

**Before the Budget Committee Task Force
on Housing and Infrastructure
U.S. House of Representatives**

**For Release on Delivery
Expected at
10:00 a.m. EDT
Thursday
April 13, 2000**

National Transportation Safety Board: Rapidraft Payment System

**Statement of
The Honorable Kenneth M. Mead
Inspector General
U.S. Department of Transportation**



Mr. Chairman and Members of the Task Force:

We appreciate the opportunity to discuss the National Transportation Safety Board's (NTSB) Rapidraft Payment System.

In 1984, NTSB contracted with a vendor to provide a line of credit for third-party check writing privileges. A primary purpose of these checks, referred to as Rapidrafts, was to eliminate the extra paperwork and processing time required to issue checks through the Treasury Department. The vendor served to administer the Rapidraft program, including issuing blank checks (drawn against the vendor's bank account), maintaining a list of authorized NTSB users, and providing NTSB with monthly transaction statements and canceled checks. NTSB renewed the firm's contract, most recently in 1996.

The Rapidraft Payment System—in operation from 1984 through September 1999—authorized some NTSB employees, including on-site accident investigators, to write Rapidrafts “for accident and non-accident **investigation costs.**” These Rapidrafts were limited to \$2,500 per transaction. During the past three fiscal years (FY), 1997 through 1999, NTSB issued 26,097 Rapidrafts totaling \$12.9 million. During the first 11 months of FY 1999, only \$227,776 (6 percent) of the \$3.6 million Rapidraft payments were associated with on-site accident investigations.

The Rapidraft Payment System was under the general management of NTSB's Chief Financial Officer (CFO). Its operation was governed by an NTSB Order prescribing the procedures and internal controls on use of Rapidrafts.

In late August 1999, after learning about incidents of possible abuse of the Rapidraft Payment System by one or more NTSB employees, NTSB Chairman Jim Hall requested our assistance in investigating the suspected abuse. In addition to rendering investigative services, we agreed to perform a broader audit of the Rapidraft Payment System. As NTSB is not within the scope of our investigative and audit authority, we performed the work under a mutually agreed to Memorandum of Understanding and Agreement.

In brief, our audit revealed that the Rapidraft Payment System was seriously mismanaged. Our review of 1,000 Rapidrafts paid during FY 1999 showed that 902, over 90 percent, were non-compliant with NTSB internal controls. Specific deficiencies we identified include the following:

- 678 Rapidrafts did not contain the required explanation for the check.
- 222 Rapidrafts were processed and paid without the required signature or authorization number.
- 22 Rapidrafts were issued in excess of the \$2,500 limit. In the two prior

- fiscal years, more than 150 Rapidrafts exceeded \$2,500, including eight Rapidrafts issued for \$20,000 or more.
- As a matter of practice, paid Rapidrafts (forwarded by the contractor to NTSB, similar to a bank's return of canceled checks to a customer) were neither reviewed nor reconciled with supporting documentation by NTSB.
 - The contractor was not notified that 37 of the 177 authorized users had left NTSB.
 - Employees separating from NTSB employment were not required to turn in unused Rapidrafts and many did not.
 - Employees ordered and received blank Rapidrafts from the contractor without management approval or knowledge.
 - NTSB management did not track how many Rapidrafts were issued to employees.
 - Rapidrafts were not kept in secure locations at NTSB.
 - Rapidrafts were used to "split" purchases and circumvent Federal Acquisition Regulations and NTSB Orders. ("Splitting" is the practice of using multiple Rapidrafts to divide a single purchase—which exceeds the Government's \$2,500 micro-purchase ceiling—into a series of separate, smaller purchases in order to circumvent the ceiling.)

NTSB's lack of adherence to internal controls rendered the Rapidraft Payment System susceptible to fraud, waste and abuse, as evidenced by two known embezzlements which we investigated. Our investigations disclosed that two NTSB employees, one in a field office and one at Headquarters had separately embezzled Government funds using the Rapidraft System. The employees resigned before our investigation commenced in August 1999. Since then, our findings concerning each of those former employees have resulted in criminal prosecution by the Department of Justice.

