



AGENCY FINANCIAL REPORT FY 2017



Making Access Happen

NATIONAL ARCHIVES AND RECORDS ADMINISTRATION

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.

TABLE OF CONTENTS

Section 1: Management’s Discussion and Analysis. *This section provides an overview of NARA’s organizational structure, highlights key accomplishments in agency program and financial performance, and provides management assurances regarding internal controls.4*

NARA Organization.....	5
Performance Highlights by Strategic Goal.....	7
Analysis of Financial Statements and Stewardship Information.....	11
Analysis of Controls, Systems, and Legal Compliance	17
Management Assurances	20
Limitations of the Financial Statements.....	23

Section 2: Financial Section. *This section presents NARA’s audited financial statements and accompanying notes, required supplementary information (unaudited), and the independent auditors’ report.24*

Principal Financial Statements	25
Notes to the Financial Statements.....	30
Required Supplementary Information.....	55
Independent Auditors’ Report.....	58

Section 3: Other Information. *This section includes an assessment by the Inspector General of NARA’s management challenges, a summary of the financial statement audit and management assurance results, improper payments reporting details and freeze the footprint.....70*

Inspector General’s Report on Major Management Challenges	71
Summary of Financial Statement Audit and Management Assurances	78
Improper Payments Information Act Reporting Details.....	79
Reduce the Footprint	82
Grants Oversight and New Efficiency (GONE).....	83
Fraud Report.....	83

NARA publishes financial results in its annual Agency Financial Report (AFR) and reports on performance results in its Annual Performance Report (APR), which is published with its annual congressional Budget Justification. Current and prior-year NARA AFRs and APRs are available at www.archives.gov/about/plans-reports/.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The Management's Discussion and Analysis (MD&A) section presents NARA's financial condition and program performance.

The MD&A provides an overview of NARA's organizational structure. It highlights key accomplishments in program and financial performance, provides an analysis of the financial statements, and discusses NARA's internal controls, systems, and legal compliance with laws and regulations.

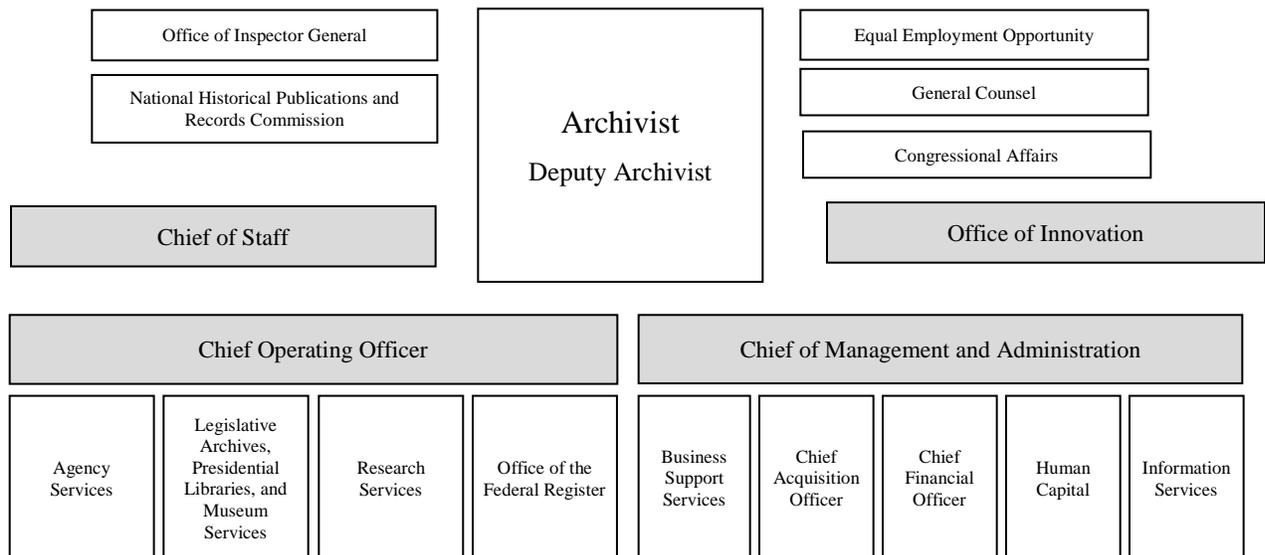
NARA Organization

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 three “Services”: Agency Services, Research Services, Legislative Archives, Presidential Libraries, and Museum Services. NARA Services and the OFR report to the Chief Operating Officer, who reports to the Archivist of the United States. NARA’s management

and administration offices report to the Chief of Management and Administration and include: the Chief Acquisition Officer, Business Support Services, the Chief Financial Officer, Information Services, Strategy and Performance, and the Office of Human Capital. The Chief of Management and Administration reports to the Archivist of the United States. The Office of Innovation, 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.

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 met its FY 2017 target to conduct basic archival processing on 78 percent of NARA’s archival holdings. Following an FY 2017 study, NARA established new processing standards to improve our efficiency in processing records. These guidelines provided a valuable benchmark for planning and resulted in a 4 percentage point increase in NARA’s performance. This represents processing on a total number of 4.3 million cubic feet of records, up from 3.8 million at the end of FY 2016.

NARA processed more than 544,000 cubic feet of records in FY 2017, more than double the amount processed in FY 2016. In addition, NARA accepted more than 154,800 cubic feet of new, unprocessed archival records. While the volume of records accessioned each year continues to challenge us, our practices to improve efficiency have resulted in a steady decline in the backlog of

unprocessed records remaining at the end of the year. NARA ended FY 2017 with slightly more than 780,530 cubic feet of unprocessed records down from more than 1.17 million cubic feet in FY 2016 and 1.2 million in FY 2015.

NARA is committed to digitize all of our traditional holdings and make them available through the National Archives Catalog. We continue to establish partnership agreements with the private sector, work with volunteers, and conduct in-house efforts to move these records to a digital state. While billions of pages of records require digitization, our progress remains slow but steady. We will continue to pursue improvements to our information technology infrastructure and examine ways to improve processes to expedite the digitization and availability of our holdings.

<i>Performance Goals</i>	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Actual	Status
Percent of archival holdings processed	65	68	72	74	78	78	Met
Percent of traditional holdings digitized and made available online	—	—	—	0.05	<i>Increase</i>	0.22	Met

Connect with Customers

The National Personnel Records Center (NPRC) exceeded the FY 2017 performance target and responded to 92 percent of requests for military separation documents in ten working days or less. Responsiveness to customers remained steady throughout the year and performance has stayed within this range for the past four years. During FY 2017, the NPRC responded to more than 523,000 requests for military separation documents. This figure decreased slightly from the requests in FY 2016; its highest volume since FY 2010. Our performance for the year was slightly better than performance in FY 2016.

During FY 2017 the percentage of customers satisfied with NPRC services was 80 percent, down from satisfaction levels of 85 percent in FY 2016. NARA remains committed to provide excellent

reference services and timely responses to customer requests. NARA expects further improvements in FY 2018, as improvements to the process of answering inquiries are made. NARA will continue to ensure customer satisfaction by providing one-hour turnaround time for in-person requests and responding to written reference requests within ten days.

NARA exceeded its goal for responding to Freedom of Information Act (FOIA) requests in 20 working days or less, ending the year at 96 percent. With the majority of FOIA requests at the NPRC, performance has a significant influence on NARA's overall performance. The number of FOIA requests serviced by NARA increased from 50,000 in FY 2016 to more than 60,000 in FY 2017. The NPRC serviced more than 55,000 of these requests in FY 2017.

<i>Performance Goals</i>	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Actual	Status
Percent of military separation requests answered within 10 working days	92	91	90	91	90	92	Met
Percent of FOIA requests for Federal records answered within 20 working days	83	77	78	94	>78	96	Met
Percent of customers satisfied with retrieving military records from NPRC	86	86	80	85	88	80	Not met

Maximize NARA’s Value to the Nation

NARA exceeded the FY 2017 target to increase the percentage of Federal agencies in the "Low Risk" category of the Records Management Self-Assessment (RMSA). The RMSA is used to determine Federal agencies' compliance with statutory and regulatory records management requirements. NARA has also achieved a dramatic decline in the past five years for agencies in the "High Risk" category while the percent of agencies who are in the "Moderate Risk" category has remained fairly steady. FY 2017 marks the first time where the percentage of agencies in the low risk category is higher than the moderate risk. Consistent with last year, NARA received a 100 percent response rate from all Federal agencies.

The RMSA tool provides agencies a series of questions related to records management policies, practices, and performance. The tool also provides them with information they can use to measure their compliance and target their resources to areas that need

improvement. NARA validates the responses. We also assign a risk category based on the validated responses. Agencies categorized as "Low Risk" had 90 percent or higher positive responses to the assessment questions.

The number of agencies that reported they were in the "Low Risk" category increased from 36 percent to 45 percent. This nine percentage point improvement from last year reflects improvements through involvement in information management processes and decisions; enhanced policies and directives, and increased awareness and outreach programs. NARA attributes the steady increase in "low risk" agencies to several factors such as the issuance of the Managing Government Records Directive (OMB Memorandum M-12-14); improved oversight and compliance, enhancements in NARA's policies and training, and continued engagement with Senior Agency Officials for Records Management within agencies

Performance Goal	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Actual	Status
Percent of agencies with "low risk" RMSA ratings	20	29	34	36	>34	45	Met

Build our Future Through Our People

NARA is committed to improving its hiring practices to reach the best talent in a competitive marketplace. While we did not meet our target to increase the percentage of positions filled within 80 days, we have identified a series of process improvements and corrective actions to improve the timeliness,

accuracy, and transparency of our Human Capital transactional processes. We will closely monitor NARA's hiring actions to quickly identify bottlenecks and other impediments to more effectively recruit and hire the talent needed to fulfill NARA's mission.

Performance Goal	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Actual	Status
Percent of NARA positions filled within 80 days.	—	42	45	53*	Increase	40	Not met

Analysis of Financial Statements and Stewardship Information

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, 2017. The complete financial statements, footnotes, and auditors' report 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 of their records 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 operates and manages a diversified financial investment portfolio on behalf of the

Presidential Library system and nationwide archival locations.

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, George W. Bush and Gerald R. Ford Libraries.

Analysis of Combined Budgetary Resources

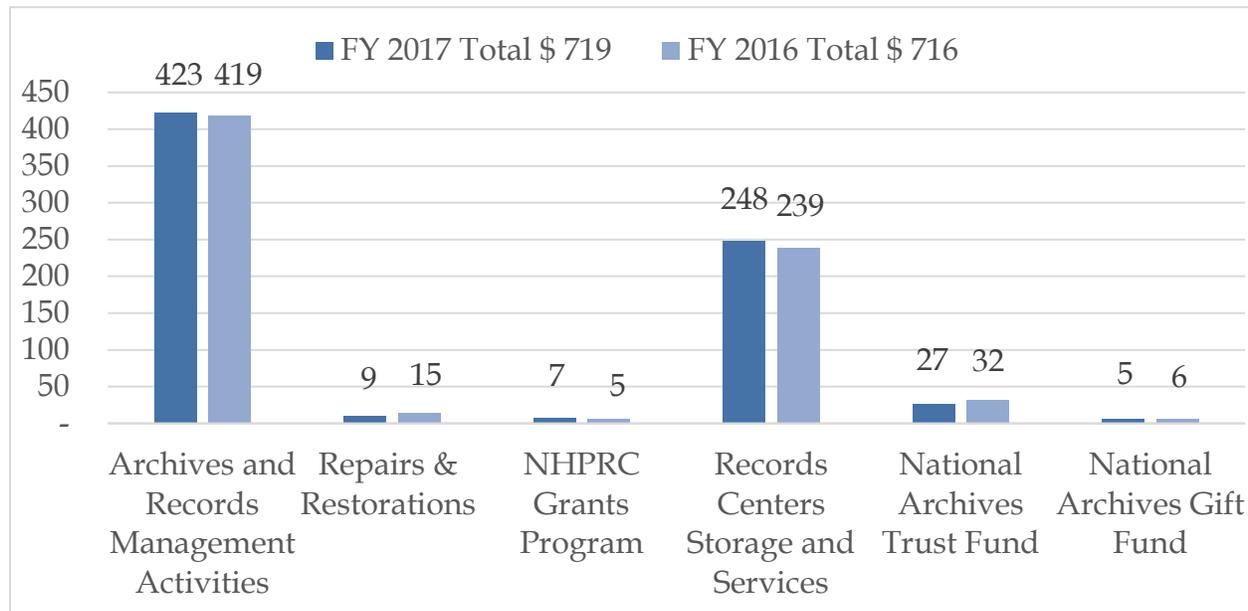
This statement provides information on the budgetary resources available to NARA as of September 30, 2017, and September 30, 2016, and the status of those resources.

