

SECTION 4

OTHER ACCOMPANYING INFORMATION

INSPECTOR GENERAL'S ASSESSMENT OF MANAGEMENT CHALLENGES FACING NARA

Under the authority of the Inspector General Act, the NARA OIG conducts and supervises independent audits, investigations, and other reviews to promote economy, efficiency, and effectiveness; and to prevent and detect fraud, waste, and mismanagement. To fulfill our mission and help NARA achieve its strategic goals, we have aligned our programs to focus on areas we believe represent the agency's most significant challenges. We have identified those areas as NARA's top ten management challenges.

One area not identified below is the impact of the major NARA transformation instituted under the direction of Archivist of the United States David S. Ferriero. The organizational structure the Archivist inherited when he came to NARA two short years ago has been radically re-engineered, and the majority of senior staff who held positions of authority under the former Archivist has left the agency. The process of transforming NARA to meet our core mission in this digital age is essential, but organizational transformations by their very nature may precipitate unforeseen challenges to staff and management alike.

1. Electronic Records Archives

NARA initiated the Electronic Records Archive (ERA) Program to address the challenge of ingesting, preserving, and providing access to our nation's electronic records for as long as needed. However, virtually since inception, the program has been fraught with delays, costs overruns, and technical shortcomings and deficiencies. Elements of these problems were identified by NARA's Office of Inspector General and the Government Accountability Office (GAO). In August 2010, OMB placed the ERA Program on its high-priority list of 26 high-risk IT projects selected from across the Federal Government. On September 30, 2011, the development contract between NARA and Lockheed Martin Corporation concluded. However, many core requirements were not fully addressed and the ERA Program lacks the originally envisioned functionality.

The program is now transitioning to an Operations and Maintenance (O&M) phase, with IBM receiving a 10-year, \$240 million contract. The O&M tasks to be performed by IBM, under a firm-fixed-price (FFP) arrangement, include: help desk operations, incident management, problem management, hardware and software maintenance, asset and configuration management, deployment management, capacity management, availability management, security services, backup and recovery services, and ingest operations. The contract will also include replacing and updating the technologies constituting ERA, and developing increased ERA system functionality. These additional tasks will be performed under Technical Direction Letters (TDLs), which may be either FFP or time-and-materials (T&M) arrangements.

The ERA Program faces many challenges going forward, including addressing increased volumes of data to be ingested and increased number of users to be supported when ERA use becomes mandatory for all Federal agencies starting in September 2012.

However, the greatest challenge will be NARA's ability (with vendor support) to effectively meet stakeholder needs, while operating and maintaining a system whose development failed to meet core benchmark requirements and lacks originally envisioned capabilities.

Audits, investigations, and reviews performed in FY 2011:

- Management Letter on ERA Lacks Ability to Search
- Management Letter on Limitations on the ability to ingest, search and access records in the Electronic Records Archives
- Management Letter on Potential Lockheed Martin Corporation Award Fee for Period 4/1/2010 - 9/30/2010 for the ERA Development Contract
- Implementation Status of the ERA System Requirements
- Management Letter on Review of Applied Polymorphism Subcontract Costs
- Review of Costs for Lockheed Martin Corporation Subcontracts with Applied Polymorphism

2. Improving Records Management

Part of NARA's mission is safeguarding and preserving the records of our government, thereby ensuring people can discover, use, and learn from this documentary heritage. NARA provides continuing access to the essential documentation of the rights of American citizens and the actions of their government. The effective management of these records is key to accomplishing this mission. NARA must work with Federal agencies to ensure the effective and efficient appraisal, scheduling, and transfer of permanent records, in both traditional and electronic formats. The major challenge is how best to accomplish this component of our overall mission while reacting and adapting to a rapidly changing technological environment in which electronic records, particularly e-mail, proliferate. In short, while the ERA system is intended to work with electronic records received by NARA, we need to ensure the proper electronic and traditional records are in fact preserved and sent to NARA in the first place.

NARA also directs the Electronic Records Management (ERM) initiative, one of 24 government-wide initiatives under the E-Government Act of 2002. The ERM initiative will provide guidance to agencies in managing and transferring their permanent electronic records to NARA, in an increasing variety of data types and formats. In June 2008, GAO recommended NARA develop and implement an approach to provide oversight of agency electronic records management programs, to provide adequate assurance that NARA guidance is effective and the agencies are following electronic records guidance. NARA, its Government partners, and Federal agencies are challenged with determining how best to manage electronic records and how to make ERM and e-Government work more effectively.

