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United States General Accounting Office
Washington, DC 20548

July 31, 2003

The Honorable John McCain
Chairman
The Honorable Ernest F. Hollings
Ranking Minority Member
Committee on Commerce, Science, and Transportation
United States Senate

The Honorable Don Young
Chairman
The Honorable James L. Oberstar
Ranking Minority Member
Committee on Transportation and Infrastructure
House of Representatives

Subject: *Financial Management: Audit of the Centennial of Flight Commission for Fiscal Year 2002*

The Centennial of Flight Commission (Commission) was created on November 13, 1998, by the Centennial of Flight Commemoration Act (Public Law 105-389, as amended by Public Law 106-68). The purpose of the Commission is to commemorate the 100th anniversary of the Wright Brothers' flight at Kitty Hawk, North Carolina, on December 17, 1903. The Commission is to provide recommendations and advice to the President, the Congress, and federal agencies on the most effective ways to encourage and promote national and international participation and sponsorships in commemoration of the centennial of powered flight.

We are required by the act to audit the financial transactions of the Commission. This report presents the results of our audit of the Commission's fiscal year 2002 financial transactions, with cumulative information since the Commission's inception. We previously reported the results of our audits on Commission financial transactions for fiscal years 1999 and 2000,¹ and 2001.²

¹ GAO, *Financial Management: Audit of the Centennial of Flight Commission*, [GAO-02-43R](#) (Washington, D.C.: Oct. 22, 2001).

² GAO, *Financial Management: Audit of the Centennial of Flight Commission for FY 2001*, [GAO-02-730R](#) (Washington, D.C.: June 21, 2002).

The Centennial of Flight Commemoration Act created the Commission and authorized appropriations to the Commission in specific amounts³ for fiscal years 1999 through 2004 (Public Law No. 105-389, 112 Stat. 3486, 3494). For fiscal years 1999 through 2001, the Congress provided in the annual appropriation for the Federal Aviation Administration (FAA) operations that either a specific amount or a minimum specified amount should be for the Commission. During our review of the Commission's fiscal year 2002 transactions, we noticed that unlike the 3 prior years, FAA's fiscal year 2002 appropriation did not explicitly provide that any part of FAA's appropriation was for the Commission. Nevertheless, FAA allotted \$900,000 in fiscal year 2002 from its operations account to the Commission. In a separate letter dated July 10, 2003, we asked the FAA's Chief Counsel about the basis for FAA's use of its lump sum operations appropriation to fund the Commission for fiscal year 2002. After considering the Chief Counsel's views, we will separately report any matter that should be brought to the Congress' attention.

Results in Brief

We found that all 114 of the Commission's recorded obligations and expenditures during fiscal year 2002 were supported by documentation that was approved by management. In addition, the Commission recorded the receipt of one payment under a licensing agreement for use of the logo of the Centennial of Flight Commission. The Commission recorded no other receipts for user fees, cash donations, or in-kind donations for fiscal year 2002.

When comparing Commission transactions recorded by FAA, and the National Aeronautics and Space Administration (NASA), which provide administrative support to the Commission, we found a minor error of \$937 by NASA in underrecording Commission travel expenses. We also identified an internal control weakness over licensing agreements by the Commission in not monitoring the timely receipt of fees in accordance with the agreements. This resulted in the Commission receiving no minimum quarterly licensing fees for the quarters June 30, 2002, and September 30, 2002, as of May 30, 2003.

We are making recommendations to the Commission to correct the travel expense error, strengthen internal controls by monitoring licensing agreements, and collect licensing fees that are due. The Commission agreed with our recommendations.

Background

The Commission was created to provide recommendations and advice to the President, the Congress, and federal agencies on the most effective ways to:

(1) encourage and promote national and international participation and sponsorship by companies, governments, individuals, and organizations to commemorate the centennial of powered flight;

³The Commemoration Act authorized \$250,000 for fiscal year 1999; \$600,000 for fiscal year 2000; \$750,000 for fiscal year 2001; \$900,000 for both fiscal years 2002 and 2003; and \$600,000 for fiscal year 2004.

- (2) plan and develop, in coordination with the First Flight Centennial Commission, the First Flight Centennial Foundation of North Carolina, and the 2003 Committee of Ohio, programs and activities that are appropriate to commemorate the 100th anniversary of powered flight;
- (3) maintain, publish, and distribute a calendar or register of national and international programs and projects concerning the dates, events, and places of historical and commemorative significance regarding aviation history in general and the centennial of powered flight in particular;
- (4) provide national coordination for celebrations to take place throughout the United States during the centennial year;
- (5) assist in conducting educational, civic, and commemorative activities relating to the centennial of powered flight throughout the United States;
- (6) encourage the publication of popular and scholarly works on the history of aviation or the centennial of powered flight; and
- (7) advise the United States with regard to gaining support for and facilitating international recognition of the importance of aviation history and attend international meetings regarding such activities.