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 reduce amounts available from budget authority or unobligated balances. Gross outlays reflect the actual cash disbursed by the Government in order to fulfill NARA's obligations.

NARA received \$719 million in total budgetary resources in FY 2017, an increase of \$3 million over FY 2016. This increase is the result of additional appropriations and an increase in unobligated balances carried forward from prior years. Total net outlays (cash disbursements less cash receipts) increased by \$8 million from FY 2016 to \$384 million in FY 2017.

Total Budgetary Resources by Program *Dollars in Millions*



Approximately 56 percent (\$401 million) of NARA's total budgetary resources came from current-year appropriations, and an additional 29 percent (\$211 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 (\$103 million) and recoveries of prior year unpaid obligations (\$11 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.

Analysis of Consolidated Balance Sheet

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

Total Assets of \$494 million at the end of FY 2017 consisted of cash (*Fund balance with Treasury*), buildings owned by NARA, internal use software and equipment (*Property and equipment*), Trust and Gift Fund investments, and amounts owed to NARA by customers, mostly Federal agencies (*Accounts receivable*).

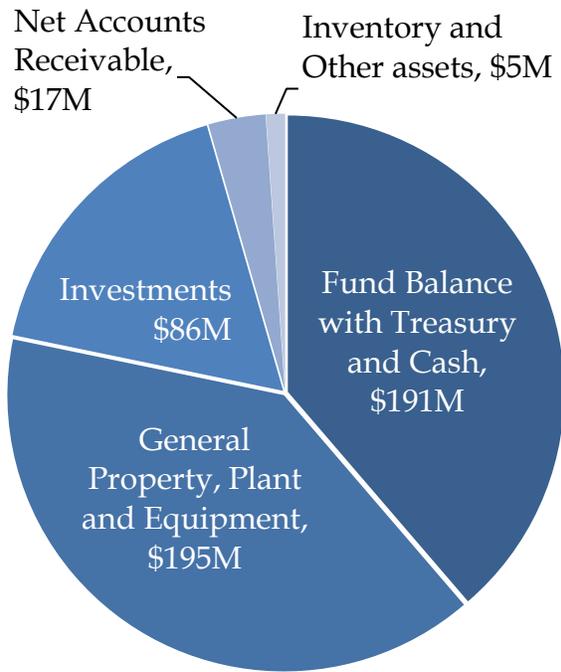
NARA's FY 2017 total asset balance decreased from FY 2016, declining by about \$16 million primarily due to reductions in Fund Balance with Treasury and Property Plant and Equipment.

NARA held *Total Liabilities* of \$121 million at the end of FY 2017, a decline of 16 percent (\$22 million) from the previous fiscal year. This decline was driven primarily by a reduction in NARA's *Debt held by the public*. *Debt held by the public*, which represents 43 percent of NARA's total liabilities, represents debt incurred to finance the construction of the National Archives building in College Park, MD. *Debt held by the public* declines each year, as NARA repays principal through annual payments, according to a fixed schedule.

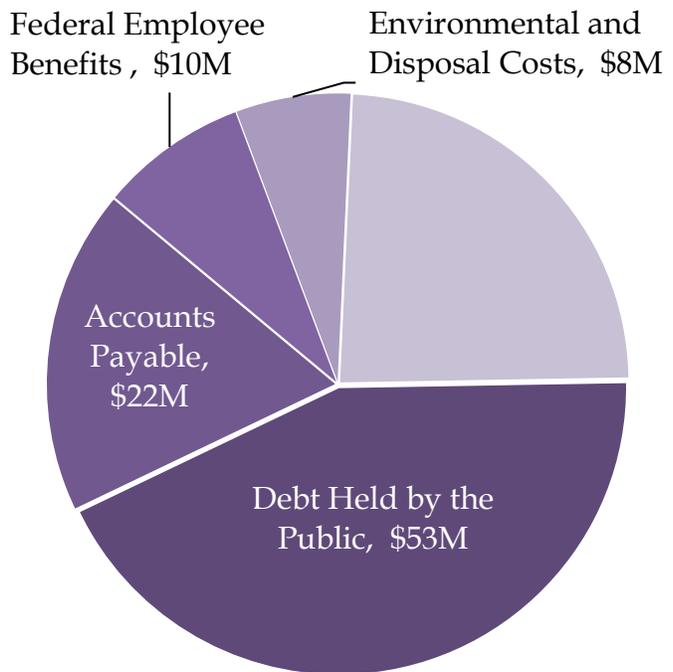
Seventy four percent (\$106 million) of NARA's total liabilities are unfunded, i.e., budgetary resources are not yet available as of September 30, 2016. The major elements of unfunded liabilities are \$52 million for *Debt held by the public*, \$10 million for the actuarial portion of *Federal employee benefits*, \$8 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 year that the balances are due, in accordance with OMB funding guidelines.

Assets and Liabilities as of September 30, 2017

Dollars in Millions



Total Assets, \$494 million



Total Liabilities, \$122 million

Analysis of Consolidated Results of Operations (Statement of Net Cost)

The Statement of Net Cost presents the full cost of NARA operations, by component. Net costs include total gross costs, minus all earned revenues that are permitted to be offset against those costs.

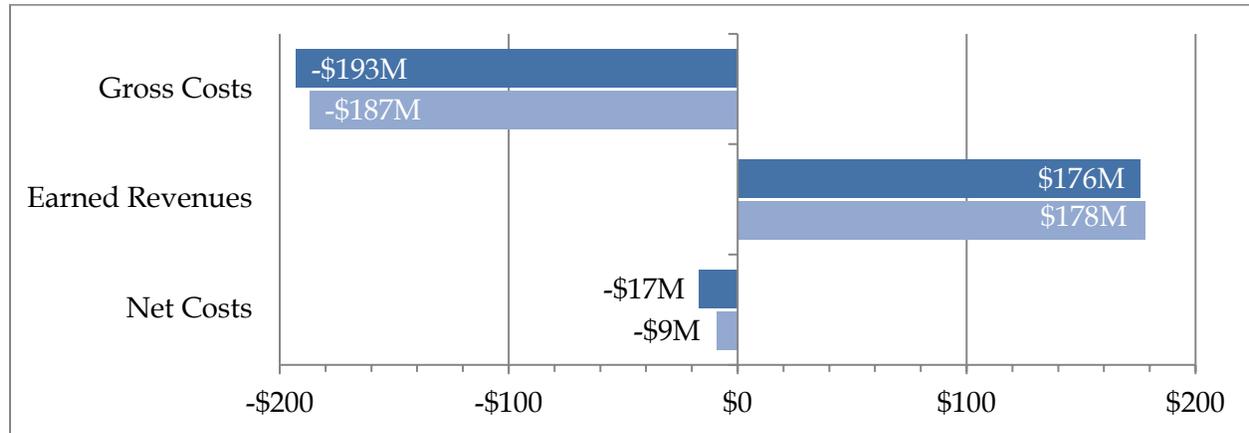
NARA's total net cost of operations was \$404 million for FY 2017. NARA incurred \$605 million in gross costs in FY 2017, which were partially offset by \$201 million in revenues collected from

Federal and non-Federal sources. Expenses financed by Congressional appropriations represent about 66 percent (\$397 million) of NARA's FY 2017 total gross costs of operations.

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 2017 and 2016, after intra-agency eliminations. A more detailed analysis of NARA's net cost of operations for selected Fund accounts is provided below.

Records Centers Revolving Fund, Results of Operations

Dollars in Millions



Records Centers Revolving Fund,
 Results of Operations

In FY 2017, the Records Centers Revolving Fund incurred \$193 million in gross costs, and earned \$176 million in revenues, resulting in net costs of \$17 million. Gross costs increased in FY 2017 due to increased payroll expenditures related to initiatives in workforce development. Revenues remained stable resulting in an increase in net costs for FY 2017.

National Archives Trust and Gift Funds,
 Net Results of Operations

The National Archives Trust Fund realized net revenues from operations of \$11 million in FY 2017, an increase of \$3 million over FY 2016 levels. This increase was primary due to reduced investment in capital improvements over FY 2016 levels and increased revenue from library admissions. The investment portfolio realized a net gain of \$4.5 million in FY 2017, compared to a net gain of \$2.7 million in the prior year.

Net operating costs of the National Archives Gift Fund declined slightly from \$1.6 million in 2016 to \$1 million in 2017. A slight decrease in net costs over FY 2016 was due primarily to the fact that major costs in 2016 for equipment, renovations, and exhibit design were non-recurring in 2017.

Analysis of Controls, Systems, and Legal Compliance

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 laws; (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 2017 FMFIA assurance statement is included below.

OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

This circular requires agencies to implement an Enterprise Risk Management (ERM) capability coordinated with the strategic planning and strategic review process established by Government Performance and Results Act Modernization Act (GPRAMA), and the internal control processes required by FMFIA and Government Accountability Office (GAO) Standards for Internal Control in the Federal Government (Green Book).

Consistent with OMB guidance, NARA began work on an Agency Risk Profile in 2017.

NARA's evaluation of its internal controls for the year ended September 30, 2017, 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 2017.

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 #17-03, *Audit Requirements for Federal Financial Statements*. NARA is not required to report separately on its compliance with FFMIA in its FMFIA reports, however, NARA is meeting FFMIA requirements.

Federal Information Security Management Act (FISMA)

For fiscal year 2017 reporting, NARA will report on the status of its information security program in accordance with OMB Memorandum 18-02 *Fiscal Year 2017-2018 Guidance on Federal Information Security and Privacy Management Requirements*. The report will include 1) A detailed assessment of the adequacy and effectiveness of the agency's information security policies, procedures, and practices, including details on progress toward meeting FY 2017 government-wide targets in the Cybersecurity Cross-Agency Priority Goal metrics and 2) details on the total number of incidents reported to the DHS United States Computer Emergency Readiness Team (US-CERT) through the DHS US-CERT Incident Reporting System.

Debt Collection Improvement Act of 1996

The Debt Collection Improvement Act of 1996 was enacted to enhance the ability of the federal government to service and collect debts. 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 the Fiscal Service, Administrative Resource Center (ARC). 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, ARC transmits delinquent claims to Debt Management Services (DMS) for

collection cross-servicing, in compliance with the Debt Collection Improvement Act of 1996.

Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012

The Improper Payments Elimination and Recovery Improvement Act (IPERIA) bolsters efforts to identify, prevent, and recover payment error, waste, and fraud. IPERIA also reinforces and accelerates the "Do Not Pay" initiative. OMB Memorandum M-15-02, dated October 20, 2014, updated government-wide guidance on the implementation of IPERIA. This guidance is contained in Appendix C of OMB Circular A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*. Detailed reporting on NARA's improper payments can be found in the Other Information section of this report.

Digital Accountability and Transparency Act (DATA Act) of 2014

cooperatively
financial management shared services
provider, the Department of Treasury,
Bureau of the Fiscal Service,

Administrative Resource Center (ARC), to comply with the DATA Act statutory reporting requirement and published detailed FY 2017 second quarter spending data on the USAspending.gov website by the May 2017 deadline. NARA continues its efforts to successfully report certified quarterly spending data on the USAspending.gov website in compliance with the Act.

Prompt Payment Act

The Prompt Payment Act requires federal agencies to make timely payments to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts when they are economically justified. NARA's financial management shared services provider processes payments in accordance with the Prompt Payment Act and submits quarterly prompt pay statistics on NARA's behalf.