Audits, investigations, and reviews performed in FY 2011:

- Implementation Status of the ERA System Requirements

3. Information Technology Security

The Archivist identified IT Security as a material weakness under the Federal Managers' Financial Integrity Act reporting process beginning in FY 2007. NARA's Office of

Information Services (I) conducted an independent assessment of the IT security program using the Program Review for Information Security Management Assistance (PRISMA) methodology developed by the National Institute for Standards and Technology (NIST) in FY 2007. The assessment stated NARA's policy and supporting procedures for IT security were weak, incomplete, and too dispersed to be effective. Over four years later, NARA officials continue to work to address weaknesses identified during the assessment.

IT security continues to present major challenges for NARA, including physical security of IT hardware, and technical vulnerabilities within our electronic systems themselves and how NARA operates them. Annual assessments of NARA's compliance with the Federal Information Security Management Act have consistently identified program areas in need of significant improvement. The confidentiality, integrity, and availability of our electronic records and information technology systems are only as good as our IT security infrastructure. GAO issued a report in early FY 2011 identifying significant weaknesses in access controls, and other information security controls, impairing NARA's ability to ensure the confidentiality, integrity, and availability of its information systems. Each year, risks and challenges to IT security continue to be identified. NARA must ensure the security of its data and systems or risk undermining the agency's credibility and ability to carry out its mission.

Audits, investigations, and reviews performed in FY 2011:

- Clifton Gunderson LLP Network Vulnerability Assessment and Penetration Testing
- Audit of the NARANET Server Upgrade Project
- Follow-up Audit of NARA's Work-at-Home System
- Audit of the Controls Over Inappropriate Personal Use of the Internet at NARA
- Audit of the Trusted Internet Connections Initiative at NARA
- Audit of NARA's Telework Program
- Audit of NARA's Photocopier Security
- Investigation of Counterfeit/Grey market IT Contract Fraud
- Investigation of Grey Market Server Components
- Investigation of Inappropriate Security of NARA System Passwords

4. Expanding Public Access to Records

The records of a democracy's archives belong to its citizens. NARA's challenge is to more aggressively inform and educate our customers about the services we offer and the essential evidence to which we can provide access. Unfortunately, about half of NARA's textual holdings have not been processed to allow efficient and effective access to these records. To meet its mission, NARA must work to ensure it has the processes and resources necessary to establish intellectual control over this backlog of unprocessed records.

Another challenge for NARA, given society's growing expectation for easy and near-immediate access to information on-line, will be to provide such access to records created digitally (i.e., "born digital") and to identify those textual records most in demand so they can be digitized and made available electronically. The ERA Program's diminished access capabilities compound this problem. NARA's role in ensuring the

timeliness and integrity of the declassification process of classified material held at NARA is also vital to public access.

Audits, investigations, and reviews performed in FY 2011:

- Management Letter on ERA Lacks Ability to Search
- Management Letter on Limitations on the ability to ingest, search and access records in the Electronic Records Archives
- Investigation of Grand Jury Secrecy and Record Recovery

5. Meeting Storage Needs of Growing Quantities of Records

NARA-promulgated regulation 36 CFR Part 1228, "Disposition of Federal Records," Subpart K, "Facility Standards for Records Storage Facilities," requires all facilities housing Federal records to meet defined physical and environmental requirements by FY 2009. NARA's challenge is to ensure its own facilities, as well as those used by other Federal agencies, are in compliance with these regulations; and effectively mitigate risks to records stored in facilities not meeting these new standards.

6. Preservation Needs of Records

As in the case of our national infrastructure (bridges, sewer systems, etc.), NARA holdings grow older daily and face degradation associated with time. This affects both traditional paper records, and the physical media that electronic records and audio/visual records are stored on. Per management, preservation resources have not been able to adequately address the growth in holdings needing preservation action. As a result, backlogs have grown and NARA is not projected to meet its long range performance target for FY 2016. Preserving and providing access to records is a fundamental element of NARA's duties to the country, and NARA cannot provide access to records unless it can preserve them for as long as needed. The backlog of records needing preservation action continues to grow. NARA is challenged to address this backlog and future preservation needs, including the data integrity of electronic records. The challenge of ensuring NARA facilities meet environmental standards for preserving records (see OIG Challenge #5) also plays a critical role in the preservation of Federal records.

