

Evaluation of NARA's FY 2008 Management Control Program

Executive Summary

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 (Public Law 97-255) requires ongoing evaluations and reports of the adequacy of internal accounting and administrative control of each executive agency. The Act requires the head of each agency to annually prepare a statement on the adequacy of the agency's systems of internal accounting and administrative control. Office of Management and Budget (OMB) Circular A-123 (Revised), Management's Responsibility for Internal Control, contains guidance for implementing FMFIA. OMB A-123 requires management to annually report on internal control in its Performance and Accountability Report (PAR), including a report on identified material weaknesses and corrective actions. It also provides that the agency head, in preparing the annual assurance statement, should consider input from the Office of Inspector General.

Annually, the OIG performs a review to ensure agency managers continuously monitor and improve the effectiveness of internal controls associated with their programs. This continuous monitoring in conjunction with other periodic evaluations provides the basis for the agency head's annual assessment of, and report on, internal controls as required by FMFIA.

Our initial assessment of the agency's FY 2008 assurance statement, as conveyed in our October 31, 2008 memorandum (See Attachment A), was that the statement was inaccurate and underreported material risk associated with NARA's Preservation and Processing programs. This is the same conclusion we reached and conveyed to the agency in our assessment of their FY 2007 assurance statement.

Subsequently, we reviewed the open recommendations from last years audit report and found that management has not yet taken completed action to close the recommendations. The three recommendations contained in the FY 2007 report were for the Policy and Planning Staff (NPOL) to work with NARA offices and management control liaisons to (1) stress the importance of performing internal control assessments in accordance with management control plans; (2) ensure the results of the assessments are included in the assurance statements, and; (3) revise, as necessary, the lists of "critical functions" to be reviewed. The result is NARA continues to exhibit weaknesses in internal controls first identified in FY 2007 that degrade the effectiveness of internal controls and the accuracy of office assurance statements.

We also performed a detailed review of assurance statements for the five major program offices (e.g. NA, NH, NL, NR, and NW) and found (1) one program office was not reviewing the results of security self assessments and (2) one program office did not include all relevant program review findings in their assurance statement.

Our review also revealed Office of Administrative Services (NA) sub offices improved their evaluation, reporting, and documenting of internal control testing from the previous year. Specifically, NA sub-offices included the results of internal control testing in their assurance statements and were able to produce adequate documentation to support such reviews took place in accordance with guidance established in NARA 114, Management Controls.

We are making three recommendations which we believe, once implemented, will strengthen weaknesses cited in this review.

Background

The Federal Managers' Financial Integrity Act (FMFIA), Public Law 97-255, requires each agency to establish controls that reasonably ensure: (1) obligations and costs comply with applicable law, (2) assets are safeguarded against waste, loss, unauthorized use or misappropriation, and (3) revenues and expenditures are properly recorded and accounted for. In addition, the agency head must annually evaluate and report on the systems of internal accounting and administrative control.

The Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control, defines management's responsibility for internal control in Federal agencies. It provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control. OMB revised Circular A-123 in response to the Sarbanes-Oxley Act, effective in fiscal year 2006. This revision strengthened the requirements for management's assessment of internal control over financial reporting. The new requirements apply only to the 24 Chief Financial Officer Act agencies, thus exempting NARA from performing an A-127 review and reporting pursuant to Section 4 of the FMFIA. However, NARA is still required to report on internal controls pursuant to Section 2 of FMFIA.

NARA issued Directive 114, Management Controls, to help managers implement the requirements of OMB A-123. NARA 114 defines responsibilities; defines the types of reviews that could be considered internal control assessments; identifies documentation that must be maintained in support of an internal control evaluation, and; addresses the development and maintenance of management control plans. Among the responsibilities defined by this guidance, Office Heads are required to identify and analyze risk and the Policy and Planning Staff (NPOL) are required to provide oversight, guidance, and assistance to NARA offices concerning implementation of the NARA internal control program.