Management Assurances



NATIONAL
ARCHIVES

ARCHIVIST *of the*
UNITED STATES

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November 9, 2017

FY 2017 STATEMENT OF ASSURANCE

Statement of Modified 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 Enterprise Risk Management and Internal Control*. I am able to provide a modified 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:

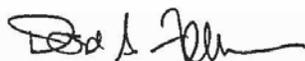
- (1) Programs achieve their intended results;
- (2) Resources are used consistent with NARA's mission;
- (3) Programs and resources are protected from waste, fraud, and mismanagement;
- (4) Laws and regulations are followed; and
- (5) Reliable and timely information is obtained, maintained, reported,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

NATIONAL ARCHIVES *and*
RECORDS ADMINISTRATION
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IT Security Material Weakness

The modified statement of assurance pertains to weaknesses and risks associated with controls over NARA's Information Technology Security, which was identified by NARA Management as a Material Weakness in fiscal year 2015. Although actions from the fiscal year 2015 weakness were completed during fiscal year 2017, leading to improvements in NARA's IT Security posture, I conclude that it remains a material weakness. Our action plan to resolve this weakness consists of actions to implement the Cybersecurity Framework (e.g. Identify, Protect, Detect, Respond, and Recover) and address weaknesses identified in the OMB/DHS Risk Management Assessment (RMA). The action plan is expected to be completed in fiscal year 2020.

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



DAVID S. FERRIERO
Archivist of the United States

FY 2017 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; (ii) funds, property and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit 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 unmodified statement of assurance if one or more material weaknesses are identified.

The following table reflects the number of material weaknesses reported by NARA under Section 2 of FMFIA and provides information on material weaknesses required by OMB A-123.

NARA did not have any material weaknesses associated with financial reporting or its financial statements at the end of FY 2017.

EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS
Statement of Assurance: Modified

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
IT Security	1	0	0	0	1
<i>Total Material Weaknesses</i>	1	0	0	0	1

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. 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.

FINANCIAL SECTION

The Financial Section contains the Independent Auditors' Report, NARA's financial statements and notes to financial statements, and required supplementary information.

The financial statements provide a comparison of FY 2017 and FY 2016 results. NARA prepares these statements in conformity with the U.S. Generally Accepted Accounting Principles (GAAP) for the federal government and OMB Circular A-136, Financial Reporting Requirements.

The notes accompanying the financial statements provide a description of significant accounting policies, as well as detailed information on the financial statement contents.

Principal Financial Statements

Consolidated Balance Sheet

As of September 30, 2017 and 2016
 (in thousands)

	2017	2016
Assets		
Intragovernmental		
Fund balance with Treasury (Note 2)	\$ 191,353	\$ 205,547
Investments (Note 3)	10,202	11,733
Accounts receivable (Note 4)	15,634	16,675
Other (Note 8)	4,471	2,085
Total intragovernmental	\$ 221,660	\$ 236,040
Cash	\$ 33	\$ 38
Investments (Note 3)	75,352	64,147
Accounts receivable, net (Note 4)	921	638
Inventory, net (Note 5)	630	660
General property, plant and equipment, net (Note 6)	195,501	207,587
Deferred Assets (Note 8)	380	434
Total assets	\$ 494,477	\$ 509,544
Stewardship PP&E (Note 7)		
Liabilities		
Intragovernmental		
Accounts payable	\$ 1,748	\$ 1,260
Other (Note 11)	4,676	4,799
Total intragovernmental	\$ 6,424	\$ 6,059
Accounts payable	\$ 20,411	\$ 19,377
Debt held by the public (Note 9, 10)	52,643	75,855
Federal employee benefits-actuarial FECA (Note 9)	10,050	11,313
Environmental and disposal costs (Note 9,18)	7,823	7,537
Other (Note 11)	24,595	23,646
Total liabilities	\$ 121,946	\$ 143,787
Commitments and Contingencies (Note 13)		
Net Position		
Unexpended appropriations - other funds	\$ 113,794	\$ 131,798
Cumulative results of operations - Funds from Dedicated Collections (Note 14)	85,709	75,597
Cumulative results of operations - other funds	173,028	158,362
Total net position	372,531	365,757
Total liabilities and net position	\$ 494,477	\$ 509,544

The accompanying notes are an integral part of these statements

National Archives and Records Administration
 FY 2017 Agency Financial Report

Consolidated Statement of Net Cost

For the years ended September 30, 2017 and 2016
 (in thousands)

	2017	2016
Program Costs (Note 15)		
Archives and Records Management Activities		
Gross costs	\$ 384,218	\$ 374,214
Less: Earned revenues	(89)	(472)
Total net Archives and Records Management Activities program costs	\$ 384,129	\$ 373,742
Trust and Gift Funds		
Gross costs (excluding heritage asset renovation)	\$ 14,318	\$ 14,440
Heritage asset renovation costs (Note 16)	99	1,746
Less: Earned revenues	(24,749)	(22,738)
Total net Trust and Gift Funds program costs	\$ (10,332)	\$ (6,552)
National Historical Publications and Records Commission Grants		
Gross costs	\$ 4,709	\$ 5,326
Less: Earned revenues	-	-
Total net National Historical Publications and Records Commission Grants program costs	\$ 4,709	\$ 5,326
Archives Facilities and Presidential Libraries Repairs and Restoration		
Gross costs (excluding heritage asset renovation)	\$ 374	\$ 442
Heritage asset renovation costs (Note 16)	7,891	6,137
Less: Earned revenues	-	-
Total net Archives Facilities and Presidential Libraries Repairs and Restoration program costs	\$ 8,265	\$ 6,579
Revolving Fund Records Centers Storage and Services		
Gross costs	\$ 193,332	\$ 187,488
Less: Earned revenues	(176,479)	(177,996)
Total net Revolving Fund Records Centers Storage and Services program costs	\$ 16,853	\$ 9,492
Net Cost of Operations	\$ 403,624	\$ 388,587

The accompanying notes are an integral part of these statements

Consolidated Statement of Changes in Net Position

For the year ended September 30, 2017
(in thousands)

	2017		
	Funds from Dedicated Collections	All Other Funds	Consolidated Total
Cumulative Results of Operations:			
Beginning Balance	\$ 75,597	\$ 158,362	\$ 233,959
Budgetary Financing Sources:			
Appropriations Used	-	409,497	409,497
Nonexchange Revenue	625	-	625
Donations and forfeitures of cash and cash equivalents	1,143	-	1,143
Transfers-in/out without reimbursement	(557)	557	-
Other	203	-	203
Other Financing Sources:			
Imputed financing	282	16,889	17,170
Other	(237)	-	(237)
Total Financing Sources	1,459	426,942	428,401
Net Cost of Operations	(8,653)	412,277	403,624
Net Changes	10,112	14,665	24,777
Cumulative Results of Operations:	\$ 85,709	\$ 173,028	\$ 258,737
Unexpended Appropriations:			
Beginning Balance	-	\$ 131,798	\$ 131,798
Budgetary Financing Sources:			
Appropriations received	-	398,935	398,935
Other adjustments	-	(7,442)	(7,442)
Appropriations Used	-	(409,497)	(409,497)
Total Budgetary Financing Sources	-	(18,004)	(18,004)
Total Unexpended Appropriations	-	113,794	113,794
Net Position	\$ 85,709	\$ 286,822	\$ 372,531

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

The accompanying notes are an integral part of these statements

National Archives and Records Administration
 FY 2017 Agency Financial Report

Consolidated Statement of Changes in Net Position

For the year ended September 30, 2016
 (in thousands)

	2016		
	Funds from Dedicated Collections	All Other Funds	Consolidated Total
Cumulative Results of Operations			
Beginning Balance	\$ 68,374	\$ 142,777	\$ 211,151
Budgetary Financing Sources			
Appropriations Used	-	388,999	388,999
Nonexchange Revenue	627	-	627
Donations and forfeitures of cash and cash equivalents	1,529	-	1,529
Transfers-in/out without reimbursement	(594)	594	-
Other	70	-	70
Other Financing Sources (Non-Exchange)			
Transfers-in/out without reimbursement	-	951	951
Imputed financing	293	18,250	18,543
Other	676	-	676
Total Financing Sources	2,601	408,794	411,395
Net Cost of Operations	(4,622)	393,209	388,587
Net Changes	7,223	15,585	22,808
Cumulative Results of Operations	\$ 75,597	\$ 158,362	\$ 233,959
Unexpended Appropriations			
Beginning Balance	-	\$ 130,667	\$ 130,667
Budgetary Financing Sources			
Appropriations received	-	396,073	396,073
Other adjustments	-	(5,943)	(5,943)
Appropriations used	-	(388,999)	(388,999)
Total Budgetary Financing Sources	-	1,131	1,131
Total Unexpended Appropriations	-	131,798	131,798
Net Position	\$ 75,597	\$ 290,160	\$ 365,757

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

The accompanying notes are an integral part of these statements

Combined Statement of Budgetary Resources

For the years ended September 30, 2017 and 2016
(in thousands)

	2017	2016
BUDGETARY RESOURCES:		
Unobligated balance brought forward, October	\$ 102,924	\$ 103,906
Recoveries of prior year unpaid obligations	10,567	8,822
Other changes in unobligated balance	(7,251)	(5,318)
Unobligated balance from prior year budget authority, net	106,240	107,410
Appropriations (discretionary and mandatory)	401,472	398,900
Spending authority from offsetting collections (discretionary and mandatory)	211,176	209,233
Total budgetary resources	\$ 718,888	\$ 715,543
STATUS OF BUDGETARY RESOURCES:		
New Obligations and Upward adjustments (Note 19)	\$ 612,052	\$ 612,619
Apportioned, unexpired account	65,218	61,006
Exempt from apportionment, unexpired account	5,173	5,993
Unapportioned, unexpired accounts	8,791	5,249
Unexpired unobligated balance, end of year	79,182	72,248
Expired unobligated balance, end of year	27,654	30,676
Unobligated balance, end of year (total)	106,836	102,924
Total budgetary resources	\$ 718,888	\$ 715,543
CHANGE IN OBLIGATED BALANCE:		
Unpaid Obligations:		
Unpaid obligations, brought forward, October 1 (gross)	\$ 155,935	\$ 160,247
New Obligations and upward adjustments	612,052	612,619
Outlays, (gross) (-)	(620,279)	(608,108)
Recoveries of prior year unpaid obligations (-)	(10,567)	(8,822)
Unpaid Obligations, end of year	\$ 137,141	\$ 155,936
Uncollected Payments:		
Uncollected payments from Federal sources, brought forward, October 1 (-)	(41,706)	(39,768)
Change in uncollected payments from Federal sources (+ or -)	(944)	(1,938)
Uncollected payments from Federal sources, end of year (-)	(42,650)	(41,706)
Memorandum (non-add) Entries:		
Obligated balance start of year (net), (+ or -)	114,229	120,479
Obligated balance, end of year (net)	94,491	114,230
BUDGET AUTHORITY AND OUTLAYS, NET:		
Budget authority, gross (discretionary and mandatory)	\$ 612,648	\$ 608,133
Actual offsetting collections (discretionary and mandatory) (-)	(233,376)	(228,586)
Change in uncollected payments from Federal Sources (discretionary and mandatory) (+ or -)	(944)	(1,938)
Recoveries of prior year paid obligations (discretionary and mandatory)	(191)	(625)
Budget Authority, net (discretionary and mandatory)	\$ 378,137	\$ 376,984
Outlays, gross (discretionary and mandatory)	\$ 620,279	\$ 608,108
Actual offsetting collections (discretionary and mandatory) (-)	(233,567)	(229,211)
Outlays, net (discretionary and mandatory)	386,712	378,897
Distributed offsetting receipts	(2,516)	(2,847)
Agency Outlays, net (discretionary and mandatory)	\$ 384,196	\$ 376,050

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

The 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 records. 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 Centers 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 imprest funds at Presidential Library museum stores. These funds are used to finance the store cashiers' start-up cash.

D. Accounts Receivable

Accounts receivable primarily consist 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 44 U.S.C. § 2112, for the George Bush Library, William J. Clinton Library, George W. Bush Library, and Gerald R. Ford 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 44 U.S.C. § 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 value, 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 (PP&E)

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 (FEHB) Program and the Federal Employees Group Life Insurance (FEGLI) Program and may continue to participate after retirement. Both 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 FEHB and FEGLI, which are recognized as operating expenses.

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 post-retirement 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 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; this amount appears as an imputed cost on the Statement of Net Cost and as 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, employees who have incurred work-related occupational diseases, and 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 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 9.

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 9. 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 9 and 11.

J. Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that effect 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) No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27*,

National Archives and Records Administration
FY 2017 Agency Financial Report

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). These 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, 2017 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
(in thousands)

Fund balances (in thousands)	2017	2016
Appropriated funds	\$ 141,722	\$ 159,466
Revolving fund	48,856	45,420
Trust fund	674	559
Gift fund	101	102
Total	\$ 191,353	\$ 205,547

Status of Fund Balances with Treasury		
Unobligated Balance		
Available	\$ 60,156	\$ 55,228
Unavailable	36,446	35,925
Obligated Balance not yet disbursed	94,491	114,229
Sequestration for Trust fund	260	165
Total	\$ 191,353	\$ 205,547

Unavailable unobligated balance includes the following

Allotments - Expired Authority	\$ 27,655	\$ 30,676
Unapportioned Authority	8,791	5,249
Total	\$ 36,446	\$ 35,925

This note provides additional information supporting the Funds Balance with Treasury reported on the Consolidated Balance Sheet.

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". Endowments for the Presidential Libraries are conditional and have been obligated and invested in non-federal investments. The conditional balance as of September 30, 2017 is \$23,782 thousand (of which \$815 thousand is unobligated) compared to the balance as of September 30, 2016, which was \$24,166 thousand (of which \$1,019 thousand is unobligated).

The unused fund balance of \$7,442 thousand in canceled FY 2012 appropriation was returned to Treasury at the end of FY 2017.

Note 3 – Investments

“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.

National Archives and Records Administration
FY 2017 Agency Financial Report

As of September 30, 2017
(in thousands)

	Cost	Interest Receivable	Investments, Net	Adjustments to fair value	Fair Market value disclosure
Intragovernmental Securities					
Non-Marketable	\$10,202	-	\$10,202	-	\$10,202
Total Intragovernmental	\$10,202	-	\$10,202	-	\$10,202
Other securities					
Vanguard Intermediate Term Investment Grade	\$12,926	-	\$12,926	(\$167)	\$12,759
Vanguard Developed Markets Index Fund	2,831	20	2,851	404	3,255
Vanguard Dividend Growth Fund	4,315	34	4,349	1,188	5,537
Vanguard Emerging Markets Stock Index Fund	3,898	12	3,910	329	4,239
Vanguard Short-Term Investment Grade	13,281	-	13,281	52	13,333
Vanguard Small-Cap Index Fund	5,561	34	5,595	2,411	8,006
Vanguard Total Bond Market Index	6,508	-	6,508	173	6,681
Vanguard Total International Bond Index	473	-	473	18	491
Vanguard Total Stock Market Index Fund	5,114	10	5,124	2,087	7,211
Vanguard PRIMECAP Core Fund	1,532	25	1,557	1,351	2,908
Vanguard GNMA Fund	939	-	939	(22)	917
Vanguard Wellesley Fund	952	10	962	46	1,008
Vanguard High-Yield Corporate Fund	4,490	-	4,490	39	4,529
Vanguard Information Technology Index	4,044	7	4,051	251	4,302
Vanguard Intermediate-Term Corporate Bond Index	73	-	73	(1)	72
Vanguard Equity Income Fund	50	-	50	2	52
Vanguard Total STAR Fund	50	-	50	2	52
Total Other	\$67,037	\$152	\$67,189	\$8,163	\$75,352
Total Investments	\$77,239	\$152	\$77,391	\$8,163	\$85,554

National Archives and Records Administration
 FY 2017 Agency Financial Report

As of September 30, 2016
(in thousands)

	Cost	Interest Receivable	Investments, Net	Adjustments to fair value	Fair Market value disclosure
Intragovernmental Securities					
Non-Marketable	\$ 11,733	-	\$ 11,733	-	\$ 11,733
Total Intragovernmental	\$ 11,733	-	\$ 11,733	-	\$ 11,733
Other securities					
Vanguard Total International Bond Index	\$ 825	-	\$ 825	\$ 58	\$ 883
Short term Investment Grade	16,138	-	16,138	201	16,339
Vanguard Dividend Growth Fund	4,398	28	4,426	1,205	5,631
Vanguard Small Cap Index Fund	4,613	24	4,637	1,513	6,150
Vanguard Intermediate Term Investment Grade	12,731	-	12,731	182	12,913
Emerging Markets Stock Index Fund	2,825	9	2,834	(168)	2,666
Vanguard Developed Markets Index Fund	3,032	13	3,045	(73)	2,972
Vanguard Total Bond Market Index Fund	4,869	-	4,869	312	5,181
Vanguard Total Stock Market Index Fund	5,341	12	5,353	1,794	7,147
Vanguard PRIMECAP Core Fund	1,404	21	1,425	936	2,361
Vanguard GNMA Fund	910	-	910	7	917
Vanguard Wellesley Fund	913	9	922	26	948
Vanguard Intermediate Term Corporate Bond Fund	39	-	39	-	39
Total Other	\$ 58,038	\$ 116	\$ 58,154	\$ 5,993	\$ 64,147
Total Investments	\$ 69,771	\$ 116	\$ 69,887	\$ 5,993	\$ 75,880

Note 4—Accounts Receivable, Net
(in thousands)

Intra-governmental Accounts Receivable primarily consist of amounts due to the Revolving Fund for services provided to Federal Agencies.

	2017		2016	
	Intra-governmental	With the public	Intra-governmental	With the public
Accounts Receivable, net	\$ 15,634	\$ 921	\$ 16,675	\$ 638

Note 5 – Inventory, Net

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

(in thousands)

	2017	2016
Inventory held for sale	\$ 829	\$ 859
Allowance for damaged and obsolete goods	(199)	(199)
Net realizable value	\$ 630	\$ 660

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

This note provides additional information supporting the Property, Plant, and Equipment reported on the Consolidated Balance Sheet, as of September 30, 2017 and 2016.

(in thousands)

Asset category	Estimated useful life in years	Acquisition cost	Accumulated depreciation/amortization	2017 Net book value	2016 Net book value
Land	N/A	\$ 6,159	-	\$ 6,159	\$ 6,159
Buildings and structures	30	399,412	(304,659)	94,753	108,736
Construction in progress	N/A	14,689	-	14,689	9,380
Equipment & Shelving	3 to 20	136,042	(118,339)	17,703	23,304
Leasehold Improvements	5	43,433	(24,746)	18,687	14,325
Internal-use software	5	363,295	(328,201)	35,094	19,209
Software in progress	N/A	8,416	-	8,416	26,474
Total property, plant and equipment		\$ 971,446	\$ (775,945)	\$ 195,501	\$ 207,587

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

Note 7 - Stewardship Property, Plant, and Equipment

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 NARA’s mission 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 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 archival holdings and artifacts. NARA reports archival holdings by collection (e.g. Presidential, regional) and storage media (e.g. traditional, electronic), to more closely align with NARA processes to maintain and preserve archival holdings.

	Buildings	Multi-Use Land	Traditional Holdings Collections	Electronic Holdings Collections	Artifacts Collections
National Archives Building in Washington, DC	1	-	1	1	1
National Archives Building at College Park, MD	1 (multi-use)	-	1	1	1
NARA field archives	1 (multi-use)	2	12	-	-
Affiliated archives	-	-	7	1	-
Presidential Libraries	13	-	14	4	14
TOTAL	16	2	35	7	16

Buildings

The National Archives building in Washington, DC permanently displays the Declaration of Independence, the Constitution, and the Bill of Rights. The National Archives building also houses permanently-valuable 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 Vice Presidents Gore and Cheney.

The National Archives in College Park, MD to provide appropriate storage and preservation for collections including electronic records, cartographic and architectural holdings, special media (still photographs, motion pictures, audio recordings, and videotapes), artifacts, the John F. Kennedy Assassination Records collection, 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 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 naturalization records and passenger lists, closed business and personal bankruptcy case files, and civil and criminal case files from Federal courts. The traditional military service records for the twentieth 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, MO.

Affiliated archives store some holdings of the National Archives. Currently nine affiliated institutions store archival Federal records on behalf of NARA.

The fourteen Presidential Libraries are designated as heritage assets. Each may consist 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.

In 2017, additional archival holdings relating to the Presidential records created during the administration of President Barack Obama were added to NARA's heritage assets. Unlike the other NARA Presidential libraries, whereby Presidential artifacts are made available through a traditional library or museum, the Obama heritage assets will be made available digitally.

Multi-Use Land

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

Traditional Archival Holdings

Traditional holdings consist of: (a) Traditional textual records on paper; and (b) Traditional non-textual records that are not electronic records, including: still pictures on paper and film; architectural drawings, charts, maps and other cartographic records on paper; textual records on microfilm; motion pictures, video, sound recordings; and other clearly non-textual records.

Electronic Archival Holdings

Electronic archival holdings 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. Three Presidential electronic holding collections, from the Ronald Reagan, George Bush, and William J. Clinton libraries, are maintained in College Park, MD. 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 in Washington, DC.

Artifacts

In addition to artifacts at the National Archives buildings at Washington, DC and College Park, MD, each Presidential Library is a repository to a collection of artifacts that NARA preserves and exhibits to promote public understanding the respective Presidential administrations and

National Archives and Records Administration
 FY 2017 Agency Financial Report

the career of the President. These artifact collections include gifts from foreign heads of state, luminaries, and common citizens with artifacts ranging from high value items -- including firearms, jewelry, works of art, and coins and currency -- as well as tee shirts, trinkets, and curiosities.

In 2017, there were additions to NARA's heritage asset collections relating to the President Obama library. No collection is ever retired or disposed. NARA's collections only grow with the accessioning of new records or transfer of Presidential materials. NARA accessions records when the Archivist of the United States has determined, through the formal scheduling and appraisal process, that records have sufficient administrative, legal, research, or other value to warrant their continued preservation by the Government (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 in processing records and preservation efforts.

The most effective means to preserve records is by providing physically and environmentally appropriate storage conditions at NARA facilities. Information about the deferred maintenance and repairs on NARA buildings is contained in the Deferred Maintenance section of the Required Supplementary Information.

Note 8 - Other Assets

(in thousands)

	2017		2016	
	Intra-governmental	With the public	Intra-governmental	With the public
Advances	\$ 4,471	-	\$ 2,085	-
Deferred assets	-	380	-	434
Total other assets	\$ 4,471	\$ 380	\$ 2,085	\$ 434

Advances consists primarily of payments made to GPO to provide for future leasehold improvements. These advance payments are recorded as an asset, which is reduced when actual leasehold improvements or the accrual of estimated leasehold improvements are recorded. Deferred assets consist of an unamortized balance of a one-time cost of obtaining an operating lease. This cost is deferred and amortized over the lease term as additional rent expense.

Note 9 - 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. These liabilities 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 appropriations. Liabilities not covered by budgetary resources as of September 30, 2017 and 2016 are presented below.

(in thousands)

	2017	2016
Intragovernmental		
Other - Workers' compensation	\$ 569	\$ 521
Total Intragovernmental	\$ 569	\$ 521
Debt held by the public	\$ 52,643	\$ 75,855
Other - Accrued unfunded leave	11,316	10,834
Environmental cleanup cost-Asbestos	7,823	7,537
Federal employee benefits-actuarial FECA liability	10,050	11,313
Total liabilities not covered by budgetary resources	82,401	106,060
Total liabilities covered by budgetary resources	39,545	37,727
Total liabilities	\$ 121,946	\$ 143,787

Note 10 - Debt Held by the Public

NARA Debt Held by the Public is the outstanding balance of debt incurred to finance construction of the National Archives building at College Park, MD. NARA financed construction through 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 College Park building through the sale of certificates representing proportionate shares of ownership. NARA reduces the debt through repayments of principal, made in semiannual installments.

This alternative financing arrangement was authorized by Public Law 100-440, which 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."

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

(in thousands)

	2017	2016
Beginning balance - Principal	\$ 75,321	\$ 96,529
Less : Debt repayment	23,048	21,208
Ending balance - Principal	52,273	75,321
Accrued interest payable	370	534
Total debt at Sept 30	\$ 52,643	\$ 75,855

Note 11 - Other Liabilities

(in thousands)

	2017			2016		
	Non-Current	Current	Total	Non-Current	Current	Total
Intragovernmental Workers' & unemployment compensation	\$1,101	\$799	\$1,900	\$1,113	\$907	\$2,020
Accrued payroll	-	2,409	2,409	-	2,336	2,336
Miscellaneous liabilities	-	-	-	-	4	4
Advances from others	-	366	366	-	439	439
Total	1,101	3,574	4,675	1,113	3,686	4,799
Intragovernmental Accrued funded payroll, leave	-	13,187	13,187	-	12,763	12,763
Unfunded leave	11,316	-	11,316	10,834	-	10,834
Miscellaneous liabilities	-	72	72	-	40	40
Advances from others	-	20	20	-	9	9
Total other liabilities	\$12,417	\$16,853	\$29,270	\$11,947	\$16,498	\$28,445

Note 12 - 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 conducts the majority of its field operations from leased facilities, and most agreements are cancelable operating leases. These leases may be cancelled with four months' notice, under the provisions of the Federal Acquisitions Regulation.