7. Improving Project Management

Effective project management, particularly for IT projects, is essential to obtaining the right equipment and systems to accomplish NARA's mission. Complex and high-dollar contracts require multiple program managers, often with varying types of expertise. NARA is challenged with planning projects, developing adequately defined requirements, analyzing and testing to support acquisition and deployment of the systems, and providing oversight to ensure effective or efficient results within costs. Currently, IT systems are not always developed in accordance with established NARA guidelines. These projects must be better managed and tracked to ensure cost, schedule, and performance goals are met.

As an example, GAO reported NARA did not document the results of briefings to its senior management oversight group during the development of NARA's largest IT project, the ERA Program. There is little evidence the group identified or took appropriate corrective actions, or ensured such actions were taken and tracked to closure.

Without adequate oversight evaluating project progress, including documenting feedback and action items from senior management, NARA will not be able to ensure projects are implemented at acceptable cost and within reasonable time frames. GAO also reports NARA has been inconsistent in its use of earned value management (EVM), a project management approach providing objective reports of project status and early warning signs of cost and schedule overruns. Inconsistent use of key project management disciplines like EVM limits NARA's ability to effectively manage projects and accurately report on their progress.

Audits, investigations, and reviews performed in FY 2011:

- Audit of the NARANET Server Upgrade Project
- Audit of the Trusted Internet Connections Initiative at NARA

8. Physical and Holdings Security

The Archivist has identified security of collections as a material weakness under the FMFIA reporting process. Document and artifact theft is not a theoretical threat; it is a reality NARA has been subjected to time and time again. NARA must maintain adequate levels of security to ensure the safety and integrity of persons and holdings within our facilities. This is especially critical in light of the security realities facing this nation and the risk our holdings may be pilfered, defaced, or destroyed by fire or other man-made and natural disasters. Not only do NARA's holdings have immense historical and financial value, but we hold troves of national security information as well. Developments such as the creation of the Holdings Protection Team and implementation of stricter access controls are welcome additions to NARA's security posture and should be commended. However, NARA must continually strive to improve in this area.

Audits, investigations, and reviews performed in FY 2011:

- Audit of NARA's Security Guard Contract for AI and AII
- Management Letter on Continued Security Concerns at AI & AII
- Investigation of Stolen Microfilm, Stolen Records
- Investigation of Altered Lincoln Record
- Investigation of Missing Presidential Photograph
- Investigation of Mishandling of Classified and Military Documents
- Investigation of Wrongful Access to IRS Records in Transit
- Investigation of the Theft of Historical Materials
- Investigation of Unauthorized Access to Sensitive Materials
- Investigation of Security Violations

9. Contract Management and Administration

The GAO has identified Commercial Services Management (CSM) as a government-wide initiative. The CSM initiative includes enhancing the acquisition workforce, increasing competition, improving contract administration skills, improving the quality of acquisition management reviews, and strengthening contractor ethics requirements. Effective contract management is essential to obtaining the right goods and services at a competitive price to accomplish NARA's mission. NARA is challenged to continue strengthening the acquisition workforce and to improve the management and oversight of Federal contractors. NARA is also challenged with reviewing contract methods, to

ensure a variety of procurement techniques are properly used in accordance with laws, regulations, and best practices.

Audits, investigations, and reviews performed in FY 2011:

- Management Letter on Potential LMC Award Fee for Period 4/1/2010 – 9/30/2010 for the ERA Development Contract
- Management Letter on Review of Applied Polymorphism Subcontract Costs
- Review of Costs for Lockheed Martin Corporation Subcontracts with Applied Polymorphism
- Audit of NARA's Photocopier Security
- Investigation of Abuse of Position/Mismanagement

10. Strengthening Human Capital

The GAO has identified human capital as a government-wide high risk, explaining it is critical to ensure agencies have the talent and skill mix they need to address their current and emerging human capital challenges. NARA's 2011 results to the Employee Viewpoint Survey (EVS) are largely consistent with the results from previous years, where NARA did not score particularly well. Importantly, NARA continues to lag behind the rest of the Federal Government in overall employee satisfaction.

