

SECTION 3

FINANCIAL SECTION

A Message from the Chief Financial Officer



I am pleased to present the National Archives and Records Administration (NARA) consolidated financial statements for fiscal year 2009 Performance and Accountability Report. I am proud to report that for the fourth consecutive year, an independent auditor has rendered an unqualified opinion on the NARA financial statements.

During FY 2009 we continued to make steady improvements by further strengthening our financial management practices across the organization. We have recently completed an intensive business process re-engineering effort to implement essential internal controls addressing our deficiency in the area of personal property management.

We also resolved our challenge of complying with Federal reporting requirements for Heritage Assets for FY 2009 by identifying an appropriate level of presentation for Heritage Assets that is relevant and meaningful to an external reader yet cost-effective both for the reporting and the program staff.

With the rapid pace of technological change, NARA, along with other Federal and private entities, faces an ongoing, constantly evolving, challenge in Information Technology security.

I wish to acknowledge our staff and financial service provider for their dedication to NARA's mission and their diligent efforts in maintaining the unqualified opinion on our financial statements.

Even as financial oversight and accountability requirements grow more complex and challenging, NARA is steadfastly committed to improving financial management and producing accurate and reliable financial statements.

A handwritten signature in black ink, appearing to read 'RJ', written over a light grey rectangular background.

Richard Judson
Acting Assistant Archivist for Administration and
Chief Financial Officer

Auditor's Reports (FY 2009)

Inspector General's Summary

NATIONAL ARCHIVES AND RECORDS ADMINISTRATION
ANNUAL FINANCIAL STATEMENT
FISCAL YEAR 2009

OFFICE OF THE INSPECTOR GENERAL
COMMENTARY AND SUMMARY

This audit report contains the Annual Financial Statements of the National Archives and Records Administration (NARA) for the fiscal years ended September 30, 2009, and 2008. We contracted with the independent certified public accounting firm of Cotton & Company, LLP (C&C) to perform the fiscal year 2009 audit. The fiscal year 2008 audit was performed by Clifton Gunderson LLP. The audit was done in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; applicable provisions of the OMB Bulletin No. 07-04 *Audit Requirements for Federal Financial Statements*, as amended, and the GAO/PCIE *Financial Audit Manual*.

In its audit of NARA's financial statements, C&C's opinion states that the financial statements present fairly, in all material respects, the financial position of NARA as of September 30, 2009, and its net cost, changes in net position, budgetary resources for the year then ended in conformity with accounting principles generally accepted in the United States of America.

C&C reported two significant deficiencies¹ in internal control over financial reporting in the areas of Personal Property and Information Technology. C&C reported no material weaknesses² and disclosed no instances of noncompliance with certain provisions of laws and regulations.

In connection with the contract, we reviewed C&C's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, as we do not express, opinions on NARA's financial statements or conclusions about the effectiveness of internal control; or conclusions on compliance with laws and regulations. C&C is responsible for the attached auditor's report dated November 12, 2009, and the conclusions expressed in the report. However, our review disclosed no instances where C&C did not comply, in all material respects, with generally accepted government auditing standards.

¹ Significant deficiency is defined as a deficiency in internal control, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

² Material weakness is defined as a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Independent Auditor's Report (FY 2009)



Cotton & Company LLP
507 Simer Lane
Alexandria, VA 22304

P: 703.636.6791
F: 703.636.0441
www.cottonandcompany.com

Independent Auditor's Report

The Inspector General
National Archives and Records Administration

We have audited the accompanying consolidated balance sheet of the National Archives and Records Administration (NARA) as of September 30, 2009, and the related statement of net cost, changes in net position and budgetary resources, for the year then ended (hereinafter collectively referred to as the "financial statements"). These financial statements are the responsibility of NARA's management. Our responsibility is to express an opinion on these financial statements based upon our audit. The financial statements of NARA, as of September 30, 2008, were audited by other auditors whose report dated November 12, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) audit guidance. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles and significant estimates made by management, as well as evaluating the overall financial statements' presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of NARA as of September 30, 2009, and its net cost, changes in net position, and budgetary resources for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 12, 2009, on our consideration of NARA's internal control over financial reporting, and on our tests of NARA's compliance with certain provisions of laws and regulations and other matters. The purpose of those reports is to describe the scope of our testing on internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report, in considering the results of our audit.

The information in the Management Discussion and Analysis and Required Supplementary Information sections is not a required part of the consolidated financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the Message from the Archivist, Performance Section, and Other Accompanying Information is presented for purposes of additional analysis and is not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

COTTON & COMPANY LLP

Jeffrey A. Long, CPA, CISA, CGFM
Partner



November 12, 2009
Alexandria, VA



Cotton & Company LLP
331 States Lane
2nd Floor
Alexandria, VA 22304

703.836.0791
703.836.0441
www.cottoncompany.com

Independent Auditor's Report on Compliance and Other Matters

The Inspector General
National Archives and Records Administration

We have audited the financial statements of the National Archives and Records Administration (NARA) as of, and for the year ended September 30, 2009, and have issued our report thereon dated November 12, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) audit guidance.

NARA's management is responsible for complying with laws and regulations applicable to NARA. As part of obtaining reasonable assurance about whether NARA's financial statements are free of material misstatements, we performed tests of NARA's compliance with certain provisions of laws and regulations that have a direct and material effect on the financial statements. We did not test compliance with all laws and regulations applicable to NARA. We limited our tests of compliance to those provisions of laws and regulations required by OMB audit guidance that we deemed applicable to the financial statements, for the fiscal year ended September 30, 2009. We caution that noncompliance may have occurred and may not have been detected by these tests, and that such testing may not be sufficient for other purposes.

The results of our tests of compliance with laws and regulations described in the preceding paragraph disclosed no instances of material noncompliance that are required to be reported under *Government Auditing Standards* and OMB audit guidance. However, providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and, accordingly we do not express such an opinion.

This report is intended solely for the information and use of management of NARA, NARA Office of Inspector General, the Government Accountability Office (GAO), OMB, and Congress, and is not intended to be and should not be used by anyone other than those specified parties.

COTTON & COMPANY LLP

Jeffrey A. Long, CPA, CISA, CGFM
Partner

November 12, 2009
Alexandria, VA



Cotton & Company LLP
505 Simeon Lane
P.O. Box 400
Alexandria, VA 22304

202.526.6700
703.547.0441
888.888.0000 (toll free)

Independent Auditor's Report on Internal Control

The Inspector General
National Archives and Records Administration

We have audited the financial statements of the National Archives and Records Administration (NARA) as of, and for the year ended September 30, 2009, and have issued our report thereon dated November 12, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) audit guidance.

In planning and performing our audit, we considered NARA's internal control over financial reporting by obtaining an understanding of the design effectiveness of NARA's internal control, determining whether these controls had been placed in operation, assessing control risk, and performing tests of the controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, and not to provide an opinion on the internal controls. Accordingly, we do not express an opinion on the effectiveness of NARA's internal control over financial reporting.

We limited our internal control testing to those controls necessary to achieve the objectives described in OMB audit guidance. We did not test all internal controls relevant to operating objectives, as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects NARA's ability to initiate, authorize, record, process, or report financial data reliably, in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of NARA's financial statements that is more than inconsequential will not be prevented or detected by NARA's internal controls.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by NARA's internal controls.

Our consideration of internal controls was for the limited purpose described in the second and third paragraphs of this report, and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We identified two deficiencies in internal control over financial reporting that we consider to be significant deficiencies. However, we do not believe that the significant deficiencies described below are material weaknesses over financial reporting.

SIGNIFICANT DEFICIENCIES

I. Personal Property

NARA's processes and internal control procedures used to ensure the proper accountability of personal property assets and related accounting transactions need improvement. Improvements are needed in the following key areas:

- A. **Adherence to Policies and Procedures** - NARA employees do not always follow operating policies and procedures implemented by the Facilities and Personal Property Management Division (NAF) regarding the accountability of personal property items. Specifically, staff members do not always report or document the acquisition, transfer, or disposition of personal property items.
- B. **Personal Property in the Hands of Contractors** - NARA does not have policies and procedures in place to ensure the physical accountability of NARA-owned assets that are in the custody of contractors. In addition, NARA property managers do not barcode or inventory personal property used by and in the possession of contractors.
- C. **Personal Property Systems** - Personal property is tracked in the Personal Property Management System (PPMS), which does not interface with the general ledger. NARA has determined that the cost of integrating PPMS with the general ledger would exceed the benefits; therefore, these two systems will not be integrated. NARA's Financial Reports Staff (NAX) has been unable to rely on PPMS for certain property accounting functions due to the system's instability. Instead, personal property transactions (e.g. acquisitions, disposals, and depreciation) are valued on Microsoft Excel spreadsheets using PPMS information and manual processes. These processes are prone to human error and sufficient compensating controls are not in place to provide reasonable assurance that errors will be identified and corrected in a timely manner.

OMB Circular A-123, *Management's Responsibility for Internal Control* states:

It is management's responsibility to develop and maintain effective internal control...Agency managers should continuously monitor and improve the effectiveness of internal control associated with their programs.

In addition, Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* states:

An agency must establish physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment which might be vulnerable to risk of loss or unauthorized use.

Failing to implement adequate processes and internal control procedures over personal property transactions could result in assets being stolen or misplaced and not being detected by management in a timely manner. In addition, personal property related account balances could be misstated because accounting personnel are not notified of acquisitions and disposals in a timely manner. The following issues were noted when testing personal property transactions as of June 30, 2009.

1. **Stewardship of Accountable Items** - While performing testing of NARA's internal control over accountable personal property assets, we noted the following issues:

- NARA was unable to locate one asset in our sample, and thus, we could not verify the existence of the item.
 - Nine sampled items were recorded as being physically located in Archives II in PPMS, but the results of our audit procedures indicated the items were located at various other NARA field locations.
 - Two accountable items were identified at NARA facilities and were not recorded in PPMS.
2. **Account Balance Misstatements** - While performing testing of personal property accounting transactions, we noted the following issues:
- NARA improperly recorded disposal transactions for fully depreciated personal property items with a total acquisition cost of roughly \$21 million. In FY 2009, NARA recorded disposal transactions for all fully depreciated personal property assets without first verifying the physical status of the asset. These improper entries were subsequently reversed.
 - In addition, we noted several insignificant errors in depreciation calculations that were caused by human error.

Recommendations

We recommend that NAF should:

1. Finalize and implement its personal property policies and procedures manual during the first quarter of FY 2010.
2. Provide personal property-related training to NARA employees.
3. Design and implement monitoring procedures to ensure NARA employees adhere to personal property-related policies and procedures.
4. Design and implement procedures to ensure the accountability of assets in the custody of contractors.
5. Continue to implement personal property accounting functionality within the Maximo system, and in doing so, ensure that the application has adequate functionality to meet the requirements articulated by the Joint Financial Management Improvement Program (JFMIP) in its document titled, *Property Management Systems Requirements*.

We recommend that NAX should:

6. Perform a risk assessment to determine if it has sufficient procedures in place to mitigate risks posed by the manual processes used to account for personal property transactions.
7. Design and implement controls, as necessary, to address significant risks identified during the risk assessment.

