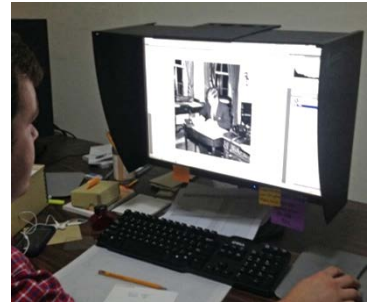




National Archives and Records Administration

# *FY 2015* AGENCY FINANCIAL REPORT



*Making Access Happen*

November 16, 2015

## NATIONAL ARCHIVES AND RECORDS ADMINISTRATION MISSION STATEMENT AND STRATEGIC GOALS

### MISSION STATEMENT

We drive openness, cultivate public participation, and strengthen our nation's democracy through public access to high-value government records.

*NARA's mission is to provide public access to Federal Government records in our custody and control. Public access to government records strengthens democracy by allowing Americans to claim their rights of citizenship, hold their government accountable, and understand their history so they can participate more effectively in their government.*

### STRATEGIC GOALS

#### Make Access Happen

*Public access is NARA's core purpose and is the ultimate outcome of all of NARA programs and activities. NARA will reach beyond the traditional role of making records available for others to discover and will make access happen by providing flexible tools and accessible resources that promote public participation.*

#### Connect with Customers

*NARA will continuously improve customer service, cultivate public participation, and generate new understanding of the importance of records in a democracy. NARA will continuously engage with and learn from all customers: individuals, organizations, and other Federal agencies.*

#### Maximize NARA's Value to the Nation

*Public access to government information creates measurable economic value, which adds to the enduring cultural and historical value of NARA records. NARA will continue to be an effective steward of the government resources that it holds in trust and will constantly strive to be a responsive, 21st-century government agency.*

#### Build our Future Through Our People

*NARA will build a modern and engaged workforce, develop the next generation of leaders, and encourage employees to collaborate, innovate, and learn. NARA will provide a workplace that fosters trust, accepts risk, and rewards collaboration.*

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The National Archives and Records Administration publishes agency financial data in its annual Agency Financial Report (AFR). NARA will report on performance data in its FY 2015 Annual Performance Report (APR), published with its FY 2017 Congressional Budget Justification in February 2016, at [www.archives.gov/about/plans-reports/](http://www.archives.gov/about/plans-reports/).

## LETTER FROM THE ARCHIVIST OF THE UNITED STATES



I am pleased to present the FY 2015 Agency Financial Report (AFR) of the National Archives and Records Administration (NARA). Our AFR provides Congress and the American people with a clear, concise report on NARA's financial and performance results for FY 2015.

One of the most notable accomplishments of FY 2015 was the enactment of the Presidential and Federal Records Act Amendments, signed into law in November 2014. This new law modernized the statutory framework for Federal records management by directly addressing electronic records. The Amendments expand the definition of Federal records to expressly include electronic records, clarify the responsibilities of Federal government officials when using non-government email systems, and require that Federal electronic records be transferred to the National Archives in electronic form. The Amendments clarify agency responsibilities to appropriately retain Federal records, modernize Federal recordkeeping practices, and ensure that Federal records are available to document the rights of citizens, hold Government accountable, and document our nation's history.

NARA enjoyed many successes in FY 2015 and demonstrated significant progress towards meeting the goals in our FY 2014 – FY 2018 Strategic Plan. The accomplishments highlighted below demonstrate NARA's commitment to an open and transparent government. NARA delivers on the promise of an Open Government by ensuring that high-value Federal records are retained by the agencies who created them, transferred to our custody when appropriate, and made publicly available as quickly as possible once in our custody

We take our responsibilities seriously and routinely review our business processes and internal control environment to detect, mitigate, and address control weaknesses and management challenges. Our Strategic Plan provides a roadmap to help us address our challenges, maximize our opportunities, and continue to transform NARA into a modern and effective platform for delivering a twenty-first century Government.

### Key Accomplishments

- In FY 2015, NARA delivered new products to assist Federal agencies in modernizing their records management practices and meet the objectives of the *Managing Government Records Directive* (OMB Memorandum M-12-18). This year, NARA issued new guidance clarifying the appropriate treatment of electronic Federal records in multiple new technologies and formats, and shared best practices for retaining those records. We updated procedures for determining when to transfer permanent records to NARA and established new standards for the metadata that must accompany transfers of permanent electronic records. These new products provide agencies with timely and responsive guidance to assist them in meeting their records management responsibilities in the modern, electronic environment.

- NARA also made significant strides in providing meaningful public access to historically-valuable records already in our custody. In FY 2015, NARA achieved our goal of providing narrative descriptions for over 90 percent of our traditional (non-electronic) records online, through the National Archives Catalog. Descriptions allow researchers and the public to more precisely identify records necessary to perform research and discover related records that they may not have known existed. Narrative descriptions are also an important first step in digitizing records and providing free access online. The 90 percent description goal is a significant milestone towards achieving the broader goal of providing free, online access to all NARA archival records.
- Beginning in FY 2015, NARA descriptions and digitized records are now available to the public in the new National Archives Catalog. The National Archives Catalog was launched in December 2014, and replaces the legacy Online Public Access system. The Catalog offers improved search functions, increased capacity to store large volumes of digital images, and features that allow users to add content to NARA records, including tagging and transcriptions. The Catalog also includes a public application programming interface (API) that allows application developers and citizens to export records and data in bulk, use and re-use images, and post their contributions to the Catalog. The Catalog and the API provide new levels of access to NARA records, offer more opportunities for engagement with the public, and expand the amount of government data that NARA is able to make available to the public in open and machine-readable formats.

## Management Challenges and Opportunities

The NARA Inspector General has identified ten challenges, detailed in the “Other Information” section of this report, which present opportunities for improvements. Management is aware of these issues and is committed to working collaboratively with our Inspector General to either mitigate or resolve these risks.

NARA’s most immediate challenge relates to Information Technology security. IT security is a challenge for any entity as both technology and threats are constantly evolving. NARA is particularly sensitive to the risks associated with IT security because of our role as a trusted source of permanently-valuable Federal government records and data. NARA’s systems and networks house millions of born-electronic and digital copies of Federal records that must be preserved and made available to the public.

In FY 2015, NARA self-identified IT security as a material weakness in internal controls. This is reinforced by the report of our independent auditors, who identified IT security as a significant deficiency for financial reporting. Our Federal Managers’ Financial Integrity Act (FMFIA) report, located in the “Other Information” section, further describes the risks posed to NARA’s internal controls and summarizes our action plan to address this known weakness.

Based on the status and progress that NARA has made to address its challenges and risks in FY 2015, I am able to provide a qualified statement of assurance that—with the exception of a material weakness in IT security—NARA’s internal controls are meeting their intended

objectives, as defined by OMB Circular A-123. This assessment is based on the results of internal controls testing by NARA offices, as well as audits and evaluations conducted by the Government Accountability Office, NARA's Office of Inspector General, and other audit entities. I have also considered the advice of key management officials and our Inspector General in preparing this statement of assurance.

Our FY 2015 accomplishments are the result of the commitment and dedicated efforts of NARA employees, who take great pride in our mission. We will continue to directly address our challenges, capture our opportunities, and improve the efficiency and effectiveness with which we fulfill our mission to ensure meaningful public access to the records of the U.S. Government.



David S. Ferriero  
Archivist of the United States

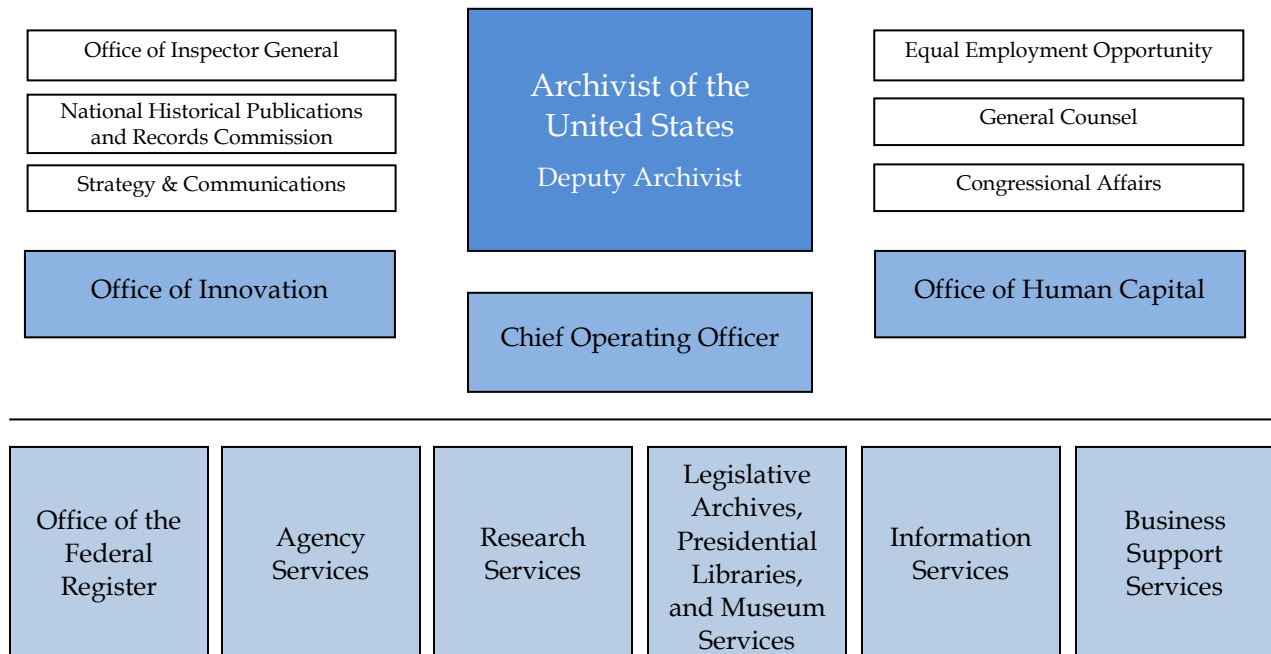
## SECTION 1: MANAGEMENT’S DISCUSSION AND ANALYSIS

### NARA Organization

The National Archives and Records Administration ensures continued public access to historically valuable Federal records through services provided to other Federal agencies and the public. NARA is organized around customer segments, which ensures that resources and management attention are focused on delivering coordinated and effective service to all stakeholders.

NARA’s core operations are organized into the Office of the Federal Register (OFR) and five “Services”: Agency Services, Research Services, Legislative Archives, Presidential Libraries, and Museum Services, Information Services, and Business Support Services. NARA Services and the OFR report to the Chief Operating Officer, who reports to the Archivist of the United States. The Office of Innovation, Office of Human Capital, and six staff offices, including the independent Office of Inspector General, report directly to the Archivist. The National Historical Publications and Records Commission (NHPRC) is an independent body that awards grants to non-Federal archives and institutions; the Archivist is the Chair of the NHPRC, and staff who support the Commission report to him.

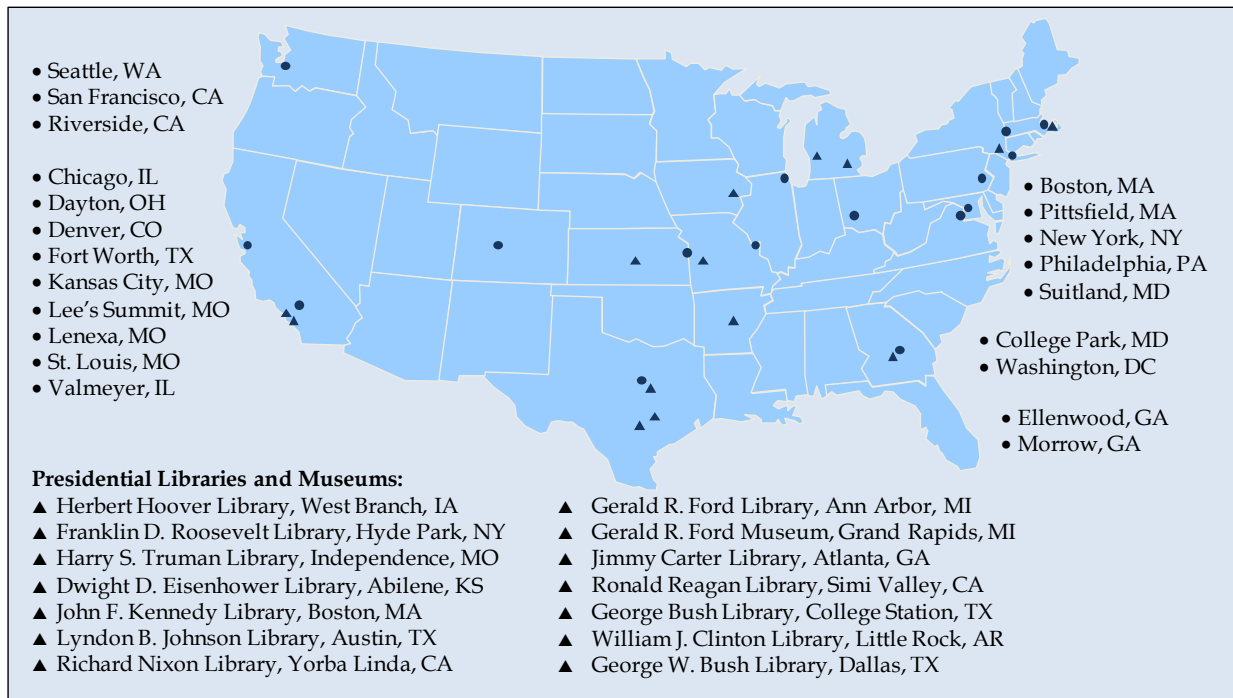
#### National Archives and Records Administration





- *The Office of the Federal Register* fulfills the Archivist’s responsibilities to publish the daily Federal Register, the Code of Federal Regulations, and the Statutes-at-Large, and other statutory requirements.
- *Agency Services* leads NARA efforts to meet the records management needs of Federal agencies and represents the public’s interest in the transparency of these records.
- *Research Services* provides world-class service to researchers and citizens wanting to access the records of the National Archives and preserves archival holdings for the benefit of future generations.
- *Legislative Archives, Presidential Libraries, and Museum Services* focuses on the records needs of the White House and Congress, researchers who make use of Presidential and Congressional records, and museum visitors, educators, and students.
- *Information Services and Business Support Services* improve NARA’s efficiency and effectiveness by providing tools, services, facilities, and expertise that support agency operations.

NARA delivers its mission through a nationwide network of facilities, serving other Federal agencies and the public.





## Performance Highlights by Strategic Goal

### Make Access Happen

NARA exceeded its processing goal in FY 2015, ending the year with 72 percent of archival holdings processed. NARA processes archival records to identify statutory and other access restrictions, withhold restricted records, and make the remaining records available for public access. NARA processed over 151,000 cubic feet of records in FY 2015 and accepted over 117,000 cubic feet of new, unprocessed archival records, for a net increase of 34,000 cubic feet of processed records. NARA ended the year with slightly less than 1.3 million cubic feet of unprocessed records. In FY 2016, NARA will implement new policies and procedures to expedite processing and improve physical control of the holdings.

