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Date: January 15, 2014

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

Subject: Final Report No. 14-03: Cotton & Company's NARA FY 2013
Financial Statements Independent Audit Report

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

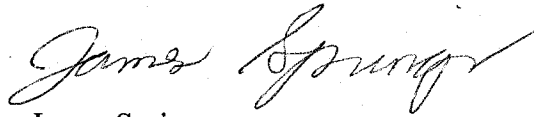
Enclosed are the reports prepared by Cotton & Company, LLP (C&C) for the subject audit. C&C issued an unmodified opinion on NARA's FY 2013 financial statements.

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 December 16, 2013 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.

Your response to the draft reports is attached. 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". The signature is written in black ink and is positioned above the printed name and title.

James Springs
Acting Inspector General

Enclosure: Final Report No. 14-03: Cotton & Company's NARA FY 2013 Financial Statements
Independent Audit Reports



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UNITED STATES

DAVID S. FERRIERO

t 202.357.5900

f 202.357.5901

david.ferriero@nara.gov

Date: December 16, 2013
To: James Springs, Acting Inspector General
From: David S. Ferriero, Archivist of the United States
Subject: Management Response to the FY 2013 Financial Statement Audit

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

I am pleased to have received an unqualified audit opinion on NARA's FY 2013 financial statements. An unqualified opinion recognizes NARA's commitment to producing accurate and reliable financial statements, and supports our efforts to continuously improve our financial management program.

I would like to thank the Office of Inspector General and Cotton & Company, LLP for working in a professional and dedicated manner with NARA staff.

DAVID S. FERRIERO
Archivist of the United States



Cotton & Company LLP
635 Slaters Lane
4th Floor
Alexandria, VA 22314

P: 703.836.6701
F: 703.836.0941
www.cottoncpa.com

INDEPENDENT AUDITOR'S REPORT

The Inspector General
National Archives and Records Administration

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the National Archives and Records Administration (NARA) as of September 30, 2013 and 2012, and the related consolidated statements of net cost, consolidated statements of changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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; 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.

Auditor's 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 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) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of NARA as of September 30, 2013 and 2012, and its consolidated net cost, consolidated changes in net position, and combined budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America and OMB Circular A-136, *Financial Reporting Requirements*, require that the Management's Discussion and Analysis on pages 2 to 36 and other Required Supplementary Information on pages 123 to 126 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board and OMB, who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, and historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These procedures 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we also have issued our report dated December 16, 2013 on our consideration of NARA's internal control over financial reporting and over compliance, and on our tests of NARA's compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope and results of our testing of internal control over financial reporting and compliance and the results of our testing of NARA's compliance with certain provisions of laws, regulations, contracts, and grant agreements, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NARA's internal control and compliance.

COTTON & COMPANY LLP



Alan Rosenthal, CPA, CFE
Partner
Alexandria, VA
December 16, 2013



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND ON COMPLIANCE

The Inspector General
National Archives and Records Administration

We have audited the consolidated and combined financial statements of the National Archives and Records Administration (NARA) as of September 30, 2013 and 2012, and have issued our report thereon dated December 16, 2013. That report contained our unmodified opinion, on the financial statements. 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) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE

In planning and performing our audit of the financial statements, we considered NARA's internal control over financial reporting and compliance (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. Accordingly, we do not express an opinion on the effectiveness of NARA's internal control.

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

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Limitations of Internal Control

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.

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 and material effect on the determination of

financial statement amounts. 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 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 OMB audit guidance requires that we test that we deemed applicable to the financial statements for the fiscal year ended September 30, 2013. We caution that noncompliance may have occurred and may not have been detected by these tests, and that such testing may not be sufficient for other purposes. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB audit guidance.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

COTTON & COMPANY LLP

A handwritten signature in black ink, appearing to read "Alan Rosenthal", with a long, sweeping horizontal stroke extending to the right.

Alan Rosenthal, CPA, CFE
Partner
Alexandria, VA
December 16, 2013