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 2017 and 2016

Report No. QC2018025

February 14, 2018

U.S. DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL

Highlights

Quality Control Review of the Management Letter for the National Transportation Safety Board's Audited Financial Statements for Fiscal Years 2017 and 2016

Required by the Accountability of Tax Dollars Act of 2002

QC2018025 | February 14, 2018

What We Looked At

This report presents the results of our quality control review (QCR) of Allmond & Company, LLC's (Allmond) 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 2017 and 2016. 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 two recommendations in its management letter. NTSB concurred with both recommendations.

U.S. Department of
Transportation

February 14, 2018

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 2017 and 2016. Allmond & Company, LLC (Allmond) 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 Bulletin 17-03, *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 (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 auditor's report.

Summary of 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:

Estimation of Accrued Accounts Payable

Allmond reported that NTSB did not have a control procedure in place to review estimations of accounts payable to be accrued at year-end. Allmond noted

[1] See *Quality Control Review of the National Transportation Safety Board's Audited Financial Statements for Fiscal Years 2017 and 2016* (OIG Report Number QC2018004), November 13, 2017.

instances in which NTSB did not post some expenses to Accounts Payable that were incurred prior to the end of the fiscal year. As a result, NTSB's Operating Expenses/Program Cost, Accounts Payable, and Expended Authority-Unpaid were understated by approximately $97,000 and Unexpended Obligation-Unpaid was overstated by approximately $97,000.

End User Controls Over Logical Access to Federal Personnel Payroll System

Allmond reported that it identified access control weaknesses during its review of end user controls over access to the Federal Personnel Payroll System. Specifically, three users had system access to user roles that did not match the user access roles requested and authorized on the system access request form. One user had access that was granted before the approval date reported on the system access request form.

Recommendations

To strengthen NTSB's financial, accounting, and system controls, Allmond recommended that NTSB:

1. Enhance its current policies and procedures over the review of year-end accruals by including a look-back analysis which compares disbursements made early in the subsequent fiscal year to the accrual estimated through its current process in order to identify items which should be included in its year-end accrual. In addition, if significant differences are identified, NTSB should determine the appropriate corrective action necessary to increase the accuracy of its accrual estimation process.

2. Redesign its provisioning process to include that the system access request accurately describes the access required for each user and that when access is modified a new system access request form is completed to reflect this change.

NTSB officials concurred with Allmond's recommendations and committed to implementing corrective actions.

Our QCR

We performed a QCR of Allmond's management letter and related documentation. Our review 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, 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, 2017

ALLMOND & COMPANY, LLC
Certified Public Accountants
8181 Professional Place, Suite 250
Landover, Maryland 20785
(301) 918-8200

MANAGEMENT LETTER REPORT

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

We audited the National Transportation Safety Board (NTSB) financial statements as of September 30, 2017 and for the year then ended and issued our report dated November 6, 2017 under separate cover.

In planning and performing our audit, we considered NTSB's internal controls to determine auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal controls.

During the audit, we noted two additional matters involving internal control and NTSB operations that we think warrant management's attention. A discussion of these matters forms the remainder of this report. The scope of this report is all matters not considered to be a significant deficiency and/or material weakness involving NTSB operations.

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

Allmond & Company audited the balance sheet of the National Transportation Safety Board (NTSB) as of September 30, 2017 and 2016, 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 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 2017 financial statements; however we noted the following control deficiencies during our audit:

1. End Users Controls over Logical Access to Federal Personnel Payroll System (FPPS)
2. Estimation of Accrued Accounts Payable

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

FINDING 1: End User Controls over Logical Access to Federal Personnel Payroll System (FPPS)

During our review of National Transportation Safety Board (NTSB) fiscal year (FY) 2017 end user controls over access to the Federal Personnel Payroll System (FPPS), we noted the following control weaknesses:

- Three users had system access to user roles that did not match the user access roles requested and authorized on the system access request form.

- One user had access that was granted before the approval date reported on the system access request form.

National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 4, Security and Privacy Controls for Federal Information Systems and Organizations, Section AC-2, Account Management, states:

> "The organization:
>
> d. Specifies authorized users of the information system, group and role membership, and access authorizations (i.e., privileges) and other attributes (as required) for each account;
>
> e. Requires approvals by [Assignment: organization-defined personnel or roles] for requests to create information system accounts."

These findings were a result of certain user roles not being included on the access request form and not completing or updating a user request form upon changes to user profiles. These access control weaknesses could result in users with inappropriate access to FPPS; lack of completeness, accuracy, or integrity of financial data; and/or undetected unusual activity within FPPS.