Our investigation disclosed that a former employee was responsible for misappropriating in excess of \$20,000. On April 4, 2000, she was indicted by a Federal grand jury in the Northern District of Georgia on seven felony counts of embezzlement. On April 11, 2000, the other former employee—who worked under NTSB's former CFO—was charged in a one-count felony Information by the U.S. Attorney's Office for the District of Columbia for embezzling approximately \$74,000.

In early November 1999, we apprised NTSB of our audit and preliminary investigative findings, transmitting our formal audit report. Our audit report recommended that NTSB:

- Discontinue the Rapidraft Payment System.

- Implement approved payment programs, such as the Government-wide commercial purchase card and a Federal payment processor for travel-related reimbursements.
- Ensure that the CFO's office develops and implements comprehensive internal controls for these programs.

In response to our recommendations, Chairman Hall notified us that he had discontinued the Rapidraft Payment System and NTSB adopted the Government-wide purchase credit card program. Moreover, NTSB appointed a new CFO in January 2000 and has retained the services of a private sector audit firm to assist in identifying weaknesses and recommending procedures and resources for improved audit control. This outside audit firm will audit and examine internal control weaknesses in other financial systems, such as NTSB's travel program, accountability of property and internal controls, and electronic certifications. These programs and systems were beyond the scope of our review of the Rapidraft Payment System.

The NTSB is held in high regard for its expertise and role in assuring the safety of all modes of transportation. It is widely regarded as the preeminent investigative agency of its kind in the world. We note NTSB's prompt action in requesting assistance to identify the cause and extent of the problems with the Rapidraft program and appreciate its cooperation with our auditors and investigators. NTSB has committed to a meaningful course of corrective action on a broad front, promptly ending its use of Rapidrafts even before the completion of our audit, and must now follow through in its implementation of these actions.

To help the Task Force in its efforts, our testimony today addresses three areas related to the problems identified with the NTSB's Rapidraft program.

- First, the established internal controls were not operating as intended,
- Second, our recommendations to correct the problems identified and NTSB actions relative to those recommendations, and
- Finally, our findings in this matter illustrate the need for some type of institutional oversight within NTSB in order to provide the Chairman and the Board with independent reviews of NTSB's financial management programs and business operations. This capability presently does not exist.

In December 1997, we issued an audit report to the Federal Aviation Administration (FAA) regarding the closeout of its imprest fund, which included recommendations concerning third-party drafts. At that time, we recommended FAA limit its use of third-party drafts to exceptional circumstances. As a result of

our work with the NTSB in this matter, we made follow-up inquiries about the continued use of third-party drafts in the Department of Transportation (DOT).

On April 12, 2000, DOT's Assistant Secretary for Budget and Programs issued a memorandum to all Departmental CFOs directing that the use of third-party drafts "shall be discontinued after May 10, 2000." As originally designed, third-party draft programs once served a useful purpose by providing a payment mechanism for time-sensitive missions such as NTSB's. However, the Government's adoption of purchase and travel credit card programs has supplanted the need for third-party drafts.

INTERNAL CONTROLS WERE NOT OPERATING AS INTENDED

The Rapidraft Payment System was seriously mismanaged and subjected to embezzlement. During fiscal years (FY) 1997 through 1999, NTSB issued 26,097 Rapidrafts totaling \$12.9 million. While intended "for accident and non-accident investigation costs", Rapidrafts were predominately used to reimburse employees for non-accident related travel, pay tuition for training, make equipment purchases, and pay employees' salaries. Also, Rapidrafts were processed and paid when they exceeded the \$2,500 limit, and employees "split" purchases to circumvent that limit and the Federal Acquisition Regulations.

The internal controls designed for the Rapidraft Payment System were not followed, resulting in numerous weaknesses that left the System inherently vulnerable to fraud, waste, and abuse. For example, Rapidraft stocks were not protected from unauthorized use, Rapidrafts were paid without the required signature or authorization number, and 37 of the 177 authorized users no longer worked for NTSB. Rapidrafts were also paid when the signatures of current and

former employees were forged. The CFO's office did not review paid Rapidrafts or reconcile them with required supporting documentation to ensure payments were authorized and appropriate.