Assurance statements and information relating to FMFIA Section 2, Section 4 (from which NARA is exempt), and internal control over financial reporting should be provided in a single FMFIA report section of the annual Performance and Accountability Report (PAR) labeled "Management Assurances." The section should include the annual assurance statement, summary of material weaknesses and non-conformances, and

summary of corrective action plans. Furthermore, FMFIA requires the Archivist to annually submit to the President and Congress (1) a statement on whether there is reasonable assurance that the agency's controls are achieving their intended objectives; and (2) a report on material weaknesses in the agency's controls.

Objectives, Scope, and Methodology

The purpose of our evaluation was to determine the extent to which there is sufficient evidence NARA complied with the requirements of the FMFIA, OMB Circular A-123, and NARA 114, to support the Archivist's fiscal year 2008 assurance statement. Specifically, our objectives were to (1) assess whether management is continually and consistently reviewing critical areas, and (2) verify the accuracy of information contained in management's assurance statements to the Archivist.

To accomplish our objective, we examined the assurance statements and related internal control evaluation documents submitted by NARA office heads, reviewed additional supporting documentation maintained by the offices, and met with management control liaisons and other management officials. We performed a detailed review of the assurance statements and management control plans for the five major program offices (e.g. NA, NH, NL, NR, and NW). We also performed a desk audit of the staff offices. Finally, we reviewed the controls associated with classified security self inspections. Specifically, we

- reviewed management's evaluation of controls in accordance with each office's Management Control Plan for FY 2008 and agency guidance concerning the conduct of such evaluations;
- reviewed files related to the preparation of assurance statements to ensure they provided appropriate support for management statements;
- reviewed sub-office (e.g. NAF, NAR, NAS, etc.) assurance statements to determine if the next higher level of management was performing a sufficient review of information passed up to them;
- reviewed the status of recommendations made in prior year reports, and;
- reviewed compliance with the annual classified information security self-inspection.

To facilitate the submission of NARA's annual assurance statement we performed a preliminary review of the agency assurance statement in October 2008.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) between October 2008 and May 2009. These standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Prior Year Audit Recommendations Remain Open

Our review found recommendations for corrective action contained in our FY 2007 assurance statement audit have not been implemented. In our FY 2007 audit¹ we recommended the Policy and Planning Staff (NPOL) work with offices in general, and management control liaisons in particular, to

- stress the importance of performing internal control assessments of critical areas in accordance with management control plans and NARA 114;
- ensure the results of the assessments are included in the assurance statements, and;
- revise, as necessary, the lists of “critical functions” to be reviewed.

These recommendations were aimed at both addressing non-compliance with provisions of NARA 114 and OMB A-123 and modifying existing management control plans which too narrowly defined/identified “critical functions” to allow for proper testing and evaluation of controls. As noted in the report, the majority of problems were associated with the smaller staff offices.

As we began our review of the staff office assurance statements we identified many of the same weaknesses noted in FY 2007. Notably, “critical functions” had not been revised and continued to be narrowly identified (more analogous to work processes) and assurance statements did not include the results of internal control evaluations or documentation to support such evaluations. For example, one office’s assurance statement indicated an internal control assessment of the timeliness of complaint processing was to be evaluated in FY 2008, but included no further information on the testing methodology employed or the results of the review. We discussed these preliminary results with the agency’s management control liaison, who stated the continuation of previously identified weaknesses was not surprising, but would be remedied once management took action to address findings in the FY 2007 audit report. She also stated that she had worked with NA and NA sub offices on improving their internal control testing and reporting in FY 2008. As noted in the Executive Summary portion of this report, NA and its sub offices showed improved testing and reporting in FY 2008.