RECOMMENDATION

We recommend that NTSB redesign its provisioning process to include that the system access request accurately describes the access required for each user and that when access is modified a new system access request form is completed to reflect this change.

MANAGEMENT RESPONSE

NTSB agrees with the recommendation and will improve the user access form to address this concern.

AUDITORS' RESPONSE

We will conduct follow-up procedures in FY 2018 to determine whether corrective actions have been developed and implemented.

FINDING 2: Estimation of Accrued Accounts Payable

During our performance of year-end substantive procedures over Accounts Payable, we selected a sample of ten items from a population of non-payroll disbursements which were recorded during the period from 10/01/17 to 10/15/17 and traced them back to the accounts payable balance at 09/30/17. We noted the following:

One instance in which expenses incurred prior to the end of the fiscal year were not posted to Accounts Payable nor included in the year-end accrual. This disbursement, a $78,367 payment to a federal vendor for services rendered in August and September of FY 2017, was initiated by the vendor on 10/05/17 and posted to NTSB's general ledger on 10/11/17 and therefore should have been included in the 09/30/17 Accounts Payable accrual.

In addition to our subsequent disbursement sample, we noted two other open obligations for the same federal vendor which were also not included in the Accounts Payable ending balance. These open obligations for $3,845.08 and $14,413.70 were created in FY 2016 and FY 2017, respectively.

Statement of Federal Financial Accounting Standards (SFFAS) Number (No.) 5, Accounting for Liabilities of the Federal Government, provides the definition and general principle for the recognition of a liability: A liability for federal accounting purposes is a probable future outflow or other sacrifice of resources as a result of past transactions or events. General purpose federal financial reports should recognize probable and measureable future outflows or other sacrifices of resources arising from (1) past exchange transactions, (2) government-related events, (3) government-acknowledged events, or (4) nonexchange transactions that, according to current law and applicable policy, are unpaid amounts due as of the reporting date."

The Government Accountability Office (GAO's) Standards for Internal Control in the Federal Government, states the following:

Principle 10.01: Design Control Activities:

"Management should design control activities to achieve objectives and respond to risks. The following attributes contribute to the design, implementation, and operating effectiveness of this principle:

- Response to Objectives and Risks
- Design of Appropriate Types of Control Activities
- Design of Control Activities at Various Levels
- Segregation of Duties"

This issue occurred because NTSB does not have a control procedure in place to review the reasonableness and accuracy of its estimation of accounts payable to be accrued at year-end, which resulted in the following:

- Operating Expenses/Program Cost, Accounts Payable, and Expended Authority-Unpaid were understated by approximately $97 thousand.
- Unexpended Obligation - Unpaid was overstated by approximately $97 thousand.
- Increased risk of material misstatements reported on the Balance Sheet, Statement of Net Costs, and Statement of Budgetary Resources.

RECOMMENDATION

We recommend that NTSB management enhance its current policies and procedures over the review of year-end accruals by including a look-back analysis which compares disbursements made early in the subsequent fiscal year to the accrual estimated through its current process in order to identify items which should be included in its year-end accrual. In addition, if significant differences are identified, NTSB should determine the appropriate corrective action necessary to increase the accuracy of its accrual estimation process.

MANAGEMENT RESPONSE

NTSB agrees to enhance its accounts payable accrual process to ensure all material payables are accrued. To accomplish this, NTSB will survey the process used by other Federal Agencies and implement changes that will correct the condition identified by Allmond & Company. Such changes will be discussed with Allmond & Company to ensure they are sufficient to resolve the Recommendation.

AUDITORS' RESPONSE

We will conduct follow-up procedures in FY 2018 to determine whether corrective actions have been developed and implemented.

The following table provides the fiscal year (FY) 2017 status of all recommendations included in the FY 2016 Management Letter Report.

FY 2016 Finding	FY 2016 Recommendation	FY 2017 Status
1. Imputed cost was calculated using all pay data (basic pay, awards, premium pay, etc.) for employees in enrolled into the various retirement programs rather than only basic pay data as instructed by OPM.	**Recommendation**: We recommended that the Office of Chief Financial Officer (OCFO) ensure that basic pay data used to compute imputed costs is complete and accurate. Specifically, we recommend that NTSB implement an internal control procedure requiring an independent review to be performed over the OPM imputed cost calculation to ensure the calculation is accurate and the appropriate basic pay amounts are used.	Closed

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