II. Information Technology

During FY 2009 NARA continued to make improvements in its information technology (IT) control environment by addressing recommendations made in previous audits. However, improvements are still

needed in the following IT control areas: access control, segregation of duties, and contingency planning. Deficiencies noted in each area are discussed in sections A through C below. The issues discussed below, combined with the open recommendations from the previous fiscal year's (see Appendix A) financial statement audit, collectively represent a significant deficiency in internal control over financial reporting.

A. Access Controls

Access controls provide reasonable assurance that access to computer resources is reasonable and restricted to authorized individuals. NARA access control procedures must be improved in the following areas: account management, exit clearance process and incident response programs. Specific issues identified during testing are discussed below.

1. Account Management

NARA has not implemented sufficient controls to ensure that account management policies and procedures are consistent with National Institute of Standards and Technology (NIST) requirements and industry best practices. Application-specific issues noted during testing are discussed below:

a) NARANET

- NARA management relies on the annual security awareness training process to recertify accounts and determine if users still require system access. This process does not ensure that all applicable accounts are removed or disabled in a timely manner because the certification only occurs once per year. Additionally, this process only reviews individuals with login abilities; it does not review accounts that are not assigned to a specific individual (e.g. backup accounts, test accounts, and training accounts).
- Numerous NARANET accounts exist that are used for testing, training, and back-up. The responsibility for managing and determining the ongoing need for these accounts are not associated to a specific individual. Therefore, unnecessary accounts may be still active due to a lack of oversight responsibilities.
- Inactive accounts are not consistently disabled or removed in a timely manner. We noted 224 accounts in which the user had either never logged on to NARANET or had not logged on in over a year. In all 224 cases, the accounts were not disabled.
- NARANET's maximum password age requirement of 365 days is not consistent with NIST and OMB requirements and is not effective for providing adequate protection against unauthorized use. The password age requirement of 365 days was put in place based upon a standard designed for public use systems, NIST Special Publication (SP) 800-63 *Electronic Authentication Guidelines*, which is not meant for internal government use systems. In addition, our testing identified 37 active accounts that had not changed their password in over 365 days. These password practices and issues increase the risk that unauthorized users could effectively guess passwords and gain access to NARA's computing resources.

b) Records Center Program Billing System (RCPBS)

- RCPBS does not have configurable lockout policy settings. Also, RCPBS does not have a configurable password policy that requires users to change their password periodically; prohibits the reuse of passwords for a specific length of time; and automatically expires user passwords.
- Additionally, inactive accounts are not consistently disabled or removed in a timely manner. We identified 34 accounts that were inactive for over 365 days.

c) **Personal Property Management System (PPMS):**

Our testing noted that PPMS cannot enforce a configurable password or lockout policy.

NIST SP 800-53, Revision 2: *Recommended Security Controls for Federal Information Systems*, requires the following:

AC-2 ACCOUNT MANAGEMENT

The organization manages information system accounts, including establishing, activating, modifying, reviewing, disabling, and removing accounts. The organization reviews information system accounts at least annually.

The organization specifically authorizes and monitors the use of guest/anonymous accounts and removes, disables, or otherwise secures unnecessary accounts. Account managers are notified when information system users are terminated or transferred and associated accounts are removed, disabled, or otherwise secured. Account managers are also notified when users' information system usage or need-to-know/need-to-share changes.

AC-7 UNSUCCESSFUL LOGIN ATTEMPTS

The information system enforces a limit of 5 consecutive invalid access attempts by a user during a 15-minute time period. The information system automatically locks the account until released by an administrator when the maximum number of unsuccessful attempts is exceeded.

IA-5 AUTHENTICATOR MANAGEMENT

The organization manages information system authenticators by: (i) defining initial authenticator content; (ii) establishing administrative procedures for initial authenticator distribution, for lost/compromised, or damaged authenticators, and for revoking authenticators; (iii) changing default authenticators upon information system installation; and (iv) changing/refreshing authenticators periodically.

For password-based authentication, the information system: (i) protects passwords from unauthorized disclosure and modification when stored and transmitted; (ii) prohibits passwords from being displayed when entered; (iii) enforces password minimum and maximum lifetime restrictions; and (iv) prohibits password reuse for a specified number of generations.

In addition, the Federal Desktop Core Configuration (FDCC) requires the following:

MAXIMUM PASSWORD AGE

All desktop operating systems in the Federal government are required to meet the minimum security controls defined in the Federal Desktop Core Configuration (FDCC) guidance provided by NIST. This guidance that applies to Windows desktops requires a maximum password age of 60 days.

Center for Internet Security (CIS), *Novell eDirectory 8.7, Consensus Baseline*, requires the following:

MAXIMUM PASSWORD AGE

The 60 day recommendation from FDCC guidance is also consistent with the Center for Internet Security's Novell eDirectory 8.7 Consensus Baseline Security, Security Settings Version 1 document which requires a maximum password age setting of 90 days or less.

Without proper account management procedures, there is an increased risk that malicious users will be able to access NARA systems and resources. Such unauthorized access could result in the loss of data confidentiality, integrity, or availability.

Recommendations

We recommend that the NARA Chief Information Officer (CIO):

8. Implement a process for managing NARANET accounts that:
 - a) Requires a recertification of all system accounts at least annually.
 - b) Ensures all accounts are tied to a specific individual who has the responsibility for managing the account, and determining the ongoing need for non-login accounts.
 - c) Identifies inactive accounts on a regular basis and removes access in a timely manner.
 - d) Ensures all access and privileges of terminated employees are promptly removed.
9. Implement a more restrictive password age control for NARANET that is consistent with requirements for Federal information systems.
10. Implement a process for managing RCPBS accounts that:
 - a) Requires a recertification of all system accounts at least annually.
 - b) Identifies inactive accounts on a regular basis and removes or disables access in a timely manner.
 - c) Implements a more restrictive password age control that is consistent with requirements for federal information systems.
11. Implement compensating logging and monitoring controls for PPMS to ensure that the risk of unauthorized access is mitigated.

2. Exit Clearance Process

NARA has not implemented sufficient controls to ensure that its exit clearance policies and procedures are consistent with NIST requirements. Specific issues noted during testing were:

- a) NARANET accounts for terminated employees were not consistently disabled or removed in a timely manner. Out of 45 sampled terminated employees, we identified five accounts that were not disabled or removed a month after their effective termination date. Three of these accounts were still active at the time of our testing. In addition, two of the terminated employees had accessed NARANET at least once after their effective termination date.
- b) RCPBS accounts of terminated employees were not consistently disabled or removed in a timely manner. We identified four instances in which terminated employees accounts were not disabled or removed because the IT Helpdesk, or other appropriate personnel, were not notified of their separation.

NIST SP 800-53, Revision 2: *Recommended Security Controls for Federal Information Systems*, requires the following:

PS-4 PERSONNEL TERMINATION

The organization, upon termination of individual employment, terminates information system access, conducts exit interviews, retrieves all organizational information system-related property, and provides appropriate personnel with access to official records created by the terminated employee that are stored on organizational information systems.

An ineffective exit clearance process increases the risk that disgruntled former employees could use their continued system access to negatively impact the organization. Such unauthorized access could result in the loss of data confidentiality, integrity, or availability.

Recommendations

We recommend that the Office of Policy and Planning Staff (NPOL):

12. Enforce its current policies and procedures used to manage systems and accounts to ensure all access and privileges of terminated employees are promptly removed.
13. Ensure that supervisors receive training in their exit clearance process responsibilities, including alerting applicable personnel when employees and contractors under their supervision no longer require access.

3. Incident-Response Program

Currently, NARA's incident response methodology does not include testing of the incident response plan or NARA-specific training for incident response roles. NARA is currently in the process of finalizing a contract with an independent contractor to provide incident response program support. This support will include an assessment of NARA's incident response program, targeted training to NARA personnel involved with incident response, and a simulation of incident response exercises.

NIST SP 800-53, Revision 2: *Recommended Security Controls for Federal Information Systems*, requires the following:

IR-2 INCIDENT RESPONSE TRAINING

The organization trains personnel in their incident response roles and responsibilities with respect to the information system and provides refresher training at least annually.

IR-3 INCIDENT RESPONSE TESTING AND EXERCISES

The organization tests and/or exercises the incident response capability for the information system at least annually using organization-defined tests and/or exercises to determine the incident response effectiveness and documents the results.

Without strong incident response training and testing, NARA cannot ensure that its current incident response procedures will be handled effectively by those with incident response roles and responsibilities or will properly mitigate all detected security incidents.

Recommendation

14. We recommend that the NARA CIO continue its effort to finalize the contract with the independent contractor to provide an assessment of NARA's incident response program, provide targeted training to NARA personnel involved with incident response, and to conduct simulated exercises.

B. Segregation of Duties

Segregation of duties controls provide reasonable assurance that incompatible duties are effectively segregated. NARA does not have sufficient controls in place to ensure that incompatible roles in RCPBS are not assigned to individual system users. Specifically, when reviewing Webtally (a component system of RCPBS), we found that:

1. Seventy-seven users were assigned the "MANAGER" role in Webtally, and can both enter and approve transactions without the transaction being reviewed by a second party.
2. Users can be assigned multiple accounts with incompatible roles. For example, individuals with user accounts (e.g. "ACCTREP", "MANAGER") can also be given accounts with security administration capabilities ("ADMIN"). We noted 3 instances in which users were assigned security administration rights in addition to their user rights.

NIST SP 800-53, Revision 2: *Recommended Security Controls for Federal Information Systems*, states the following:

AC-5 SEPARATION OF DUTIES

The information system enforces separation of duties through assigned access authorizations.

The organization establishes appropriate divisions of responsibility and separates duties as needed to eliminate conflicts of interest in the responsibilities and duties of individuals. There is access control software on the information system that prevents users from having all of the necessary authority or information access to perform fraudulent activity without collusion. Examples of separation of duties include: (i) mission functions and distinct information system support functions are divided among different individuals/roles; (ii) different individuals perform information system support functions (e.g., system management, systems programming, quality assurance/testing, configuration management, and network security); and (iii) security personnel who administer access control functions do not administer audit functions.

Improper segregation of duties increases the risk of fraudulent acts, which could lead to financial, data and service loss, as well as potentially compromise the integrity, confidentiality, and availability of RCPBS data.

Recommendation

We recommend that the Assistant Archivist for Regional Records Services (NR):

15. Develop and implement policies and procedures that prohibit RCPBS users from having multiple accounts as well as the ability to enter and approve their own transactions.

C. Contingency Planning

Contingency planning helps protect information resources by minimizing the risk of unplanned interruptions and provides for the recovery of critical operations, should interruptions occur. NARA did not have sufficient controls in place to ensure that contingency and disaster recovery plans for financial systems reflected current operating conditions. Specifically, our testing noted that the Order Fulfillment and Accounting (OFAS) contingency plan and the RCPBS disaster recovery plan did not reflect current operating conditions.

NIST SP 800-53, Revision 2: *Recommended Security Controls for Federal Information Systems*, states the following:

CP-5 CONTINGENCY PLAN UPDATE

The organization reviews the contingency plan for the information system at least annually and revises the plan to address system/organizational changes or problems encountered during plan implementation, execution, or testing.