NARA also met its FY 2015 description goal, increasing the percentage of traditional (non-electronic) archival records described in the on-line catalog to 90 percent. On-line archival descriptions provide researchers with information necessary to search NARA holdings remotely, discover relevant records, and quickly access records when they visit NARA public research rooms. NARA has demonstrated significant progress over FY 2014 performance and is on target to meet the agency's goal to describe 95 percent of its traditional archival holdings on-line by FY 2016.

Performance Goals	2012 Actual	2013 Actual	2014 Actual	2015 Target	2015 Actual	Status
Increase the percentage of archival holdings processed	60	65	68	71	72	Met
Increase the percentage of traditional archival holdings described in an online catalog	81	83	86	90	90	Met

### Connect with Customers

NARA did not meet its timeliness goal for responding to requests for military service separation records in FY 2015, although actual performance was only slightly below the FY 2015 target. The National Personnel Records Center (NPRC) is a central repository for military and civilian personnel, medical, and related records. The NPRC stores approximately 60 million official military personnel records of veterans of all branches of service and receives approximately 2,250 requests for military separation records each day. Most requests for separation records are from veterans who need to

demonstrate honorable service in order to qualify for benefits. NARA strives to respond to 95 percent of these requests within 10 working days or less.

NARA also experienced declining customer satisfaction with the work of the NPRC in handling requests for military personnel and medical files. This measure is based on the results of a semi-annual survey, conducted in March and September of each year. In FY 2015, NARA concentrated resources on reducing the oldest and most complicated pending requests, and deployed a new quality assurance program to improve accuracy. Both efforts reduced timeliness of NARA's responses, which had a commensurate impact on customer satisfaction. NARA expects that the investments in increased quality and reducing aged, pending cases will have a sustained, positive impact on future years' performance.

NARA did not meet its goal for responding to Freedom of Information Act (FOIA) requests within 20 days in FY 2015, but agency performance improved over FY 2014 levels. Under FOIA (5 U.S.C. 552, as amended), any person may request and obtain access to Government information in Executive Branch agency records, subject to some restrictions. NARA responds to FOIA requests for its own operational records as well as requests for access to NARA's holdings of billions of pages of archival records. The annual volume of FOIA requests received by NARA in FY 2014 and FY 2015 is nearly double the volume received in the previous two years. A significant portion of the increase is attributable to private sector companies seeking verification of military service to pursue Work Opportunity Tax Credits. NARA has identified several procedural improvements and expects to increase FOIA timeliness in FY 2016.

Performance Goals	2012 Actual	2013 Actual	2014 Actual	2015 Target	2015 Actual	Status
Sustain the percentage of military separation requests answered within 10 working days	92	95	94	95	93	Not Met
Increase the percentage of customers satisfied with retrieving military records from NPRC	90	86	86	88	80	Not Met
Increase the percentage of FOIA requests for Federal records answered within 20 working days	84	83	77	85	80	Not Met

### Maximize NARA’s Value to the Nation

NARA met its FY 2015 goal of increasing the number of records management programs in other federal agencies that NARA categorized as “low risk”, based on their responses to the annual Records Management Self Assessment (RMSA). NARA requires Federal agencies to assess the effectiveness of their records management practices on an annual basis, through the RMSA tool. NARA validates agency responses – by requiring supporting documentation and through follow-up interviews – and assigns a risk category based on the validated responses. “Low risk” agencies have 90 percent or higher positive responses to assessments of their records management policies, practices, and performance. NARA attributes the steady increase in “low risk” agencies to enhancements to the records management policies and training that NARA provides to other agencies, the continued engagement of Senior Agency Officials within their agencies, and increased management attention resulting from the issuance of OMB Memorandum M-12-18, Managing Government Records Directive.

Performance Goal	2012 Actual	2013 Actual	2014 Actual	2015 Target	2015 Actual	Status
Increase the percentage of agencies in the low risk category of the RMSA	10%	20%	29%	>29%	34%	Met

### Build Our Future Through Our People

NARA is committed to building a diverse workforce that thrives in an environment of empowerment, openness, and inclusion. NARA relies on the annual Federal Employee Viewpoint Survey (FEVS), administered by the Office of Personnel Management (OPM), to understand employee perceptions of the agency. In FY 2015, NARA realized improvements in the responses to almost every survey question. Positive results increased by two percentage points or more over FY 2014 results in 90% of FEVS questions, and 35% of questions increased by five percentage points or more.

NARA exceeded its FY 2015 goals for employee empowerment and diversity, as measured by employee responses in the annual FEVS. In FY 2015, NARA replaced its previous measures of empowerment and diversity with a new OPM index, the “New Inclusion Quotient”, or “new IQ”. The new IQ compiles FEVS survey responses to 20 questions that relate to inclusive work environments, including questions covering fairness, openness (including diversity), cooperation, support, and empowerment. In FY 2015, 56 percent of employees responded “Agree” or “Strongly Agree” to FEVS questions that make up the new IQ index.

In FY 2015, NARA did not meet its goals for hiring process cycle time. Approximately 45% of NARA hiring actions were completed within 80 days in FY 2015. NARA is dedicated to meeting the 80-day time to hire standard set by OPM and assess agency-internal processes to find and eliminate inefficiencies in FY 2016.

Performance Goal	2012 Actual	2013 Actual	2014 Actual	2015 Target	2015 Actual	Status
Improve NARA's average score in FEVS questions related to diversity and inclusion (new IQ)	48%	47%	49%	>49%	53%	Met
Increase the percentage of NARA positions filled within 80 days.	—	68%	43%	50%	45%	Not Met

## Financial Highlights

NARA's financial statement auditor, CliftonLarsonAllen LLP, issued an unmodified ("clean") audit opinion on NARA's financial statements for the fiscal year ending September 30, 2015. The complete financial statements, footnotes, and auditors reports are presented in the Financial Section of this report.

NARA's financial statements consolidate the activity of the six Fund accounts under NARA's control. The activities of General Funds are financed by appropriations from Congress. The activities of the Records Centers Revolving Fund and the National Archives Trust and Gift Funds are financed by revenues collected from other Federal agencies and the public, respectively, and do not receive Congressional appropriations.

### General Funds

*NARA Operating Expenses appropriation, Archives and Records Management Activities* provides for the costs of records activities, archives-related activities, and payments of principal and interest for the financing of the National Archives building at College Park, MD. Records activities include processing, describing, preserving, and making publicly available the historical records of the Federal Government, including Presidential records, and helping other Federal agencies to fulfill their records management responsibilities. Archives-related activities provide for the publication of the daily *Federal Register* and the *Code of Federal Regulations*, and satisfy other statutory requirements.

*Repairs and Restoration appropriation* provides for repairs and improvements to the 17 Federal buildings that NARA owns, operates, and maintains nationwide. This appropriation provides for renovations to NARA-owned buildings necessary to maintain health and safety standards for occupants, preserve archival records stored in NARA facilities, and protect the value of government real property assets.

*National Historical Publications and Records Commission (NHPRC) Grants appropriation* provides for grants to State and local government archives and private institutions to preserve and publish historical records that document American history.

### Intragovernmental Revolving Fund

*Records Centers Revolving Fund, Records Centers Storage and Services Activities* provides for the storage and related services for temporary and pre-archival Federal government records at NARA Federal Records Centers. Operations of NARA Federal Records

Centers are financed by user charges collected from other Federal agencies for storage and related services.

### Trust Funds

*National Archives Trust Fund* provides for various services that support members of the public who visit NARA archival facilities and Presidential Libraries, including researchers, museum visitors, and attendees at NARA educational and public programs. The National Archives Trust Fund receives and disburses funds collected from sales to the public, including: reproductions of records, publications, merchandise, admissions to Presidential libraries, training events, and interest income (44 U.S.C. 2116). The Trust Fund also administers an outside investment program on behalf of the Presidential Library system.

*National Archives Gift Fund* provides the National Archives Trust Fund Board, chaired by the Archivist of the United States, with an efficient means to accept conditional and unconditional gifts and bequests for the benefit of, or in connection with, the archival and records activities administered by NARA (44 U.S.C. 2305). The National Archives Gift Fund receives endowments from private foundations; NARA uses the investment earnings from these endowments to support facility operations cost at the George H.W. Bush, William Clinton, and George W. Bush Libraries.

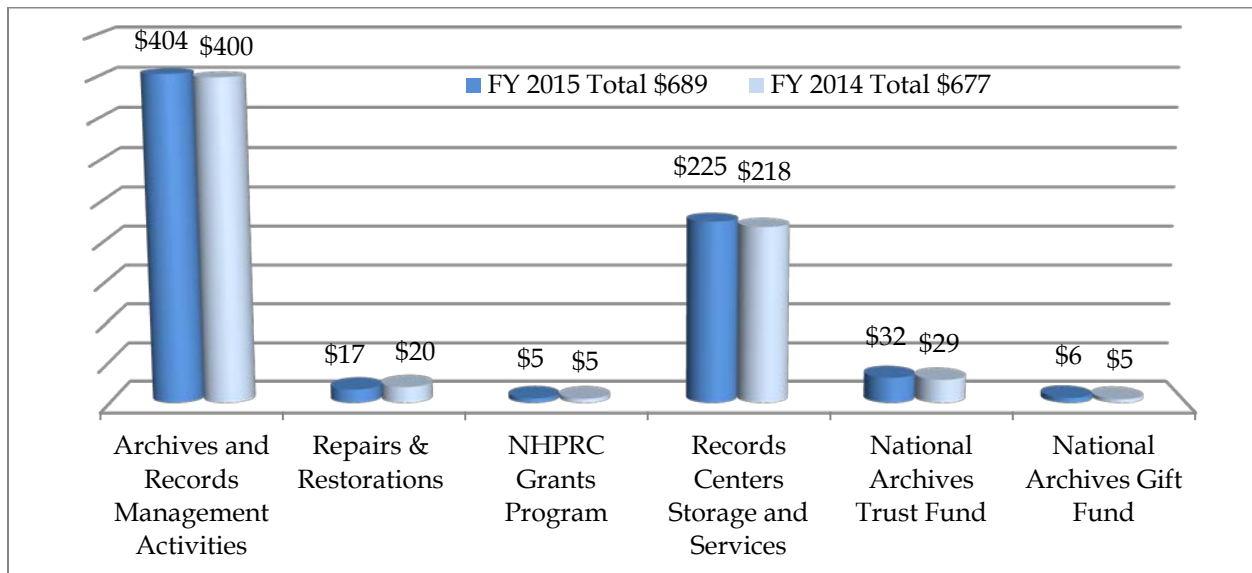
## Consolidated Budgetary Resources

This statement provides information on the budgetary resources available to NARA as of September 30, 2015, and September 30, 2014, and the status of those budgetary resources.

Budget authority is the authority provided to NARA by law to enter into obligations that will result in future expenditures (outlays) of federal funds. Obligations are incurred when an order is placed, contract awarded, service received, or similar transaction, which will require payments during the same or a future period. Obligations are incurred against – and reduce – either current year budget authority or unobligated balances of prior years’ authority that have been carried forward. Gross outlays reflect the actual cash disbursed by the Government in order to fulfill NARA’s obligations.

NARA received \$689 million in total budgetary resources in FY 2015, an increase of \$12 million from the FY 2014 total. This increase is the result of recoveries of prior year, unpaid obligations from the completion of major contracts, and the increase in revenue from the Records Centers Revolving Fund. Total net outlays (cash disbursements less cash receipts) remained mostly unchanged at \$349 million in FY 2015.

**Total Budgetary Resources by Program**  
*Dollars in Millions*



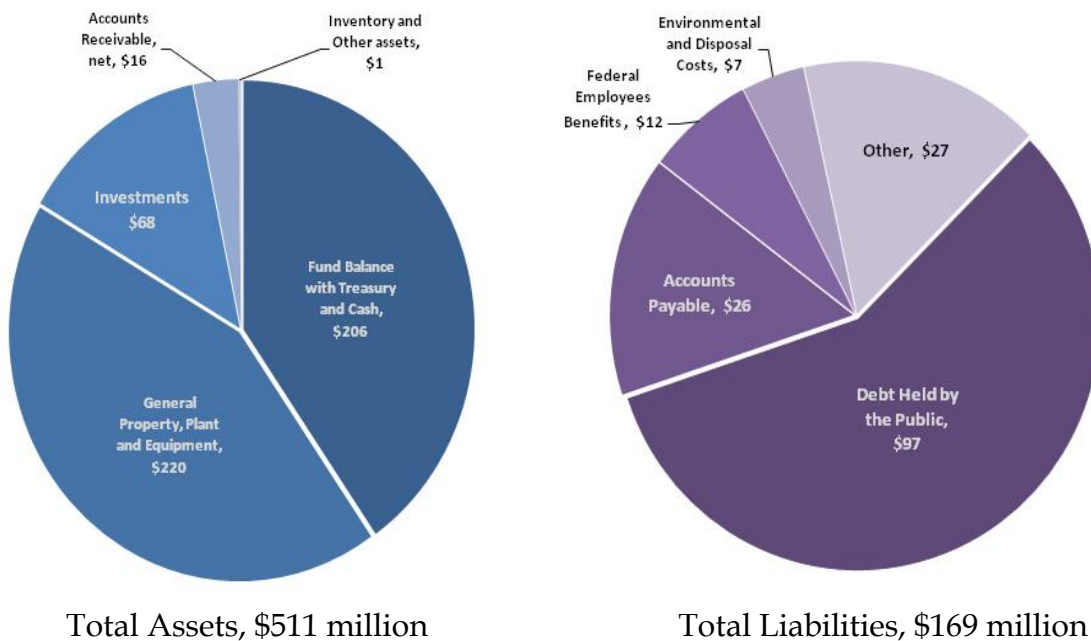


Approximately 56 percent (\$386 million) of NARA’s total budgetary resources came from current-year appropriations, and an additional 30 percent (\$204 million) were revenues earned from services provided to other Federal agencies and the public. The remaining amounts came from unobligated balances carried forward from prior years (\$81 million) and recoveries of prior year unpaid obligations (\$18 million). The Statement of Budgetary Resources, included in the Financial section of this report, provides additional information on how NARA receives its budgetary resources and their status at the end of the fiscal year.

### Consolidated Balance Sheet

The Balance Sheet compares the amounts available for use by NARA (assets) to the amounts owed (liabilities) and amounts that comprise the difference (net position).

**Assets and Liabilities as of September 30, 2015**  
*Dollars in Millions*



*Total Assets* of \$511 million at the end of FY 2015 consisted of cash (*Fund Balance with Treasury*), buildings owned by NARA, internal use software and equipment (*Property and equipment*), investments (Trust and Gift Funds), and amounts owed to NARA by customers, mostly Federal agencies (*Accounts receivable*).