Our review of 1,000 Rapidrafts paid during FY 1999 showed that they frequently lacked supporting documentation. The lack of documentation precluded us from determining whether many of the payments were for legitimate NTSB purposes.

Rapidrafts Were Used in Violation of NTSB Policy

Contrary to NTSB policy, Rapidrafts were paid when they exceeded the \$2,500 limit, and payments were split to circumvent acquisition regulations and the \$2,500 limit. NTSB Order 1542 Section 5b(2) states "*Rapidrafts are limited to a maximum of \$2,500 per item/service.*" During FY 1999, the Rapidraft Payment System contractor processed 22 NTSB Rapidrafts that exceeded the \$2,500 limit, including ones for \$11,076 and \$4,070. During a limited review of FY 1998 and FY 1997 Rapidrafts, we identified 107 and 49, respectively, that were processed for more than \$2,500 including individual Rapidrafts as follows:

- \$28,532 for hotel services;
- \$24,461, \$20,000, and \$13,357 for building renovations (FY 1997);
- \$16,404, \$10,000, and \$7,890 for building renovations (FY 1998); and

- \$5,795 for telephone service.

Also, NTSB Order 1542 Section 5b(3) notes “*A paid Rapidraft does not eliminate or mitigate . . . the prohibition against subdividing foreseeable purchases, merely to use simplified procedures.*” However, NTSB employees—including the former CFO—were “splitting” payments (using multiple Rapidrafts to divide a purchase that exceeds the government’s \$2500 micro-purchase ceiling into a series of separate, smaller purchases in order to circumvent the ceiling, a violation of Federal Acquisition Regulations and NTSB Order. For example, one employee wrote three Rapidrafts totaling \$4,649 to the same payee on one day for computer equipment.

Internal controls were not sufficient to protect the System from fraud, waste, and abuse. Although some controls existed on paper, the controls were not followed. Also, NTSB staff were not trained in the proper use of Rapidrafts (NTSB Order 1542, Section 5a) or the penalties for misuse (NTSB Order 1542, Section 7a).

NTSB Order 1542 prescribes internal control procedures for Rapidrafts, including segregation of duties, limitations on use, requirements for supporting documentation, and guidance on safeguarding the Rapidrafts. For example, Section 6d states “*If the Rapidrafts do not meet certain pre-established criteria, [the contractor] will reject them for payment. The amount may not exceed \$2,500.*”

The signature appearing on the Rapidraft must be an authorized employee, and the authorization number must match the one assigned to that employee.”

However, the internal control procedures were not followed by NTSB and the contractor. Specific weaknesses OIG identified include:

- Rapidrafts were paid without the required signature or authorization number.
- Rapidrafts were paid without the required supporting documentation.
- The contractor was not notified that 37 of the 177 authorized users had left NTSB.
- Employees leaving NTSB were not required to turn in unused Rapidrafts and many did not.
- Employees ordered and received blank Rapidrafts from the contractor without management approval or knowledge.
- NTSB management did not track how many Rapidrafts were issued to employees.
- Rapidrafts were not kept in secure locations at NTSB.
- As a matter of practice, paid Rapidrafts (forwarded by the contractor to NTSB, similar to a bank’s return of canceled checks to a customer) were neither reviewed nor reconciled by NTSB.

Our sample of 1,000 Rapidrafts from the 7,749 paid during the first 11 months of FY 1999 showed that 902 Rapidrafts (90 percent) were non-compliant with NTSB internal controls. For example, 678 Rapidrafts (68 percent) did not contain the required explanation of the purpose for the check. Also, 222 Rapidrafts (22 percent) were processed and paid even though they did not include the required authorization number. Additionally, 52 Rapidrafts contained more than 1 deficiency such as no signature on the check and no explanation of the purpose for the check. While the contractor should not have paid Rapidrafts without signatures or authorization numbers, NTSB officials did nothing to check the contractor's actions or processes.

Specific examples of Rapidrafts issued and transacted in violation of the usage procedures are as follows:

- In August 1998, a \$1,416 Rapidraft bearing no authorizing signature was issued and subsequently negotiated.
- In November 1998, a \$2,150 Rapidraft for which no payee was listed was issued and later negotiated.