Not having complete and up-to-date disaster recovery and contingency plans for key financial systems increases the risk that NARA would be unable to respond to an emergency situation, which could lead to financial loss and loss of important data or service(s).

Recommendations

We recommend that the NARA CIO:

16. Fully implement a contingency planning policy that is consistent with guidance provided in NIST SP 800-34, *Contingency Planning Guide for Information Technology Systems*. The policy should include requirements for updating the contingency plan to reflect current operating conditions.

We recommend that the Assistant Archivist for Administration (NA):

17. Update the contingency and disaster recovery plans for OFAS to reflect current operating conditions.

We recommend that NR:

18. Update the contingency and disaster recovery plans for RCPBS to reflect current operating conditions.

STATUS OF PRIOR YEAR COMMENTS

We have reviewed the status of NARA's corrective actions with respect to the significant deficiency from the previous year's report on internal control. Details of the status of the recommendations are reported in Appendix A to this report.

NARA's management response to the significant deficiencies identified in our report is included as Appendix B to this report. We did not audit NARA's response and, accordingly, we provide no opinion on it.

In addition to the significant deficiencies described above, we noted certain matters involving internal control and its operation that we reported to NARA management in a separate letter, dated November 12, 2009.

This report is intended solely for the information and use of management of NARA, NARA Office of Inspector General, GAO, OMB, and Congress, and is not intended to be and should not be used by anyone other than those specified parties.

COTTON & COMPANY LLP

Jeffrey A. Long, CPA, CISA, CGFM
Partner



November 12, 2009
Alexandria, VA

Appendix A
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
 September 30, 2009

Condition/Audit Area	Recommendation Number	Recommendation	Current Status
Significant Deficiency			
Access Controls	1	Develop and implement VPN user access recertification procedures to require regular user access reviews for reasonableness.	Closed
	2	Revise NARA IT Security Requirements to specify a specific time frame (i.e., 24 or 48 hours) in which system access is to be removed upon an employee's separation of employment.	Closed – Revised during FY 2009.
	3	Develop and implement Novell administrator user access recertification procedures to require regular user access reviews for reasonableness.	Closed
	4	Enable Novell audit logging activity for user logins, ACL changes, add group member or delete group member events in accordance with NARA policy.	Closed
	5	Update attack signatures for NARA NIDS to the most recent version.	Closed
Entity-Wide Security Program	6	Complete risk assessments for all NARNET components.	Open
	7	Finalize and approve security plans for all NARANET components.	Open
	8	Certify each NARANET component, then certify and accredit the entire NARANET general support system	Open
	9	Implement policies and procedures which require the completion of security and awareness training before being granted access to NARA information systems.	Open
	10	Complete exit clearance forms (Form 3009) for all separating employees which include formal sign offs by functional managers and maintain these documents in accordance with NARA document retention policies.	Closed – Revised during FY 2009.
	11	Modify IT security requirements for new hires prior to accessing NARA systems which map to interim clearance procedures for badge	Closed

		issuance.	
Contingency Plan	12	Finalize and approve the COOP in accordance with HSPD 7, 51, and 20, FCD 1, and NIST SP 800-34.	Closed
	13	Finalize and approve the NARANET general support system contingency plan.	Closed

Management Response to Auditor's Report (FY 2009)



National Archives and Records Administration

8601 Adelphi Road
College Park, Maryland 20740-6001

Date: November 12, 2009
To: Paul Brachfeld, NARA Inspector General
From: Adrienne Thomas, Acting Archivist of the United States
Subject: Response to Draft Independent Auditor's Report on NARA's Internal Controls and Compliance with Laws and Regulations for FY 2009

Thank you for the opportunity to review and comment on the draft reports entitled, Independent Auditor's Report on Internal Control and Independent Auditor's Report on Compliance with Laws and Regulations. We appreciate your efforts and cooperation throughout this audit process.

NARA has worked hard to improve financial management processes and to resolve the information technology control issues. We are pleased that your reports recognize the notable progress that has been made.

While we generally agree with the assessments contained in the report, we offer the following comments on the Personal Property Significant Deficiency:

NARA had recognized that its Property Management internal controls needed improvement. To that end, it initiated a Business Process Reengineering effort in FY 2008. New processes and procedures have been developed as a result of the Business Process Re-engineering effort. Many have already been implemented through various interim policy directives and the remainder will be implemented by the new Property Management Directive and Standard Operating Procedure, currently under review. These new procedures more clearly define roles, place a greater emphasis on training, and hold management accountable for property under their control, closing many of the loopholes found in the old procedures.

Full implementation of the newly developed processes, coupled with ongoing implementation of the new Personal Property Management System (projected timeline for completion is April 2010) should address the audit finding on stewardship for accountable items.

In closing, while challenges remain, I believe NARA has demonstrated its commitment to producing accurate and reliable financial statements. NARA will continue its efforts to further improve its financial management processes and related internal controls.

(Adrienne C. Thomas)

ADRIENNE C. THOMAS
Acting Archivist of the United States

NARA's web site is <http://www.archives.gov>

Financial Statements and Additional Information (FY2009)

Principal Statements

Consolidated Balance Sheet As of September 30, 2009 and 2008 (in thousands)

	2009	2008
Assets (Note 2)		
Intragovernmental		
Fund balance with Treasury (Note 2)	\$ 256,857	\$ 213,080
Investments (Note 3)	11,719	10,957
Accounts receivable (Note 4)	14,789	12,446
Total intragovernmental	<u>283,365</u>	<u>236,483</u>
Cash	49	49
Investments (Note 3)	23,201	20,513
Accounts receivable, net (Note 4)	328	596
Inventory, net (Note 5)	1,024	1,120
General property, plant and equipment, net (Note 6)	420,404	415,980
Other Assets	814	868
Total assets	<u>\$ 729,185</u>	<u>\$ 675,609</u>
Stewardship PP&E (Note 7)		-
Liabilities		
Intragovernmental		
Accounts payable	\$ 4,632	\$ 2,439
Other (Note 8, 9, 10)	5,698	5,556
Total intragovernmental	<u>10,330</u>	<u>7,995</u>
Accounts payable	30,328	30,108
Debt held by the public (Note 8, 9)	193,942	205,868
Other (Note 8, 10)	35,309	35,128
Total liabilities	<u>\$ 269,909</u>	<u>\$ 279,099</u>
Commitments and Contingencies (Note 12)	-	-
Net Position		
Unexpended appropriations - other funds	193,346	147,697
Cumulative results of operations - earmarked funds (Note 13)	35,018	31,119
Cumulative results of operations - other funds	230,912	217,694
Total net position	<u>\$ 459,276</u>	<u>\$ 396,510</u>
Total liabilities and net position	<u>\$ 729,185</u>	<u>\$ 675,609</u>

The accompanying notes are an integral part of these statements

National Archives and Records Administration
Performance and Accountability Report, FY 2009

Consolidated Statement of Net Cost
For the years ended September 30, 2009 and 2008
(in thousands)

Program Costs	2009	2008
Records and archives-related services		
Gross costs (Note 14)	\$ 357,421	\$ 307,207
Less: Earned revenues	(977)	(261)
Total net records and archives-related services program costs	356,444	306,946
Trust and Gift Funds		
Gross costs (excluding heritage asset renovation)	14,432	14,449
Heritage asset renovation costs (Note 15)	-	-
Less: Earned revenues	(17,912)	(18,422)
Total net trust and gift fund costs	(3,480)	(3,973)
Electronic records archives		
Gross costs	17,539	9,885
Less: Earned revenues	-	-
Total net electronic records archives program costs	17,539	9,885
National historical publications and records commission grants		
Gross costs	6,434	5,511
Less: Earned revenues	-	-
Total net national historical publications and records commission grants program costs	6,434	5,511
Archives facilities and presidential libraries repairs and restoration		
Gross costs (excluding heritage asset renovation)	1,947	100
Heritage asset renovation costs (Note 15)	21,940	11,165
Less: Earned revenues	-	-
Total net archives facilities and presidential libraries repairs and restoration program costs	23,887	11,265
Revolving fund records center storage and services		
Gross costs	163,650	149,375
Less: Earned revenues	(151,572)	(142,332)
Total net revolving fund records center storage and services program costs	12,078	7,043
Net Cost of Operations	\$ 412,902	\$ 336,677

The accompanying notes are an integral part of these statements

Consolidated Statement of Changes in Net Position
For the years ended September 30, 2009
(in thousands)

	2009		
	Earmarked Funds	All Other Funds	Consolidated Total
Cumulative Results of Operations			
Beginning Balance	\$ 31,119	\$ 217,694	\$ 248,813
Budgetary Financing Sources			
Appropriations Used	-	409,119	409,119
Nonexchange Revenue	691	-	691
Donations and forfeitures of cash and cash equivalents	1,984	-	1,984
Transfers-in/out without reimbursement	(616)	616	(0)
Other	31	-	31
Other Financing Sources (Non-Exchange)			
Imputed financing	466	16,639	17,105
Other	1,089	-	1,089
Total Financing Sources	3,645	426,374	430,019
Net Cost of Operations	(254)	413,156	412,902
Net Changes	3,899	13,218	17,117
Cumulative Results of Operations	35,018	230,912	265,930
Unexpended Appropriations			
Beginning Balance	-	147,697	147,697
Budgetary Financing Sources			
Appropriations received	-	459,277	459,277
Other adjustments	-	(4,509)	(4,509)
Appropriations used	-	(409,119)	(409,119)
Total Budgetary Financing Sources	-	45,649	45,649
Total Unexpended Appropriations	-	193,346	193,346
Net Position	\$ 35,018	\$ 424,258	\$ 459,276

The elimination column was omitted because there was no elimination activity.

The accompanying notes are an integral part of these statements

Consolidated Statement of Changes in Net Position
For the years ended September 30, 2008
(in thousands)

	2008		
	Earmarked Funds	All Other Funds	Consolidated Total
Cumulative Results of Operations			
Beginning Balance	\$ 30,952	\$ 169,353	\$ 200,305
Budgetary Financing Sources			
Appropriations Used	-	368,731	368,731
Nonexchange Revenue	783	-	783
Donations and forfeitures of cash and cash equivalents	534	-	534
Transfers-in/out without reimbursement	(632)	632	-
Other	65	-	65
Other Financing Sources (Non-Exchange)			
Imputed financing	447	15,866	16,313
Other	(1,241)	-	(1,241)
Total Financing Sources	(44)	385,229	385,185
Net Cost of Operations	(211)	336,888	336,677
Net Changes	167	48,341	48,508
Cumulative Results of Operations	31,119	217,694	248,813
Unexpended Appropriations			
Beginning Balance	-	108,649	108,649
Budgetary Financing Sources			
Appropriations received	-	411,133	411,133
Appropriations transferred-in/out	-	-	-
Other adjustments	-	(3,354)	(3,354)
Appropriations used	-	(368,731)	(368,731)
Total Budgetary Financing Sources	-	39,048	39,048
Total Unexpended Appropriations	-	147,697	147,697
Net Position	\$ 31,119	\$ 365,391	\$ 396,510

The elimination column is omitted as no elimination activity impacts this statement.