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

Facility	Lease Period
Pittsfield, MA	January 5, 1994 through January 31, 2020
Dayton (Kingsridge), OH	September 1, 2004 through January 31, 2023
Lenexa, KS	February 1, 2003 through February 14, 2023
Pershing Rd, Kansas City, MO	January 1, 2009 through December 31, 2028
Archives Dr./Dunns Rd. St. Louis, MO	October 11, 2014 through April 30, 2031
Denver (Broomfield), CO	August 1, 2011 through May 20, 2032
Underground Dr, Kansas City, MO	March 1, 2015 through December 2, 2032
Underground Dr, Kansas City, MO -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
Lee's Summit	August 15, 2017 through August 14, 2037

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

Facility	Lease Period
Perris, CA	December 1, 2004 through November 30, 2024
Ellenwood, GA	October 1, 2004 through June 30, 2024
Ft. Worth, TX	October 1, 2006 through September 30, 2026
Annex I and II, Valmeyer, IL	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 adjacent to the National Archives building in College Park, MD. 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)

Future payments due, NARA Operating Leases	Asset Category	
	Land	Buildings
Fiscal year		
2018	\$ 157	\$ 38,624
2019	161	38,881
2020	165	38,556
2021	169	38,558
2022	173	38,794
After 2022	103	274,819
Total future lease payments	\$ 928	\$ 468,232

Note 13 - Commitments and Contingencies

NARA has incurred various claims in the normal course of business. In the opinion of NARA's General Counsel, the ultimate resolution of these claims will not materially affect the financial position or net costs of NARA. As of September 30, 2017, NARA is party to one claim in which an unfavorable outcome is reasonably possible. The estimated amount of potential loss is \$700 thousand.

Note 14 - 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: the National Archives Trust Fund (NATF) and National Archives Gift Fund (NAGF), both of 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 are prescribed in the National Archives Trust Fund Board Act of July 9, 1941, as amended (44 U.S.C. §§ 2301-2308). The Board has established bylaws governing the conduct of the Board and its operations, 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.

National Archives and Records Administration
FY 2017 Agency Financial Report

Financial information for NATF and NAGF as of September 30, 2017 consists of the following:

(in thousands)

	2017		
	NATF	NAGF	Total
Balance Sheet as of September 30, 2017			
Assets			
Fund balance with Treasury	\$ 674	\$ 101	\$ 775
Cash	33	-	33
Investments, net	57,342	28,212	85,554
Accounts receivable	654	-	654
Inventory	630	-	630
Total assets	\$ 59,333	\$ 28,313	\$ 87,646
Liabilities			
Accounts payable	257	\$ 307	\$ 564
Federal employee and veteran benefits	426	-	426
Other liabilities	946	-	946
Total liabilities	\$ 1,629	\$ 307	\$ 1,936
Net position			
Cumulative results of operations			
Conditional	\$ -	\$ 23,782	\$ 23,782
Unconditional	57,703	4,223	61,926
Total net position	\$ 57,703	\$ 28,005	\$ 85,708
Total liabilities and net position	\$ 59,332	\$ 28,312	\$ 87,644
Statement of Net Cost for the Period Ended September 30, 2017			
Gross Program Costs	\$ 14,920	\$ 1,188	\$ 16,108
Less Earned Revenues	(24,761)	-	(24,761)
Net Costs of Operations	\$ (9,841)	\$ 1,188	\$ (8,653)
Statement of Changes in Net Position For the Period Ended September 30, 2017			
Net position, Beginning of fiscal year	\$ 47,587	\$ 28,010	\$ 75,597
Non-exchange revenue	1	624	625
Donations	-	1,143	1,143
Transfers-in/out without reimbursements	(6)	(551)	(557)
Other Budgetary Financing Sources	-	203	203
Imputed financing from costs absorbed by others	282	-	282
Other Financing Sources	-	(237)	(237)
Total financing sources	277	1,182	1,459
Net cost of operations	(9,841)	1,188	(8,653)
Change in Net Position	10,118	(6)	10,112
Net Position, End of fiscal year	\$ 57,705	\$ 28,004	\$ 85,709

This note is presented on a combined basis.

National Archives and Records Administration
 FY 2017 Agency Financial Report

Financial information for NATF and NAGF as of September 30, 2016 consists of the following:
(in thousands)

	2016		
	NATF	NAGF	Total
Balance Sheet as of September 30, 2016:			
Assets			
Fund balance with Treasury	\$ 559	\$ 102	\$ 661
Cash	38	-	38
Investments, net	47,894	27,986	75,880
Accounts receivable	449	-	449
Inventory	660	-	660
Property, plant and equipment	12	-	12
Total assets	\$ 49,612	\$ 28,088	\$ 77,700
Liabilities			
Accounts payable	\$ 617	\$ 78	\$ 695
Federal employee and veteran benefits	414	-	414
Other liabilities	994	-	994
Total liabilities	\$ 2,025	\$ 78	\$ 2,103
Net position			
Cumulative results of operations			
Conditional	-	\$ 24,166	\$ 24,166
Unconditional	47,587	3,844	51,431
Total net position	\$ 47,587	\$ 28,010	\$ 75,597
Total liabilities and net position	\$ 49,612	\$ 28,088	\$ 77,700
Statement of Net Cost for the Period Ended September 30, 2016:			
Gross Program Costs	\$ 16,370	\$ 1,747	\$ 18,117
Less Earned Revenues	(22,739)	-	(22,739)
Net Costs of Operations	(\$ 6,369)	\$ 1,747	(\$ 4,622)
Statement of Changes in Net Position For the Period Ended September 30, 2016:			
Net position, Beginning of fiscal year	\$ 40,931	\$ 27,443	\$ 68,374
Non-exchange revenue	-	627	627
Donations	-	1,529	1,529
Transfers-in/out without reimbursements	(6)	(588)	(594)
Other Budgetary Financing Sources	-	70	70
Imputed financing from costs absorbed by others	293	-	293
Other Financing Sources	-	676	676
Total financing sources	287	2,314	2,601
Net cost of operations	(6,369)	1,747	(4,622)
Net changes	\$ 6,656	\$ 567	\$ 7,223
Net Position, End of fiscal year	\$ 47,587	\$ 28,010	\$ 75,597

This note is presented on a combined basis.

Note 15 - Intragovernmental Costs and Exchange Revenues by Program

Gross costs and Earned Revenues are classified on the basis of the sources of goods and services. Intragovernmental gross costs are expenses related to purchases from a Federal entity, and 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.

National Archives and Records Administration
 FY 2017 Agency Financial Report

Intra-governmental Costs and Exchange Revenues by Program

(in thousands)

	<u>2017</u>	<u>2016</u>
Archives and Records Management Activities		
Intragovernmental gross costs	\$ 62,824	\$ 59,642
Public costs	321,394	314,572
Total Archives and Records Management Activities Costs	\$ 384,218	\$ 374,214
Intragovernmental earned revenue	\$ (88)	\$ (468)
Public earned revenue	(1)	(4)
Total Archives and Records Management Activities Earned Revenue	\$ (89)	\$ (472)
Trust and Gift Funds		
Intragovernmental gross costs	\$ 1,300	\$ 1,323
Public costs	13,018	13,117
Heritage asset renovation costs (Note 16)	99	1,746
Total Trust and Gift Funds Costs	\$ 14,417	\$ 16,186
Intragovernmental earned revenue	\$ (1,047)	\$ (1,186)
Public earned revenue	(23,702)	(21,552)
Total Trust and Gift Funds Earned Revenue	\$ (24,749)	\$ (22,738)
National Historical Publications and Records Commission Grants		
Intragovernmental gross costs	-	-
Public costs	4,709	5,326
Total National Historical Publications and Records Commission Grants Costs	\$ 4,709	\$ 5,326
Archives Facilities and Presidential Libraries Repairs and Restoration		
Intragovernmental gross costs	\$ 3	-
Public costs	371	442
Heritage asset renovation costs (Note 16)	7,891	6,137
Total Archives Facilities and Presidential Libraries Repairs and Restoration Costs	\$ 8,265	\$ 6,579
Revolving Fund Records Center Storage and Services		
Intragovernmental gross costs	\$ 78,871	\$ 77,227
Public costs	114,461	110,261
Total Revolving Fund Records Center Storage and Service Costs	\$ 193,332	\$ 187,488
Intragovernmental earned revenue	\$ (174,428)	\$ (176,173)
Public earned revenue	(2,051)	(1,823)
Total Revolving Fund Records Center Storage and Services Earned Revenue	\$ (176,479)	\$ (177,996)

Note 16 – Cost of Stewardship Property, Plant, and Equipment

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.

(in thousands)

Asset	2017			2016		
	Appropriation	Gift	Trust	Appropriation	Gift	Trust
National Archives at Washington D.C.	\$ 1,303	-	-	\$ 793	-	-
Libraries:						
Roosevelt	727	-	-	248	-	-
Hoover	2	-	-	59	-	-
Truman	76	-	-	516	-	-
Eisenhower	1,224	-	-	945	-	-
Kennedy	264	-	66	164	3	485
Johnson	61	-	-	114	-	-
Nixon	166	-	-	62	-	-
Ford	317	2	31	298	-	614
Carter	3,351	-	-	548	-	-
Reagan	41	-	-	2,192	44	600
Bush	359	-	-	178	-	-
Clinton	-	-	-	20	-	-
Total	\$ 7,891	\$ 2	\$ 97	\$ 6,137	\$ 47	\$ 1,699

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

Note 17 – Stewardship PP&E Acquired Through Transfer, Donation or Devise

NARA may gain ownership of heritage assets as permanent records accessioned from other federal agencies and the Executive Office of the President, or through gifts and bequests 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 asset collections.

Note 18 – Cleanup Cost Adjustment

NARA has recorded a liability for estimated cleanup costs related to asbestos, in accordance with FASAB Technical Bulletin 2006-1: *Recognition and Measurement of Asbestos-Related Cleanup Costs*. This 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 “non-friable” asbestos. NARA has identified seven facilities (all are stewardship assets) where the

National Archives and Records Administration
 FY 2017 Agency Financial Report

existence of non-friable asbestos is probable. NARA developed a method to estimate the liability for future non-friable asbestos cleanup costs by using the quantity of non-friable 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, plus inflation.

Note 19 - Apportionment Categories of Obligations Incurred

OMB provides limitations or restrictions on the obligation of funds through formal allocations, called apportionments. Typically, apportionments limit funds by using one of two categories: Apportionments that are distributed by fiscal quarter are classified as “category A”, while “category B” apportionments control budgetary resources by activity, project, object class or a combination. The National Archives Trust Fund is exempt from apportionment.

(in thousands)

	Category A		Category B		Exempt		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Direct	\$374,884	\$374,655	\$30,594	\$24,694	-	-	\$405,478	\$399,349
Reimbursable	1,489	2,188	183,647	185,290	21,439	25,792	206,574	213,270
Total	\$376,373	\$376,843	\$214,241	\$209,984	\$21,439	\$25,792	\$612,052	\$612,619

Note 20 – 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 2017 actual budgetary execution information has not yet been published. The *Budget of the United States Government* is scheduled for publication in January 2017. Accordingly, information required for such disclosure is not available at the time of preparation of these financial statements.

Instead, NARA’s 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 differences in reporting requirement for expired and unexpired appropriations between the Treasury guidance used to prepare the SBR and the OMB guidance used to prepare the President’s Budget. The SBR includes both unexpired and expired appropriations, while the President’s Budget discloses only unexpired budgetary resources that are available for new obligations.

(in millions)

	2016			
	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	\$ 716	\$ 613	\$ (3)	\$ 379
Difference-Expired appropriations	(30)	(1)	-	-
Difference-Rounding	(2)	(1)	(1)	(2)
Budget of the U.S. Government	\$ 684	\$ 611	\$ (4)	\$ 377

Note 21 - Undelivered Orders at the End of the Period

The amount of budgetary resources obligated for undelivered orders at September 30, 2017 and 2016 was \$101,563 thousand and \$119,895 thousand, respectively.