NARA's FY 2015 total assets balance is 4 percent (\$23 million) lower than FY 2014's balance of \$534 million, primarily in the *Property and equipment* category. The *Property and equipment* balance was reduced by annual depreciation expense in FY 2015.

*Total Liabilities* balance of \$169 million at the end of FY 2015, declined by 9 percent (\$17 million) from the previous fiscal year. NARA's annual repayment in principal on the *Debt held by the public* explains this decline. The *Debt held by the public*, which represents 57 percent of NARA's total liabilities, was incurred to finance the construction of the National Archives building in College Park, MD.

Seventy six percent (\$128 million) of NARA's total liabilities are unfunded, i.e., budgetary resources are not yet available as of September 30, 2015. The major elements of unfunded liabilities are \$97 million for *Debt held by the public*, \$12 million for the actuarial portion of *Federal employee benefits*, \$7 million for *Environmental asbestos clean-up costs*, and \$11 million for unfunded annual leave balances of NARA employees. For most unfunded liabilities, budgetary resources will be made available in the years balances are due, in accordance with OMB funding guidelines.

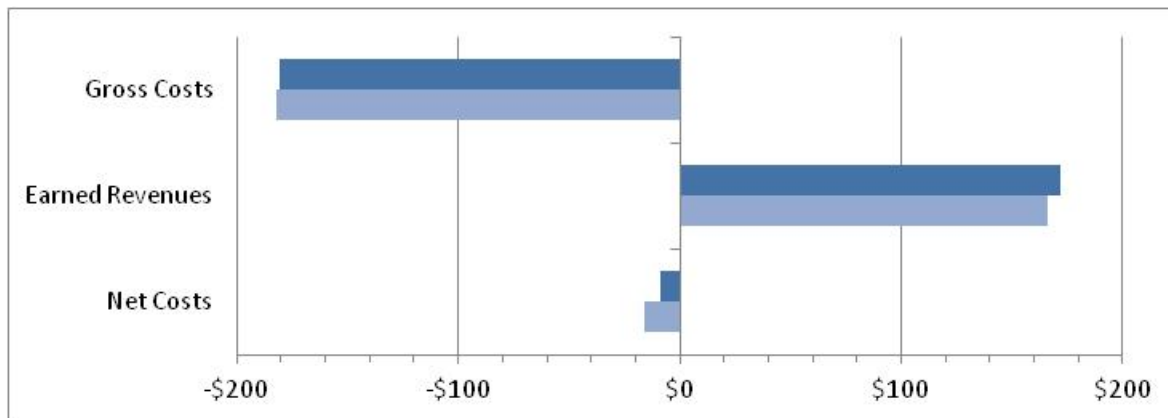
## Consolidated Results of Operations

NARA's total net cost of operations was \$400 million for FY 2015. NARA's FY 2015 net cost of operations is 3 percent (\$13 million) less than the prior fiscal year, due largely to increased revenues to the Records Centers Revolving Fund. Net costs include total gross costs, minus all earned revenues attributed to and permitted to be offset against those costs. Expenses financed by Congressional appropriations represent about 67 percent (\$395 million) of NARA's FY 2015 total costs of operations; a more detailed analysis of NARA's net cost of non-appropriated operations is provided below.

### Records Centers Revolving Fund, Results of Operations

In FY 2015, the Records Centers Revolving Fund incurred \$181 million in gross costs, and earned \$172 million in revenues, resulting in net costs of \$9 million. FY 2015 net costs decreased by \$7 million over FY 2014 results, primarily due to a \$6 million increase in revenues resulting from increased business activity.

**Records Centers Revolving Fund, Results of Operations**  
*Dollars in Millions*



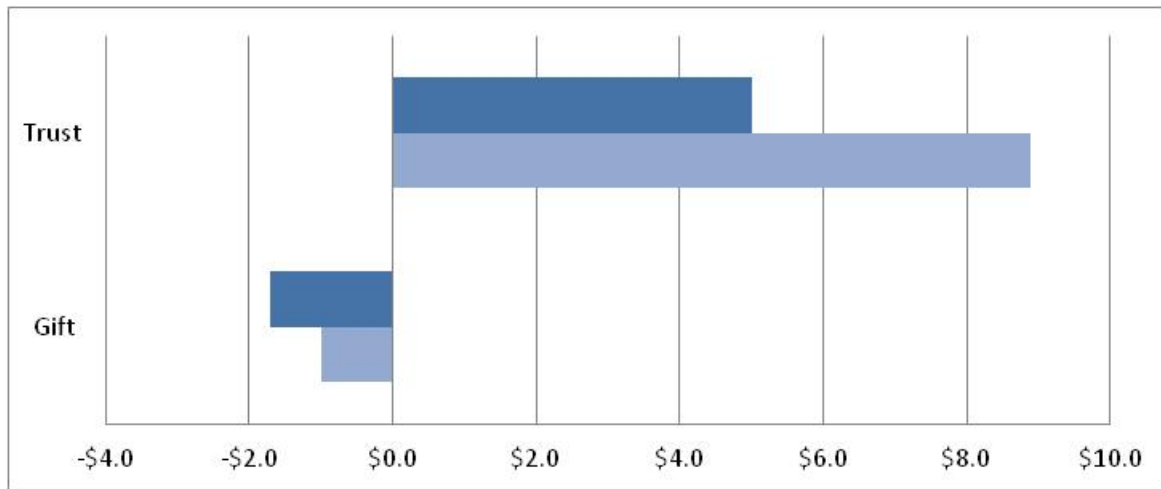
	Gross Costs	Earned Revenues	Net Costs
2015	(\$181)	\$172	(\$9)
2014	(\$182)	\$166	(\$16)

National Archives Trust and Gift Funds, Net Results of Operations

In FY 2015, the National Archives Trust Fund realized net revenues from operations of \$5 million, a decrease of \$3.9 million over FY 2014 levels. FY 2015 net revenues decreased due a decline in Presidential Library admissions revenue, and an increase in renovation expenses at Presidential libraries.

Net operating costs of the National Archives Gift Fund increased by \$.07 million in FY 2015. The increase in costs was due primarily to renovations, especially at the John F. Kennedy Presidential library.

**National Archives Trust and Gift Funds, Net Revenue / (Cost)**  
*Dollars in Millions*



	Trust Fund	Gift Fund
■ 2015	\$5.0	(\$1.7)
■ 2014	\$8.9	(\$1.0)

The Statement of Net Cost, included in the Financial section of this report, presents NARA’s net costs of operations by major programs for fiscal years 2015 and 2014, after intra-agency eliminations.

## Management Assurances

### Federal Managers' Financial Integrity Act (FMFIA)

FMFIA requires all agencies to establish sufficient controls to reasonably ensure that: (i) obligations and costs comply with applicable law; (ii) assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (iii) revenues and expenditures are properly recorded and accounted for. FMFIA requires the Head of the Agency to provide an assurance statement to the President on the adequacy of internal controls over operational, program, and administrative areas, as well as accounting and financial management. NARA's FY 2015 FMFIA assurance statement is included in the Other Information section of this report.

### Internal Controls Program

NARA's evaluation of its internal controls for the year ended September 30, 2015, provides reasonable assurance that – except for a material weakness associated with Information Technology Security – the agency's internal controls achieved their intended objectives in FY 2015.

NARA identified controls associated with IT Security as a material weakness in FY 2015. NARA's assessment of annual IT system authorizations identified a persistent pattern of recurring weaknesses and vulnerabilities and NARA identified control deficiencies in five specific areas. These control deficiencies, when considered cumulatively, were deemed to constitute a material weakness. An action plan has been developed and actions have been or are being taken under the oversight of NARA's internal control and risk management body.

Based on the recommendation of NARA's internal control and risk management body, NARA removed Preservation of Textual Holdings as a FMFIA weakness this fiscal year. All actions in the material weakness action plan were completed resulting in, among other things, a Preservation Strategic Plan, which will guide the future direction of preservation and a risk assessment and ranking methodology, which will guide future preservation decisions.

### Federal Information Security Management Act (FISMA)

NARA complied with FISMA requirements to conduct an annual self-assessment of the agency's information technology security program, develop and implement remediation efforts for identified security weaknesses and vulnerabilities, and report to the Office of Management and Budget (OMB) on NARA compliance. In addition, the Office of Inspector General (OIG) performed an evaluation of NARA's information security program in accordance with FISMA for FY 2014. The OIG issued a narrative of its evaluation results to the Archivist on November 6, 2014. The OIG contracted with Clifton Larson Allen, LLP to perform its FY 2015 FISMA evaluation.

### Federal Financial Management Improvement Act (FFMIA)

NARA is an *Accountability for Tax Dollars Act (ATDA)* agency, and is not subject to the requirements of FFMIA, per OMB bulletin #15-02, *Audit Requirements for Federal Financial Statements*. NARA is not required to report separately on its compliance with FFMIA in its FFMIA reports.

### Debt Management

NARA employee debts are managed by NARA's shared services providers for payroll, the Department of the Interior, Interior Business Center (IBC), and the Department of Treasury, Bureau of Fiscal Services (BFS). The IBC tracks employee debts and pursues delinquent debts from NARA employees through salary offsets. NARA actively pursues delinquent non-Federal claims, and upon request by NARA, BFS transmits delinquent claims to Debt Management Services (DMS) for collection cross-servicing, in compliance with the Debt Collection Improvement Act of 1996.

### Improper Payments Management

As required by Improper Payments Information Act, as amended by the Improper Payments Elimination and Recovery Act (IPERA), NARA completed a full program inventory and identified no programs or activities that may be susceptible to significant improper payments based on statutory thresholds. NARA assessed all programs with more than \$1 million in annual outlays, using a comprehensive questionnaire and risk calculation tool provided by the Department of Treasury, to determine if payment recapture audits would be cost-effective, in compliance with Section 2(h) of IPERA. Given the low risk level for all NARA programs, NARA determined that payment recovery audits would not be cost-effective at this time.

### Prompt Payment Act

The BFS processes payments for NARA in accordance with the Prompt Payment Act and submits quarterly prompt pay statistics on NARA's behalf.

### Inspector General Act

NARA Management is committed to resolving and implementing open audit recommendations presented in OIG reports. NARA reports on final actions taken on all OIG audit recommendations, in accordance with section 5(b) of the Inspector General Act. This information is included in the OIG semi-annual report to Congress.

### Limitations of the Financial Statements

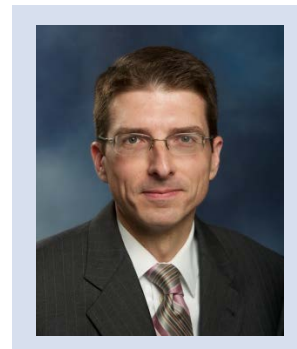
The principal financial statements have been prepared to report the financial position and results of operations of NARA, pursuant to the requirements of 31 U.S.C. 3515 (b). NARA's financial statements have been prepared from NARA's books and records in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by OMB; however, these statements are prepared in addition to the financial reports NARA uses to monitor and control budgetary resources, which are prepared from the same books and records. NARA's financial statements should be read with the realization that they are for a component of the U.S. Government, which is a sovereign entity.



## SECTION 2: FINANCIAL SECTION

### LETTER FROM THE CHIEF FINANCIAL OFFICER

The National Archives and Records Administration (NARA) has received an unmodified, “clean” audit opinion on its FY 2015 financial statements. I am happy to report that this year’s audit did not identify any material weaknesses over financial reporting.



A clean audit opinion provides independent confirmation that NARA’s financial statements are presented fairly and in conformity with generally accepted accounting principles. Accurate and timely financial information improves NARA’s accountability to its stakeholders and demonstrates that NARA is an effective steward of the resources in its custody and control.

Although NARA, as ATDA agency, is not subject to the Federal Managers’ Financial Integrity Act, we strive to adhere to Federal financial management requirements, and I can provide reasonable assurance that the objectives of Section 2 have been achieved. I am confident that NARA’s continued commitment to improved internal controls will ensure the continued integrity and reliability of NARA financial reports.

I would like to take this opportunity to report on NARA progress against the goal of OMB Memorandum M-12-12, Section 3, “Freeze the Footprint”. As of September 30, 2015, NARA has reduced its total real property footprint by over 1.2 million square feet (10 percent) below our FY 2012 baseline. NARA currently occupies an estimated 10.8 million square feet in owned and leased facilities across the country.

I appreciate the professionalism of our financial statement auditors, CliftonLarsonAllen LLP, and their efforts to identify opportunities for NARA to improve the effectiveness of our financial operations. In the coming year, we will look to implement their recommendations and further improve our internal controls over financial management activities and reporting.

A handwritten signature in black ink, appearing to read "Micah M. Cheatham". The signature is stylized and fluid.