The accompanying notes are an integral part of these statements

Combined Statement of Budgetary Resources
For the years ended September 30, 2009 and 2008
(in thousands)

	<u>2009</u>	<u>2008</u>
Budgetary Resources		
Unobligated balance brought forward, October 1:	\$ 64,985	\$ 63,813
Recoveries of prior year unpaid obligations	8,722	6,203
Budget Authority		
Appropriation	462,753	413,139
Spending authority from offsetting collections		
Earned		
Collected	186,804	177,602
Change in receivables from Federal sources	2,290	3,267
Change in unfilled customer orders		
Advance received	(622)	383
Without advance from Federal sources	6,833	(6,746)
Expenditure transfers from trust funds	771	632
Subtotal	658,829	588,277
Permanently not available	16,352	14,250
Total budgetary resources	<u>\$ 716,184</u>	<u>\$ 644,043</u>
 Status of Budgetary Resources		
Obligations Incurred (Note 17)		
Direct	433,832	404,622
Reimbursable	184,527	174,436
Subtotal	618,359	579,058
Unobligated Balance		
Apportioned	78,342	44,350
Exempt from apportionment	7,220	7,068
Subtotal	85,562	51,418
Unobligated balance not available	12,263	13,567
Total status of budgetary resources	<u>\$ 716,184</u>	<u>\$ 644,043</u>
 Change in Obligated Balance		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	\$ 174,105	\$ 139,064
Less: Uncollected customer payments from Federal sources, brought forward October 1	(15,004)	(18,483)
Total unpaid obligated balance, net	159,101	120,581
Obligations incurred net	618,359	579,058
Less: Gross outlays	(588,817)	(537,814)
Less: Recoveries of prior year unpaid obligations, actual	(8,722)	(6,203)
Change in uncollected customer payments from Federal sources	(9,122)	3,479
Obligated balance, net, end of period		
Unpaid obligations	194,925	174,104
Less: Uncollected customer payments from Federal sources	(24,126)	(15,003)
Total, unpaid obligated balance, net, end of period	170,799	159,101
 Net Outlays		
Gross outlays	588,817	537,814
Less: Offsetting collections	(186,954)	(178,616)
Less: Distributed offsetting receipts	(1,343)	(1,428)
Net Outlays	<u>\$ 400,520</u>	<u>\$ 357,770</u>

The accompanying notes are an integral part of these statements

Notes to Principal Statements

Note 1 – Summary of Significant Accounting Policies

A. Reporting Entity

The National Archives was created by statute as an independent agency in 1934. On September 30, 1949, the Federal Property and Administrative Services Act transferred the National Archives to the General Services Administration (GSA), and its name was changed to National Archives and Records Services. It attained independence again as an agency in October 1984 (effective April 1, 1985) and became known as the National Archives and Records Administration (NARA).

NARA is our nation's records keeper. NARA safeguards records of all three branches of the Federal Government. NARA's mission is to ensure continuing access to the essential documentation of the rights of American citizens and the actions of their government, and to facilitate historical understanding of our national experience.

NARA is administered under the supervision of the Archivist of the United States. It comprises various Operating Administrations, each having its own management and organizational structure, which collectively provide services and access to the essential documentation. NARA's accompanying financial statements include accounts of all funds under NARA's control.

General Funds

- Operating Expenses
 - Records Services—Provides for selecting, preserving, describing, and making available to the general public, scholars, and Federal agencies the permanently valuable historical records of the Federal Government and the historical materials and Presidential records in Presidential Libraries; for preparing related publications and exhibit programs; and for conducting the appraisal of all Federal records.
 - Archives Related Services—Provides for the publication of the Federal Register, the Code of Federal Regulations, the U.S. Statutes-at-Large, and Presidential documents, and for a program to improve the quality of regulations and the public's access to them. This activity also includes the administration and reference service portions for the National Historical Publications and Records Commission.
 - The National Archives at College Park—Provides for construction and related services of the archival facility which opened to the public at the end of 1993.
- Electronic Records Archives—Provides for research, analysis, design, development and program management to build an Electronic Records Archive (ERA) that will ensure the preservation of and access to Government electronic records.
- Repairs and Restoration—Provides for the repair, alteration, and improvement of Archives facilities and Presidential Libraries nationwide. It funds the National Archives' efforts to provide adequate storage for holdings, to maintain its facilities in proper condition for public visitors, researchers, and employees in NARA facilities, and maintain the structural integrity of the buildings.
- National Historical Publications and Records Commission Grants—Provides for grants funding that the Commission makes, to local, state, and private institutions nationwide, to preserve and publish records that document American history.

Intragovernmental Fund

- Records Center Revolving Fund – Utilizes customer funding effectively to provide services on a standard price basis to Federal agency customers. The fund maintains low cost, quality storage and transfers, reference, re-file, and disposal services for records stored in regional service facilities. The program office develops transaction billing rates annually for the upcoming fiscal year. The rates are developed to ensure full cost recovery for the delivery of storage and services of records held by the fund for its customer agencies. The rate development process is reviewed for reasonableness by the revolving fund office and receives final approval from the Archivist. Adjustments, changes or additions to the rates are submitted to the Archivist for approval before implementation.

Trust Funds

- National Archives Gift Fund – The National Archives Trust Board solicits and accepts gifts or bequests of money, securities, or other personal property for the benefit of or in connection with the national archival and records activities administered by the National Archives and Records Administration (44 U.S.C. 2305).
- National Archives Trust Fund – The Archivist of the United States furnishes, for a fee, copies of unrestricted records in the custody of the National Archives (44 U.S.C. 2116). Proceeds from the sale of copies of microfilm publications, reproductions, special works and other publications, and admission fees to Presidential Library museums are deposited in this fund.

B. Basis of Accounting and Presentation

These statements have been prepared from the accounting records of NARA in conformity with accounting principles (GAAP) generally accepted in the United States, and the requirements of the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. These statements are, therefore, different from the financial reports prepared by NARA, also subject to OMB directives, for the purposes of reporting and monitoring NARA's status of budget resources.

Transactions are recorded on both an accrual and budgetary basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and control over the use of Federal funds.

C. Funds with the U.S. Treasury and Cash

Funds with the U.S. Treasury primarily represent appropriated, revolving and trust funds. These funds may be used by NARA to finance expenditures. NARA's cash receipts and disbursements are processed by the U.S. Treasury.

Cash consists of petty cash imprest funds at Presidential Libraries and the National Archives regional and headquarters store locations, used to finance the cashiers' start-up cash.

D. Accounts Receivable

Accounts receivable primarily consists of amounts due from Federal agencies, which are expected to be collected, and therefore are not considered for allowance for uncollectible accounts. For amounts due from the public, NARA directly writes off uncollectible receivables based on an analysis of the outstanding balances.

E. Investments in Securities

Investments in Federal securities are made daily and are reported at cost.

NARA also employs the services of a third party capital management firm to monitor and manage the endowments, received pursuant to Title 44 U.S.C. section 2112, for the George Bush Library and Clinton Library. The purpose of the endowment is to provide income to offset the operations and maintenance costs of the corresponding Presidential library. Each endowment is reflected as a separate investment account in a Collective Fund. NARA also exercises its authority under Title 44 U.S.C. section 2306, to

move a portion of federally held investments for the Presidential Libraries to a third party investment firm, The Vanguard Group. All third party investments are recorded at fair value and interest income earned is recognized on a monthly basis.

F. Inventories

The National Archives Trust Fund inventories, which consist of merchandise, held for sale, are stated at the lower of cost or market, with cost determined using the average cost method. An allowance for damaged and obsolete goods is based on historical analysis and an evaluation of inventory turnover from year to year. Expenses are recorded when the inventories are sold.

G. Property, Plant and Equipment

NARA capitalizes property items with a unit cost equal to or exceeding \$50 thousand and a useful life exceeding two years. Depreciation expense is calculated using the straight-line method over the useful life. Property items not meeting the capitalization criteria are expensed.

NARA's PP&E falls into two categories: general PP&E and heritage assets. General PP&E items are used to provide general government goods and services. Heritage assets are defined as possessing significant educational, historic, cultural or natural characteristics, and are not included in the general PP&E. (See Note 7)

Multi-use heritage assets are heritage assets that are used predominantly for general government operations. The costs of acquisition, significant betterment or reconstruction of multi-use heritage assets are capitalized as general PP&E and depreciated, and are included on the Balance Sheet as general PP&E.

H. Internal Use Software

NARA capitalizes internal-use software development projects, where the total cost is \$250 thousand or greater. Internal-use software includes commercial off-the-shelf (COTS) software and internally developed or contractor developed software. The estimated useful life is 5 years.

I. Federal Employee Benefits

Employee Health and Life Insurance Benefits

All permanent NARA employees are eligible to participate in the contributory Federal Employees Health Benefit Program (FEHBP) and the Federal Employees Group Life Insurance Program (FEGGLIP) and may continue to participate after retirement. Both of these programs require contributions from the employee based on the coverage options selected by the employee. NARA makes contributions for the required employer share through the Office of Personnel Management (OPM) to FEHBP and FEGGLIP, which are recognized as operating expenses.

The Office of Personnel Management (OPM) administers and reports the liabilities for the post-retirement portion of these benefits. These costs are financed by OPM and imputed to all Federal agencies, including NARA. Using the cost factors supplied by OPM, NARA recognizes an expense for the future cost of postretirement health benefits and life insurance for its employees as imputed cost on the Statement of Net Costs and imputed financing sources on the Statement of Changes in Net Position.

Employee Retirement Benefits

All permanent NARA employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). NARA makes the required employer contributions to CSRS and FERS and matches certain employee contributions to the thrift savings component of FERS. All of these payments are recognized as operating expenses. The pension expense recognized in the financial statements equals the current service cost for NARA's employees for the accounting period less the amount contributed by the employees. OPM, the administrator of these plans, supplies NARA with factors to apply in the calculation of the service cost. These factors are derived through actuarial cost methods and assumptions. The excess of the recognized pension expense over the amount contributed by NARA and its employees represents the amount being financed directly by OPM and is considered imputed financing to NARA; appearing as an imputed cost on the Statement of Net Cost and an imputed financing source on the Statement of Changes in Net Position.

Workers' Compensation Program

The Federal Employees Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from NARA for these paid claims.

Actuarial FECA liability represents the liability for expected future workers' compensation benefits, which includes the liability for death, disability, medical, and miscellaneous costs for approved cases. The actuarial liability is determined by DOL annually, as of September 30, using a method that utilizes historical benefits payment patterns related to a specific incurred period, wage inflation factors, medical inflation factors and other variables. These actuarially computed projected annual benefit payments are discounted to present value using OMB's economic assumptions for ten-year Treasury notes and bonds. NARA computes its actuarial FECA liability based on the model provided by DOL and presents it as a liability to the public because neither the costs nor reimbursements have been recognized by DOL (see Note 8 and 10).