Further, canceled Rapidrafts were not reviewed or reconciled with supporting documentation to verify that the payments were for legitimate products or services, and that the transacting employee was authorized to make the payment.

Bundles of paid Rapidrafts from the contractor were stored unopened, and the CFO's office did not compare them against supporting documentation.

The CFO's office only compared a listing of check numbers and dollar amounts on the contractor's bill with check numbers and amounts entered into the accounting system by employees who issued the Rapidrafts. If there was a match, NTSB paid the bill without question. Reconciling Rapidrafts to the supporting documentation is an important control mechanism because it provides independent assurance that payments and purchases are authorized and appropriate.

Control Weaknesses Were Previously Identified

Weaknesses in internal controls for the Rapidraft Payment System were identified on at least two previous occasions. A 1992 audit report by the General Services Administration's (GSA) Inspector General on NTSB's travel procedures and practices identified internal control weaknesses in the use of Rapidrafts. Also, staff began raising concerns to the NTSB CFO in early 1999 that internal controls were not being implemented.

The GSA Inspector General concluded that Rapidrafts were not properly safeguarded and were improperly used. Specifically, the GSA Inspector General's report noted that investigators or their supervisors were routinely issuing

Rapidrafts for travel advance purposes even though they were not authorized to do so. The report also noted that subordinates issued Rapidrafts to their supervisors for travel purposes. The GSA Inspector General noted that these practices were of particular concern because they circumvented a fundamental control—separation of duties.

The then-Comptroller (former CFO) responded to the report outlining planned corrective actions to be taken, including issuing a memorandum to all employees on authorized uses and safeguarding of Rapidrafts. Based on our work, corrective actions were either never implemented or sustained because we identified the same weaknesses as the GSA Inspector General.

Also, in January 1999, CFO staff began raising concerns to the CFO that Rapidraft users were not complying with internal control requirements. Specifically, CFO staff noted that Rapidraft users were not submitting required supporting documentation for purchases and not entering required data into the accounting system. When these concerns were ultimately raised to and reviewed by senior managers outside of the CFO's office, instances of embezzlement were uncovered. Further, we found that in January 1999, NTSB personnel in the office of the CFO alerted the former CFO to irregularities involving the use of Rapidrafts by the former Headquarters employee who has since been charged with theft. Yet the CFO did not take timely or adequate action and, in the next eight months, until the

Headquarters employee resigned in August 1999, this employee embezzled approximately 34 Rapidrafts totaling \$30,000. The CFO resigned effective November 29, 1999, after our investigation was commenced.

Rapidrafts Were Exploited in Two Known Embezzlements

In the end, the lack of adherence to internal controls subjected NTSB to separate known embezzlements by two employees. We investigated a former GS-7 employee in the Atlanta field office of the NTSB suspected of embezzling approximately \$20,000. The employee resigned in July 1999. Investigation disclosed that between October 1998 and June 1999, the employee embezzled money from NTSB by writing Rapidrafts to employees of NTSB and then fraudulently endorsing the Rapidrafts to herself. The employee then deposited the Rapidrafts into a personal bank account. On April 4, 2000, the employee was indicted by a Federal grand jury in Atlanta, charged with 7 counts of theft.

We also investigated a former GS-8 employee of the NTSB Headquarters staff who resigned in August 1999. On April 11, 2000, the former employee was charged in a one-count felony Information by the U.S. Attorney's Office for the District of Columbia for embezzling approximately \$74,000 between September 1997 and August 1999, by fraudulently writing 97 Rapidrafts to herself using the signature authority of a former NTSB employee and then cashing the majority of

these Rapidrafts at a local liquor store. The Headquarters employee knew that once cashed, the canceled Rapidrafts were not reviewed by NTSB for purposes of reconciliation.