Micah M. Cheatham  
Chief Financial Officer

## Principal Financial Statements

### Consolidated Balance Sheet

As of September 30, 2015 and 2014  
 (in thousands)

	2015	2014
<b>Assets</b>		
Intragovernmental		
Fund balance with Treasury (Note 2)	\$ 206,182	\$ 201,140
Investments (Note 3)	18,228	15,419
Accounts receivable (Note 4)	15,013	15,170
Total intragovernmental	239,423	231,729
Cash	55	65
Investments (Note 3)	50,262	49,654
Accounts receivable, net (Note 4)	532	581
Inventory, net (Note 5)	653	893
General property, plant and equipment, net (Note 6)	219,484	250,974
Deferred Assets	519	573
<b>Total assets</b>	<b>\$ 510,928</b>	<b>\$ 534,469</b>
Stewardship PP&E (Note 7)		
<b>Liabilities</b>		
Intragovernmental		
Accounts payable	\$ 1,499	\$ 1,785
Other (Note 10)	4,612	4,459
Total intragovernmental	6,111	6,244
Accounts payable	24,328	23,539
Debt held by the public (Note 8, 9)	97,213	116,865
Federal employee benefits-actuarial FECA (Note 8)	12,311	12,765
Environmental and disposal costs (Note 8,17)	7,262	6,694
Other (Note 10)	21,885	20,356
Total liabilities	169,110	186,463
Commitments and Contingencies (Note 12)		
<b>Net Position</b>		
Unexpended appropriations - other funds	130,667	134,847
Cumulative results of operations - Funds from Dedicated Collections (Note 13)	68,374	65,216
Cumulative results of operations - other funds	142,777	147,943
Total net position	\$ 341,818	\$ 348,006
<b>Total liabilities and net position</b>	<b>\$ 510,928</b>	<b>\$ 534,469</b>

The accompanying notes are an integral part of these statements

## Consolidated Statement of Net Cost

For the years ended September 30, 2015 and 2014

(in thousands)

	2015	2014
<b>Program Costs (Note 14)</b>		
<b>Archives and Records Management Activities</b>		
Gross costs	\$ 378,088	\$ 385,906
Less: Earned revenues	(148)	(91)
<b>Total net Archives and Records Management Activities program costs</b>	377,940	385,815
<b>Trust and Gift Funds</b>		
Gross costs (excluding heritage asset renovation)	16,303	13,996
Heritage asset renovation costs (Note 15)	1,421	487
Less: Earned revenues	(21,092)	(22,346)
<b>Total net Trust and Gift Funds program costs</b>	(3,368)	(7,863)
<b>National Historical Publications and Records Commission Grants</b>		
Gross costs	5,236	6,148
Less: Earned revenues	-	-
<b>Total net National Historical Publications and Records Commission Grants program costs</b>	5,236	6,148
<b>Archives Facilities and Presidential Libraries Repairs and Restoration</b>		
Gross costs (excluding heritage asset renovation)	751	616
Heritage asset renovation costs (Note 15)	11,208	12,189
Less: Earned revenues	-	-
<b>Total net Archives Facilities and Presidential Libraries Repairs and Restoration program costs</b>	11,959	12,805
<b>Revolving Fund Records Centers Storage and Services</b>		
Gross costs	180,554	181,542
Less: Earned revenues	(171,988)	(165,492)
<b>Total net Revolving Fund Records Centers Storage and Services program costs</b>	8,566	16,050
<b>Net Cost of Operations</b>	\$ 400,333	\$ 412,955

The accompanying notes are an integral part of these statements

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**Consolidated Statement of Changes in Net Position**

*For the year ended September 30, 2015*  
*(in thousands)*

	2015		
	Funds from Dedicated Collections	All Other Funds	Consolidated Total
<b>Cumulative Results of Operations</b>			
Beginning Balance	\$ 65,216	\$ 147,943	\$ 213,159
<b>Budgetary Financing Sources</b>			
Appropriations Used	-	380,487	380,487
Nonexchange Revenue	609	-	609
Donations and forfeitures of cash and cash equivalents	1,377	-	1,377
Transfers-in/out without reimbursement	(573)	573	-
Other	302	-	302
<b>Other Financing Sources (Non-Exchange)</b>			
Imputed financing	284	15,676	15,960
Other	(410)	-	(410)
Total Financing Sources	1,589	396,736	398,325
Net Cost of Operations	(1,569)	401,902	400,333
Net Changes	3,158	(5,166)	(2,008)
<b>Cumulative Results of Operations</b>	<b>68,374</b>	<b>142,777</b>	<b>211,151</b>
<b>Unexpended Appropriations</b>			
Beginning Balance	-	134,847	134,847
<b>Budgetary Financing Sources</b>			
Appropriations received	-	381,730	381,730
Other adjustments	-	(5,423)	(5,423)
Appropriations used	-	(380,487)	(380,487)
Total Budgetary Financing Sources	-	(4,180)	(4,180)
Total Unexpended Appropriations	-	130,667	130,667
<b>Net Position</b>	<b>\$ 68,374</b>	<b>\$ 273,444</b>	<b>\$ 341,818</b>

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

*The accompanying notes are an integral part of these statements*

## Consolidated Statement of Changes in Net Position

*For the year ended September 30, 2014*  
*(in thousands)*

	2014		
	Funds from Dedicated Collections	All Other Funds	Consolidated Total
<b>Cumulative Results of Operations</b>			
Beginning Balance	\$ 57,318	\$ 178,813	\$ 236,131
<b>Budgetary Financing Sources</b>			
Appropriations Used	-	372,211	372,211
Nonexchange Revenue	665	-	665
Donations and forfeitures of cash and cash equivalents	1,160	-	1,160
Transfers-in/out without reimbursement	(633)	633	-
<b>Other Financing Sources (Non-Exchange)</b>			
Transfers-in/out without reimbursement	(171)	(2,882)	(3,053)
Imputed financing	435	18,147	18,582
Other	418	-	418
Total Financing Sources	1,874	388,109	389,983
Net Cost of Operations	(6,024)	418,979	412,955
Net Changes	7,898	(30,870)	(22,972)
<b>Cumulative Results of Operations</b>	<b>65,216</b>	<b>147,943</b>	<b>213,159</b>
<b>Unexpended Appropriations</b>			
Beginning Balance	-	126,048	126,048
<b>Budgetary Financing Sources</b>			
Appropriations received	-	386,630	386,630
Other adjustments	-	(5,620)	(5,620)
Appropriations used	-	(372,211)	(372,211)
Total Budgetary Financing Sources	-	8,799	8,799
Total Unexpended Appropriations	-	134,847	134,847
<b>Net Position</b>	<b>\$ 65,216</b>	<b>\$ 282,790</b>	<b>\$ 348,006</b>

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

*The accompanying notes are an integral part of these statements*

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**Combined Statement of Budgetary Resources**

*For the years ended September 30, 2015 and 2014*

*(in thousands)*

	2015	2014
<b>BUDGETARY RESOURCES:</b>		
Unobligated balance brought forward, October 1	\$ 86,407	\$ 91,014
Adjustment to unobligated balance, brought forward, October 1 (Note 22)	(78)	(6,000)
Unobligated balance brought forward, October 1, as adjusted	86,329	85,014
Recoveries of prior year unpaid obligations	18,532	12,715
Other changes in unobligated balance	(5,423)	(5,621)
Unobligated balance from prior year budget authority, net	99,438	92,108
Appropriations (discretionary and mandatory)	385,606	389,272
Spending authority from offsetting collections (discretionary and mandatory)	204,084	195,856
Total budgetary resources	<u>\$ 689,128</u>	<u>\$ 677,236</u>
<b>STATUS OF BUDGETARY RESOURCES:</b>		
Obligations incurred (Note 18)	585,222	590,829
Unobligated balance, end of year:		
Apportioned	59,360	53,724
Exempt from apportionment	12,591	11,311
Unapportioned	31,955	21,372
Total unobligated balance, end of year	103,906	86,407
Total budgetary resources	<u>\$ 689,128</u>	<u>\$ 677,236</u>
<b>CHANGE IN OBLIGATED BALANCE:</b>		
Unpaid obligations, brought forward, October 1 (gross)	170,827	165,382
Obligations incurred	585,222	590,829
Outlays, (gross) (-)	(577,270)	(572,669)
Recoveries of prior year unpaid obligations (-)	(18,532)	(12,715)
Unpaid Obligations, end of year (gross)	<u>\$ 160,247</u>	<u>\$ 170,827</u>
<b>Uncollected Payments:</b>		
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	(40,609)	(51,761)
Adjustment to uncollected payments, Federal sources, start of year (+ or -)	-	6,000
Change in uncollected customer payments from Federal sources (+ or -)	841	5,152
Uncollected customer payments from Federal sources, end of year (-)	<u>(\$ 39,768)</u>	<u>(\$ 40,609)</u>
<b>Memorandum (non-add) Entries:</b>		
Obligated balance start of year (net), before adjustments (+ or -)	130,218	119,621
Obligated balance, end of year (net)	120,479	130,218
<b>BUDGET AUTHORITY AND OUTLAYS, NET:</b>		
Budget authority, gross (discretionary and mandatory)	589,690	585,128
Actual offsetting collections (discretionary and mandatory) (-)	(224,441)	(218,963)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	841	5,152
Budget Authority, net (discretionary and mandatory)	<u>\$ 366,090</u>	<u>\$ 371,317</u>
Outlays, gross (discretionary and mandatory)	577,270	572,669
Actual offsetting collections (discretionary and mandatory) (-)	(224,441)	(218,963)
Outlays, net (discretionary and mandatory)	352,829	353,706
Distributed offsetting receipts	(4,041)	(2,730)
Agency Outlays, net (discretionary and mandatory)	<u>\$ 348,788</u>	<u>\$ 350,976</u>

*The accompanying notes are an integral part of these statements*

## Notes to the Financial Statements

### Note 1 – Summary of Significant Accounting Policies

#### *A. Reporting Entity*

National Archives and Records Administration (NARA) is an independent agency administered by the Archivist of the United States. It comprises various Operating Administrations, each with its own management and organizational structure, which collectively provide services and access to the essential documentation. NARA's financial statements presented here include accounts of all funds under NARA's control, listed below and detailed in the Financial Summary of Management Discussion and Analysis.

#### **General Funds**

- Operating Expenses appropriation - Archives and Records Management Activities
- Repairs and Restoration
- National Historical Publications and Records Commission Grants

#### **Intragovernmental Fund**

- Revolving Fund, Records Center and Storage Services

#### **Trust Funds**

- National Archives Trust Fund
- National Archives Gift 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 as promulgated by the Federal Accounting Standards Advisory Board (FASAB), and the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. The American Institute of Certified Public Accountants (AICPA) recognizes FASAB standards as GAAP for Federal reporting entities. 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 budgetary 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 Library museum stores and at the National Archives field and headquarters locations, used to finance the cashiers' start-up cash.

*D. Accounts Receivable*

Accounts receivable primarily consists of amounts due to the Revolving Fund for services provided to Federal agencies. An allowance for doubtful accounts is not required since receivables from other Federal entities are considered fully collectable.

*E. Investments in Securities*

NARA holds both Federal and Non-Federal investments.

Investments in Federal securities are made daily and are reported at cost. All Non-Federal investments are held by a third party capital management firm, the Vanguard Group, and are classified as trading equity securities which have readily determinable fair values. Non-Federal securities are measured at fair value in the balance sheet. Unrealized holding gains and losses, as well as interest income earned, are recognized in earnings on a monthly basis.

NARA employs the services of the Vanguard Group to monitor and manage endowments, received pursuant to Title 44 U.S.C. section 2112, for the George Bush Library, William J. Clinton Library, and George W. Bush Library. The endowments provide income to offset the operations and maintenance costs of each 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 Vanguard.

*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's PP&E falls into two categories: general PP&E (See Note 6) and Stewardship PP&E (heritage assets) (See Note 7). 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.

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. 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 (FEGSIP) 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 FEGSIP, which are recognized as operating expenses.

The 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 on the Balance Sheet because neither the costs nor reimbursements have been recognized by DOL. See Note 8.

#### *I. 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. For appropriated funds, 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 trust and revolving funds the annual leave is fully funded when earned and is, therefore, included 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.

#### *J. 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.

#### *K. 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 “reasonably possible” are disclosed in the notes to the financial statements. Liabilities that are deemed “remote” are not recognized or disclosed in the financial statements.

#### *L. 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, *Archives and Records Management activities* 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. All other programs appearing on the Statement of Net Cost, such as *Archives facilities and presidential libraries repairs and restoration* and *National Historic Publications and Records Commission Grants* are, in essence, a part of the *Archives and Records Management Activities* appropriation, 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.

#### *M. Funds from Dedicated Collections*

NARA is subject to the Statement of Federal Financial Accounting Standards (SFFAS) Number 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*, which requires separate identification of the funds from dedicated collections 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 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 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 fund from the Government’s general revenues.

#### *N. Subsequent Events*

We have evaluated subsequent events and transactions occurring after September 30, 2015 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)	2015	2014
Appropriated funds	\$ 165,161	\$ 168,367
Revolving fund	40,339	31,734
Trust fund	429	621
Gift fund	100	256
Other funds	153	162
<b>Total</b>	<b>\$ 206,182</b>	<b>\$ 201,140</b>

Status of Fund Balances with Treasury

Unobligated Balance		
Available	\$ 53,514	\$ 49,388
Unavailable	31,955	21,372
Obligated Balance not yet disbursed	120,479	130,218
Sequestration for Trust fund	81	-
Other funds	153	162
<b>Total</b>	<b>\$ 206,182</b>	<b>\$ 201,140</b>

Unavailable unobligated balance includes the following

Allotments - Expired Authority	\$ 31,001	\$ 20,897
Unapportioned Authority	954	475
<b>Total</b>	<b>\$ 31,955</b>	<b>\$ 21,372</b>

Conditional 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 conditional, as to purpose. The endowments for the Presidential Libraries are conditional and have been obligated and invested in non-federal investments. The conditional balance as of September 30, 2015 is \$23,786 thousand (of which \$1,199 thousand is unobligated) and \$23,361 thousand as of September 30, 2014 (of which \$882 thousand is unobligated).

Other Funds represent non-entity FBWT assets 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 \$5,423 thousand in canceled FY 2010 appropriation was returned to Treasury at the end of the fiscal year.

**Note 3 – Investments**

Investments as of September 30, 2015 and 2014 consist of the following:

(in thousands)

Amounts for 2015					
	Cost	Interest Receivable	Investments, Net	Adjustments to fair value	Fair Market value disclosure
<b>Intragovernmental Securities</b>					
Non-Marketable	\$ 18,228	-	\$ 18,228	-	\$ 18,228
<b>Total Intragovernmental</b>	<b>18,228</b>	<b>-</b>	<b>18,228</b>	<b>-</b>	<b>18,228</b>
<b>Other securities</b>					
Vanguard Total International Bond Index	522	-	522	18	540
Short term Investment Grade	15,233	-	15,233	3	15,236
Vanguard Dividend Growth Fund	3,029	23	3,052	816	3,868
Vanguard Small Cap Index Fund	3,280	50	3,330	853	4,183
Vanguard Intermediate Term Investment Grade	11,476	-	11,476	(224)	11,252
Emerging Markets Stock Index Fund	2,255	7	2,262	(455)	1,807
Vanguard Developed Markets Index Fund	2,330	11	2,341	(207)	2,134
Vanguard Total Bond Market Index Fund	3,945	-	3,945	187	4,132
Vanguard Total Stock Market Index Fund	3,922	9	3,931	1,152	5,083
Vanguard PRIMECAP Core Fund	1,303	22	1,325	702	2,027
<b>Total Other</b>	<b>47,295</b>	<b>122</b>	<b>47,417</b>	<b>2,845</b>	<b>50,262</b>
<b>Total Investments</b>	<b>\$ 65,523</b>	<b>\$ 122</b>	<b>\$ 65,645</b>	<b>\$ 2,845</b>	<b>\$ 68,490</b>

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Amounts for 2014					
	Cost	Interest Receivable	Investments, Net	Adjustments to fair value	Fair Market value disclosure
<b>Intragovernmental Securities</b>					
Non-Marketable	\$ 15,419	-	\$ 15,419	-	\$ 15,419
<b>Total Intragovernmental</b>	<b>15,419</b>		<b>15,419</b>	-	<b>15,419</b>
<b>Other securities</b>					
Vanguard Total International Bond Index	363	-	363	12	375
Short term Investment Grade	15,282	-	15,282	91	15,373
Vanguard Dividend Growth Fund	2,487	21	2,508	1,011	3,519
Vanguard Small Cap Index Fund	2,873	50	2,923	1,047	3,970
Vanguard Intermediate Term Investment Grade	11,385	-	11,385	(125)	11,260
Emerging Markets Stock Index Fund	1,995	8	2,003	(10)	1,993
Vanguard Developed Markets Index Fund	2,125	54	2,179	32	2,211
Vanguard Total Bond Market Index Fund	4,049	-	4,049	240	4,289
Vanguard Total Stock Market Index Fund	3,300	7	3,307	1,324	4,631
Vanguard PRIMECAP Core Fund	1,158	14	1,172	861	2,033
Total Other	45,017	154	45,171	4,483	49,654
<b>Total Investments</b>	<b>\$ 60,436</b>	<b>\$ 154</b>	<b>\$ 60,590</b>	<b>\$ 4,483</b>	<b>\$ 65,073</b>

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

*Intragovernmental Investments in Treasury Securities- Funds from Dedicated Collections*

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections. The cash receipts collected from the public for funds from dedicated collections 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, and do not represent an asset or a liability in the U.S. Government 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 in the same way as all other 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.

