designed and implemented at the appropriate level of precision to ensure agreement between the financial statement footnotes. We noted that NTSB exercised the bargain purchase option on a lease for office equipment in FY 2017, which terminated the lease agreement; however, a journal entry was not posted to reclassify these assets as Equipment at that time. These assets were subsequently taken out of service pending disposal of the equipment prior to June 30, 2019 and should have been classified and reported in the trial balance as Other Assets (Asset Clearing) for the period ended June 30, 2019.
- Existing control procedures are not adequately designed and implemented at the appropriate level of precision to ensure that all account balances are complete and accurate. We noted that the amount reported in Note 11, Undelivered Orders at the End of the Period, was based on NTSB's Master Obligation Report as of June 30, 2019. This balance did not include the subsequent adjusting entry for the accounts payable accrual for the period.

EFFECT:

- The Acquisition Value and Accumulated Depreciation of Assets Under Capital Lease in Note 4, General Property, Plant, and Equipment, Net, were overstated by $437,833.
- Undelivered Orders at the End of the Period was overstated by $2.5 million in Note 11 of the June 30, 2019 notes to the financial statements.

RECOMMENDATION:

We recommend that NTSB management:

- Enhance existing policies and procedures to ensure that the account balances, line items, and all corresponding balances reported in the agency's trial balance are complete, accurate, and classified according to their economic substance.
- Enhance existing policies and procedures to ensure that the account balances and line items reported in the financial statement footnotes agree with the agency's adjusted trial balance for the corresponding reporting period.

MANAGEMENT RESPONSE

NTSB agrees with the substance of both recommendations and will fully implement improvements before fiscal year end.

AUDITORS' RESPONSE

We will conduct follow-up procedures in FY 2020 to determine whether corrective actions have been developed and implemented.

FINDING 2: Improvements Needed over the Documentation of the Review and Approval of Journal Vouchers

CONDITION:

During our review of fourteen samples selected from the listing of manual journal entries posted to the NTSB's general ledger during the period of October 1, 2018 to September 30, 2019, we identified five samples for which the total of the debit and credit amounts were greater than $800,000. All of the samples tested were approved by the Accounting Operations Division Chief; however, for two of the five samples with debit and credit amounts greater than $800,000, there was no evidence of the second and third level management review that was required per NTSB standard operating procedures.

CRITERIA:

NTSB Operations Bulletin CFO-INT-020, *Manual Journal Preparation and Approval,* states the following:

3. Policy: "[E]ach and all manual journal vouchers (JVs) must be prepared with sufficient supporting documentation and carefully reviewed for approval by at least one supervisor, before the JV can be entered into Oracle."
5. Procedures:

   B. The Accounting Division Chief should submit the approved JV to the Deputy Chief Financial Officer for the second level of approval, in Oracle and in the lead sheet, if the total debits/credits exceed $800,000.

   C. The Deputy Chief Financial Officer should disapprove by applying a "reject" to send [the JV] back to the Accounting Division Chief, or approve the JV document in the lead sheet and in Oracle so the JV can be routed to the Chief Financial Officer.

   D. The Chief Financial Officer should review the appropriateness of the preparation, review and approval processes of the JV; apply the final level of approval for the JV to be accepted into Oracle; and sign off on the lead sheet.

CAUSE:

- Established policies and procedures for the review and approval of manual journal entries were not followed.

EFFECT:

- Material adjustments could be recorded to the NTSB's general ledger without the review and approval of the Chief Financial Officer, which could result in a material misstatement in the agency's financial statements.

RECOMMENDATION:

We recommend that NTSB management:

- Enforce existing policies and procedures regarding the review and approval of manual journal vouchers to ensure that all required levels of review are completed and the process is properly documented.

MANAGEMENT RESPONSE

NTSB agrees with the finding and the recommendation. Both noncompliant JVs were discussed at depth at the Chief Financial Officer weekly meetings with the Accounting Officer and Senior Advisor to review the status of accounting operations. At those meetings both JVs were specifically discussed prior to the JVs actually being entered into the accounting system as they were not routine entries. The CFO and Senior Advisor fully understood the posting, the reasons for the JVs, the support behind the JVs and we authorized/approved the Accounting Officer to proceed with posting the JVs. Our policy, CFO-INT-020, was established to implement a control to assure senior management is aware of and approves manual entries into our accounting system when such entries could have a material effect on our financial statements. In these two cases, the CFO and Senior Advisor were fully aware of the manual transactions being submitted and agreed the entries were necessary to properly record the transactions in our general ledger. We met the intent of our control objective but did not meet the letter of the procedures by signing off on the documentation of both JVs.

CFO-INT-020, Manual Journal Voucher Preparation and Approval, indicates our policy is to require additional management review of a JV when the sum of the debits or credits for the JVs exceeded $800,000. However, we arrived at that threshold by considering the balance between not reviewing a significant transaction and reviewing too many transactions that were not significant but merely hit multiple GL accounts for relatively small amounts. Oracle Federal Financial system cannot be configured to do a review based on the total debits and credits, it can only be set to trigger additional routine if any individual debit or credit exceeds a threshold. Since our preferred control did not match the way the system could be configured, we had to institute a manual control process. While we believe our current control works and is appropriate, we will consider modifying our policy to be consistent with how the control can be configured in Oracle which would eliminate the need for a manual control process and thus ensure all appropriate transaction are subjected to additional management review.

AUDITORS' RESPONSE

We will conduct follow-up procedures in FY 2020 to determine whether corrective actions have been developed and implemented.

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