Note 22 - 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.

National Archives and Records Administration
FY 2017 Agency Financial Report

(in thousands)	2017	2016
Net obligations incurred	\$ 364,458	\$ 369,801
Nonbudgetary Resources	17,407	16,915
Total resources used to finance activities	381,865	386,716
Resources that do not fund net cost of operations	(12,595)	(42,430)
Cost that do not require resources in the current period	33,576	43,908
Financing sources yet to be provided	778	393
Net cost of operations	<u>\$ 403,624</u>	<u>\$ 388,587</u>

Required Supplementary Information

Deferred Maintenance and Repairs (DM&R)

NARA owns and maintains real property assets including the National Archives buildings at Washington, DC, College Park, MD, and Atlanta, GA, as well as the Presidential Libraries. All other NARA facilities are leased from GSA or the public. All NARA facilities support the agency's mission to safeguard and preserve NARA's heritage assets, the permanently-valuable records in its custody.

NARA uses the condition assessment method to determine the condition of its fixed assets, including stewardship PP&E facilities. NARA contracts with professional architectural firms to conduct condition assessment surveys, called Building Condition Reports (BCR). BCRs assess the condition of multiple building systems within each facility, including the structure, roof, exterior and interior finishes, HVAC (heating, ventilation, and air conditioning), electrical, plumbing, conveyance, and program support equipment. NARA conducts BCRs for NARA-owned buildings on a regular schedule: each building is assessed approximately every five years. Facility managers regularly assess critical needs between BCRs.

Deferred maintenance and repairs required to bring fixed assets to acceptable condition, which were not scheduled or performed when needed, are included in the deferred maintenance estimate below.

<u>Category</u>	FY 2017 Ending Balance DM&R	FY 2017 Beginning Balance DM&R
Heritage assets	\$43 million	\$41 million
General PP&E (Multi-use)	\$11.5 million	\$11 million

NARA maintains and preserves all fixed property, plant, and equipment (PP&E) regardless of recorded values. Estimates of deferred maintenance and repairs cover all PP&E, whether capitalized, fully depreciated, or non-capitalized. At the end of FY 2017, current BCR reports identified necessary maintenance projects for seventeen locations, including fourteen Presidential Libraries, with the addition of the temporary Obama Library in FY 2017 all of which 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 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 records storage standards to preserve the condition holdings in NARA's custody. The deferred costs to address deficiencies in compliance with storage standards are also included in the estimates.

National Archives and Records Administration
FY 2017 Agency Financial Report

Schedule of Budgetary Resources by Major Budget Accounts

For the year ended September 30, 2017
(in thousands)

	Archives and Records Mgmt Activities	Gift Fund	Trust Fund	NHPRC Grants	Archives Facilities and Presidential Libraries Repairs and Restorations	Records Centers and Storage Services	Total
Budgetary Resources							
Unobligated balance brought forward, Oct 1	\$38,370	\$2,773	\$5,994	\$378	\$1,670	\$53,739	\$102,924
Adjustments	-	-	-	-	-	-	-
Unobligated balance brought forward, Oct 1, as adjusted	38,370	\$2,773	\$5,994	\$378	\$1,670	\$53,739	\$102,924
Recoveries of prior year unpaid obligations	4,485	132	787	333	143	4,687	10,567
Other changes in unobligated balance	(7,306)	7	13	2	0	33	(7,251)
Unobligated balance from prior year budget authority, net	35,549	2,912	6,794	713	1,813	58,459	106,240
Appropriations (discretionary and mandatory)	385,435	2,537	-	6,000	7,500	-	401,472
Spending authority from offsetting collections	2,046	-	19,818	-	-	189,312	211,176
Total Budgetary Resources	\$423,030	\$5,449	\$26,612	\$6,713	\$9,313	\$247,771	\$718,888
Status of Budgetary Resources							
Obligations Incurred	\$391,924	\$2,857	\$21,439	\$4,488	\$7,697	\$183,647	\$612,052
Unobligated balance, end of year:							
Apportioned	3,450	2,453	-	1,890	1,496	55,929	65,218
Exempt from apportionment	-	-	5,173	-	-	-	5,173
Unapportioned	27,654	139	-	335	120	8,197	36,445
Total unobligated balance, end of year	31,104	2,592	5,173	2,225	1,616	64,126	106,836
Total Budgetary Resources	\$423,028	\$5,449	\$26,612	\$6,713	\$9,313	\$247,773	\$718,888
Change in Obligated Balance							
Obligated balance, start of year (net)	100,177	387	\$3,112	\$7,669	\$11,204	(8,320)	114,229
Adjustment to uncollected payments, Federal sources, start of year	-	-	-	-	-	-	-
Obligations incurred	391,924	2,857	21,439	4,488	7,697	183,647	612,052
Less: Gross outlays	(396,319)	(2,583)	(21,318)	(4,784)	(10,338)	(184,937)	(620,279)
Less: Recoveries of prior year unpaid obligations, actual	(4,485)	(132)	(787)	(333)	(143)	(4,687)	(10,567)
Change in uncollected payments, Fed sources	20	-	9	-	-	(973)	(944)
Obligated balance, net, end of period	\$91,317	\$529	\$2,455	\$7,040	\$8,420	(\$15,270)	\$94,491
Budget authority, gross (disc and mand)	\$387,481	\$2,537	\$19,818	\$6,000	\$7,500	\$189,312	\$612,648
Actual offsetting collections (disc and mand)	(25,250)	(7)	(19,935)	(2)	(0)	(188,373)	(233,567)
Change in uncollected payments, Fed Sources (discretionary and mandatory) (+ or -)	20	-	9	-	-	(973)	(944)
Budget Authority, net (discretionary and mandatory)	\$362,251	\$2,530	(\$108)	\$5,998	\$7,500	(\$34)	\$378,137
Outlays, gross (discretionary and mandatory)	\$396,319	\$2,583	\$21,318	\$4,784	\$10,338	\$184,937	\$620,279
Less: Actual offsetting collections (discretionary and mandatory)	(25,250)	(7)	(19,935)	(2)	(0)	(188,373)	(233,567)
Less: Distributed Offsetting receipts	(0)	(2,516)	-	-	-	-	(2,516)
Outlays, net (discretionary and mandatory)	\$371,069	\$60	\$1,383	\$4,782	\$10,338	(\$3,436)	\$384,196

National Archives and Records Administration
FY 2017 Agency Financial Report

Schedule of Budgetary Resources by Major Budget Accounts

For the year ended September 30, 2016
(in thousands)

	Archives and Records Mgmt Activities	Gift Fund	Trust Fund	NHPRC Grants	Archives Facilities and Presidential Libraries Repairs and Restorations	Records Centers and Storage Services	Total
Budgetary Resources:							
Unobligated Balance brought forward, Oct 1	\$32,793	\$2,934	\$12,591	\$282	\$7,088	\$48,218	\$103,906
Adjustments	-	-	-	-	-	-	-
Unobligated balance brought forward, Oct 1	32,793	2,934	12,591	282	7,088	48,218	103,906
Recoveries of prior year unpaid obligations	5,274	38	954	355	55	2,146	8,822
Other changes in unobligated balance	(5,721)	4	375	4	-	20	(5,318)
Net unobligated bal. fr. prior year authority	32,346	2,976	13,920	641	7,143	50,384	107,410
Appropriations (discretionary and mand.)	383,573	2,827	-	5,000	7,500	-	398,900
Spending authority fr. offsetting collections	2,722	-	17,866	-	-	188,645	209,233
Total Budgetary Resources	\$418,641	\$5,803	\$31,786	\$5,641	\$14,643	\$239,029	\$715,543
Status of Budgetary Resources:							
New obligations and upward adjustments	\$380,271	\$3,030	\$25,793	\$5,263	\$12,973	\$185,289	\$612,619
Unobligated balance, end of year:							
Apportioned, unexpired accounts	7,694	2,740	-	374	1,670	48,528	61,006
Exempt from apportionment, unexpired	-	-	5,993	-	-	-	5,993
Unapportioned, expired and unexpired	30,676	33	-	4	-	5,212	35,925
Total unobligated balance, end of year	38,370	2,773	5,993	378	1,670	53,740	102,924
Total Budgetary Resources	\$418,641	\$5,803	\$31,786	\$5,641	\$14,643	\$239,029	\$715,543
Change in Obligated Balance:							
Obligated balance, start of year (net)	\$111,183	\$379	\$2,980	\$8,248	\$5,569	(\$7,880)	\$120,479
Adjustments to uncollected payments, Federal sources, start of year	-	-	-	-	-	-	-
New obligations and upward adjustments	380,271	3,030	25,793	5,263	12,973	185,289	612,619
Less: Gross outlays	(386,047)	(2,982)	(24,859)	(5,487)	(7,283)	(181,450)	(608,108)
Less: Recoveries of prior year unpaid obligations, actual	(5,274)	(38)	(954)	(355)	(55)	(2,146)	(8,822)
Change in uncollected payments, Fed sources	43	-	154	-	-	(2,135)	(1,938)
Obligated balance, net, end of period	\$100,176	\$389	\$3,114	\$7,669	\$11,204	(\$8,322)	\$114,230
Budget authority, gross (disc. and mand.)	\$386,295	\$2,827	\$17,866	\$5,000	\$7,500	\$188,645	\$608,133
Actual offsetting collections (disc and mand)	(24,195)	(3)	(18,478)	(4)	-	(186,531)	(229,211)
Change in uncollected payments, Fed Sources	43	-	154	-	-	(2,135)	(1,938)
Budget Authority, net (disc. and mand.)	\$362,143	\$2,824	(\$458)	\$4,996	\$7,500	(\$21)	\$376,984
Outlays, gross (discretionary and mandatory)	\$386,047	\$2,982	\$24,859	\$5,487	\$7,283	\$181,450	\$608,108
Less: Actual offsetting collections (discretionary and mandatory)	(24,195)	(3)	(18,478)	(4)	-	(186,531)	(229,211)
Less: Distributed Offsetting receipts	(27)	(2,820)	-	-	-	-	(2,847)
Outlays, net (discretionary and mandatory)	\$361,825	\$159	\$6,381	\$5,483	\$7,283	(\$5,081)	\$376,050

Independent Auditors' Reports



November 14, 2017

TO: Colleen Murphy
Chief Financial Officer
Office of the Chief Financial Officer

FROM: James Springs *James Springs*
Inspector General

SUBJECT: *Audit of National Archives and Records Administration's
Fiscal Year 2017 Consolidated Financial Statements (Report No. 18-AUD-03)*

This memorandum transmits the results of the audit of the National Archives and Records Administration's (NARA) financial statements for fiscal years 2017 and 2016; and the results of the Office of Inspector General's (OIG) oversight of the audit and review of that report. The reports should be read in conjunction with NARA's financial statements and notes to fully understand the context of the information contained therein.

We contracted with the independent certified public accounting firm CliftonLarsonAllen LLP (CLA) to audit NARA's financial statements as of September 30, 2017 and 2016, and for the years then ended. The contract required the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget Bulletin 17-03, *Audit Requirements for Federal Financial Statements*.

Results of the Independent Audit

CLA issued an unmodified opinion on NARA's FY 2017 and 2016 financial statements. CLA found:

- The fiscal years 2017 and 2016 financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America;
- No material weaknesses in internal control over financial reporting;
- One significant deficiency in internal control over financial reporting related to information technology controls; and
- No instances of noncompliance with certain provisions of laws, regulations, contracts and grant agreements.

Evaluation and Monitoring of Audit Performance

CLA is responsible for the attached auditor's report dated November 9, 2017, and the conclusions expressed in the accompanying reports. To ensure the quality of the audit work performed, we evaluated the independence, objectivity, and qualifications of the auditors and specialists; reviewed the plan and approach of the audit; monitored the performance of the audit; reviewed CLA's reports and related audit 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 the financial statements or conclusions about the effectiveness of internal control over financial reporting or compliance with laws and regulations. Our review disclosed no instances where CLA did not comply, in all material respects, with generally accepted government auditing standards.

The report contains one recommendation(s) aimed at improving NARA's information technology controls. Your office concurred with the recommendation(s). Based on your November 9, 2017 response to the draft report, we consider all the recommendation(s) open. Once your office has fully implemented the recommendation(s), please submit evidence of completion of agreed upon corrective actions so that recommendation(s) may then be closed.