#### Note 4 – Accounts Receivable, Net

Accounts receivable, detailed in Note 1d, consist of the following:

<i>(in thousands)</i>	2015		2014	
	Intra- governmental	With the public	Intra- governmental	With the public
<b>Accounts receivable, net</b>	\$ 15,013	\$ 532	\$ 15,170	\$ 581

#### Note 5 – Inventory, Net

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

<i>(in thousands)</i>	2015	2014
Inventory held for sale	\$ 852	\$ 1,092
Allowance for damaged and obsolete goods	(199)	(199)
<b>Net realizable value</b>	<b>\$ 653</b>	<b>\$ 893</b>

#### Note 6 - General Property, Plant and Equipment, Net

The following components comprise Property, Plant and Equipment as of September 30, 2015 and 2014.

<i>(in thousands):</i>				2015	2014
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	399,412	(276,692)	122,720	135,205
Construction in progress	N/A	7,979	-	7,979	6,554
Equipment & Shelving Leasehold	3 to 20	140,239	(116,551)	23,688	21,857
Improvements	Various	35,657	(20,067)	15,590	18,735
Assets under capital lease	20	5,284	(5,027)	257	454
Internal-use software	5	328,131	(295,686)	32,445	54,778
Software in development	N/A	10,646	-	10,646	7,232
<b>Total property, plant and equipment</b>		<b>\$ 933,507</b>	<b>(\$ 714,023)</b>	<b>\$ 219,484</b>	<b>\$ 250,974</b>

NARA capitalizes property items with a unit cost equal to or exceeding \$50 thousand, and construction and internal-use software development projects with the total development cost of \$250 thousand or greater, and a useful life exceeding two years. Property items not meeting the capitalization criteria are expensed. Depreciation expense is calculated using the straight-line method over the useful life.

*Land and Buildings and structures* included above represent multi-use heritage assets. Assets deemed purely heritage assets are not included on the Balance Sheet. See Note 7 for further detail.

*Internal-use software* includes commercial off-the-shelf (COTS) software and internally-developed software.

### 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, traditional and electronic archival records, 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 continued 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 them. 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 are detailed in Note 15.

The major categories of heritage assets for NARA are buildings, land, and NARA’s archival holdings and artifacts. NARA reports archival holdings by collection (e.g. Presidential, regional) and type of holdings (e.g. traditional, electronic), to more closely align with NARA’s processes 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 field archives	1 (multi-use)	2	12	-	-
Affiliated archives	-	-	7	2	-
Presidential Libraries	13	-	13	4	13
TOTAL	16	2	34	8	15

#### *Buildings*

Our most iconic asset, the National Archives Building in Washington, DC, permanently displays the Declaration of Independence, the Constitution, and the Bill of Rights, collectively known as the Charters of Freedom. The National Archives

Building also houses textual and microfilm records relating to genealogy, Native Americans, 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.

NARA was authorized to construct the National Archives in College Park, Maryland to provide appropriate storage and preservation needs for the growing number of records. Collections of the National Archives at College Park, MD 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 NARA's 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.)

NARA's regional archives facilities are leased, with the exception of the National Archives at Atlanta, GA, which was constructed on land purchased by NARA. The National Archives at Atlanta, GA building and land are designated as multi-use heritage assets and are included in general PP&E on the Balance Sheet (Note 6.)

NARA field archival facilities 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, and civil and criminal case files from Federal courts. The traditional military service records for the 20<sup>th</sup> 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.

Affiliated archives store some holdings of the National Archives. Currently nine affiliated institutions store NARA's accessioned holdings.

The thirteen 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 each respective Presidential administration.

#### *Multi-Use Land*

NARA owns two parcels of land designated as multi-use: one serving as a site for National Archives archives facility in Atlanta, GA and the other is undeveloped land in Anchorage, AK, originally acquired for a new field archival facility.

*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, including but not limited to word processing documents, spreadsheets, emails (with attachments), databases, satellite imagery, and digital photographs 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 control 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 Presidential library's museums is a repository to a collection of 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, as well as tee shirts, trinkets and curiosities.

There were no additions to NARA's heritage asset collections during FY 2015. No collection is ever retired or disposed. NARA's collections only grow with the accessioning of new records or transfer of Presidential materials. For the accession to take place, the Archivist of the United States must determine, 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. NARA's Annual Performance Report will provide performance details on progress processing records and preservation efforts.

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 deferred maintenance and repairs on NARA's 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, 2015 and 2014, consist of the following:

*(in thousands)*

	2015	2014
Intragovernmental		
Other - Workers' compensation	\$ 563	\$ 670
Total Intragovernmental	563	670
Debt held by the public	97,213	116,865
Other - Accrued unfunded leave	10,722	10,555
Environmental cleanup cost-Asbestos	7,262	6,694
Federal employee benefits-actuarial FECA liability	12,311	12,765
Total liabilities not covered by budgetary resources	128,071	147,549
Total liabilities covered by budgetary resources	41,039	38,914
<b>Total liabilities</b>	<b>\$ 169,110</b>	<b>\$ 186,463</b>

### 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>	<u>2015</u>	<u>2014</u>
Beginning balance - Principal	\$ 116,043	\$ 133,998
Less : Debt repayment	19,514	17,955
Ending balance - Principal	96,529	116,043
Accrued interest payable	684	822
<b>Total Debt at September 30</b>	<u>\$ 97,213</u>	<u>\$ 116,865</u>

### Note 10 – Other Liabilities

Other Liabilities as of September 30, 2015 and 2014 consist of the following:

<i>(in thousands)</i>	<u>2015</u>		
	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
Intragovernmental			
Workers' and unemployment comp	\$ 1,124	\$ 1,205	\$ 2,329
Capital lease liability	-	-	-
Accrued payroll	-	1,913	1,913
Miscellaneous liabilities	-	4	4
Advances from others	-	366	366
<b>Total Intragovernmental</b>	<u>1,124</u>	<u>3,488</u>	<u>4,612</u>
Accrued funded payroll and leave	-	10,896	10,896
Unfunded leave	10,722	-	10,722
Miscellaneous liabilities	-	245	245
Advances from others	-	22	22
<b>Total other liabilities</b>	<u>\$ 11,846</u>	<u>\$ 14,651</u>	<u>\$ 26,497</u>

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	2014		Total
	Non-Current	Current	
Intragovernmental			
Workers' and unemployment comp	\$ 1,490	\$ 1,122	\$ 2,612
Capital lease liability	-	12	12
Accrued payroll	-	1,478	1,478
Miscellaneous liabilities	-	4	4
Advances from others	-	353	353
Total Intragovernmental	1,490	2,969	4,459
Accrued funded payroll and leave	-	9,753	9,753
Unfunded leave	10,555	-	10,555
Miscellaneous liabilities	-	37	37
Advances from others	-	11	11
<b>Total other liabilities</b>	<b>\$ 12,045</b>	<b>\$ 12,771</b>	<b>\$ 24,815</b>

### 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.

NARA's 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, under the provisions of the Federal Acquisitions Regulations.

Only one lease is classified as a capital lease, representing liability for shelving leased through GSA at the Philadelphia records facility. It has been fully paid out as of December 2014. The net capital lease liability balance shown in Intragovernmental Liabilities, Other (See Note 10) is extinguished as of September 30, 2015 and forward.

Capital Leases - NARA as lessee	2015	2014
Summary of assets under capital lease:		
Shelving	\$ 5,284	\$ 5,284
Accumulated amortization	(5,027)	(4,830)

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 31, 2020
Dayton (Kingsridge), Ohio	September 1, 2004 through January 31, 2023
Lenexa, Kansas	February 1, 2003 through February 14, 2023
Pershing Rd, Kansas City, MO	January 1, 2009 through December 31, 2028
Ft. Worth-Montgomery, Texas	February 12, 2011 through February 10, 2016
Archives Dr./Dunns Rd. St. Louis, Missouri	October 11, 2014 through April 30, 2031
Denver (Broomfield), Colorado	August 1, 2011 through May 20, 2032
Underground Dr, Kansas City	March 1, 2015 through December 2, 2032
Underground Dr, Kansas City -Archival	January 16, 2015 through December 2, 2032
Townsend Rd, Philadelphia, PA	December 1, 2012 through November 30, 2032
Boyers, PA	January 10, 2015 through December 1, 2018

Other non-cancelable operating leases with public corporations are detailed below:

Records facility	Lease Period
Perris, CA	December 1, 2004 through November 30, 2024
Ellenwood, GA	October 1, 2004 through June 30, 2024
Ft. Worth, Texas	October 1, 2006 through September 30, 2026
The Annex I and II 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 through 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	
	Land	Buildings
<u>Fiscal year</u>		
2016	\$ 149	\$ 33,949
2017	153	34,107
2018	157	34,657
2019	161	34,856
2020	165	34,514
After 2020	445	279,593
<b>Total future lease payments</b>	<b>\$ 1,230</b>	<b>\$ 451,676</b>



### Note 12 - Commitments and Contingencies

NARA has incurred various claims in the normal course of business. As of September 30, 2015, and in the opinion of the General Counsel, NARA has no outstanding claims that have a reasonable possibility of an unfavorable outcome.

### Note 13 - Funds from Dedicated Collections

Funds from dedicated collections 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 funds from dedicated collections; 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, Research Services, and the National Historical Publications and Records Commission.

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Financial information for NATF and NAGF as of September 30, 2015 and 2014 consists of the following:

(in thousands)	2015		
	NATF	NAGF	Total
<b>Balance Sheet as of September 30, 2015</b>			
<b>Assets</b>			
Fund balance with Treasury	\$ 582	\$ 100	\$ 682
Cash	55	-	55
Investments, net	41,122	27,368	68,490
Accounts receivable	256	-	256
Inventory	653	-	653
Property, plant and equipment	46	-	46
<b>Total assets</b>	<b>42,714</b>	<b>27,468</b>	<b>70,182</b>
<b>Liabilities</b>			
Accounts payable	474	25	499
Federal employee and veteran benefits	399	-	399
Other liabilities	910	-	910
<b>Total liabilities</b>	<b>1,783</b>	<b>25</b>	<b>1,808</b>
<b>Net position</b>			
Cumulative results of operations			
Conditional	-	23,786	23,786
Unconditional	40,931	3,657	44,588
<b>Total net position</b>	<b>40,931</b>	<b>27,443</b>	<b>68,374</b>
<b>Total liabilities and net position</b>	<b>\$ 42,714</b>	<b>\$ 27,468</b>	<b>\$ 70,182</b>
<b>Statement of Net Cost for the Period Ended September 30, 2015</b>			
Gross Program Costs	17,827	1,696	19,523
Less Earned Revenues	21,092	-	21,092
<b>Net Costs of Operations</b>	<b>(\$ 3,265)</b>	<b>\$ 1,696</b>	<b>(\$ 1,569)</b>
<b>Statement of Changes in Net Position For the Period Ended September 30, 2015</b>			
Net position, Beginning of fiscal year	37,364	27,852	65,216
Non-exchange revenue	-	610	610
Donations	-	1,377	1,377
Transfers-in/out without reimbursements	19	(593)	(574)
Other Budgetary Financing Sources	-	303	303
Imputed financing from costs absorbed by others	283	-	283
Other Financing Sources	-	(410)	(410)
<b>Total financing sources</b>	<b>302</b>	<b>1,287</b>	<b>1,589</b>
Net cost of operations	(3,265)	1,696	(1,569)
<b>Change in Net Position</b>	<b>3,567</b>	<b>(409)</b>	<b>3,158</b>
<b>Net Position, End of fiscal year</b>	<b>\$ 40,931</b>	<b>\$ 27,443</b>	<b>\$ 68,374</b>

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

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<i>(in thousands)</i>	2014		
	NATF	NAGF	Total Funds from Dedicated Collections
<b>Balance Sheet as of September 30, 2014</b>			
<b>Assets</b>			
Fund balance with Treasury	\$ 783	\$ 256	\$ 1,039
Cash	65	-	65
Investments, net	37,462	27,611	65,073
Accounts receivable	261	-	261
Inventory	893	-	893
Property, plant & equipment	79	-	79
<b>Total assets</b>	<b>39,543</b>	<b>27,867</b>	<b>67,410</b>
<b>Liabilities</b>			
Accounts payable	814	14	828
Federal employee and veteran benefits	415	-	415
Other liabilities	950	-	950
<b>Total liabilities</b>	<b>2,179</b>	<b>14</b>	<b>2,193</b>
<b>Net position</b>			
Cumulative results of operations			
Conditional	-	23,361	23,361
Unconditional	37,364	4,492	41,856
<b>Total net position</b>	<b>37,364</b>	<b>27,853</b>	<b>65,217</b>
<b>Total liabilities and net position</b>	<b>\$ 39,543</b>	<b>\$ 27,867</b>	<b>\$ 67,410</b>
<b>Statement of Net Cost for the Period Ended September 30, 2014</b>			
Gross Program Costs	15,270	1,052	16,322
Less Earned Revenues	22,346	-	22,346
<b>Net Costs of Operations</b>	<b>(\$ 7,076)</b>	<b>\$ 1,052</b>	<b>(\$ 6,024)</b>
<b>Statement of Changes in Net Position For the Period Ended September 30, 2014</b>			
Net position, Beginning of period	29,810	27,508	57,318
Non-exchange revenue	-	665	665
Donations	-	1,160	1,160
Transfers-in/out without reimbursements	43	(847)	(804)
Imputed financing from costs absorbed by others	435	-	435
Other Financing Sources	-	418	418
<b>Total financing sources</b>	<b>478</b>	<b>1,396</b>	<b>1,874</b>
Net cost of operations	(7,076)	1,052	(6,024)
<b>Change in Net Position</b>	<b>7,554</b>	<b>344</b>	<b>7,898</b>
<b>Net Position, End of period</b>	<b>\$ 37,364</b>	<b>\$ 27,852</b>	<b>\$ 65,216</b>

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

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Note 14 – Intragovernmental Costs and Exchange Revenues by Program

(in thousands)

	<u>2015</u>	<u>2014</u>
<b>Archives and Records Management Activities</b>		
Intragovernmental gross costs	\$ 55,652	\$ 53,076
Public costs	322,436	332,830
Total Archives and Records Management Activities Costs	378,088	385,906
Intragovernmental earned revenue	148	91
Public earned revenue	-	-
Total Archives and Records Management Activities Earned Revenue	148	91
<b>Trust and Gift Funds</b>		
Intragovernmental gross costs	1,509	1,675
Public costs	14,794	12,321
Heritage asset renovation costs (Note 15)	1,421	487
Total Trust and Gift Funds Costs	17,724	14,483
Intragovernmental earned revenue	1,332	1,682
Public earned revenue	19,760	20,664
Total Trust and Gift Funds Earned Revenue	21,092	22,346
<b>National Historical Publications and Records Commission Grants</b>		
Intragovernmental gross costs	-	-
Public costs	5,236	6,148
Total National Historical Publications and Records Commission Grants Costs	5,236	6,148
<b>Archives Facilities and Presidential Libraries Repairs and Restoration</b>		
Intragovernmental gross costs	2	-
Public costs	749	616
Heritage asset renovation costs (Note 15)	11,208	12,189
Total Archives Facilities and Presidential Libraries Repairs and Restoration Costs	11,959	12,805
<b>Revolving Fund Records Center Storage and Services</b>		
Intragovernmental gross costs	74,503	75,098
Public costs	106,051	106,444
Total Revolving Fund Records Center Storage and Service Costs	180,554	181,542
Intragovernmental earned revenue	170,218	163,592
Public earned revenue	1,770	1,900
Total Revolving Fund Records Center Storage and Services Earned Revenue	\$ 171,988	\$ 165,492

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.