For fiscal year 2002, FAA made funds available to the Commission by allotment. Only the administrators of NASA or FAA, or employees designated to act on their behalf, are authorized by the act to procure supplies, services, and property, and to make or enter into leases and other legal agreements on behalf of the Commission. FAA and NASA give the Commission personnel support and other services without charge. The Commission reimburses NASA for office space, printing, supplies, and equipment. NASA and FAA provide accounting services to the Commission, and FAA provided all procurement services on behalf of the Commission for fiscal year 2002. The Commission recognizes expenditures when paid.

Scope and Methodology

We examined all of the Commission's financial transactions (obligations, expenditures, and receipts) recorded during fiscal year 2002 for proper supporting documentation and management approval. Because we limited our examination to those transactions recorded for the Commission by FAA and NASA, the risk exists that there could be unrecorded transactions not included in our examination. We traced the recorded transactions to supporting documentation, including contracts, invoices, credit card receipts, travel vouchers, and copies of checks. FAA maintains all contracts and supporting documentation for the Commission's transactions. FAA and NASA processed all of the Commission's 114 obligation and expenditure transactions and one receipt transaction recorded during fiscal year 2002.

We also obtained an understanding of the accounting procedures and related internal controls of the Commission, financial accounting services provided by the FAA operations office, and other services provided by NASA. We also performed procedures to determine whether Commission management had approved the transactions.

We performed our work in Washington, D.C., from April through June 2003 in accordance with U.S. generally accepted government auditing standards for performance audits. We requested comments on a draft of this report from the Executive Director of the Centennial of Flight Commission and received a written response from the Commission, which incorporated views from FAA and NASA. Those comments are summarized in a later section and are included as an enclosure to this report.

Minor Errors In Fiscal Year 2001 Commission Records Were Corrected

As we previously reported,⁴ the Commission's financial records for fiscal year 2001 contained some minor errors that resulted in Commission travel expenditures being understated by a net amount of \$957. We also found that a NASA interagency agreement totaling \$122,387 was overpaid by \$700 by FAA. In that report we recommended, and the Commission agreed to (1) correct the understated travel expenditures, and (2) direct FAA to obtain a refund for the \$700 that was overpaid to NASA. During fiscal year 2002, the \$957 of travel expenses were recorded and a refund of \$750 was obtained from NASA.

These errors were caused by the lack of effective reconciliation of Commission transactions by the Commission, NASA, and FAA to verify that Commission accounts were complete and accurate. To improve this situation, we also recommended that the Commission strengthen internal control by reconciling its record of approved obligations and expenditures monthly with FAA accounting records maintained on behalf of the Commission.⁵ However, due to the small number of transactions, we agreed with the Commission and FAA that periodic instead of monthly reconciliation would be sufficient and this was substantially implemented by September 30, 2002.

Fiscal Year 2002 Audit of Commission Financial Transactions

We found that all 114 of the Commission's recorded obligations and expenditures during fiscal year 2002 were supported by documentation that was approved by management. In addition, the Commission recorded the receipt of one payment under a licensing agreement for the use of the logo of the Centennial of Flight Commission. The Commission recorded no other receipts for user fees, cash donations, or in-kind donations for fiscal year 2002.

During fiscal year 2002, the Commission expended \$89,694 to pay fiscal year 2000 obligations and \$617,247 to pay fiscal year 2001 obligations. For fiscal year 2002, the Commission received from FAA an allotment of \$900,000 from its operations appropriation and received \$1,000 in fees under a licensing agreement for the Commission's logo. The Commission's obligations for fiscal year 2002 totaled \$899,198 and consisted of:

- \$380,000 for services related to the Commission's Outreach Plan;
- \$196,000 for a modification of a fiscal year 2000 contract for Web site maintenance;
- \$146,174 for NASA interagency reimbursable services;
- \$120,000 for online presentations of the Wright brothers' wind tunnel, 1899 and 1901 gliders, and 1903 flyer;

⁴ GAO-02-43R

⁵ GAO-02-730R

- \$40,000 for a modification of a fiscal year 2000 contract to develop timeline and essay content for the Web site;
- \$14,950 for videos of the 1901 wind tunnel, the 1902 glider, the 1903 flyer, and the 1905 first practical airplane; and
- \$2,074 for travel and miscellaneous expenses.

As of September 30, 2002, \$479,153 had been expended against the fiscal year 2002 obligations.

The schedule in table 1 below presents the Commission's appropriations, receipts, obligations, and expenditures (cash outlays) for fiscal years 1999 through 2002.