J. Accrued Annual, Sick and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. At the end of each fiscal year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. The amount of the adjustment is recorded as an expense. Current or prior year appropriations are not available to fund annual leave earned but not taken. This liability is not covered by budgetary resources, as detailed in Note 8. Funding occurs in the year the leave is taken and payment is made for the appropriated funds. The trust and revolving funds, are fully funding the annual leave earned but not taken, and are including it in the total liabilities covered by budgetary resources.

Sick leave and other types of non-vested leave are expensed as taken. See Notes 8 and 10.

K. Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

L. Contingencies and Commitments

NARA generally recognizes an unfunded liability for those legal actions where unfavorable decisions are considered "probable" and an estimate for the liability can be made. Contingent liabilities that are considered "possible" are disclosed in the notes to the financial statements. Liabilities that are deemed "remote" are not recognized or disclosed in the financial statements.

M. Allocation of Program Management Cost

NARA is comprised of various Operating Administrations, each having its own management and organizational structure. NARA allocates its general management and administrative support to its major components, Records and archives-related services and Revolving fund. General management costs are not allocated to the Trust and Gift Funds, since they are administered by the National Archives Trust Fund Board, which is an organization independent of, and not funded by, NARA (see Note 13). All other programs appearing on the Statement of Net Cost, such as Electronic Records Archives and National Historic Publications and Records Commission Grants are, in essence, a part of the Records and Archives-related services, which funds the related administrative costs. These sub-programs are shown separately for the purpose of demonstrating accountability and custodial responsibility for the funds received for these programs.

N. Earmarked Funds

NARA is subject to the Statement of Federal Financial Accounting Standards (SFFAS) Number 27, *Identifying and Reporting Earmarked Funds*, which requires separate identification of the earmarked funds on the Balance Sheet, Statement of Changes in Net Position, and further disclosures in a footnote (see Note 13). Earmarked funds are defined when the following three criteria are met: (1) a statute

National Archives and Records Administration
Performance and Accountability Report, FY 2009

committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits, or purposes; (2) explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and (3) a requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Government's general revenues.

O. Subsequent Events

We have evaluated subsequent events and transactions occurring after September 30, 2009 through the date of the auditors' opinion for potential recognition or disclosure in the financial statements. This is also the date that the financial statements were available to be issued.

Note 2 – Fund Balance with Treasury

Fund balances (in thousands)	2009	2008
Appropriated funds	\$ 230,544	\$ 179,511
Revolving fund	25,635	32,881
Trust fund	419	145
Gift fund	102	101
Other funds	157	442
Total	\$ 256,857	\$ 213,080

Status of Fund Balances with Treasury

Unobligated Balance		
Available	73,638	40,412
Unavailable	12,263	13,567
Obligated Balance not yet disbursed	170,799	158,659
Other funds	157	442
Total	\$ 256,857	\$ 213,080

Unavailable unobligated balance includes the following

Allotments - Expired Authority	\$ 12,263	\$ 13,567
--------------------------------	-----------	-----------

Restricted donations, included in the available unobligated and obligated balance above, are obligated in accordance with the terms of the donor. All donations to Presidential Libraries and the National Archives with specific requirements are considered restricted as to purpose. The endowments for the Presidential Libraries are restricted and have been obligated and invested in non-federal investments. The restricted balance as of September 30, 2009 is \$13,440 thousand (of which \$1,219 thousand is unobligated) and \$11,323 thousand as of September 30, 2008 (of which \$667 thousand is unobligated).

Other Funds represent non-entity FBWT funds, consisting of revenue collected and due to the Reagan and Clinton foundations, subject to revenue sharing agreements with the Trust Fund.

The unused fund balance of \$4,509 thousand in canceled appropriation for FY 2004 was returned to Treasury at the end of the fiscal year.

Note 3 – Investments

Investments as of September 30, 2009 and 2008 consist of the following
(in thousands)

	Cost	Interest Receivable	Investments, Net	Other Adjustments	Market value disclosure
Intragovernmental Securities					
Non-Marketable	\$ 11,719	\$ -	\$ 11,719	\$ -	\$ 11,719
Total Intragovernmental	\$ 11,719	\$ -	\$ 11,719	\$ -	\$ 11,719
Other securities					
Vanguard Dividend Growth Fund	230	1	231	11	242
Vanguard Intermediate Term Investment - Admiral	11,799	-	11,799	(109)	11,690
Emerging Markets Stock Index Fund	791	12	803	(65)	738
Vanguard Developed Markets Index Fund	1,320	34	1,354	(222)	1,132
Vanguard Total Bond Market Index Fund-Admiral	6,777	-	6,777	419	7,196
Vanguard Total Stock Market Index Fund-Admiral	1,512	2	1,514	(265)	1,249
Vanguard PRIMECAP Core Fund	1,004	8	1,012	(58)	954
Total Other	23,433	57	23,490	(289)	23,201
Total Investments	\$ 35,152	\$ 57	\$ 35,209	\$ (289)	\$ 34,920

National Archives and Records Administration
Performance and Accountability Report, FY 2009

Amounts for 2008 Balance Sheet Reporting					
	Cost	Interest Receivable	Investments, Net	Other Adjustments	Market value disclosure
Intragovernmental Securities					
Non-Marketable	\$ 10,957	\$ -	\$ 10,957	\$ -	\$ 10,957
Total Intragovernmental	\$ 10,957	\$ -	\$ 10,957	\$ -	\$ 10,957
Other securities					
Vanguard Intermediate Term Investment - Admiral	11,810	-	11,810	(1,168)	10,642
Emerging Markets Stock Index Fund	539	9	548	(145)	403
Vanguard Developed Markets Index Fund	1,161	30	1,191	(207)	984
Vanguard Total Bond Market Index Fund-Admiral	6,352	-	6,352	41	6,393
Vanguard Total Stock Market Index Fund-Admiral	1,335	2	1,337	(185)	1,152
Vanguard PRIMECAP Core Fund	994	7	1,001	(62)	939
Total Other	22,191	48	22,239	(1,726)	20,513
Total Investments	\$ 33,148	\$ 48	\$ 33,196	\$ (1,726)	\$ 31,470

Other securities represent investments in short-term investment funds and fixed-income securities.

Intra-governmental Investments in Treasury Securities-Investments for Earmarked Funds

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the Gift and Trust funds as evidence of its receipts. Treasury securities are an asset to the Gift and Trust funds and a liability to the U.S. Treasury. Since the Gift and Trust funds and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

Treasury securities provide the Gift and Trust funds with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the Gift and Trust funds require redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

Note 4 – Accounts Receivable, Net

Accounts receivable consisted of the following:

(in thousands)

	2009		2008	
	Intra- governmental	With the public	Intra- governmental	With the public
Accounts receivable	\$ 14,789	\$ 328	\$ 12,446	\$ 596

Note 5 – Inventories

Inventories consist of merchandise held available for current sale at gift shops in the Presidential Libraries and the National Archives buildings.

(in thousands)

	2009	2008
Inventory held for sale	\$ 1,283	\$ 1,379
Allowance for damaged and obsolete goods	(259)	(259)
Net realizable value	\$ 1,024	\$ 1,120

Note 6 - General Property, Plant and Equipment, Net

The following components comprise Property, Plant and Equipment as of September 30, 2009 and 2008 (in thousands):

		2009	2008		
Asset category	Estimated useful life in years	Acquisition cost	Accumulated depreciation/ amortization	Net book value	Net book value
Land	N/A	\$ 6,159	\$ -	\$ 6,159	\$ 6,159
Buildings and structures	30	388,960	(195,225)	193,735	206,798
Construction and shelving in progress	N/A	13,270	-	13,270	21,820
Equipment & Shelving	3 to 20	98,594	(55,577)	43,017	28,155
Leasehold Improvements	5	12,580	(2,586)	9,994	5,900
Assets under capital lease	20	5,284	(3,490)	1,794	2,058
Internal-use software	5	195,322	(71,415)	123,907	116,718
Software development in progress	N/A	28,528	-	28,528	28,372
Total property, plant and equipment		\$ 748,697	\$ (328,293)	\$ 420,404	\$ 415,980

Land and Buildings and structures presented on the balance sheet are deemed to be multi-use heritage assets. Assets deemed purely heritage assets are not included on the balance sheet. See Note 7 for further detail.

Note 7 - Stewardship PP&E

NARA is a custodian to multiple assets classified as heritage, including the National Archives Building in Washington, DC, all Presidential Libraries, as well as traditional and electronic holdings, and a variety of artifacts. These heritage assets are integral to the mission of the National Archives and Records Administration to safeguard, preserve, and ensure continuing access to the records of our Government.

Heritage assets, with the exception of those designated as multi-use, are not included on the Balance Sheet, as no financial value is nor can be placed on these assets. The costs of repairs and renovations to the heritage asset buildings are presented separately on the Statement of Net Cost as "Heritage asset renovation costs", and detailed in Note 15.

The major categories of heritage assets for NARA are buildings, land, and NARA's archival holdings and artifacts. For FY 2008 financial statements, NARA's traditional and electronic archival holding were presented in *cubic feet* and *logical data record* units of measure, respectively. During FY 2009, NARA determined it would be more meaningful to report archival holdings by collection (e.g. Presidential, regional) and type of holdings (e.g. traditional, electronic). This treatment more closely aligns with the processes used by NARA to maintain and preserve archival holdings.

	Buildings	Multi-Use Land	Traditional Holdings Collections	Electronic Holdings Collections	Artifacts Collections
National Archives Building	1	-	1	1	1
National Archives Building at College Park	1 (multi-use)	-	1	1	1
NARA regional archives	1 (multi-use)	2	13	-	-
Affiliated archives	-	-	8	-	-
Presidential Libraries	12	-	13	4	13
TOTAL	15	2	36	6	15

Buildings

Our most iconic asset, the National Archives Building, permanently displays the Declaration of Independence, the Constitution, and the Bill of Rights, collectively known as the Charters of Freedom. National Archives Building also houses textual and microfilm records relating to genealogy, American Indians, pre-World War II military and naval-maritime matters, the New Deal, the District of Columbia, the Federal courts, Congress, and the Vice Presidents Gore and Cheney.

To provide appropriate storage and preservation needs for the growing number of records, NARA was authorized to construct the National Archives in College Park, Maryland. National Archives at College Park collections include electronic records, cartographic and architectural holdings, special media (motion pictures, audio recordings, and videotapes), artifacts, the John F. Kennedy Assassination Records Collection, still pictures, and textual records from most civilian agencies and military records dating from World War II. Because the building also serves as the NARA administrative headquarters, the facility was deemed to be a multi-use heritage asset, and is included in general PP&E on the Balance Sheet (Note 6).

The NARA's regional archives facilities are leased, with the exception of Southeast Regional Facility (SER) in Atlanta, GA, which was constructed on land purchased by NARA. Along with

National Archives at College Park, the building and the land are designated as multi-use heritage assets and are included in general PP&E on the Balance Sheet (Note 6).

Our regional archives contain collections of archival holdings of value for genealogical and historical research; such as Federal census information, naturalization records and passenger lists, as well as closed business and personal bankruptcy case files, civil and criminal case files from Federal courts. The traditional military service records for the 20th century and personnel records of former federal civilian employees from mid-1800s through 1951 are managed at the National Personnel Records Center in St. Louis, Missouri.