However, NARA recognizes work is needed to improve. NARA is going through a major reorganization. One of the first initiatives was realigning relevant functions into a Human Capital Office reporting directly to the Archivist. The Human Capital Office's top priority will be taking a comprehensive and integrated approach to human capital management throughout the agency. This approach is designed to include a renewed commitment to diversity, a focus on continuous learning, and an emphasis on addressing the needs identified in the Employee Viewpoint Survey. The Human Capital Office will also be charged with developing systems and programs for encouraging and rewarding leadership, service, and excellence at all levels. NARA's challenge is to adequately address these issues to change the current situation and effectively recruit, retain, and train the employees needed to achieve its mission.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT REPORT



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FY 2011 STATEMENT OF ASSURANCE

Managers of the National Archives and Records Administration (NARA) are responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). I am able to provide a qualified statement of assurance that with the exception of six material weaknesses, NARA's internal controls are achieving their intended objectives:

- (1) Programs achieve their intended results;
- (2) Resources are used consistent with NARA's mission;
- (3) Programs and resources are protected from waste, fraud, and mismanagement;
- (4) Laws and regulations are followed; and
- (5) Reliable and timely information is obtained, maintained, reported, and used for decision making.

This assessment is based on results of audits and evaluations conducted by the Government Accountability Office (GAO), NARA's Office of Inspector General (OIG), management control evaluations, and other evaluations conducted in NARA's program and staff offices. It is also based on senior management's knowledge gained from the daily operations of NARA programs and systems. I have also considered the advice of the Inspector General concerning this statement of assurance.

NARA undertook an agency-wide transformation this year, identifying six transformational outcomes we must achieve over the next several years. The major impact of this effort in FY 2011 was a realignment of our organizational structure intended to better achieve the six transformational outcomes. As a result, NARA offices restructured at different times during the year; internal controls testing and unit-level assurance statements may have begun under one organization, and completed under another. However, considerable effort was undertaken to analyze and review the information needed to make this assurance, and NARA's new Performance & Accountability Office reporting to a new Chief Operating Officer played an important role in that effort.

The qualification in this assurance statement includes material weaknesses in holdings protection, artifact inventory controls in Presidential Libraries, information security, preservation of archival records, and processing of traditional records, as well as an additional material weakness over financial reporting due to restatement of FY2010 balances, as discussed in our following report. Efforts to fully resolve these material weaknesses are monitored by NARA's newly established Management Controls Oversight Committee (MCOC) and results are reported directly to me.

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FY 2011 REPORT ON INTERNAL CONTROLS

Background on FMFIA Requirements

The objective of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) is to provide reasonable assurance that "(i) obligations and costs are in compliance with applicable law; (ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets." NARA's internal control objectives noted in the Archivist's statement of assurance are consistent with FMFIA objectives.

The following tables reflect the number of material weaknesses reported by NARA under Section 2 of FMFIA in recent years, as well as a new material weakness in internal control over financial reporting identified during the current financial statement audit.

NUMBER OF MATERIAL WEAKNESSES

	Number at Beginning of Fiscal Year	Number Corrected	Number Added	Number Remaining at End of Fiscal Year
FY 2008	2	0	1	3
FY 2009	3	1	1	3
FY 2010	3	0	2	5
FY 2011	5	0	1	6

SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit opinion	Unqualified
Restatement	Yes

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
overstatement of unfilled customer orders and available budgetary authority	0	1	0	1	1

SUMMARY OF MANAGEMENT ASSURANCES

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING
Statement of Assurance: Qualified

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
overstatement of unfilled customer orders and available budgetary authority	0	1	0	1	1

EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS
Statement of Assurance: Qualified

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Holdings Protection	1				1
Information Security Program	1				1
Artifact Inventory Controls in Presidential Libraries	1				1
Preservation of Archival Records	1				1
Traditional Records Processing	1				1
<i>Total Material Weaknesses</i>	5				5

Continuing Improvements in NARA Holdings Protection

NARA reported a material weakness in holdings security in FY 2001 based on investigative findings from our Office of Inspector General (OIG). As reported in prior years, corrective steps have been taken, and many actions have been completed. Our Holdings Protection Program continues to build a proactive structure to replace our previous reactive posture. The program improves policies and procedures, provides training for NARA staff, builds stronger internal controls, reduces access to secure areas, reduces losses, and improves responses to losses.