<i>Asset</i>	2015			2014		
	<i>Appropriation</i>	<i>Gift</i>	<i>Trust</i>	<i>Appropriation</i>	<i>Gift</i>	<i>Trust</i>
National Archives	\$ 2,024	\$ 3	-	\$ 1,628	\$ 376	-
<u>Libraries:</u>						
Roosevelt	1,174			1,042		
Hoover	517			2,469		
Truman	4,341			532		
Eisenhower	759			3,130		
Kennedy	115	793	625	546	111	-
Johnson	41			285		
Nixon	6			158		
Ford	8			34		
Carter	318			1,072		
Reagan	1,689			1,011		
Bush	18			199		
Clinton	198			83		
Total	\$ 11,208	\$ 796	\$ 625	\$ 12,189	\$ 487	-

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 and Executive Office, 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 National Archives 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 - Cleanup Cost Adjustment

In FY 2013, NARA recorded a liability and a prior period adjustment of \$6.2 million on the statement of changes in net position, resulting from the implementation of a new accounting standard, FASAB Technical Bulletin 2006-1: *Recognition and Measurement of Asbestos-Related Cleanup Costs*. The standard requires all Federal entities to disclose the estimated clean up costs for the future removal of asbestos that does not pose an immediate health threat, known as “nonfriable” asbestos. NARA has identified seven facilities (all are stewardship assets) where the existence of nonfriable asbestos is probable. NARA developed a method to estimate the liability for future nonfriable asbestos cleanup costs by using the quantity of nonfriable asbestos identified in previous asbestos surveys and other reports, and the current cost to contain, remove, and dispose of it. This cost estimate is reviewed and updated annually, to account for any asbestos cleanup activity performed during the year and inflation.

### Note 18 - 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 activity, project, object class or a combination. NARA’s Trust Fund is exempt from apportionment.

(in thousands)

	Category A		Category B		Exempt		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
Direct	\$ 364,573	\$ 372,917	\$ 22,895	\$ 20,978	\$ -	\$ -	\$ 387,468	\$ 393,895
Reimbursable	1,870	1,526	176,879	177,643	19,005	17,765	197,754	196,934
Total	\$ 366,443	\$ 374,443	\$ 199,774	\$ 198,621	\$ 19,005	\$ 17,765	\$ 585,222	\$ 590,829

### 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 2015 actual budgetary execution information has not yet been published. The *Budget of the United States Government* is scheduled for publication in January 2016. Accordingly, information required for such disclosure is not available at the time of preparation of these financial statements.

Instead, NARA prior year actual 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.

<i>(in millions)</i>	2014			
	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	\$ 677	\$ 591	(\$ 3)	\$ 354
Difference-Expired appropriations	(22)	(2)	-	-
Difference-Rounding	-	1	-	-
Budget of the U.S. Government	\$ 655	\$ 590	(\$ 3)	\$ 354

#### Note 20 – Undelivered Orders at the End of the Period

The amount of budgetary resources obligated for undelivered orders at September 30, 2015 and 2014 is \$118,967 thousand and \$131,623 thousand, respectively.

#### Note 21 – Reconciliation of Net Cost of Operations (proprietary) to Budget

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.

The reconciliation starts with the net obligations incurred during the period. 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. Obligations incurred are netted against the spending authority from offsetting collections, recoveries, and offsetting receipts. Non-budgetary resources must be added to net obligations incurred to arrive at the total resources used to finance operations.

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.

(in thousands)	<u>2015</u>	<u>2014</u>
Net obligations incurred	\$ 339,049	\$ 361,574
Nonbudgetary Resources	16,369	21,216
Total resources used to finance activities	355,418	382,790
Resources that do not fund net cost of operations	(8,204)	(33,892)
Cost that do not require resources in the current period	52,290	62,462
Financing sources yet to be provided	829	1,595
Net cost of operations	<u>\$ 400,333</u>	<u>\$ 412,955</u>

**Note 22 -Adjustment to unobligated balance, brought forward, October 1**

NARA made an adjustment to the unobligated balance, brought forward, on the Statement of Budgetary Resources, to correct a FY 2013 error of \$6 million, which NARA identified during preparation of the current period financial statements. During FY 2013, a valid customer agreement was entered under an invalid customer agreement number. The action to establish a correct agreement was successful, however the action to remove the original entry did not process; resulting in a duplicate budget authority and unfilled customer order account at the end of the FY 2013. NARA chose to adjust the beginning balance of the unobligated balance brought forward, as of October 1 to accurately present FY 2014 activity on the Statement of Budgetary Resources. This *Adjustment to unobligated balance, brought forward, October 1* corrected the current year's *Spending Authority from offsetting collections* for FY 2014.



## 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 National Archives building in Atlanta, GA, and the Presidential Libraries. The rest of NARA facilities are leased from GSA or the public. All of these facilities support NARA’s mission to safeguard and preserve our most significant heritage assets, the national record holdings in our custody.

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 that prepares Building Condition Reports (BCR) for all NARA owned facilities, encompassing different systems within each facility to include structure, roof, exterior and interior finishes, HVAC (heating, ventilation, and air conditioning), electrical, plumbing, conveyance, and program support equipment. BCRs are scheduled approximately every five years from the last BCR or major renovation at each facility. Facility managers continue to assess critical needs between BCRs. Maintenance and repairs required to bring fixed assets to acceptable condition, which are not scheduled or performed when needed, are included in the deferred maintenance estimate below.

<u>Category</u>	FY 2015 Ending Balance DM&R	FY 2015 Beginning Balance DM&R
Heritage assets	\$38 million	\$35 million
General PP&E (Multi-use)	\$10 million	\$9 million

It is agency policy to maintain and preserve all fixed property, plant and equipment (PP&E) regardless of recorded values. The estimates cover all PP&E, whether capitalized, fully depreciated, or non-capitalized. At the end of Fiscal Year 2015, needed maintenance projects for sixteen locations, including thirteen Presidential Libraries, have been identified from current BCR reports, and are included in the deferred maintenance estimate.

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. Because the space where the records are preserved is critical to preventing deterioration of the records, NARA has implemented federal records and archival storage standards to reduce damage to holdings prior to their accession by NARA, as well as when in NARA's possession. The deferred costs to address deficiencies related to compliance of NARA owned facilities with these storage standards are also included in the estimates.

National Archives and Records Administration  
FY 2015 Agency Financial Report

Schedule of Budgetary Resources by Major Budget Accounts

(in thousands)

Fiscal Year 2015	Archives and Records Management Activities	Gift Fund	Trust Fund	NHPRC Grants	Archives Facilities and Presidential Libraries Repairs and Restorations	Records Center and Storage Services	Total
<b>Budgetary Resources</b>							
Unobligated Balance brought forward, October 1:	\$ 22,501	\$ 2,417	\$ 11,311	\$ 182	\$ 9,061	\$ 40,935	\$ 86,407
Adjustment to unobligated balance, brought forward, October 1	-	-	(78)	-	-	-	(78)
Unobligated balance brought forward, October 1	22,501	2,417	11,233	182	9,061	40,935	86,329
Recoveries of prior year unpaid obligations	14,991	12	542	376	94	2,517	18,532
Other changes in unobligated balance	(5,423)	-	-	-	-	-	(5,423)
Unobligated balance from prior year budget authority, net	32,069	2,429	11,775	558	9,155	43,452	99,438
Appropriations (discretionary and mandatory)	369,130	3,876	-	5,000	7,600	-	385,606
Spending authority from offsetting collections	2,616	-	19,821	2	-	181,645	204,084
Total Budgetary Resources	<u>\$ 403,815</u>	<u>\$ 6,305</u>	<u>\$ 31,596</u>	<u>\$ 5,560</u>	<u>\$ 16,755</u>	<u>\$ 225,097</u>	<u>\$ 689,128</u>
<b>Status of Budgetary Resources</b>							
Obligations Incurred	\$ 371,022	\$ 3,371	\$ 19,005	\$ 5,278	\$ 9,667	\$ 176,879	\$ 585,222
Unobligated balance, end of year:							
Apportioned	1,792	2,934	-	282	7,088	47,264	59,360
Exempt from apportionment	-	-	12,591	-	-	-	12,591
Unapportioned	31,001	-	-	-	-	954	31,955
Total unobligated balance, end of year	<u>32,793</u>	<u>2,934</u>	<u>12,591</u>	<u>282</u>	<u>7,088</u>	<u>48,218</u>	<u>103,906</u>
Total Budgetary Resources	<u>\$ 403,815</u>	<u>\$ 6,305</u>	<u>\$ 31,596</u>	<u>\$ 5,560</u>	<u>\$ 16,755</u>	<u>\$ 225,097</u>	<u>\$ 689,128</u>
<b>Change in Obligated Balance</b>							
Obligated balance, start of year (net)	\$ 121,328	\$ 223	\$ 2,570	\$ 8,274	\$ 7,024	\$ (9,201)	\$ 130,218
Adjustments to uncollected payments from Federal sources, start of year	-	-	-	-	-	-	-
Obligations incurred	371,022	3,371	19,005	5,278	9,667	176,879	585,222
Less: Gross outlays	(366,133)	(3,203)	(17,907)	(4,928)	(11,028)	(174,071)	(577,270)
Less: Recoveries of prior year unpaid obligations, actual	(14,991)	(12)	(542)	(376)	(94)	(2,517)	(18,532)
Change in uncollected customer payments from Federal sources	(43)	-	(146)	-	-	1,030	841
Obligated balance, net, end of period	<u>\$ 111,183</u>	<u>\$ 379</u>	<u>\$ 2,980</u>	<u>\$ 8,248</u>	<u>\$ 5,569</u>	<u>\$ (7,880)</u>	<u>\$ 120,479</u>
<b>Budget Authority, gross (discretionary and mandatory)</b>							
Budget authority, gross (discretionary and mandatory)	\$ 371,746	\$ 3,876	\$ 19,821	\$ 5,002	\$ 7,600	\$ 181,645	\$ 589,690
Actual offsetting collections (discretionary and mandatory) (-)	(22,087)	-	(19,677)	(2)	-	(182,675)	(224,441)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	(43)	-	(146)	-	-	1,030	841
Budget Authority, net (discretionary and mandatory)	<u>\$ 349,616</u>	<u>\$ 3,876</u>	<u>\$ (2)</u>	<u>\$ 5,000</u>	<u>\$ 7,600</u>	<u>\$ -</u>	<u>\$ 366,090</u>
<b>Outlays, gross (discretionary and mandatory)</b>							
Outlays, gross (discretionary and mandatory)	\$ 366,133	\$ 3,203	\$ 17,907	\$ 4,928	\$ 11,028	\$ 174,071	\$ 577,270
Less: Actual offsetting collections (discretionary and mandatory) (-)	(22,087)	-	(19,677)	(2)	-	(182,675)	(224,441)
Less: Distributed Offsetting receipts	(166)	(3,875)	-	-	-	-	(4,041)
Agency Outlays, net (discretionary and mandatory)	<u>\$ 343,880</u>	<u>\$ (672)</u>	<u>\$ (1,770)</u>	<u>\$ 4,926</u>	<u>\$ 11,028</u>	<u>\$ (8,604)</u>	<u>\$ 348,788</u>

National Archives and Records Administration  
 FY 2015 Agency Financial Report

Schedule of Budgetary Resources by Major Budget Accounts

(in thousands)

Fiscal Year 2014	Archives and Records Management Activities	Gift Fund	Trust Fund	NHPRC Grants	Archives Facilities and Presidential Libraries Repairs and Restorations	Records Center and Storage Services	Total
<b>Budgetary Resources</b>							
Unobligated Balance brought forward, October 1:	\$ 20,363	\$ 2,136	\$ 10,467	\$ 524	\$ 11,866	\$ 45,658	\$ 91,014
Adjustment to unobligated balance, brought forward, October 1	-	-	-	-	-	(6,000)	(6,000)
Unobligated balance brought forward, October 1	20,363	2,136	10,467	524	11,866	39,658	85,014
Recoveries of prior year unpaid obligations	8,530	8	535	205	25	3,412	12,715
Other changes in unobligated balance	(5,621)	-	-	-	-	-	(5,621)
Unobligated balance from prior year budget authority, net	23,272	2,144	11,002	729	11,891	43,070	92,108
Appropriations (discretionary and mandatory)	374,130	2,642	-	4,500	8,000	-	389,272
Spending authority from offsetting collections	2,268	-	18,074	5	-	175,509	195,856
Total Budgetary Resources	\$ 399,670	\$ 4,786	\$ 29,076	\$ 5,234	\$ 19,891	\$ 218,579	\$ 677,236
<b>Status of Budgetary Resources</b>							
Obligations Incurred	\$ 377,169	\$ 2,368	\$ 17,765	\$ 5,052	\$ 10,831	\$ 177,644	\$ 590,829
Unobligated balance, end of year:							
Apportioned	1,605	2,417	-	182	9,061	40,460	53,724
Exempt from apportionment	-	-	11,311	-	-	-	11,311
Unapportioned	20,896	-	-	-	-	475	21,372
Total unobligated balance, end of year	22,501	2,417	11,311	182	9,061	40,935	86,407
Total Budgetary Resources	\$ 399,670	\$ 4,786	\$ 29,076	\$ 5,234	\$ 19,891	\$ 218,579	\$ 677,236
<b>Change in Obligated Balance</b>							
Obligated balance, start of year (net)	\$ 112,353	\$ 727	\$ 2,660	\$ 9,810	\$ 10,815	\$ (22,744)	\$ 113,621
Adjustments to uncollected payments from Federal sources, start of year	-	-	-	-	-	6,000	6,000
Obligations incurred	377,170	2,368	17,765	5,052	10,831	177,643	590,829
Less: Gross outlays	(359,686)	(2,864)	(17,896)	(6,383)	(14,597)	(171,243)	(572,669)
Less: Recoveries of prior year unpaid obligations, actual	(8,530)	(8)	(535)	(205)	(25)	(3,412)	(12,715)
Change in uncollected customer payments from Federal sources	21	-	576	-	-	4,555	5,152
Obligated balance, net, end of period	\$ 121,328	\$ 223	\$ 2,570	\$ 8,274	\$ 7,024	\$ (9,201)	\$ 130,218
<b>Budget Authority, gross (discretionary and mandatory)</b>							
Budget authority, gross (discretionary and mandatory)	\$ 376,398	\$ 2,642	\$ 18,074	\$ 4,505	\$ 8,000	\$ 175,509	\$ 585,128
Actual offsetting collections (discretionary and mandatory) (-)	(20,244)	-	(18,650)	(5)	-	(180,064)	(218,963)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	21	-	576	-	-	4,555	5,153
Budget Authority, net (discretionary and mandatory)	\$ 356,175	\$ 2,642	\$ -	\$ 4,500	\$ 8,000	\$ -	\$ 371,317
<b>Outlays, gross (discretionary and mandatory)</b>							
Outlays, gross (discretionary and mandatory)	\$ 359,687	\$ 2,864	\$ 17,895	\$ 6,383	\$ 14,597	\$ 171,243	\$ 572,669
Less: Actual offsetting collections (discretionary and mandatory) (-)	(20,243)	-	(18,651)	(5)	-	(180,064)	(218,963)
Less: Distributed Offsetting receipts	(89)	(2,641)	-	-	-	-	(2,730)
Agency Outlays, net (discretionary and mandatory)	\$ 339,355	\$ 223	\$ (756)	\$ 6,378	\$ 14,597	\$ (8,821)	\$ 350,976