OMB Circular A-123 requires the agency and individual managers to take systematic and proactive measures to assess the adequacy of internal controls in Federal programs and operations, identify needed improvements, take corresponding corrective action, and report annually on internal controls in order to be accountable for their area of control. NARA Directive 114 provides guidance for establishing, assessing, correcting, and reporting on internal controls. Both documents convey the elements necessary for conducting and documenting sufficient internal control reviews.

¹ OIG Audit Report No. 08-06, Evaluation of NARA’s FY 2007 Management Control Program (March 7, 2008)

Failing to consistently review critical areas/programs weakens management accountability and decreases the likelihood problems will be identified and program risks minimized. Furthermore, it promotes a false sense of assurance about the level of program or function oversight provided by management and could result in an agency assurance statement which inaccurately conveys risk.

Recommendation 1. The Director of Policy and Planning should ensure recommendations from OIG Report No. 08-06 are implemented and previously identified weaknesses are corrected.² Specifically, those recommendations require

- a. NPOL stress to management the importance of performing internal control assessments of their critical areas in accordance with their management control plans. This includes ensuring reviews are documented in accordance with NARA 114.6. Management control liaisons and upper managers should be reminded of their responsibility for reviewing sub-office and sub-unit assurance statements and ensuring internal control reviews are conducted and documented.
- b. NPOL revise NARA 114 to require the results of internal control reviews, conducted in accordance with each offices management control plan, be included in each offices assurance statement.
- c. The NARA management control liaison should work with the offices and office management control liaisons to review, and revise as necessary, the “critical functions” contained in the management control plans. The revision to these plans should seek to identify and rank risks to major program and functional areas and undertake internal control reviews of major risk areas.

Management Response

Management concurred with our recommendations.

Internal Control Assessment Results are not Evaluated

We found the results of Information Security Self Inspections were not reviewed or evaluated by the Information Security Officer. Specifically, we found responsible units are completing the self-evaluation checklists and forwarding them to the Information Security Officer, however, no further action was taken. Reviewing the results of internal control assessments, including identification of deficiencies and the formulation and monitoring of corrective action, is a critical component of internal control monitoring and testing. Without “closing the loop” on this internal control process NARA cannot be assured that weaknesses are identified and properly mitigated.

NARA 2008-258, Annual Information Security Self-Inspection, requires all Information Security Program Managers (ISPMs) conduct an annual self inspection of areas under

² Because the recommendations from OIG Audit Report No. 08-06, Evaluation of NARA’s FY 2007 Internal Control Program, are carried forward to this audit, OIG Report No. 08-06 can be closed.

their cognizance in accordance with NARA 202, NARA Classified Information Security Program. The self-inspection consists of an eight page self evaluation guide to be completed by ISPMs and provided to the Information Security Officer. Any items found to be non-compliant must be corrected immediately or tracked through monthly status reports.

We sampled the self-inspection results for six ISPMs and were provided with completed self-inspection checklists for all six. When we asked the Information Security Officer for the results of his review of the self-evaluations we were informed no reviews were conducted and the evaluations were placed in file for future reference. In addition to the review and evaluation requirements contained in NARA 2008-258, NARA's internal control guidance requires evaluation of self-assessments by a knowledgeable party. The evaluation must include an evaluation of the results, written notice of concurrence or disagreement, and any recommended corrective actions. While there are not currently any controls concerning the review and analysis of information security self inspections, the Information Security Officer stated he intends to develop procedures for the review of information security self assessments, including provisions for identifying instances of non-compliance and tracking corrective actions and estimated this would be completed by October 2009.

As a result of deficiencies in controls over information security self-assessments NARA lacks assurance information security weaknesses are appropriately identified, reported, and resolved and could result in underreporting of risk in the agency assurance statement.

Recommendation 2. The Assistant Archivist for Administrative Services should ensure Annual Information Security Self Inspection results are reviewed in a timely manner, instances of non-compliance are identified, and corrective actions are monitored; and self inspections are reviewed and documented in accordance with guidance concerning self-assessments contained in NARA 114. If a formal process as referred to by the Information Security Officer cannot be completed in time to facilitate the review of FY 2009 information security self inspections an alternate means of reviewing the checklists should be developed.