In FY 2011, we achieved short term goals in five main areas:

- Policy and Procedures
 - Implemented exit screening policy for NARA locations in Washington D.C., and College Park, MD. All staff are screened when leaving the building and are subject to random full searches. These procedures have tightened controls over staff exiting both facilities and have resulted in approximately one dozen events requiring further inquiry.
 - Developed proposal for an enterprise-wide researcher ID system to automate the sharing of banned/suspended researcher information among all facilities and link researchers with the holdings they view.
 - Convened multi-disciplinary work groups to revise/develop internal policy on holdings protection, research room security, exit screening procedures, and mailroom security procedures.
- Training
 - Continued interactive and comprehensive training for all NARA staff that come in contact with archival records. This training uses a combination of e-learning and instructor-led sessions, and a webinar format for remote sites to limit travel costs. We provided detailed training for research room staff on the proper procedures for detecting and confronting a researcher suspected of damaging or stealing NARA holdings.
 - Coordinated several working groups and provided expertise in developing customized researcher orientation slides for use in training researchers.
- Security for records storage areas
 - Continued to assess records storage areas to reduce the number of staff with access. Reviewed the card access system at every facility visited to ensure processes for reviewing and removing access when no longer needed are in place and operating as intended.
- Loss preventions and response
 - Developed an organizational unit, the Holdings Protection Team, dedicated to overseeing and improving holdings protection at the National Archives. This team developed a Risk Assessment Survey to assess a multitude of risk factors associated with protecting holdings and conducted site inspections of NARA facilities.
 - The team also worked closely with NARA's OIG, other Federal agencies, and investigative entities to raise awareness and investigate claims of alienated NARA holdings and recover those holdings when appropriate.

Physical controls

- Populated the Holdings Management System (HMS) for Archives I, Archives II, and seven regional archives locations allowing control of holdings at the container level.

In FY 2012, we will continue work in these areas, with specific focus on the following actions:

- **Policy and Procedures**
 - Complete ongoing policy review and revision and update policies pertaining to holdings protection.
- **Security for Records Storage Areas**
 - Compliance and control testing with emphasis on research room security and exit screening
 - Conduct a risk assessment survey
 - Develop enterprise researcher ID system
- **Loss prevention and response**
 - Continue outreach and collaboration with other archival institutions to improve loss deterrence.
 - Engage Management Team on issues raised by Holdings Protection Team.
- **Physical controls**
 - Continue population of the Holdings Management System and validate the accuracy of holdings related information.

Improvement Needed in Presidential Library Artifact Inventory Controls

In FY 2008, we identified controls over artifacts at NARA's Presidential Libraries as a Material Weakness, in part based on audit findings in a report by our OIG.

In FY 2011, NARA made significant strides in addressing this weakness in inventory controls. We:

- Submitted de-accession and disposal guidance for artifacts to our legal counsel for review.
- Issued a Request for Quote for a new collections management system.
- Continued to work towards our goal of completing 100 percent initial inventories at all libraries by the end of FY 2013.
- Resolved anomalies identified through our inventory efforts, resulting in a more accurate reflection of our inventory.
- Continued to re-inventory in accordance with our current guidance.

In FY 2012, NARA will focus efforts on the following:

- Finalize, issue, and implement de-accession and disposal guidance, leading to the removal of duplicate or low value items from the artifacts inventories.
- Deploy a new collections management database with upgraded audit and tracking capabilities, addressing weaknesses identified with the current system.
- Continue initial inventories at five libraries.
- Continue re-inventorying efforts at libraries that have already completed a 100 percent inventory.
- Work with the OIG to develop and implement actions to address weaknesses cited in their forthcoming follow-on audit.

Improvement Needed in the NARA Information Security Program

Since FY 2002, we have reported and resolved several weaknesses in NARA's information security. In FY 2011, NARA reassessed all open recommendations, from all sources (OIG, GAO, NARA internally contracted studies), and concluded that a Material Weakness continues to exist. As a result of the review, the Material Weakness was reframed as consisting of the risks posed by the need to improve controls over resolving, responding to, tracking, and closing recommendations in a systematic, consistent, and timely manner. Processes have been put in place that we believe will enable us to work with the auditing entities to downgrade the Material Weakness in FY 2012.

