



NATIONAL  
ARCHIVES

OFFICE of  
INSPECTOR GENERAL

Date: December 10, 2012

Reply to  
Attn of: Office of Inspector General (OIG)

Subject: Final Report No. 13-05: Cotton & Company's NARA FY 2012  
Financial Statements Independent Audit Report

To: David S. Ferriero, Archivist of the United States

Enclosed are the reports prepared by Cotton & Company, LLP (C&C) for the subject audit. C&C issued an unqualified opinion on NARA's FY 2012 financial statements.

C&C reported no material weaknesses in internal control over financial reporting. C&C disclosed no significant deficiencies and no instances of noncompliance with certain provisions of laws and regulations.

In connection with the contract, we reviewed C&C's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. Generally Accepted Government Auditing Standards (GAGAS) was not intended to enable us to express, as we do not express, an opinion on NARA's financial statements or conclusions about the effectiveness of internal control or on whether NARA's financial management system substantially complied with the Federal Financial Management Improvement Act of 1996, or conclusions on compliance with laws and regulations. C&C is responsible for the attached auditor's report dated November 14, 2012 and the conclusions expressed in the report. However, our review disclosed no instances where C&C did not comply, in all material respects, with GAGAS.

As with all OIG products, we will determine what information is publically posted on our website from the attached report. Should you or management have any redaction suggestions based on FOIA exemptions, please submit them to my counsel within one week from the date of this letter. Should we receive no response from you or management by this timeframe, we will interpret that as confirmation NARA does not desire any redactions to the posted report.

We appreciate the cooperation and assistance NARA extended to C&C and my staff during the audit. If you have any questions, please contact me on (301) 837-3000.

A handwritten signature in cursive script that reads "James Springs".

James Springs  
Acting Inspector General

Enclosure: Final Report No. 13-05: Cotton & Company's NARA FY 2012 Financial Statements  
Independent Audit Reports



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The Inspector General  
National Archives and Records Administration

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated Balance Sheets of the National Archives and Records Administration (NARA) as of September 30, 2012 and 2011, and the related Statements of Net Cost, Changes in Net Position, and Budgetary Resources for the years then ended. These financial statements are the responsibility of NARA management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NARA as of September 30, 2012 and 2011, and its net cost, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the *Management's Discussion and Analysis* and *Required Supplementary Information* sections is not a required part of the consolidated financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We did not audit this information and, accordingly, we express no opinion on it. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with NARA officials. On the basis of this limited work, we found no material inconsistencies between the financial statements and U.S. generally accepted accounting principles or OMB financial reporting requirements.

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

In accordance with *Government Auditing Standards*, we are also issuing two other reports dated November 14, 2012. The first report is on our consideration of NARA's internal control over financial reporting and over compliance with laws and regulations. The second report is on our tests of NARA's compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

COTTON & COMPANY LLP

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Colette Y. Wilson  
Partner

Alexandria, Virginia  
November 14, 2012



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The Inspector General  
National Archives and Records Administration

### **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND OTHER MATTERS**

We have audited the financial statements of the National Archives and Records Administration (NARA) as of September 30, 2012 and 2011, and have issued our report thereon dated November 14, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) audit guidance.

NARA management is responsible for complying with laws and regulations applicable to NARA. As part of obtaining reasonable assurance about whether NARA's financial statements are free of material misstatements, we performed tests of NARA's compliance with certain provisions of laws and regulations that have a direct and material effect on the financial statements. We did not test compliance with all laws and regulations applicable to NARA. We limited our tests of compliance to those provisions of laws and regulations that OMB audit guidance requires that we test that we deemed applicable to the financial statements for the fiscal year ended September 30, 2012. We caution that noncompliance may have occurred and may not have been detected by these tests, and that such testing may not be sufficient for other purposes.

Our tests of compliance with laws and regulations described in the preceding paragraph disclosed no instances of material noncompliance that are required to be reported under *Government Auditing Standards* and OMB audit guidance.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit; accordingly, we do not express such an opinion.

In accordance with *Government Auditing Standards*, we are also issuing two other reports dated November 14, 2012. The first report is on our audit of NARA's financial statements. The second report is on NARA's internal control over financial reporting and over compliance with laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

This report is intended solely for the information and use of NARA management, NARA Office of Inspector General, the Government Accountability Office, OMB, the Congress of the United States, and those who have read NARA's financial statements, our report on those financial statements, and our

report on internal control. This report is not intended to be and should not be used by anyone other than those parties.