The affiliated archives store the holdings of the National Archives. While we have agreements with 10 institutions, currently only 8 institutions store NARA's accessioned holdings.

The twelve Presidential Libraries are designated as heritage assets. Each consists of buildings, structures, and land under NARA's management used to store, preserve, and display the collections of traditional archival holdings and artifacts from the respective Presidential administration. This fiscal year, the collections of records and artifacts documenting the Presidency of George W. Bush were absorbed in January 2009, and are housed at a temporary leased facility in Lewisville, Texas, until the construction of the George W. Bush Library at the Southern Methodist University is completed.

Multi-Use Land

NARA owns two parcels of land, designated as multi-use, each serving as a site for current (SER in Atlanta, GA) or future (Alaska) multi-use regional archival facilities.

Traditional Archival holdings consist of the following record types:

- Traditional Textual (paper) are records on paper whose intellectual content is primarily textual.
- Traditional Non-textual (all media) category includes all records not classified as textual (paper), artifacts, or electronic records. It includes still pictures on paper and film; posters; architectural drawings, charts, maps and other cartographic records on paper; textual records on microfilm; as well as motion pictures, video, sound recordings, and other clearly non-textual records.

Electronic Archival records are records on electronic storage media, such as word processing documents, spreadsheets, emails (with attachments), databases, satellite imagery, and digital photographs, etc from agencies in the executive, legislative and judicial branches. The three Presidential electronic holding collections, from the Ronald Reagan, George Bush and William J. Clinton libraries, are maintained in College Park, Maryland. The Presidential unclassified electronic materials from the George W. Bush administration have been ingested to our Executive Office of the President (EOP) instance of the Electronic Records Archives system. Also ingested were the electronic records of Vice Presidents Gore and Cheney, which are under the direction of the Presidential Materials Staff at the National Archives building.

Artifacts

In addition to already discussed artifacts at the National Archives and National Archives at College Park, each of the museums is a repository to a collection of presidential records and artifacts, preserved and exhibited to promote public understanding of the history of the period, the respective Presidential administration, and the career of the President. The artifact collections include gifts from foreign heads of state, luminaries and common citizens with artifacts ranging from high value items, including firearms, jewelry, and works of art, coins and currency to tee shirts, trinkets and curiosities.

National Archives and Records Administration
Performance and Accountability Report, FY 2009

NARA's collections only grow with the accessioning of new records or transfer of Presidential materials. No collection is ever retired or disposed. For the accession to take place, the Archivist determines, through the formal scheduling and appraisal process, whether records have sufficient administrative, legal, research or other value to warrant their continued preservation by the Government and for how long (44 USC 3303a). When in the public interest, the Archivist may accept Government records for historical preservation (44 USC 2107) and accept non-Government papers and other historical materials for deposit (44 USC 2111). The archivist also administers Presidential and Vice Presidential records in accordance with 44 U.S.C. Chapter 22. Methods of acquisition and disposal are according to the guidelines established through the legal authority granted to NARA. See the Performance Section 2.2 for more details on NARA's performance data on processing records and Section 2.7 for details on NARA's preservation performance.

In FY 2009, the only additions were to the Traditional, Electronic and Artifacts collections resulting from the transfer of George. W. Bush Presidential materials. NARA also purchased a parcel of land to accommodate the JFK library addition, included as Presidential Library Complexes.

Providing physically and environmentally appropriate storage conditions at NARA's facilities is the most essential and cost-effective way to preserve records. Information about the condition and deferred maintenance on NARA owned buildings and holdings is contained in the Deferred Maintenance section of the Required Supplementary Information.

Note 8 – Liabilities not covered by Budgetary Resources

Liabilities not covered by budgetary resources are liabilities that are not funded by direct budgetary authority in the current fiscal year and result from the receipt of goods and services, or the occurrence of eligible events, for which appropriations, revenues, or other financing sources necessary to pay the liabilities have not yet been made available through Congressional appropriation. Liabilities not covered by budgetary resources as of September 30, 2009 and 2008, consist of the following:

(in thousands)

	<u>2009</u>	<u>2008</u>
Intragovernmental		
Workers' compensation	\$ 828	\$ 773
Total intragovernmental	828	773
Debt held by the public	193,942	205,868
Accrued unfunded leave	10,157	9,397
Workers' compensation-actuarial liability	11,097	11,338
Total liabilities not covered by budgetary resources	216,024	227,376
Total liabilities covered by budgetary resources	53,885	51,723
Total liabilities	\$ 269,909	\$ 279,099

Note 9 - Debt Held by the Public

Public Law 100-440 authorized NARA to "enter into a contract for construction and related services for a new National Archives facility. . . . The contract shall provide, by lease or installment payments payable out of annual appropriations over a period not to exceed thirty years."

In 1989, NARA entered into an installment sale and trust agreement with the trustee, United States Trust Company of New York. Under terms of this agreement, the trustee obtained financing for the construction of the National Archives at College Park through the sale of certificates representing proportionate shares of ownership. NARA is paying off the debt in semiannual installments.

Although the full amount financed of \$301,702 thousand was included (scored) for U.S. budget estimation purposes in fiscal year 1989, NARA requires a congressional appropriation to pay the redemption of debt (principal) and interest costs of \$28,971 thousand, annually. The 25-year semiannual payments of \$14,486 thousand began in 1994 and will be completed in 2019.

<i>(in thousands)</i>	2009	2008
Beginning balance - Principal	\$ 204,420	\$ 215,316
Less : Debt repayment	11,842	10,896
Ending balance - Principal	192,578	204,420
Accrued interest payable	1,364	1,448
Total Debt at September 30	\$ 193,942	\$ 205,868

Note 10 – Other Liabilities

Other Liabilities as of September 30, 2009 and 2008 consists of the following:

<i>(in thousands)</i>	2009		
	Non-Current	Current	Total
Intragovernmental			
Workers' and unemployment compensation	\$ 1,302	\$ 1,181	\$ 2,483
Capital lease liability	502	110	612
Accrued payroll	-	2,147	2,147
Advances from others	-	456	456
Total Intragovernmental	1,804	3,894	5,698
Workers' compensation	11,097	-	11,097
Accrued funded payroll and leave	-	13,971	13,971
Unfunded leave	10,157	-	10,157
Other liabilities	-	4	4
Advances from others	-	80	80
Total other liabilities	\$ 23,058	\$ 17,949	\$ 41,007

National Archives and Records Administration
Performance and Accountability Report, FY 2009

	2008		
	Non-Current	Current	Total
Intragovernmental			
Workers' and unemployment compensation	\$ 1,512	\$ 1,047	\$ 2,559
Capital lease liability	614	93	707
Accrued payroll	-	1,903	1,903
Advances from others	-	387	387
Total Intragovernmental	2,126	3,430	5,556
Workers' compensation	11,338	-	11,338
Accrued funded payroll and leave	-	13,621	13,621
Unfunded leave	9,397	-	9,397
Other liabilities	-	2	2
Advances from others	-	770	770
Total other liabilities	\$ 22,861	\$ 17,823	\$ 40,684

Note 11 – Leases

NARA leases office space, vehicles, copiers, and equipment under annual operating leases. These leases are cancelable or renewable on an annual basis at the option of NARA.

The NARA Revolving Fund conducts the major part of its operation from leased facilities, where most agreements are cancelable operating leases. These leases may be cancelled with four months notice, or, in the case of the Atlanta lease, may be terminated for convenience by NARA, under the provisions of the Federal Acquisitions Regulations.

Only one lease is classified as a capital lease. The capital lease represents liability for shelving leased through GSA at the Philadelphia records facility. It expires in December 2014. A similar capital lease at the Dayton facility expired in September 2007, with no future payments due. The net capital lease liability is covered by budgetary resources, and included in Intragovernmental Liabilities, Other.

The schedule below shows the future minimum payments under the capital lease with the present value of the future minimum lease payments (in thousands):

Capital Leases - NARA as lessee	2009	2008
Summary of assets under capital lease:		
Shelving	\$ 5,284	\$ 5,284
Accumulated amortization	(3,490)	(3,226)

Description of Lease Arrangements

Future payments due

Fiscal year	
2010	\$ 146
2011	146
2012	146
2013	146
2014	146
After 2014	13
Total future lease payments	743
Less: imputed interest	131
Net capital lease liability	\$ 612

NARA also has the following non-cancelable operating leases with GSA, which include no renewal options:

Records facility	Lease Period
Pittsfield, Massachusetts	January 5, 1994 through January 4, 2014
Dayton (Kingsridge), Ohio	September 1, 2004 through December 31, 2022
Lenexa, Kansas	February 1, 2003 through January 31, 2023
St. Louis, Missouri (permanent records)	February 1, 2010 through January 31, 2030
Pershing Rd, Kansas City, MO	January 1, 2009 through December 31, 2028

Other non-cancelable operating leases with public corporations are detailed below. The Perris, CA, and Atlanta, GA, records facilities' leases have three ten year renewal options after the initial period.

Records facility	Lease Period
Perris, CA	December 1, 2004 through December 1, 2024
Atlanta, GA	October 1, 2004 through September 30, 2024
Ft. Worth, Texas	October 1, 2006 through September 30, 2026
The Annex in Valmeyer, Illinois	October 1, 2008 through September 30, 2028

All GSA and public corporation leases include escalation clauses for operating costs tied to inflationary increases and for real estate taxes tied to tax increases. The minimum future lease payments detailed below reflect estimated escalations for such increases. These amounts will be adjusted to the actual costs incurred by the lessor.

In addition, NARA has a non-cancelable operating lease with Potomac Electric Power Company for a parcel of land used for a parking lot at our building in College Park. The lease is for 20 years, from May 2003 thru April 2023, and contains a set schedule of payments due.

The schedule below shows the total future non-cancelable lease payments by asset class (in thousands):

Operating Leases - NARA as lessee		
Future payments due:	Asset Category	
<u>Fiscal year</u>	<u>Land</u>	<u>Buildings</u>
2010	\$ 129	\$ 17,342
2011	132	22,793
2012	135	26,741
2013	139	27,091
2014	142	25,816
After 2014	1,377	335,396
Total future lease payments	\$ 2,054	\$ 455,179

Note 12 – Commitments and Contingencies

NARA has incurred claims in the normal course of business. As of September 30, 2009, in the opinion of General Counsel, NARA has no material outstanding claims. The aggregate potential loss to NARA on all outstanding claims, with a reasonable possibility of an unfavorable outcome is estimated not to exceed \$22 thousand. Of these amounts, certain settlements or awards on tort claim over \$2,500 may be payable from the U.S. Treasury Judgment Fund in accordance with 31 USC 1304.

In addition, the General Counsel identified claims, estimated not to exceed \$144 thousand, in which the likelihood of an unfavorable outcome was determined to be probable. These claims were not presented in the financial statements because the amounts were determined to be insignificant to the financial statements taken as a whole.