IG RECOMMENDATIONS AND NTSB CORRECTIVE ACTION

On October 26, 1999, we met with Chairman Hall and senior NTSB staff to discuss our audit results and preliminary investigative findings. On November 8, 1999, we issued an audit report to the NTSB that recommended NTSB discontinue the use of the Rapidraft System and instead use the Government-wide commercial purchase card program for its on-site investigative expenses and other purchases. We recommended that NTSB discontinue processing employee travel claims and instead use a Federal processor for reimbursement of travel claims to ensure that proper voucher examination is performed.

By letter dated November 5, 1999, we notified the NTSB of our preliminary investigative results. Subsequently, on March 21, 2000, we issued a final investigative report to the NTSB. Our investigative report supported the earlier recommendations of the audit and recommended that NTSB consider disciplinary action for employees as appropriate.

The NTSB generally concurred with our recommendations. By letter dated November 23, 1999, Chairman Hall responded that NTSB had discontinued the Rapidraft System and adopted the Government-wide Citibank Purchase card Program in its place. The Chairman also reported that NTSB had commenced discussions with a private sector audit firm for assistance in identifying audit weaknesses and recommending procedures and resources for improved audit control. We were recently informed that such a contract has been executed and that an audit will begin in the near future.

On January 3, 2000, the NTSB appointed a new CFO. The new CFO was hired from the U.S. Treasury Department and has 35 years of Federal service in the field of financial management. We have met with the new CFO several times to review our audit and investigative results. He has identified and initiated specific actions necessary to implement our recommendations, but his efforts require the full support of the NTSB Board and senior staff if he is to succeed in reforming and improving the financial management of the NTSB.

NEED FOR INSTITUTIONAL OVERSIGHT WITHIN THE NTSB

To his credit, NTSB Chairman Hall promptly sought our assistance in this matter. It was necessary for the Chairman to seek outside assistance because the NTSB is without an Inspector General or an equivalent institutional oversight organization.

The NTSB has historically relied on agreements with other Inspectors General or private sector firms for audit assistance. Outside oversight has included General Accounting Office audits and congressional oversight exercised through the authorizing and appropriations process.

There is no full-time oversight of NTSB. Our work with respect to the Rapidraft System was carried out in accordance with an August 31, 1999, Memorandum of Understanding (MOU) between our office and the NTSB. The MOU allows for our office to conduct investigations and audits at the request of the NTSB on a reimbursable basis. It does not provide authority for us to self-initiate audits or investigations as we do for the Department of Transportation, nor does it authorize, or create a responsibility for us to ascertain whether or not NTSB implemented the corrective actions discussed with us. As you are aware, such follow-up is critical to oversight. For example, as noted above, the GSA IG was not in a position to follow up on its 1992 audit results. If NTSB had been subject to some type of institutional oversight, it is possible that the 1992 audit would have resulted in real corrective action and the problems uncovered in 1999 may have been avoided.

Similarly, if the NTSB had an institutional oversight organization, the employees who reported irregularities to the CFO in January 1999 would have had an in-house channel to pursue when they did not see action on the part of the CFO in

response to their reports of irregularities. At the Department of Transportation, we receive approximately 600 telephone calls, letters, and E-mail messages a year reporting suspected fraud, waste and abuse within the Department. Our fraud, waste and abuse Hotline offers employees confidentiality or the opportunity to provide information anonymously. Reports to our Hotline receive independent attention from our staff and are also shared with the Department management. For management, they serve as a useful source of information about programs and operations in the Department that, at a minimum, require management attention. The NTSB does not have a vehicle similar to our Hotline to ensure an independent review of suspected fraud, waste and abuse.

“The National Transportation Safety Board Amendments Act of 1999,” (H.R.2910) was passed by the House on October 1, 1999. The legislation reauthorizes the NTSB and also contains provisions that address Inspector General oversight at the NTSB. The bill provides that the Inspector General at the Department of Transportation will carry out Inspector General responsibilities only with respect to the financial management and business operations of the NTSB. While we did not seek this additional responsibility, we concur that our audit and investigation concerning the NTSB’s Rapidraft System strongly suggests that some type of institutional oversight is appropriate. The Senate is considering similar provisions as part of its reauthorization legislation for the NTSB.

Mr. Chairman, this concludes our testimony. I would be happy to answer any questions you may have.