Management Response

Management concurred with our recommendation.

“Significant” Findings Need to be Better Defined in NARA Internal Control Policy

Our review revealed one program office excluded from their assurance statement over 85% of findings identified through program reviews. While NARA's internal control guidance (e.g. NARA 114) allows agency management to determine whether findings are significant enough to report to the Archivist, it does not provide criteria on which such decisions are based or requirements for documenting and supporting such decisions. As a

result such decisions can appear “ad hoc” and adversely impact the consistency of the reporting process.

In FY 2008, the Office of Regional Records Services (NR), a major program office, had 51 findings related to program reviews. Of these, seven were classified by the office head as major/significant and included in the assurance statement to the Archivist. The remaining 44 findings were considered to be minor and not transmitted to the Archivist via assurance statement. We reviewed these 44 findings and identified three that we believe are major:

- A finding that there are no internal controls in place to prevent unauthorized use or theft of GSA fleet vehicles;
- A lack of separation of duties between ordering and receiving accountable property, and;
- Inconsistencies in NARS-5 data that could result in premature disposals and improper customer billing.

We asked NR for information supporting their conclusion to categorize these three findings as minor in an effort to better understand their decision process and criteria used in evaluating findings. NR management responded that based on deliberation and discussion of these issues at the completion of the program review it was determined they were minor because no actual adverse impacts were observed or identified during the program review and the resolution of identified deficiencies required very little time or resources. The absence of detected or observed adverse impacts is not sufficient reason to classify a finding as minor. The goal of internal controls is to prevent or detect adverse impacts and the point of monitoring and testing is to identify the absence of internal controls; internal controls which are not properly functioning, or; internal controls which are not properly designed. The absence of guidance detailing the process which should be used in evaluating findings; the criteria which should be applied, and; the information which should be maintained to support such a decision has resulted in an uneven approach to evaluating findings and their relative importance and adversely impacts the consistency of office assurance statements.

Additionally, NR does not formally track corrective action for minor findings. This means in FY 2008 corrective action for over 85% of the program review findings was not formally tracked. An important element in effective internal control monitoring/testing is ensuring deficiencies are evaluated and corrected in a timely manner. This helps ensure controls aimed at mitigating risks are in place and properly functioning. During the conduct of our audit we discussed with the NR management control liaison our concern that such a large number of the program findings were not formally tracked to resolution. The NR management control liaison responded NR was considering requiring regions to report on all program review findings until such time as they are effectively closed.



Attachment B
National Archives and Records Administration


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Date: **AUG 26 2009**
To: **OIG**
From: **NPOL, NA, and NR**
Subject: **OIG Draft Audit 09-14, Audit of NARA's FY 2008 Management Control Program**

Thank you for the opportunity to comment on this draft audit report. This memorandum represents the combined comments of these offices to the draft report dated July 28, 2009.

We concur with recommendations 1 and 3, and will offer more detail in our action plan following release of the final report. We concur with the intent of recommendations 2 and 4, but may need to make adjustments as we devise an action plan to address the findings while not further straining available resources.

If you have questions about these comments, please contact Mary Drak at 301-837-1668 or by email at mary.drak@nara.gov.


for SUSAN M. ASHTIANIE
Director,
Policy and Planning Staff

Recommendation 3. The Archivist should ensure NARA policy on internal controls (such as NARA 114) is revised to specifically address the process by which findings are evaluated and categorized; criteria used in the decision making process, and; documentation necessary to support such conclusions.

Management Response

Management concurred with our recommendation.

Recommendation 4. The Assistant Archivist for Regional Records Services should ensure all program findings, regardless of whether they are considered major or minor, are tracked to resolution and supported by adequate documentation.

Management Response

Management concurred with our recommendation.