Note 13 - Earmarked Funds

Earmarked funds are financed by specifically identified revenues, which remain available over time. These specifically identified revenues are required by statute to be used for designated activities, or purposes, and must be accounted for separately from the Government's general revenues. NARA has two funds that are considered earmarked funds; National Archives Trust Fund (NATF) and National Archives Gift Fund (NAGF), which are administered by the National Archives Trust Fund Board.

Congress established the National Archives Trust Fund Board to receive and administer gifts and bequests and to receive monies from the sale of reproductions of historical documents and publications for activities approved by the Board and in the interest of NARA and the Presidential Libraries.

The members of the Board are the Archivist of the United States, who serves as chairman; the Secretary of the Treasury; and the chairman of the National Endowment for the Humanities. Membership on the board is not an office within the meaning of the statutes of the United States. The membership, functions, powers and duties of the National Archives Trust Fund Board shall be as prescribed in the National Archives Trust Fund Board Act of July 9, 1941, as amended (44 U.S. C. 2301-2308). These bylaws are adopted pursuant to the authority vested in the Board by 44 U.S. C. 2303 (3) to adopt bylaws, rules and regulations necessary for the administration of its function under this chapter.

NATF finances and administers the reproduction or publication of records and other historical materials. NAGF accepts, receives, holds and administers, in accordance with the terms of the donor, gifts, or bequests of money, securities, or other personal property for the benefit of NARA activities. The major areas of activity for these funds are Presidential Libraries, the Office of Regional Records Services, and the National Historical Publications and Records Commission.

National Archives and Records Administration
Performance and Accountability Report, FY 2009

Financial Information for NATF and NAGF as of September 30, 2009, and 2008 consists of the following:

	2009		
	NATF	NAGF	Total Earmarked Funds
Balance Sheet as of September 30, 2009			
Assets			
Fund balance with Treasury	\$ 576	\$ 102	\$ 678
Cash	49	-	49
Investments, net	17,955	16,965	34,920
Accounts receivable	134	-	134
Inventory	1,024	-	1,024
Property, plant and equipment	11	-	11
Other	1	-	1
Total assets	19,750	17,067	36,817
Liabilities			
Accounts payable	491	117	608
Other liabilities	1,191	-	1,191
Total liabilities	1,682	117	1,799
Net position			
Cumulative results of operations			
Restricted	-	13,440	13,440
Unrestricted	18,068	3,510	21,578
Total net position	18,068	16,950	35,018
Total liabilities and net position	19,750	17,067	36,817
Statement of Net Cost for the Period Ended September 30, 2009			
Gross Program Costs	16,775	769	17,544
Less Earned Revenues	17,798	-	17,798
Net Costs of Operations	\$ (1,023)	\$ 769	\$ (254)
Statement of Changes in Net Position For the Period Ended September 30, 2009			
Net position, Beginning of fiscal year	16,578	14,541	31,119
Non-exchange revenue	0	691	691
Donations	-	1,984	1,984
Transfers-in/out without reimbursements	(1)	(615)	(616)
Other Budgetary Financing Sources	-	31	31
Imputed financing from costs absorbed by others	466	-	466
Other Financing Sources	-	1,089	1,089
Total financing sources	465	3,180	3,645
Net cost of operations	(1,023)	769	(254)
Change in Net Position	1,488	2,411	3,899
Net Position, End of fiscal year	\$ 18,066	\$ 16,952	\$ 35,018

National Archives and Records Administration
Performance and Accountability Report, FY 2009

(in thousands)	2008		
	NATF	NAGF	Total Earmarked Funds
Balance Sheet as of September 30, 2008			
Assets			
Fund balance with Treasury	\$ 587	\$ 101	\$ 688
Cash	49	-	49
Investments, net	16,993	14,477	31,470
Accounts receivable	439	-	439
Inventory	1,120	-	1,120
Property, plant and equipment	21	-	21
Total assets	19,209	14,578	33,787
Liabilities			
Accounts payable	1,122	37	1,159
Other liabilities	1,509	-	1,509
Total liabilities	2,631	37	2,668
Net position			
Cumulative results of operations			
Restricted	-	11,323	11,323
Unrestricted	16,578	3,218	19,796
Total net position	16,578	14,541	31,119
Total liabilities and net position	19,209	14,578	33,787
Statement of Net Cost for the Period Ended September 30, 2008			
Gross Program Costs	17,740	836	18,576
Less Earned Revenues	18,787	-	18,787
Net Costs of Operations	\$ (1,047)	\$ 836	\$ (211)
Statement of Changes in Net Position For the Period Ended September 30, 2008			
Net position, Beginning of fiscal year	15,078	15,874	30,952
Non-exchange revenue	6	777	783
Donations	-	534	534
Transfers-in/out without reimbursements	-	(632)	(632)
Other Budgetary Financing Sources	-	65	65
Imputed financing from costs absorbed by others	447	-	447
Other Financing Sources	-	(1,241)	(1,241)
Total financing sources	453	(497)	(44)
Net cost of operations	(1,047)	836	(211)
Change in Net Position	1,500	(1,333)	167
Net Position, End of fiscal year	\$ 16,578	\$ 14,541	\$ 31,119

The elimination column was omitted because there was no elimination activity.

Note 14 – Intragovernmental Costs and Exchange Revenues by Program

(in thousands)

	<u>2009</u>	<u>2008</u>
Records and Archives Related Services		
Intragovernmental gross costs	\$ 59,511	\$ 51,176
Public costs	297,910	256,031
Total Records and Archives-Related Service Costs	357,421	307,207
Intragovernmental earned revenue	975	261
Public earned revenue	2	-
Total Records and Archives-Related Service Earned Revenue	977	261
Trust and Gift Funds		
Intragovernmental gross costs	2,075	2,176
Public costs	12,357	12,273
Heritage asset renovation costs (Note 15)	-	-
Total Trust and Gift Funds Costs	14,432	14,449
Intragovernmental earned revenue	541	909
Public earned revenue	17,371	17,513
Total Trust and Gift Funds Earned Revenue	17,912	18,422
Electronic Records Archives		
Intragovernmental gross costs	6,698	6,397
Public costs	10,841	3,488
Total Electronics Records Archives Costs	17,539	9,885
National Historical Publications and Records Commission Grants		
Intragovernmental gross costs	-	-
Public costs	6,434	5,511
Total National Historical Publications and Records Commission Grants Costs	6,434	5,511
Archives Facilities and Presidential Libraries Repairs and Restoration		
Intragovernmental gross costs	124	4
Public costs	1,823	96
Heritage asset renovation costs (Note 15)	21,940	11,165
Total Archives Facilities and Presidential Libraries Repairs and Restoration Costs	23,887	11,265
Revolving Fund Records Center Storage and Services		
Intragovernmental gross costs	71,727	70,035
Public costs	91,923	79,340
Total Revolving Fund Records Center Storage and Service Costs	163,650	149,375
Intragovernmental earned revenue	150,031	141,088
Public earned revenue	1,541	1,244
Total Revolving Fund Records Center Storage and Services Earned Revenue	\$ 151,572	\$ 142,332

National Archives and Records Administration
Performance and Accountability Report, FY 2009

Gross costs are classified on the basis of the sources of goods and services. Intragovernmental gross costs are expenses related to purchases from a Federal entity. Intragovernmental earned revenue represents exchange transactions between NARA and other Federal entities.

Public costs are expenses related to purchases from a non-Federal entity, and the exchange revenue is classified as “public earned revenue” where the buyer of the goods or services is a non-Federal entity.

Note 15 – Cost of Stewardship PP&E

Stewardship assets consist of heritage assets as defined in Note 7. The Consolidated Statement of Net Cost includes the following costs to renovate heritage assets buildings and structures, as of September 30, 2009 and 2008 (in thousands):

<i>Asset</i>	2009	2008
	<u><i>Appropriation</i></u>	<u><i>Appropriation</i></u>
National Archives Building	\$ 1,672	\$ 2,261
<u>Libraries:</u>		
Roosevelt	1,421	285
Hoover	33	78
Truman	627	930
Eisenhower	694	150
Kennedy	3,019	27
Johnson	4,442	5,328
Nixon	4,723	1,118
Ford	224	97
Carter	4,572	320
Reagan	358	334
Bush	6	233
Clinton	149	4
Total	<u><u>\$ 21,940</u></u>	<u><u>\$ 11,165</u></u>

For additional information about NARA’s Stewardship Assets see Note 7 and Required Supplementary Information.

Note 16 – Stewardship PP&E Acquired Through Transfer, Donation or Devise

Other than permanent records accessioned from other Federal Agencies, NARA may gain ownership of heritage assets received through gifts of money, security or other property. The National Archives Gift fund receives and accepts, holds and administers in accordance with the terms of the donor, gifts or bequests for the benefit of the National Archives Gift Fund activities or Presidential Libraries. Additional information about heritage assets is presented in Note 7, and detailed by the type and quantity of heritage assets collections.

Note 17 - Apportionment Categories of Obligations Incurred

OMB typically uses one of two categories to distribute budgetary resources subject to apportionment in a fund. Apportionments that are distributed by fiscal quarters are classified as category A. Category B apportionments usually distribute budgetary resources by activities, project, objects or a combination of these categories. NARA’s Trust fund remains exempt from apportionment.

National Archives and Records Administration
Performance and Accountability Report, FY 2009

The amounts of direct and reimbursable obligations incurred (in thousands).

	Category A		Category B		Exempt		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Direct	\$372,927	\$348,461	\$ 60,905	\$ 56,161	\$ -	\$ -	\$433,832	\$404,622
Reimbursable	3,289	2,529	165,155	154,503	16,083	17,404	184,527	174,436
Total	\$376,216	\$350,990	\$226,060	\$210,664	\$16,083	\$17,404	\$618,359	\$579,058

Note 18 - Legal Arrangements Affecting Use of Unobligated Balances

Public Law 110-161, December 26, 2007, Division D, Title VI, Section 611 authorized that up to 50 percent of NARA's unobligated balances remaining available at the end of fiscal year 2008 to be available through the end of FY 2009. During FY 2009, \$297 thousand was transferred to 2009 appropriation account.

Note 19 - Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* calls for explanations of material differences between budgetary resources available, status of those resources and outlays as presented in the Statement of Budgetary Resources (SBR) to the related actual balances published in the *Budget of the United States Government* (President's Budget). However, the President's Budget that will include FY 2009 actual budgetary execution information has not yet been published. The *Budget of the United States Government* is scheduled for publication in January 2010. Accordingly, information required for such disclosure is not available at the time of preparation of these financial statements.

Instead, NARA FY 2008 SBR balances and the related President's Budget are shown in a table below for each major budget account in which a difference exists. The differences are primarily due to reporting requirement differences for expired and unexpired appropriations between the Treasury guidance used to prepare the SBR and the OMB guidance used to prepare the President's Budget. The SBR includes both unexpired and expired appropriations, while the President's Budget discloses only unexpired budgetary resources that are available for new obligations.

(in millions)

	2008			
	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	\$ 644	\$ 579	\$ 1	\$ 359
Difference-Expired appropriations	(14)	-	-	-
Difference-Rounding	(1)	-	-	-
Budget of the U.S. Government	<u>\$ 629</u>	<u>\$ 579</u>	<u>\$ 1</u>	<u>\$ 359</u>

Note 20 - Undelivered orders at the end of the period

The amount of budgetary resources obligated for undelivered orders at September 30, 2009 and 2008 is \$140,993 thousand and \$122,972 thousand, respectively.