Your response to the draft report is attached. As with all OIG products, we will determine what information is publically posted on our website from the attached report.

Consistent with our responsibility under the *Inspector General Act, as amended*, we will provide copies of our report to congressional committees with oversight responsibility over NARA. In addition, we will post a copy of the report on our public website.

I appreciate the cooperation and assistance NARA extended to CLA and my staff during the audit. Please call me with any questions, or your staff may contact Jewel Butler, Assistant Inspector General of Audits, at (301) 837-3000.

Attachment



CliftonLarsonAllen LLP
901 North Glebe Road, Suite 200
Arlington, VA 22203
571-227-9500 | fax 571-227-9552
CLAcconnect.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 the National Archives and Records Administration (NARA), which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of net cost and changes in net position, 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. 17-03, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 17-03). Those standards and OMB Bulletin 17-03 require that we plan and perform the audits 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 financial statements.



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, 2017 and 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the U.S. require that the information in the NARA's Management Discussion and Analysis and other Required Supplementary Information be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board, 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 required supplementary information 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 audits of the financial statements. We do not express an opinion or provide any assurance on this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Letter from the Archivist of the United States, the Letter from the Chief Financial Officer, and the Other Information in Section 3 of the Agency Financial Report are presented for purposes of additional analysis and are not a required part of the financial statements. This information has not been subjected to the auditing procedures applied in the audits 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*

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 Management's Discussion and Analysis.

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 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 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 identified a deficiency in internal control, described below and in Exhibit A that we consider to be a significant deficiency.

Longstanding Control Deficiency in Information Technology Controls

NARA did not substantially address information technology control deficiencies that have existed since FY2008. NARA not addressing these longstanding unresolved deficiencies impacts the effectiveness of NARA's information security program and internal controls over financial reporting. NARA did make some progress to mitigate these deficiencies but more effort is needed.

Compliance

As part of obtaining reasonable assurance about whether NARA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a direct effect on the determination of material financial statement amounts and disclosures. 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.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported in accordance with *Government Auditing Standards* or OMB Bulletin 17-03.

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 Federal Managers Financial Integrity Act (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.

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 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 to certain provisions of laws, regulations, contracts and grant agreements noncompliance with which could have a direct effect on the determination of material financial statement amounts and disclosures. 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 Findings

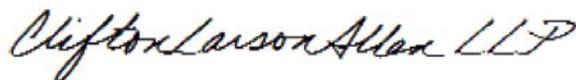
Management's response to the findings identified in our report is presented in Exhibit B. We did not audit NARA's response and, accordingly, we express no opinion on it.

Status of Prior Year's Control Deficiencies and Noncompliance Issues

We have reviewed the status of NARA's corrective actions with respect to the findings included in the prior year's Independent Auditors' Report, dated November 10, 2016. The status of prior year findings is presented in Exhibit C.

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 on Compliance 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 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, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Arlington, Virginia
November 9, 2017

**Longstanding Control Deficiency in Information Technology Controls
(Modified Repeat Finding)**

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. NARA's staff use IT systems to initiate and authorize financial transactions at the workstations, which transmit those transactions across the network to servers that record, process, summarize, and report financial transactions that support the preparation of its financial statements.

In the prior year, we reported a significant deficiency in information technology controls which identified control deficiencies in five IT general control categories including access controls, security management, contingency planning, segregation of duties, and configuration management.

In the current fiscal year, NARA did make some progress to mitigate these deficiencies but more effort is needed. NARA did not substantially address deficiencies in its IT general control categories of security management, access controls and configuration management that have existed since FY 2008. These longstanding unresolved deficiencies impact the effectiveness of NARA's information technology security program and internal controls over financial reporting.

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 continued to note control weaknesses for the NARA Network (NARANet), and Visitor Services Reservation Scheduling System (VISTA) 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 found prior year unresolved weaknesses related to the transmission of passwords in clear text (not encrypted) for an internal website, continued to identify instances (although a reduced number compared to FY2016) of inactive and duplicate user accounts, and securing access to sensitive areas. Access controls should be established to ensure passwords and user authentication credentials are transmitted securely, user accounts are more effectively managed and access to sensitive areas is restricted to authorized individuals.

Security Management – We found prior year unresolved weaknesses related to system security plans which were incomplete or not current. Additionally, during FY 2017, we found that plans of actions and milestones (POA&Ms) were not updated timely, missed milestone dates or contained incomplete data. Security management controls should be established which provide the framework for the continual assessment of risk, developing and implementing effective security procedures and monitoring the effectiveness of those procedures.

Configuration Management – We found that while there were improvements in this area compared to FY2016, configuration management weaknesses associated with vulnerability and patch management, continue to be identified. Specifically, we found prior year unresolved weaknesses related to the monitoring, detecting, and remediating known vulnerabilities for software patches and updates. Additionally, system configuration weaknesses existed on servers

and workstations. Effective vulnerability management reduces the risk of incurring a breach and decreases the time and effort necessary to appropriately respond after a breach.

Our testing was based on the following key criteria:

- NARA IT Security Requirements
 - IA-5(1) For all data, the information system, shall, for password-based authentication: Stores and transmits only encrypted representations of passwords.
- National Institute of Standards and Technology (NIST) Special Publication 800-53, Revision 4, "*Security and Privacy Controls for Federal Information Systems and Organizations*"
 - SI-2 Flaw Remediation
The organization identifies information systems affected by announced software flaws including potential vulnerabilities resulting from those flaws, and report this information to designated organizational personnel with information security responsibilities. Security-relevant software updates include, for example, patches, service packs, hot fixes, and anti-virus signatures.
 - SA-22 Unsupported System Components
The organization replaces information system components when support for the components is no longer available from the developer, vendor, or manufacturer;
 - CA-5 Plans of Action and Milestones
The organization develops a plan of action and milestones for the information system to document the organization's planned remedial actions to correct weaknesses or deficiencies noted during the assessment of the security controls and to reduce or eliminate known vulnerabilities in the system; and updates existing plan of action and milestones [Assignment: organization-defined frequency] based on the findings from security controls assessments, security impact analyses, and continuous monitoring activities.
- OMB Circular A-130, Appendix I, *Management of Federal Information Resources*
 - Establishes minimum requirements for Federal Information Programs and assigned Federal agency responsibilities for the security of information and information systems. The Circular specifically prohibits agencies from the use of unsupported information systems and system components, and requires agencies to ensure that systems and components that cannot be appropriately protected or secured are given high priority for upgrade or replacement. In addition, the Circular requires agencies to implement and maintain current updates and patches for all software and firmware components of information systems. Additionally, the Circular requires system security plans to be consistent with guidance issued by the National Institute of Standards and Technology (NIST).

The IT control deficiencies resulted from an ineffective implementation and oversight by NARA management of key controls over security management, access controls, and configuration management controls. While management was in the process of deploying an Information System Security Officer (ISSO) contract to remediate these weaknesses, these efforts were still ongoing during FY2017.

Recommendations:

- 1) We recommend that the NARA CIO continue to analyze and prioritize remediation efforts to accomplish security and control objectives. Key tasks should include, but are not limited to:
 - a. Strengthen controls for internal website password transmission and encryption to include Hyper Text Transfer Protocol Secure (HTTPS) and Secure Socket Layer (SSL) technologies.
 - b. Strengthen the review and disabling of user accounts in accordance with NARA's information technology policies and requirements.
 - c. Implement enhanced processes to secure physical access controls to sensitive areas.
 - d. Continue to implement improved processes for reviewing and updating key security documentation, including system security plans on an annual basis.
 - e. Implement improved processes for creating, updating and remediating plans of actions and milestones.
 - f. Implement remediation efforts to address security deficiencies identified during our assessments of NARA's database platforms and network infrastructure.
 - g. Fully complete the migration of applications to vendor supported operating systems.

EXHIBIT B
Management's Response



NATIONAL
ARCHIVES

ARCHIVIST *of the*
UNITED STATES

DAVID S. FERRIERO

T: 202.357.5900

F: 202.357.5901

david.ferriero@nara.gov

Date: November 9, 2017
To: James Springs
Inspector General
From: David S. Ferriero
Archivist of the United States
Subject: Management Response to the FY2017 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, 2017.

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 Security challenges identified in this report and concurs with 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 2017 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.

DAVID S. FERRIERO
Archivist of the United States

NATIONAL ARCHIVES *and*
RECORDS ADMINISTRATION

700 PENNSYLVANIA AVENUE, NW
WASHINGTON, DC 20408-0001

www.archives.gov

**EXHIBIT C
 Status of Prior Year Recommendations**

Our assessment of the current status of the recommendations related to findings identified in the prior year audit is presented below:

<i>FY 2016 Recommendation</i>	<i>Type</i>	<i>Fiscal Year 2017 Status</i>
1. 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.	Significant Deficiency (SD) 2016	Closed
2. NARA CIO continues to analyze and prioritize remediation efforts to accomplish security and control objectives. Key tasks should include, but are not limited to: <ul style="list-style-type: none"> a. Implement improved processes to ensure the timely removal of system access for separated employees and strengthen Supervisor training related to the employment separation process. b. Implement improved processes for the periodic review of network and financial applications to identify and remove inactive accounts on systems and networks. Recertify that access remains appropriate and is restricted to necessary personnel. c. Implement enhanced processes to secure physical access controls to sensitive areas. d. Implement a process for monitoring network audit logs for unauthorized or unusual activities. Implement procedures for analyzing network audit logs and ensuring such logs are maintained in accordance with NARA policy. e. Implement processes to ensure that default and easy to guess passwords are changed and all passwords are transmitted securely and encrypted. f. Implement improved processes for reviewing and updating key security documentation, including system security plans on an annual basis. Such updates will ensure all required information is included and accurately reflects the current environment, new security risks, and applicable federal standards. g. Implement improved processes for user account management to ensure assigned user permissions are commensurate with assigned position responsibilities. 	Significant Deficiency (SD) 2016	Partially Closed: see 2017 Significant Deficiency The following recommendations were still identified as being open during FY2017; c, e, f, h and i

EXHIBIT C
Status of Prior Year Recommendations

<i>FY 2016 Recommendation</i>	<i>Type</i>	<i>Fiscal Year 2017 Status</i>
<ul style="list-style-type: none">h. Strengthen patch and vulnerability management program to address security deficiencies identified during our assessments of NARA's database platforms and network infrastructure.i. Fully complete the migration of applications to vendor supported operating systems.j. Implement improved change control procedures to ensure the consistent testing of system changes for NARA financial applications.		

OTHER INFORMATION

This section provides additional information regarding NARA's financial and program management. It includes the "Top Ten Management Challenges" report prepared by the Office of Inspector General.

The Summary of Financial Statement Audit and Management Assurances lists each material weakness and non-conformance found and /or resolved in FY 2017.

Lastly, this section reports the agency's compliance with the Improper Payments Information Act of 2002, as amended, Reduce the Footprint, Grants Oversight and New Efficiency (GONE) and NARA's Fraud Report. .

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 was initially billed as storing files in any format for future access. The ERA system is NARA's primary strategy for addressing the challenge of storing, preserving, transferring, and providing public access to electronic records. However, virtually since inception, the program has been fraught with delays, cost overruns, and technical short-comings 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 costs, which have 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 deliveries 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. NARA's solution to address the system limitations is the ERA 2.0 Project. This is an on-going development effort with initial implementation currently planned for April/May 2018 and lifecycle costs estimated at \$45 million. The ERA 2.0 Project Plan also includes the subsuming of legacy systems over fiscal years (FY) 2018 - 2020 and deploying a classified ERA 2.0 in FY 2020. Until the ERA 2.0 functionality is tested and implemented into the production system, longstanding deficiencies may continue to impact functionality of the ERA Base System.

ERA faces many challenges going forward. These include 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.

2. Improving Records Management

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 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 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 a study evaluating Federal agencies' implementation of the directive. They 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. Subsequently, NARA did issue metadata guidance in September 2015. However, that is only one aspect of a complicated issue.

3. Information Technology Security

Each year, risks and challenges to IT security continue to be identified. Many of these deficiencies stem from the lack of strategic planning with regard to the redundancy, resiliency, and overall design of NARA's 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. Adding to the challenge is NARA's administrative structure as NARA's Chief Information Officer (CIO) does not report directly to the head of the agency. 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 (FMFIA) reporting process from FY 2007 to FY 2016 (with exceptions of 2013 and 2014, where it was downgraded to a reportable issue). In FY 2016, management identified control deficiencies in five IT Security-related areas (Authority to Operate, Desktop Baseline Configuration, Server Baseline Configuration, Patch Management, and Information Security Continuous Monitoring) that, when considered collectively, represent a material weakness. As of August 2017, IT security remains a material weakness under FMFIA with action items that have not been fully addressed.