Table 1: Centennial of Flight Commission Schedule of Appropriations, Receipts, Obligations, and Expenditures for Fiscal Years 1999 through 2002 as of September 30, 2002

| | Fiscal year 1999 | Fiscal year 2000 | Fiscal year 2001 | Fiscal year 2002 | Total |
|---|---------------------|---------------------|------------------------|----------------------|-------------|
| Appropriations | \$250,000 | \$600,000 | \$748,350 ^a | \$900,000 | \$2,498,350 |
| Plus: Receipts | \$0 | \$0 | \$0 | \$1,000 ^b | \$1,000 |
| Less: Obligations | \$249,658 | \$599,929 | \$739,828 | \$899,198 | \$2,488,613 |
| Unobligated ^c | \$342 | \$71 | \$8,522 | \$1,802 | \$10,737 |
| Expenditures as of 9-30-02 (cash outlays) | \$249,658 | \$595,312 | \$636,799 | \$479,153 | \$1,960,922 |
| Unexpended obligations | \$0 | \$4,617 | \$103,029 | \$420,045 | \$527,691 |

Source: Centennial of Flight Commission accounting data.^d

^a Less rescission of \$1,650.

^b Licensing fee for Commission logo.

^c These amounts are not available for new obligations but may be used to adjust existing obligations for up to 5 years when the account is closed and any remaining balance is cancelled.

^d Received from the Commission but maintained by FAA on behalf of the Commission, as adjusted for errors detected during our audit.

Fiscal Year 2002 Audit Findings

When comparing Commission transactions recorded by FAA and NASA, who provide administrative support to the Commission, we found a minor error of \$937 by NASA in underrecording Commission travel expenses. This amount was incorrectly coded to be withdrawn from direct funds instead of reimbursable funds and NASA is in the process of correcting this error.

We also identified an internal control weakness over licensing agreements by the Commission in not monitoring the timely receipt of fees in accordance with the agreements. This was because fiscal year 2002 was the first year of the agreements, the amount of fees involved is small, and Commission oversight was lacking. One agreement stated that a minimum of \$500 was to be received by the Commission each quarter beginning with the June 30, 2002 quarter. We found that the Commission had received no minimum payments for the June 30, 2002, and September 30, 2002, quarters as of May 30, 2003. Based upon this information, the Commission corrected this oversight by contacting the licensee and is currently in the process of collecting payments due since the June 30, 2002, quarter.

Recommendations

We recommend that the Executive Director of the Commission:

- Direct NASA to correctly record the Commission travel expenditure of \$937 that was improperly coded and paid out of NASA's direct funds.
- Strengthen internal controls over licensing agreements by monitoring the timely receipt of fees in accordance with the agreements.
- Collect licensing fees due the Commission since the beginning of the June 30, 2002, quarter, in accordance with licensing agreements.

Agency Comments

The Commission's Executive Director agreed with our recommendations and stated that the Commission has (1) requested that NASA correctly record the travel expenditure, (2) developed a spreadsheet to monitor the timely receipt of licensing fees, and (3) collected licensing fees due it for the quarters ended June 30 and September 30, 2002. The Commission's response, which incorporated FAA and NASA views, is presented as an enclosure to this report.

We are sending copies of this report to the Chairman of the Centennial of Flight Commission and other interested parties. This report will also be available on our home page at <http://www.gao.gov>.

If you or your staffs have any questions, please contact me at (202) 512-6906, or by e-mail at williamsml@gao.gov or Roger R. Stoltz, Assistant Director, at (202) 512-9408, or by e-mail at stoltzr@gao.gov. A key contributor to this report was Deborah A. Silk.

A handwritten signature in black ink that reads "McCoy Williams". The signature is written in a cursive style with a large initial "M".

McCoy Williams
Director
Financial Management and Assurance

Enclosure

Comments from the Centennial of Flight Commission



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July 25, 2003

Mr. McCoy Williams
Director
Financial Management and Assurance
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Williams:

We appreciate the opportunity to comment on the draft report containing the results of your review on the financial transactions of the U.S. Centennial of Flight Commission (Commission) for fiscal year 2002. Copies of the draft report were provided to the Federal Aviation Administration (FAA) and the National Aeronautics and Space Administration (NASA), and their comments have been incorporated into this response. The draft report makes three recommendations.

The first recommendation states:

Direct NASA to correctly record the Commission travel expenditure of \$937.00 that was improperly coded and paid out of NASA's direct funds.

We concur with this recommendation and have requested that NASA correctly record the \$937.00.

The second recommendation states:

Strengthen internal controls over licensing agreements by monitoring the timely receipt of fees in accordance with the agreements.

We concur with this recommendation. A spreadsheet has been developed that lists each licensing agreement, date signed, terms of the license, payments made and the product that is licensed. This spreadsheet will be kept up to date and will be checked regularly to ensure the terms of the license are being met and payments made in a timely manner.

Enclosure

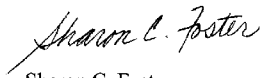
Comments from the Centennial of Flight Commission

The third recommendation states:

Collect licensing fees due the Commission since the beginning of the June 30, 2002 quarter, in accordance with licensing agreements.

We concur with this recommendation. A check for \$2,000.00 dated May 29, 2003, was received from our licensee C. Forbes, Inc. on June 2, 2003.

Sincerely,



Sharon C. Foster
Executive Director

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