COTTON & COMPANY LLP

A handwritten signature in blue ink, appearing to read "Colette Y. Wilson". The signature is fluid and cursive, with the first name being the most prominent.

Colette Y. Wilson  
Partner

Alexandria, Virginia  
November 14, 2012



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The Inspector General  
National Archives and Records Administration

### INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

We have audited the consolidated financial statements of the National Archives and Records Administration (NARA) as of September 30, 2012 and 2011, and have issued our report thereon dated November 14, 2012. That report contained our unqualified opinion on the financial statements for fiscal year (FY) 2012 and FY 2011. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) audit guidance.

NARA management is responsible for establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met. The objectives of internal control are as follows:

- **Financial reporting:** Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- **Compliance with laws and regulations:** Transactions are executed in accordance with (1) laws governing the use of budget authority, (2) other laws and regulations that could have a direct and material effect on the financial statements, and (3) any other laws, regulations, and government-wide policies identified by OMB audit guidance.

In planning and performing our audits, we considered NARA's internal control over financial reporting and over compliance with laws and regulations. We did this as a basis for designing our procedures for auditing the financial statements and not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and over compliance with laws and regulations.

Our consideration of internal control was for the limited purpose described in the previous paragraph. Thus, it was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses; therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

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 combination

of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of an entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

We noted certain deficiencies in internal control that will be reported to NARA management in a separate letter.

In commenting on a draft of this report (see Appendix A), NARA concurred with the facts and conclusions in our report. We did not audit NARA's response; accordingly, we express no opinion on it.

#### **STATUS OF PRIOR-YEAR RECOMMENDATIONS**

We reviewed the status of NARA's corrective actions with respect to the material weakness from the prior-year report on internal control. Appendix B to this report provides details of the status of recommendations.

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 evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

In accordance with *Government Auditing Standards*, we are also issuing two other reports dated November 14, 2012. The first report is on our audit of NARA's financial statements. The second report is on our tests of NARA's compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

This report is intended solely for the information and use of NARA management, NARA Office of Inspector General, the Government Accountability Office, OMB, the Congress of the United States, and those who have read NARA's financial statements, our report on those financial statements, and our report on compliance with laws and regulations. This report is not intended to be and should not be used by anyone other than those parties.

COTTON & COMPANY LLP



Colette Y. Wilson, CPA  
Partner

Alexandria, Virginia  
November 14, 2012



**APPENDIX A**  
**MANAGEMENT COMMENTS**



NATIONAL  
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14 November 2012

To: James Springs, Acting Inspector General  
From: David S. Ferriero, Archivist of the United States  
Subject: Management Response to the FY 2012 Financial Statement Audit

Thank you for the opportunity to respond to your reports, *Independent Auditor's Report on Internal Control* and *Independent Auditor's Report on Compliance with Laws and Regulations*.

I am pleased to have received an unqualified opinion for NARA's FY 2012 financial statements. I appreciate that the independent auditor has recognized our progress in improving financial management at NARA by removing last year's material weakness over financial reporting.

I would like to thank the Office of Inspector General and the Cotton & Company, LLP for their cooperation and efforts to ensure a smooth and efficient audit.

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**APPENDIX B**  
**NATIONAL ARCHIVES AND RECORDS ADMINISTRATION**  
**STATUS OF PRIOR-YEAR RECOMMENDATIONS**  
**SEPTEMBER 30, 2012**

**APPENDIX B**  
**NATIONAL ARCHIVES AND RECORDS ADMINISTRATION**  
**STATUS OF PRIOR-YEAR RECOMMENDATIONS**  
**SEPTEMBER 30, 2012**

We present below the status of recommendations from our prior-year report on internal control over financial reporting and compliance with laws and regulations. In our FY 2011 report, we noted a material weakness related to the review of manual journal entries. NARA has taken corrective actions and our finding and recommendations have been closed.

<b>Condition and Recommendation</b>	<b>Status as of September 30, 2012</b>
<b><u>Review of Manual Journal Entries</u></b>	
We recommend that:	Closed
1. BCF develop, document, and implement procedures that require the review and approval of all manual journal entries prepared and submitted during and after the normal adjustment period. In addition, management should communicate these procedures to all involved in the process.	
2. BCR, as well as other offices, thoroughly review the methodologies and supporting documentation for all journal entries approved and submitted for financial reporting throughout the year (as required by current procedures).	Closed