In addition, annual assessments of NARA's compliance with the Federal Information Security Modernization Act (FISMA) have consistently identified program areas in need of significant improvement. While initiatives have been introduced to promote a mature information security program for the agency, 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 to make them available online. Historically, the digitization approaches implemented by NARA were not large enough to make significant progress in meeting this goal. Further, due to poor planning and system limitations of the public-facing National Archives Catalog, 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.

Approximately 22 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 the amount of 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 physically growing backlog of unprocessed records.

5. Meeting Storage Needs of Growing Quantities of Records

NARA is approaching its overall limits in archival storage capacity. 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. 44 U.S.C. § 2903 makes the Archivist responsible for the custody, control, operation, and protection of buildings used for the storage of Federal records. NARA-promulgated regulation 36 CFR Part 1234, "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 are 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

NARA holdings grow older daily and face degradation associated with time. This affects both traditional paper records and the physical media electronic records and audiovisual records are stored on. According to management, preservation resources have not adequately addressed the growth in holdings needing preservation action. Preserving records is a fundamental element of NARA's duties to the country, as 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 and contract 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 system acquisition and deployment, 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 system. 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 another example, our office found issues in the process of implementing a Homeland Security Presidential Directive (HSPD-12) compliant logical access control system. The HSPD-12 implementation is a long overdue project. Inadequate planning may not only result in delayed completion, but may also hinder the agency from complying with Federal laws and regulations.

Effective contract management is essential to obtaining the right goods and services at a competitive price to accomplish NARA's mission. NARA is challenged with proper management support and visibility within the organization to adequately align acquisition functions with NARA's mission and needs. NARA is challenged with strengthening the acquisition workforce and to improve the management and oversight of Federal contractors. Lastly, NARA is challenged with strengthening internal controls over acquisition functions and providing better oversight and management of its procurement activities to ensure effective and efficient processes and procedures adhere to Federal and internal guidance.

8. Physical and Holdings Security

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 may still continue to be challenged in implementing an effective Holdings Protection Program.

9. Human Resources Management

NARA's ability to attract, recruit, and retain employees while improving 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.*" However, 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 manage human capital effectively and efficiently. Further, NARA does not have one authoritative source providing the latest data to role-based users on all types of workers (Federal employee, contractor, and volunteer). The numerous existing systems make it difficult to manage the workforce. However, NARA recently announced a plan to migrate their human resources systems and services to a shared service provider, the Department of Treasury, Bureau of the Fiscal Service, Administrative Resource Center (BFS/ARC). NARA expects this move to improve the timeliness of the hiring process and provide better human capital services. The OIG had ongoing and planned audit work in these areas when the announcement was made. We plan to continue with portions of the plan not affected by the transition.

10. Enterprise Risk Management

In July 2016, OMB updated its Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, to ensure Federal managers are effectively managing risks an agency faces toward achieving its strategic objectives and arising from its activities and operations. The Circular provides updated implementation guidance to Federal managers to improve accountability and effectiveness of Federal programs as well as mission support operations through implementation of Enterprise Risk Management (ERM) practices and by establishing, maintaining, and assessing internal control effectiveness. An effective ERM capability:

- creates and protects value;
- is an integral part of organizational processes and decision making;
- is dynamic, iterative, and responsive to change; and
- facilitates continual improvement of the organization.

NARA has yet to implement an ERM program that clearly identifies, prioritizes, and manages risks throughout the organization. NARA management has not made the implementation of an ERM program a strategic priority and instead has been relying on their ICP and Management Control Oversight Council to identify and manage risks throughout the organization. As a result, management's internal control activities and assurance statements continue to be based on work at the individual function, program, and office level. Additionally, without an effective ERM process in place that clearly identifies, categorizes, and assesses the effectiveness of controls related to key risks, the Archivist's annual assurance statement to the President and Congress may not clearly reflect NARA's current internal control environment, including risks.

NARA's challenge is to ensure the agency is in compliance with requirements of the updated OMB Circular A-123, and to develop and fully implement an ERM capability.

Summary of Financial Statement Audit and Management Assurances

Summary of the Financial Statement Audit:

Audit Opinion	Unqualified				
Restatement	No				
	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Summary of Management Assurances:

Effectiveness of Internal Control over Financial Reporting (FMFIA S2):

Statement of Assurance	Unqualified					
	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

Effectiveness of Internal control over Operations (FMFIA S2):

Statement of Assurance	Modified					
	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
IT Security	1	0	0	0	0	1
Total Material Weaknesses	1	0	0	0	0	1

Conformance with Financial Management System Requirements (FMFIA S4):

Statement of Assurance	Unqualified					
	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

Improper Payments Information Act Reporting Details

NARA complies with the Improper Payments Information Act of 2002 (IPIA; P.L. 107-300), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA; P.L. 111-204), the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA; P.L. 112-248), and Office of Management and Budget (OMB) guidance in Memorandum M-15-02, dated October 20, 2014, Circular A-123, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments, and OMB Circular A-136, dated August 15, 2017, section 11.5.5, Payment Integrity.

To ensure compliance, NARA performs the following:

- Reviews all programs and activities annually and determines if the statutory threshold for significant improper payments is met;
- Conducts risk assessments every 3 years for all programs and activities;
- Conducts a payment recapture audit cost benefit analysis to determine whether a payment recapture audit is cost effective; notifies OMB and the OIG of NARA's decision on whether to proceed with a payment recapture audit.

NARA annually reviews program outlays and improper payment amounts for the following programs: Administrative Overhead, Center for Legislative Archives and the Office of Presidential Materials, Research Services, Agency Services, Repairs and Restoration, National Historical Publications and Records Commission (Grants) and Office of Inspector General to determine whether they are susceptible to significant improper payments. "Significant" improper payments are defined as gross annual improper payments in the program exceeding (1) both 1.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year; or (2) \$100 million, regardless of the improper payment percentage of total program outlays. If the results of the program and activity reviews above meet the statutory threshold for significant improper payments, then NARA would create an Improper Payment Plan and submit it to OMB and the NARA Office of Inspector General (OIG).

In 2017, NARA determined that the agency did not meet the threshold for significant improper payments. NARA's improper payments for FY 2017 totaled \$364,037.

NARA reports more detailed information on improper payments on the following website: <https://paymentaccuracy.gov/>. The website provides current and historical improper payment rates, improper payment amounts and causes as well as actions government agencies are undertaking to reduce and recover improper payments.

Payment Recapture Audits

In accordance with section 2(h) of IPERA, NARA has evaluated the cost-effectiveness of conducting payment recovery audits for each program that expended \$1 million or more annually (i.e., Administrative Overhead, Center for Legislative Archives and the Office of Presidential Materials, Research Services, Agency Services, Repairs and Restoration and National Historical Publications and Records Commission (Grants) and Office of the Inspector

General). NARA considered the cost of acquiring software and hiring a contractor to perform payment recapture audits and compared those estimates to the agency's total annual improper payments. The additional cost of each alternative, combined with NARA's historically low improper payments, would have resulted in an unacceptably high cost per overpayment. As a result, NARA determined that payment recovery audits would not be cost-effective. Per OMB, this analysis will only be performed in the future if NARA has a significant change in program activity or improper payments that would cause the agency to believe conducting these audits would be cost effective.

NARA actively recovers improper payments identified through existing financial procedures, including post-payment audits of travel reimbursements, internal control review activities, internal and external audits, and debt collection, as necessary. All of NARA's improper payments are recaptured outside of Payment Recapture Audits via standard payment recovery methods. The Table below provides amounts identified and recovered for 2017.

Overpayment Recaptured Outside of Payment Recapture Audits
(in whole dollars)

Activity Name	Amount Identified in FY 2017	Amount Recovered in FY 2017
Administrative Overhead	\$38,054	-
Agency Services	\$299,292	-
Legislative Archives and Office of Presidential Materials	\$22,002	-
National Historical Publications and Records Commission (Grants)	-	-
Office of the Inspector General	\$149	-
Repairs and Restoration	-	-
Research Services	\$4,539	-
Total	\$364,036	\$362,886

Do-Not-Pay Initiative

NARA adheres to pre-award procedures in the Federal Acquisition Regulation (FAR) when researching potential contract awardees. Prior to making a new contract award, NARA checks the System for Award Management (SAM) to ensure the potential awardee is a registered Federal contractor and in good standing.

NARA's financial management service provider, the Department of Treasury, Bureau of the Fiscal Service, Administrative Resource Center (ARC) assists NARA in determining whether individuals or entities are eligible to receive Federal payments or engage in Federal contracts or grants. They perform weekly comparisons of all NARA vendors and grantees to the following data sources within the Do Not Pay Business Center: Death Master File (DMF - Public (SSA), and SAM Exclusion Records, Public & Restricted (GSA - referred to in IPERIA as Excluded Parties List System).

If matches are found for any payments, the vendor is flagged in the accounting system until further research is completed. Adjudication of all matches identified by ARC takes place at the end of the month to verify that no improper payments were made.

NARA has not identified any improper payments through the use of the Do-Not-Pay initiative. However, NARA continues to strengthen its improper payments program to assure that payments are justifiable, and processed correctly and efficiently.

Reduce the Footprint

OMB Memorandum 12-12, "Promoting Efficient Spending to Support Agency Operations", Section 3, and OMB Management Procedures Memorandum 2015-01, Reduce the Footprint implementation guidance, require CFO Act departments and agencies to set annual targets to reduce the total square footage of their domestic office and warehouse inventory compared to the 2015 baseline.

Reduce the Footprint Baseline Comparison

(in millions of square feet)

	FY 2015 Baseline	FY 2016 (CY - 1)	Change
Square Footage	10.8	11	(.2)

Reporting of O&M Costs - Owned and Direct Lease Buildings
(in millions of dollars)

	FY 2015 Reported Cost	FY 2016 Reported Cost (CY - 1)	Change
Operation and Maintenance Costs	\$176	\$183	(\$7)

Grants Oversight and New Efficiency (GONE)

NARA does not have any grants with a closeout of more than 2 years or grants with amounts of undisbursed balances. NARA does not have challenges leading to delays in grant closeouts.

CATEGORY	2-3 Years	>3-5 Years	>5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	0	0	0
Number of Grants/Cooperative Agreements with Undisbursed Balances	0	0	0
Total Amount of Undisbursed Balances	\$0	\$0	\$0

Fraud Report

NARA's fraud reduction efforts are consistent with guidance contained in P.L. 114-186, the Standards for Internal Control in the Federal Government, and OMB A-123 Management's Responsibility for Enterprise Risk Management and Internal Control. These controls were established before promulgation of the Fraud Reduction and Data Analytics Act of 2015.

NARA management conducts fraud related risk assessments with respect to the areas identified in section II.5.6 of the Fraud Reduction and Data Analytics Act. In addition, NARA's OIG performs an independent annual risk assessment of the agency's purchase and travel cards, and provides audits of these and other agency activities that are the most likely targets of fraud.

NARA also identifies and manages risks associated with fraud through their internal controls program. Areas of focus include acquisitions; grants; accounting policy and operations, payroll, travel card, and purchase card. NARA's internal controls program includes an annual assessment of risks for programs and functions susceptible to fraud.

Specific agency-wide controls include system enforced segregation of duties; training for purchase and travel card holders; automated workflow and approval for purchasing activities;; system enforced three way match on invoice payments; reviews of grants over \$150,000; and multiple reviews for unauthorized purchases, overdue accounts and accounting irregularities. NARA management assesses these and other fraud related controls through regular control monitoring and testing.

In addition to NARA in-house internal controls, NARA's financial management shared service provider enforces fraud related controls that NARA leverages through its close working relationships. This allows for multiple reviews for high risk activities and increased checks and balances.



This Agency Financial Report is available at www.archives.gov/about/plans-reports/, as well as Performance and Accountability Reports for previous years, the NARA Strategic Plan, and Annual Performance Plans and Performance Budgets.

Links to other web pages of interest, such as research tools, information on the Presidential Libraries, and public documents published by Office of Federal Register may be found at www.archives.gov.

To comment on this report, please e-mail performance@nara.gov.