National Archives and Records Administration
Performance and Accountability Report, FY 2009

Note 21 – Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing)

Reconciling budgetary resources obligated during the period to the Net Cost of Operations explains the relationship between the obligation basis of budgetary accounting and the accrual basis of financial (proprietary) accounting. Prior to FY 2007, this reconciliation appeared as the Statement of Financing.

The reconciliation starts with the net obligations incurred during the period. Net obligations incurred are amounts of new orders placed, contracts awarded, services received and other similar transactions that will require payments during the same or a future period. To arrive at the total resources used to finance operations, non-budgetary resources must be added to net obligations incurred. Non-budgetary resources include financing imputed for cost subsidies and unrealized gains and losses from non-federal securities being held by the Gift fund. Resources that do not fund net costs of operations are primarily the change in amount of goods, services and benefits ordered but not yet received, amounts provided in the current reporting period that fund costs incurred in prior years and amounts incurred for goods or services that have been capitalized on the balance sheet. These are deducted from the total resources. Costs that do not require resources in the current period consist of depreciation and asset revaluations. Financing sources yet to be provided are the financing amounts needed in a future period to cover costs incurred in the current period, such as unfunded annual leave and unfunded workers compensation. The costs that do not require resources in the current period and the financing sources yet to be provided are added to the total resources used to finance operations, to arrive at the net cost of operations for the current period.

<i>(in thousands)</i>	2009	2008
Net obligations incurred	\$ 412,218	\$ 396,290
Nonbudgetary Resources	16,017	17,554
Total resources used to finance activities	428,235	413,844
Resources that do not fund net cost of operations	(69,527)	(112,878)
Cost that do not require resources in the current period	48,815	30,580
Financing sources yet to be provided	5,379	5,131
Net cost of operations	<u>\$ 412,902</u>	<u>\$ 336,677</u>

Required Supplementary Information

Deferred Maintenance

The National Archives owns and manages assets including the National Archives Building, the National Archives at College Park, MD, the Southeast Regional Archives building in Atlanta, GA, and the Presidential Libraries. The rest of NARA facilities are leased from GSA or the public. All of these support NARA's mission to safeguard and preserve our most significant heritage assets, the national records holdings in our custody.

To ensure the preservation of the archival holdings NARA applies a multi-faceted strategy, which includes storage in appropriate environment, implementation of handling and other preservation policies, and preservation actions, such as holdings maintenance, custom housing, reformatting and conservation treatment.

Through NARA-wide risk and condition assessment processes, which are a function of the day to day operations, such as accessioning of records into the NARA's possession, NARA obtains condition information for its collection type heritage assets.

Extensive preservation actions are required on those records identified as "at-risk" to minimize further deterioration and to remediate damage that has occurred due to age or improper handling and storage conditions prior to arrival at NARA. NARA has identified the backlog of records requiring preservation actions as one of its top challenges, and plans actions annually to address it. The progress on this ongoing challenge is tracked and reported as one of our critical performance measures (section 2.7 in the Performance section of this PAR), as well as through the FMFIA action plan for FY10 (see Other Accompanying Information).

Because the space where the records are preserved is a critical factor to prevent deterioration of the records, NARA has implemented federal records and archival storage standards to reduce damage to holdings prior to their being accessioned by NARA as well as when in the NARA's possession. The costs to address deficiencies related to compliance of NARA owned facilities with these storage standards are reflected in the estimate, below.

NARA uses the condition assessment method to determine the condition of its fixed assets, including stewardship PP&E facilities. The condition assessment surveys (CAS) at NARA are conducted by a professional architectural firm, who prepare Building Condition Reports (BCR), for all NARA owned facilities on a five-year rotating cycle. Facility managers continue to perform condition assessments annually to identify critical needs between BCRs. Maintenance required to bring fixed assets to acceptable condition, which is not scheduled or performed when needed, is included in the deferred maintenance estimate below.

At the end of Fiscal Year 2009, needed maintenance projects for fifteen locations, including twelve Presidential Libraries, have been identified from current BCR reports, and are included in the deferred maintenance estimate.

<i>Category</i>	<i>Method</i>	<i>Acceptable Asset Condition</i>	<i>Estimated Deferred Maintenance</i>
Heritage assets – Buildings	CAS	Good	\$46 to 47 million
Multi-use assets – Buildings	CAS	Good	\$7 to 8 million

NARA categorizes facilities and equipment according to condition using terms such as those shown below:

- *Good.* Facilities/equipment condition meets established maintenance standards, operating efficiently and has a normal life expectancy. Scheduled maintenance should be sufficient to maintain the current condition. There is no critical deferred maintenance on building and equipment in good condition.
- *Fair.* Facilities/equipment condition meets minimum standards, but requires additional maintenance or repairs to prevent further deterioration, increase operating efficiency and to achieve normal life expectancy.
- *Poor/Unsatisfactory.* Facilities/equipment does not meet most maintenance standards and requires frequent repairs to prevent accelerated deterioration and provide a minimal level of operating function.

Due to the scope, nature and variety of the assets and the nature of the deferred maintenance, exact estimates are very difficult to determine. Current estimates include correcting deficiencies that relate to the safety or the protection of valuable materials, modifications to provide safety and public accessibility to the facility, and electrical upgrades to prevent loss of critical data. The estimates generally exclude vehicles and other categories of operating equipment.

Required Supplementary Information

Schedule of Budgetary Resources by Major Budget Accounts

(in thousands)

Fiscal Year 2009	Records and Archives- Related Services	Gift Fund	Trust Fund	Electronic Records Archives	NHPRC Grants	Archives Facilities and Presidential Libraries Repairs and Restorations	Records Center and Storage Services	Total
Budgetary Resources								
Unobligated Balance brought forward, October 1:	\$ 11,965	\$1,987	\$ 7,068	\$ 2,993	\$ 878	\$ 24,299	\$ 15,795	\$ 64,985
Recoveries of prior year unpaid obligations	4,523	179	483	470	403	598	2,066	8,722
Budgetary appropriations received	330,308	3,476	-	67,008	11,250	50,711	-	462,753
Spending authority from offsetting collections	15,405	-	15,751	-	-	-	164,920	196,076
Nonexpenditure transfers, net, anticipated and actual	2,000	-	-	-	(2,000)	-	-	-
Permanently not available	15,910	-	-	442	-	-	-	16,352
Total Budgetary Resources	348,291	5,642	23,302	70,029	10,531	75,608	182,781	716,184
Status of Budgetary Resources								
Obligations Incurred	337,219	2,805	16,082	67,354	8,661	21,082	165,156	618,359
Unobligated Balance-available	1,139	2,837	7,220	345	1,870	54,526	17,625	85,562
Unobligated balance not available	9,933	-	-	2,330	-	-	-	12,263
Total Status of Budgetary Resources	348,291	5,642	23,302	70,029	10,531	75,608	182,781	716,184
Change in Obligated Balance								
Obligated balance, net, beginning of period	87,358	98	2,541	20,932	10,555	20,531	17,086	159,101
Obligations incurred net	337,220	2,805	16,082	67,354	8,661	21,082	165,155	618,359
Less: Gross outlays	(328,382)	(2,177)	(16,379)	(51,686)	(6,517)	(20,719)	(162,957)	(588,817)
Less: Recoveries of prior year unpaid obligations, actual	(4,523)	(179)	(483)	(470)	(403)	(598)	(2,066)	(8,722)
Change in uncollected customer payments from Federal sources	7	-	80	-	-	-	(9,209)	(9,122)
Obligated balance, net, end of period	91,680	547	1,841	36,130	12,296	20,296	8,009	170,799
Net Outlays								
Gross outlays	328,382	2,177	16,379	51,686	6,517	20,719	162,957	588,817
Less: Offsetting collections	(15,412)	-	(15,831)	-	-	-	(155,711)	(186,954)
Less: Distributed Offsetting receipts	(9)	(1,334)	-	-	-	-	-	(1,343)
Net Outlays	\$ 312,961	\$ 843	\$ 548	\$ 51,686	\$ 6,517	\$ 20,719	\$ 7,246	\$ 400,520

National Archives and Records Administration
Performance and Accountability Report, FY 2009

Required Supplementary Information

Schedule of Budgetary Resources by Major Budget Accounts

(in thousands)

Fiscal Year 2008	Records and Archives-Related Services	Gift Fund	Trust Fund	Electronic Records Archives	NHPRC Grants	Archives Facilities and Presidential Libraries Repairs &	Records Center and Storage Services	Total
Budgetary Resources								
Unobligated Balance brought forward, October 1:	\$ 11,749	\$ 2,275	\$ 4,993	\$ 6,212	\$ 1,207	\$ 9,795	\$ 27,582	\$ 63,813
Recoveries of prior year unpaid obligations	3,549	3	284	1,326	132	103	806	6,203
Budgetary appropriations received	315,000	2,006	-	58,028	9,500	28,605	-	413,139
Spending authority from offsetting collections	14,034	-	19,195	-	-	-	141,909	175,138
Nonexpenditure transfers, net, anticipated and actual	2,000	-	-	-	(2,000)	-	-	-
Permanently not available	14,250	-	-	-	-	-	-	14,250
Total Budgetary Resources	\$ 332,082	4,284	24,472	65,566	8,839	38,503	170,297	\$ 644,043
Status of Budgetary Resources								
Obligations Incurred	320,116	2,297	17,404	62,572	7,962	14,204	154,503	579,058
Unobligated Balance-available	625	1,987	7,068	768	877	24,299	15,794	51,418
Unobligated balance not available	11,341	-	-	2,226	-	-	-	13,567
Total Status of Budgetary Resources	\$ 332,082	4,284	24,472	65,566	8,839	38,503	170,297	\$ 644,043
Change in Obligated Balance								
Obligated balance, net, beginning of period	64,300	29	1,813	24,351	8,230	16,812	5,046	120,581
Obligations incurred net	320,116	2,297	17,404	62,572	7,962	14,204	154,503	579,058
Less: Gross outlays	(293,496)	(2,226)	(16,346)	(64,664)	(5,504)	(10,382)	(145,196)	(537,814)
Less: Recoveries of prior year unpaid obligations, actual	(3,549)	(3)	(284)	(1,326)	(132)	(103)	(806)	(6,203)
Change in uncollected customer payments from Federal sources	(14)	-	(46)	-	-	-	3,539	3,479
Obligated balance, net, end of period	87,357	97	2,541	20,933	10,556	20,531	17,086	159,101
Net Outlays								
Gross outlays	293,496	2,226	16,346	64,664	5,504	10,382	145,196	537,814
Less: Offsetting collections	(14,019)	-	(19,149)	-	-	-	(145,448)	(178,616)
Less: Distributed Offsetting receipts	(18)	(1,410)	-	-	-	-	-	(1,428)
Net Outlays	\$ 279,459	\$ 816	\$ (2,803)	\$64,664	\$5,504	\$ 10,382	(252)	\$ 357,770