## Independent Auditors' Reports (FY 2015)

NATIONAL ARCHIVES AND RECORDS ADMINISTRATION  
ANNUAL FINANCIAL STATEMENT AUDIT  
FISCAL YEAR 2015

OFFICE OF THE INSPECTOR GENERAL  
COMMENTARY AND SUMMARY

This audit report contains the consolidated financial statements of the National Archives and Records Administration (NARA) for the fiscal years ended September 30, 2015 and 2014. We contracted with the independent certified public accounting firm of CliftonLarsonAllen LLP (CLA) to perform the fiscal year 2015 financial statements audit. The audits were conducted 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. 15-02, *Audit Requirements for Federal Financial Statements*, as amended, and the GAO/PCIE *Financial Audit Manual*.

In its audit opinion on NARA's financial statements, CLA report states that the financial statements present fairly, in all material respects, the financial position of NARA as of September 30, 2015 and 2014, and its net cost, changes in net position, and budgetary resources for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

CLA reported no material weaknesses<sup>1</sup> and one significant deficiency<sup>2</sup> in internal control over financial reporting related to Information Technology controls. CLA disclosed no instances of noncompliance with certain provisions of laws, regulations, contracts and grant agreements as required by OMB guidance that could have a direct and material effect on the determination of financial statement amounts.

In connection with the contract, we reviewed CLA's reports 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, an opinion on NARA's financial statements or conclusions about the effectiveness of internal control over financial reporting or compliance with laws, regulations, contracts and grant agreements. CLA is responsible for the attached auditor's report dated November 6, 2015, and the conclusions expressed in the accompanying reports. However, our review disclosed no instances where CLA did not comply, in all material respects, with generally accepted government auditing standards.

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<sup>1</sup> A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of an entity's financial statements will not be prevented, or detected and corrected on a timely basis.

<sup>2</sup> A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



CliftonLarsonAllen LLP  
[www.cliftonlarsonallen.com](http://www.cliftonlarsonallen.com)

## INDEPENDENT AUDITORS' REPORT

Inspector General  
National Archives and Records Administration

Archivist of the United States  
National Archives and Records Administration

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of National Archives and Records Administration (NARA), which comprise the consolidated balance sheets as of September 30, 2015 and 2014, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (financial statements).

### ***Management's Responsibility for the Financial Statements***

NARA management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S.; 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) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 15-02). Those standards and OMB Bulletin 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



## INDEPENDENT AUDITORS' REPORT (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion on the Financial Statements***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the National Archives and Records Administration as of September 30, 2015 and 2014, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

### ***Required Supplementary Information***

Accounting principles generally accepted in the U.S. issued by the Federal Accounting Standards Advisory Board (FASAB) require that NARA's Management Discussion and Analysis (MD&A) and other Required Supplementary Information (RSI), on pages 5 through 20 and 51 through 54, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by FASAB, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A and other RSI in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The other information on pages 2, 21, 63 through 73 is presented for purposes of additional analysis and is not a required part of the financial statements or RSI. This information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

#### ***Report on Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered NARA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NARA's internal control or on management's statement of assurance on internal control included in the MD&A. Accordingly, we do not express an opinion on the effectiveness of NARA's internal control or on management's statement of assurance on internal control included in the MD&A. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to

### INDEPENDENT AUDITORS' REPORT (Continued)

prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the NARA's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify a deficiency in internal control related to information technology controls, described below and in Exhibit A, which we consider to be a significant deficiency.

#### Longstanding Control Deficiency Related to Information Technology Controls

Several control deficiencies under the general control categories of security management, contingency planning, and access controls have existed since at least FY 2008 and not corrected, indicating longstanding deficiencies in information technology controls.

#### **Report on Compliance**

As part of obtaining reasonable assurance about whether NARA's financial statements are free from material misstatements, we performed tests of NARA's compliance with certain provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. The results of our tests disclosed no instances of noncompliance that are required to be reported in accordance with *Government Auditing Standards* and OMB Bulletin No. 15-02.

#### **Management's Responsibility for Internal Control and Compliance**

Management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under the FMFIA, (2) providing a statement of assurance on the overall effectiveness on internal control over financial reporting, and (3) complying with other applicable laws, regulations, contracts, and grant agreements.

#### **Auditors' Responsibilities**

We are responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, and (2) testing compliance with certain provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a direct and material effect on the determination of the financial statements amounts.

We did not evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that



**INDEPENDENT AUDITORS' REPORT (Continued)**

projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

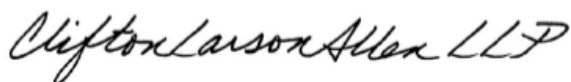
We did not test compliance with all laws, regulations, contracts, and grant agreements applicable to NARA. We limited our tests of compliance to certain provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a direct and material effect on the determination of the financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

***Management's Response to Finding***

Management's response to the finding identified in our report is presented in Exhibit B. We did not audit NARA's response and, accordingly, we express no opinion on it.

***Purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance***

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of NARA's internal control or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NARA's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Arlington, Virginia  
November 06, 2015

**EXHIBIT A**  
**Significant Deficiency**

**Longstanding Control Deficiency in Information Technology Controls**

NARA relies extensively on information technology (IT) systems to accomplish its mission and in the preparation of its financial statements. Internal controls over these operations are essential to ensure the confidentiality, integrity and availability of critical data while reducing the risk of errors, fraud and other illegal acts.

In general, NARA's networks support workstations, servers, utilities, software tools, routers, databases, and communications which provide connectivity, availability and integrity to NARA's significant financial applications and its users. If an attacker makes the network goes down, it will render the financial applications inaccessible. If an attacker exploits vulnerabilities to escalate privileges, it could alter, remove or destroy database tables that are an integral to the operation of the significant accounting applications. The general IT controls designed and implemented by an entity would provide the structure, and policies and procedures that apply to an entity's overall computer systems. General IT controls include entity-wide security management, access controls, configuration management controls, segregation of duties and service continuity controls.

In FY 2015, NARA reported a material weakness in IT security in its Federal Managers' Financial Integrity Act (FMFIA) statement which identified a persistent pattern of recurring vulnerabilities with expected resolution by Sept 2016.

During our audit, we also identified several deficiencies under the general control categories of security management, contingency planning and access controls that have existed since FY 2008, indicating longstanding unresolved deficiencies impacting the effectiveness of NARA's information technology security program and internal controls.

These weaknesses could be potentially exploited intentionally or unintentionally to undermine the integrity and completeness of data processed by NARA's financial management systems, including those systems which feed into or are reconciled with data processed by the Records Center Program Billing System (RCPBS) and Order Fulfillment and Accounting System (OFAS) systems. We also noted control weaknesses for the NARA Network (NARANet), Order Fulfillment and Accounting System (OFAS), Visitor Services Reservation Scheduling System (VISTA) and Records Center Program Billing System (RCPBS) systems.

A summary of key findings related to NARANet, OFAS, VISTA, and RCPBS systems are categorized and listed by general control category as follows:

**Access Controls** - We identified the following access control weaknesses:

- inactive user accounts were not being disabled in a timely manner;
- no comprehensive, enterprise wide process to review user activity for potential security violations; and
- user access re-certifications were not performed on an annual basis.

Access controls are designed to limit or detect access to computer programs, data, equipment, and facilities to protect these resources from unauthorized modification, disclosure, loss or impairment. Such controls include logical and physical security controls.

**Security Management** - Prior security management control findings have not been completely addressed related to the completeness and timely remediation of issues noted within Plans of Actions and Milestones (POA&Ms), updating and completeness of system security plans, and updating of IT policies and procedures. Controls should be established for a framework and continuous cycle of activity for assessing risk,

**EXHIBIT A**  
**Significant Deficiency**

developing and implementing effective security procedures, and monitoring the effectiveness of these procedures.

**Contingency Planning** - Prior contingency planning control findings have not been completely addressed related to the updating of system contingency plan documents. This year we also determined that backup tapes were not being stored at an offsite location for safekeeping. Internal controls should provide reasonable assurance that contingency planning (1) protects information resources and minimizes the risk of unplanned interruptions and (2) provides for recovery of critical operations should interruptions occur.

**Segregation of Duties** –This year we noted inappropriate access to Library Point of Sale (PoS) systems. Internal controls should provide reasonable assurance that incompatible duties, responsibilities and related policies are effectively segregated and there are effective controls of personnel activities through formal operating procedures, supervision, and review.

**Configuration Management** – Although prior configuration management control findings have been substantially addressed, additional configuration management weaknesses were identified this year. NARA did not have an effective process for monitoring, detecting and remediating known vulnerabilities related to software patches and updates, configuration management plans were outdated or did not exist, and system baseline configurations were not formally developed, approved and implemented for all devices and operating systems. Configuration management controls are designed to provide reasonable assurance that changes to information system resources are authorized and systems are configured and operated securely and as intended.

The criteria we used to vet against the IT control deficiencies identified above came from NARA, the National Institute of Standards and Technology (NIST), and the Office of Management and Budget (OMB) with some below:

- NARA IT Security Requirements
- NARA IT Security Methodology for Contingency Planning:
- NIST Special Publication 800-53, Revision 4, "*Security and Privacy Controls for Federal Information Systems and Organizations*"
- OMB M-16-03, *Guidance on Federal Information and Security and Privacy Management Requirements*
- Various other NIST Standards and Guidance
- Office of Management and Budget (OMB) Memorandum A-130, *Management of Federal Information Resources*

The IT control deficiencies resulted from an ineffective implementation and oversight by NARA management of key controls over security management, access controls, configuration management controls, segregation of duties, and service continuity controls.

**Recommendation:** We recommend that the NARA develop and execute a realistic holistic IT plan with target dates to resolve longstanding issues over access controls, security management, contingency planning, segregation of duties, and configuration management.

**EXHIBIT B**  
**Management's Response**



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**Date:** November 6, 2015

**To:** James Springs, Inspector General

**From:** David S. Ferriero, Archivist of the United States

**Subject:** Management Response to the FY 2015 Financial Statement Audit

Thank you for the opportunity to review your *Independent Auditor's Report* on the financial statement audit of the National Archives and Records Administration for the fiscal year ending September 30, 2015.

I am pleased to have received an unmodified or "clean" independent audit opinion on our financial statements. An unmodified opinion recognizes NARA's commitment to producing accurate and reliable financial statements, and supports our efforts to continuously improve our financial management program.

NARA acknowledges the Information Technology security challenges identified in this reports and concurs in the recommendation of the independent auditor. NARA self-identified IT security as a material weakness in internal controls and a summary of our corrective action plan is included in the FY 2015 Statement of Assurance. I appreciate the work performed by the auditor in this area and will ensure the auditor's findings and recommendation are incorporated into NARA's action plan.

I would like to thank the Office of Inspector General and CliftonLarsonAllen LLP for their cooperative and professional approach in the conduct of this audit.

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## SECTION 3: OTHER INFORMATION

### Inspector General's Assessment of Management Challenges Facing NARA

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

#### 1. Electronic Records Archives

The Electronic Records Archives (ERA) System is a repository for electronic Presidential, Congressional, and Federal agency records that stores files in any format for future access. The ERA System is NARA's primary strategy for addressing the challenge of storing, preserving, and providing public access to electronic records. However, virtually since inception the program has been fraught with delays, cost overruns, and technical shortcomings and deficiencies identified by our office and the Government Accountability Office (GAO). As a result, many core requirements were not fully addressed, and ERA lacks the originally envisioned functionality.

The ERA Base System for Federal electronic records has had many problems with its reliability, scalability, usability, and cost, which has prevented it from being adequate for both NARA's current and expected future workload. Given the limitations of the system in managing the transfer, processing and storage of large transfers of digital materials, and advances in technology (particularly cloud computing), NARA has determined it is essential to evolve the current ERA Base System. This will entail the correction and re-factoring of current capabilities, as well as the adaptation and expansion of capabilities in order to fulfill the agency's mission to meet the expected demands of a rapidly growing backlog of digital and digitized materials.

ERA faces many challenges going forward, including the growth in the amount and diversity of digital materials produced by government agencies; and the need for expanded capabilities to achieve the mission of driving openness, cultivating public participation, and strengthening the nation's democracy through access to high-value government records. In addition, NARA is planning for a significant number of electronic records from the Executive Office of the President, as the next Presidential Election, in November 2016, will result in a change of administration.