In FY 2012, NARA will focus efforts on the following:

- Mature the programs and processes put in place to mitigate weaknesses.
- Implement an automated plan of action and milestones (POAM) tool to serve as a single source for the management and tracking of all recommendations.
- Continue to cultivate the direct working relationship established with both the OIG and GAO to resolve and close open audit recommendations.

Improvement Needed in Archival Records Preservation

In FY 2007, we identified a material weakness in archival records preservation. Every cultural institution faces an enormous need for additional preservation resources. NARA is no different—the volume of incoming archival records outpaces our ability to keep up with preservation needs. Currently, 2.7 million cubic feet (64 percent) of NARA's traditional holdings are identified as "at risk," impacting our mission of ensuring access

to records for as long as necessary. Preservation risks are further exacerbated by the volume of electronic records and challenges associated with a proliferation of record formats.

In FY2011, NARA addressed weaknesses by establishing preservation-related performance measures and goals, developing risk assessment guidance, and capturing condition and treatment information for traditional holdings. This information is now being incorporated into the Holdings Management System (HMS), which should allow for the systematic collection of uniform preservation data across the agency, improving resource allocation decisions. NARA has also worked to bring archival facilities and archival holdings areas into compliance with NARA standards for archival records. Currently, 78 percent of NARA's traditional archival records are in appropriate space.

Despite these accomplishments, NARA is not projected to meet its FY 2016 long range performance target of less than 50 percent of its archival holdings needing preservation action.

In FY 2012, NARA will focus efforts on the following:

- Complete the inventory of special media records resulting in the capture of condition information in our holdings management system.
- Develop a plan and timeframe for conducting a new preservation study.
- Continue to populate our holdings management system with condition information and actions taken.
- Determine feasibility and cost/benefit of decomposing and stratifying the backlog.
- Work with the OIG to ensure audit efforts result in outcomes that provide the greatest utility to NARA and work to implement recommendations to address identified deficiencies.

In addition, NARA's Office of Inspector General (OIG) intends to conduct an audit of the Preservation Program in FY 2012.

Further Improvement Needed in Traditional Records Processing

NARA's Material Weakness in Traditional Records Processing dates to FY 2007. Currently, 52 percent of NARA's traditional archival holdings have been processed, compared with 30 percent in FY 2008. However, resources are insufficient to keep up with current processing demands and future needs, resulting in backlogs. These backlogs represent an impediment to our ability to provide efficient and effective access, and impact our mission.

Although improvements have been made, NARA will not meet its processing target for FY 2011 and is not on track to meet the long range strategic goal for FY 2016 to have 95

percent of its holdings processed. Processing resources are unable to adequately address current backlogs and the annual growth in holdings.

For FY 2012, NARA will focus efforts on the following:

- Decompose and stratify the backlog based on use of the records.
- Explore the feasibility of “fast tracking” the processing of approximately 8.5 million pages of PRA records.
- Conduct a NARA study of the cost/benefit associated with serving processed versus unprocessed records and the level of processing necessary to allow efficient and effective access to our holdings.

In addition, NARA’s Office of Inspector General (OIG) intends to conduct an audit of the Processing Program in FY 2012.

Overstatement of Unfilled Customer Orders and Available Budgetary Authority on the FY 2010 Statement of Budgetary Resources

During the analytical procedures phase of the FY2011 financial statement preparation, NARA identified incorrectly stated balances on the prior year Statement of Budgetary Resources. An \$11.3 million adjustment for Revolving Fund revenue accrual for FY 2010 year end erroneously posted the budgetary entry as an increase to allotments (GL account 4610), resulting in an overstatement of unfilled customer orders (GL account 4221).

This error was caused by using the incorrect methodology to record revenue accrual at year end. For the first three quarters of the year, BCR credited GL account 4210 for any interagency agreements that are not signed or are not fully funded. However, by the end of the year, all agreements are usually signed and fully funded, so all of the accruals should be credited to GL 4221.

The error was not detected during the regular FY10 financial statement preparation process, because it occurred after the financial statements had been completed and submitted to Treasury (FACTSII). Because it was posted to the statements as a top-side adjustment, it circumvented existing internal controls for financial reporting.

NARA management will be developing an aggressive and detailed action plan to implement appropriate improvements in internal controls over financial reporting.