## 2. Improving Records Management

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

In November 2011, a Presidential Memorandum titled *Managing Government Records* was issued. This began a new executive branch-wide effort to reform records management policies and practices. In August 2012, the Office of Management and Budget (OMB) and NARA jointly issued Memorandum 12-18, *Managing Government Records Directive*, creating a robust records management framework. This directive requires agencies, to the fullest extent possible, to eliminate paper and use electronic recordkeeping. It is applicable to all executive branch agencies and to all records, without regard to security classification or any other restriction. This directive also identifies specific actions to be taken by NARA, OMB, and the Office of Personnel Management (OPM) to support agency records management programs. Agencies must manage all permanent electronic records in an electronic format by December 31, 2019, and must manage both permanent and temporary email records in an accessible electronic format by December 31, 2016. NARA, its government partners, and Federal agencies are challenged with meeting these deadlines, determining how best to manage electronic records in accordance with this guidance, and how to make electronic records management and e-Government work more effectively. In May 2015, GAO completed its study evaluating federal agencies' implementation of the directive. The study found NARA's plan to move agencies toward greater automation of records management, did not include metadata requirements in its guidance, as required. Further, until agencies, OMB, and NARA fully implement the directive's requirements, GAO indicated the federal government may be hindered in its efforts to improve performance and promote openness and accountability through the reform of records management. Until sufficient controls have been implemented to protect permanent Federal electronic

records from loss, NARA should classify electronic records management as a material weakness.

### **3. Information Technology Security**

In FY 2012, an assessment performed by contractors identified multiple deficiencies with NARA's network architecture, many of which stem from the lack of strategic planning with regard to the redundancy, resiliency, and overall design of the network. These issues not only allow for security and performance problems, but they inhibit NARA IT management from effectively establishing a tactical and innovative strategy for the next generation of NARA's network. Each year, risks and challenges to IT security continue to be identified. NARA must ensure the security of its data and systems or risk undermining the agency's credibility and ability to carry out its mission.

The Archivist identified IT Security as a material weakness under the Federal Managers' Financial Integrity Act reporting process from FY 2007 to FY 2012. In 2013, NARA reclassified and downgraded the material weakness in IT security to a reportable issue. However, in January 2015, NARA decided to again reclassify IT security from a reportable issue back up to a material weakness. We have been informed this material weakness focuses on specific aspects, and does not encompass the entire IT security program. This is concerning as audits and assessments continually identify that significant improvements and focused efforts are needed to establish a mature information security program. Further, there are identified vulnerabilities which still present elevated risk to the agency and its sensitive data.

Annual assessments of NARA's compliance with the Federal Information Security Management Act have consistently identified program areas in need of significant improvement. NARA experienced a change in leadership in the Office of Information Services during FY 2014, and new initiatives have been introduced to promote a mature information security program for the agency. However, real progress will not be made until NARA establishes an effective system of internal control for information security. The confidentiality, integrity, and availability of our electronic records and information technology systems are only as good as NARA's IT security program infrastructure.

### **4. Expanding Public Access to Records**

NARA's FY 2014-2018 Strategic Plan emphasizes public access to records by including the strategic goal: "Make Access Happen." This goal establishes public access as NARA's core purpose and includes an initiative to digitize all analog archival records in order to make them available online. Although NARA recently updated the agency's Digitization Strategy, historically the digitization approaches implemented

have not reached a scale large enough to make significant progress in achieving NARA's overall digitization initiative. Further, due to poor planning and public access system limitations, millions of records digitized through NARA's partnership agreements were not made accessible to the public in an efficient and timely manner. NARA must ensure the appropriate management, controls, and resources are in place to successfully implement its Digitization Strategy and expand public access to records.

Another challenge for NARA, given society's growing expectation for easy and near-immediate access to information online, will be to provide such access to records created digitally ("born digital") and to identify those textual records most in demand so they can be digitized and made available electronically. NARA's system for providing the public with online access to its electronic records was performing below accepted industry averages for response times and, as designed this performance will decrease in direct proportion to the amount of content available in the system. The risk to NARA from this lack of scalability necessitated the need for a new system, referred to as the National Archives Catalog (NAC), which was launched in December 2014. This was the first phase of a multi-year project, with additional functionality planned. The implementation of the NAC's functionality will greatly impact NARA's ability to meet its "Make Access Happen" strategic goal.

Approximately 30 percent of NARA's textual holdings have not been processed to allow efficient and effective access to them. To meet its mission, NARA must work to ensure it has the processes and resources necessary to establish intellectual control over this backlog of unprocessed records. However, NARA's FY 2012 assurance statement downgraded the Processing Program from a material weakness to a reportable condition. This is concerning as audits have identified multiple issues with the program, including the fact NARA lacks a strategic direction. Further, NARA reports unprocessed records by giving the percentage of records which have been processed. However, this can lead to un-intuitive results, such as when the physical volume of unprocessed records increases, but the percentage of records processed increases as well since the total collection is growing. Thus an "improving" percentage figure can at times also represent a growing backlog of unprocessed records.

## **5. Meeting Storage Needs of Growing Quantities of Records**

NARA is approaching its overall archival storage capacity and space limitations are affecting NARA's accessioning, processing, preservation, and other internal efforts. NARA is challenged in acquiring sufficient archival space to store its ever-increasing volume of textual records. Without obtaining additional archival space, NARA may face challenges in meeting its mission and may have to house accessioned textual



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

In addition to NARA's physical storage needs, the agency is also challenged in meeting its requirements for electronic data storage. NARA's in-house data storage is reaching capacity, impacting the agency's digitization efforts and other IT programs dependent on scalable, secure, and readily available data storage. Increasing amounts of electronic data storage is necessary for NARA to meet its mission. Without adequate storage NARA cannot continue accepting, storing, and processing records, or make electronic records available to the public. NARA is challenged to develop an enterprise-wide data storage management solution compliant with the Office of Management and Budget's Federal Data Center Consolidation Initiative, which focuses on reducing the energy and real estate footprint of government data centers.

## **6. Preservation Needs of Records**

Preservation continues to be a material weakness for the agency. NARA holdings grow older daily and face degradation associated with time. This affects both traditional paper records and the physical media that electronic records and audiovisual records are stored on. According to management, preservation resources have not been able to adequately address the growth in holdings needing preservation action. Preserving and providing access to records is a fundamental element of NARA's duties to the country, and NARA cannot provide access to records unless it can preserve them for as long as needed. The backlog of records needing preservation remains steady. NARA is challenged to address this backlog and future preservation needs, including the data integrity of electronic records. Further, NARA's primary tool for preserving electronic records, the ERA system, has not delivered the functionality necessary to address record format obsolescence (see OIG Challenge #1). The challenge of ensuring NARA facilities meet environmental standards for preserving records (see OIG Challenge #5) also plays a critical role in the preservation of Federal records.

## **7. Improving Project and Contract Management**

Effective project management, particularly for IT projects, is essential to obtaining the right equipment and systems to accomplish NARA's mission. Complex and high-dollar contracts require multiple program managers, often with varying types of

expertise. NARA is challenged with planning projects, developing adequately defined requirements, analyzing and testing to support acquisition and deployment of the systems, and providing oversight to ensure effective or efficient results within contracted costs. Currently, IT systems are not always developed in accordance with established NARA guidelines. These projects must be better managed and tracked to ensure budget, scheduling, and performance goals are met.

As an example, GAO reported NARA did not document the results of briefings to its senior management oversight group during the development of NARA's largest IT project, the ERA program. There is little evidence the group identified or took appropriate corrective actions, or ensured such actions were taken and tracked to closure. Without adequate oversight evaluating project progress, including documenting feedback and action items from senior management, NARA will not be able to ensure projects are implemented at acceptable costs and within reasonable time frames. GAO also reports NARA has been inconsistent in its use of earned value management (EVM), a project management approach providing objective reports of project status and early warning signs of cost and schedule overruns. Inconsistent use of key project management disciplines like EVM limits NARA's ability to effectively manage projects and accurately report on their progress. In addition, NARA OIG found although NARA is currently in the process of implementing a Homeland Security Presidential Directive (HSPD-12) compliant logical access control system, a management decision has not been made on where to obtain an authoritative source of data for the non-federal workforce. The HSPD-12 implementation has been the Agency's long overdue project, and inadequate project planning may not only result in delayed completion of the project but also hinder the Agency from achieving compliance with federal laws and regulations.

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

## 8. Physical and Holdings Security

Holdings Security continues to be a material weakness for the agency. Document and artifact theft is not a theoretical threat; it is a reality NARA has been subjected to time and time again. NARA must maintain adequate levels of security to ensure the safety and integrity of persons and holdings within our facilities. This is especially critical in light of the security realities facing this nation and the risk our holdings may be pilfered, defaced, or destroyed by fire or other man-made and natural disasters. Not only do NARA's holdings have immense historical and financial value, but we hold troves of national security information as well. NARA's implementation of the Holdings Protection Team and stricter access controls within the past five years has increased NARA's security posture. However, without adequate oversight and accountability, NARA continues to be challenged in implementing an effective Holdings Protection Program.

## 9. Human Resources Management

NARA's ability to attract, recruit, retain, and improve workforce morale is critical to many of the other top management challenges. Human capital is integral to NARA's future as the agency continues to build a modern and engaged workforce, develop the next generation of leaders, and encourage employees to collaborate, innovate, and learn. One of the agency's strategic goals is to "*build our future through our people.*" Currently, the agency has not developed a comprehensive and cohesive approach to human capital management. Adequate policies and procedures have not been developed, updated, and communicated which make it difficult to recruit, retain, support, and manage human capital effectively and efficiently. Further, NARA does not have one authoritative data source providing the latest data to role-based users encompassing all types of employment (federal, contractor, and volunteer) at the enterprise level. The numerous existing systems make it difficult to manage the workforce, as NARA is challenged with the ability to maintain security, data reliability and accuracy, and management of personnel data and system access for individuals other than federal employees.

## 10. Management of Internal Controls

OMB Circular A-123, *Management's Responsibility for Internal Control*, explains management is responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. GAO has reported NARA has not established an enterprise risk management capability, thus reducing its ability to anticipate future challenges and avoid potential crises. Currently, the agency has not

established an effective internal control program. Thus, NARA is vulnerable to risks that may not be foreseen or mitigated, and does not have the ability to self-identify and appropriately manage or mitigate significant deficiencies. Establishment of an effective internal control program is critical as it provides several benefits, including (1) improved decision making; (2) risk identification, management, and mitigation; (3) opportunities for process improvement; (4) effective use of budgeted resources; and (5) strategic planning. NARA's challenge is to ensure the agency is in compliance with OMB Circular A-123 and to develop and fully implement an internal control program.

## Federal Managers' Financial Integrity Act Report



### FY 2015 STATEMENT OF ASSURANCE

#### Statement of Qualified Assurance

The National Archives and Records Administration (NARA) management is responsible for establishing, maintaining, and assessing internal controls to ensure operational and financial controls, and financial management systems meet the requirements and objectives of the Federal Managers' Financial Integrity Act (FMFIA), Federal Financial Management Improvement Act (FFMIA) and OMB Circular A-123, Management's Responsibility for Internal Control. I am able to provide a qualified statement of assurance that, with the exception of a material weakness in NARA's Information Technology Security, NARA's internal controls are meeting their intended objective of providing reasonable assurance that:

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

This assessment is based on results of internal control monitoring, testing and reporting conducted by NARA offices, via NARA's Internal Control Program; information obtained and evaluated by management through daily operations; discussions of weaknesses and risks conducted by NARA's internal control and risk management body and; audits and evaluations conducted by NARA's Office of Inspector General (OIG), the Government Accountability Office (GAO), and other third parties. NARA continues to improve its understanding and application of internal controls, our risk awareness, and decision making as the internal control program, revamped in fiscal year 2013, matures and takes hold.

I have also considered the advice of key management officials and the Inspector General in preparing this statement of assurance.

The qualification in this assurance statement pertains to controls and risks associated with NARA's Information Technology Security, which was identified by NARA management as a Material Weakness in fiscal year 2015.

Management identified control deficiencies in five IT related areas that, when considered collectively, represent a material weakness. Efforts to fully resolve this material weakness are underway and are monitored by NARA's Management Controls Oversight Council (MCOC), a senior oversight body, and results are reported directly to me.



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**FY 2015 REPORT ON INTERNAL CONTROLS**

The purpose of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) is to provide reasonable assurance that "(i) obligations and costs are in compliance with applicable law; funds, property and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit preparation of accounts and reliable financial and statistical reports and to maintain accountability over assets." NARA's internal control objectives noted in the Archivist's statement of assurance are consistent with FMFIA objectives. OMB A-123 requires external reporting of material weaknesses, to include a summary of the weakness, summary of corrective actions, and a timeline for resolution. It also precludes an Agency Head from asserting an unqualified statement of assurance if one or more material weaknesses are identified.

The following tables reflect the number of material weaknesses reported by NARA under Section 2 of FMFIA and provide information on material weaknesses required by OMB A-123.

NARA did not have any material weaknesses associated with financial reporting over its financial statements at the end of FY 2015.

**EFFEECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS**  
 Statement of Assurance: Qualified

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Preservation of Textual Archival Records	1	0	1	0	0
IT Security	0	1	0	0	1
<i>Total Material Weaknesses</i>	1	1	1	0	1

**SUMMARY OF FMFIA MATERIAL WEAKNESS**

**Information Technology Security**

Protecting IT systems and the information they store and transmit, when threats and means of exploitation are constantly evolving, is a challenge for every entity. In fiscal year 2015 management identified a Material Weakness, and developed an action plan, to address our most critical IT security vulnerabilities. The table below summarizes information for the IT Security material weakness required by OMB A-123.

Description	Status as of September 30, 2015	Resolution Target Date
IT Security. NARA's annual assessment of IT system authorization has shown a persistent pattern of recurring vulnerabilities. Our assessment of this area identified control deficiencies in five areas that pose a potential threat to NARA	In January 2015 NARA's internal control and risk management oversight body declared a material weakness in IT Security and approved a corrective action plan addressing five key areas - (1) Authority to Operate, (2) Desktop Baseline Configuration, (3) Server Baseline Configuration, (4) Patch	All actions except for one are scheduled for completion by September 2016, at which point we believe we will be able to downgrade or remove this weakness.

IT Security.

Management, and (5) Information Security Continuous Monitoring.

While executing the actions under the Authority to Operate and Desktop Baseline Configuration action areas we identified some additional actions that need to be completed in order to allow us to meet our success criteria and consider these two action areas complete. The actions taken thus far in these two areas have improved our continuous authorization capability and increased the number of desktops that have NARA approved baseline configurations, improving our patch management, reporting, and monitoring capabilities.

Individual actions under the other three action areas are either complete or in progress. Among the improvements we have realized in these areas is identification of control gaps associated with individual systems that will allow us to better identify, isolate and address deficiencies; and the development of an IT Security Dashboard based on NIST's Risk Management Framework (RMF), which will improve our continuous monitoring and reporting capability and allow us to better comply with FISMA requirements.



This Agency Financial Report is available at [www.archives.gov/about/plans-reports/](http://www.archives.gov/about/plans-reports/), as well as Performance and Accountability Reports for previous years, Strategic Plan, Annual Performance Plans and Performance Budgets.

Links to other web pages of interest, such as Archival Holdings research tools, Presidential Libraries, and Public documents by Office of Federal Register may be found at [www.archives.gov](http://www.archives.gov).

To comment on this report, please e-mail [performance@nara.gov](mailto:performance@nara.gov).