

Office of Inspector General

**Review of NARA's
Internal Control Procedures
For Loan Items**

Report No: 06-04

December 19, 2005

Executive Summary:

The Office of Inspector General (OIG) audited the National Archives and Records Administration (NARA) loan program to determine whether NARA complied with established procedures for loaning and transporting NARA holdings and ensure holdings are adequately safeguarded and properly accounted for throughout the loan lifecycle.

Our audit identified instances in which certain loaned records and artifacts may have been lost while others may be at risk of loss. This condition exists because management has not consistently complied with the guidance for loaning records and artifacts. The agency's established guidance for loaning and transporting holdings is found in NARA Directives 1701 and 1702.

Specifically we found:

- No loan documentation existed for 157 items loaned to a Presidential Library Foundation.
- Loan extension documentation for 12 loans was missing.
- The loan period for six loans exceeded the one year requirement of NARA 1701 that went into effect on September 1, 1999.
- 22 outstanding loans were not reported in the Office of Regional Records Services (NR) Quarterly Overdue Loan Report.
- NARA's Director of Space and Security Management Division (NAS) was not notified when loaned material was reported as missing pursuant to NARA 1701 and 1702.
- NARA 1701 and 1702 did not require that the IG be notified when loaned material was reported as missing.
- NARA did not maintain a database of open, overdue, uncollectible, and missing loans.

As a result of these conditions, NARA's chain of custody is broken, the Archivist is not receiving information on the number of loans lost or unrecoverable, and offices charged with taking action on reported lost or missing records were not notified.

This report contains five recommendations addressing our findings. The implementation of these recommendations will address weaknesses cited in the report and strengthen NARA oversight of the loan program.

Background:

The objective of NARA's loan program is to ensure that holdings are made available to qualified borrowers without placing the holdings at risk or threatening their continued availability in the future. NARA's successful compliance with this objective ties directly into "The Strategic Plan of the National Archives and Records Administration, Ready Access to Essential Evidence, 1997-2008." For more than six decades it has been the role of NARA to preserve and provide access to the records of the American people. Loans made following established guidance contribute to NARA's meeting the plan's third strategic goal, "Essential evidence is easy to access regardless of where it is or where users are for as long as needed."

In response to recommendations in OIG Report No. 98-05, Evaluation of NARA's Physical and Recordkeeping Controls Over Outgoing Shipments of Permanent Records and Artifacts, NARA implemented several regulations to provide guidance covering criteria for loans and their transportation. NARA 1701, Loans of Holdings in NARA's Physical and Legal Custody, and NARA 1702, Transporting Holdings in NARA's Physical and Legal Custody went into effect on September 1, 1999. Three years later on March 15, 2002, NARA supplemented the regulations with procedures for having overdue loans declared as unrecoverable.

NARA 1701 establishes the procedures for loans made to Federal agencies and courts, the Supreme Court, and Congress for official business; to the President, Vice President, former Presidents or Vice Presidents or donors, or their designated representative; or to NARA and non-NARA organizations for exhibit purposes. The regulation authorizes the following units, in consultation with (if necessary) the Space and Management Division (NAS) (for loan-related security matters) and Preservation Programs, Office of Records Services – Washington, DC (NWT) to review and approve or deny loan requests for holdings:

1. The custodial unit;
2. Public Programs (NWE); or
3. The Initial Processing/Declassification Division, with LICON concurrence.

The authorized units can make loans for exhibits and for purposes other than exhibits. NA Forms 16001 and 16002 are used by NARA offices to send and document the receipt of items loaned for exhibits. NA Form 14014 is used to send and document the receipt of loans made for other than exhibits purposes to the originating federal agency, Congress, the Supreme Court and other NARA offices. Examples of loans for other than exhibit purposes are when the originating agency requests records back for work purposes or records are sent out for preservation work.

NARA 1702 establishes guidance for transporting holdings that are in NARA's physical and legal custody to ensure their protection, physical safety, and return to NARA. The regulation authorizes custodial units, in consultation with NAS and NWT, to determine the most appropriate method of shipment for holdings. The lending unit must consult with NAS when shipping holdings that contain sensitive material, are of high intrinsic

value, are of large volume, and are likely to be subject to security threats, or require cooperation of Federal or local law enforcement agencies. The lending unit consults NWT on packing and shipping methods.

After NARA 1701 was issued, the former Archivist received quarterly overdue loan reports with many loans reported as overdue. The former Director of Policy and Communications Staff (NPOL) issued a letter with the procedure for having overdue loans declared as unrecoverable on March 15, 2002. The procedures allowed custodial units to recommend declaring overdue loans as unrecoverable. The custodial units prepare a dossier for each loan and send it to NR, Office of Presidential Libraries (NL), or Office of Records Services – Washington, DC (NW). The dossiers are reviewed by NR, NL, or NW, who consult with General Counsel (NGC) and makes recommendations to the Archivist (N) for approval to declare the loans unrecoverable. After NPOL's letter was issued, five Regional Records Services Directors submitted dossiers to have loans declared as unrecoverable. NR and NGC concurred with the Regional Directors and in November 2002 NR forwarded to the Archivist a memo recommending the loans be declared unrecoverable. These items were court dockets, U.S. Army Corps of Engineers lock and dam files and a native Indian estate file loaned back to district courts and federal agencies.

NARA has no central loan database. In order to determine the universe of open loans the OIG auditor requested NR, NL, and NW to provide their number of open loans as of December 2004. NR and NL had to contact their Regional Archival Operations and Presidential Libraries respectively to obtain the number of open loans. NL reported 12 Presidential Libraries with 140 open loans as of December 6, 2004. NR reported 11 Regional Archives Operations with 44 open loans as of December 17, 2004. NW reported 11 open exhibit loans as of December 15, 2004. The open loan total of 195 includes loans made in FY 2005 and prior fiscal years that had been extended. Overdue loans were not included in the totals. Overdue loans are reported quarterly by NW, NR, and NL to the Archivist. NR reported 26 overdue loans at five Regional Archives Operations as of September 30, 2004. NL and NW reported no overdue loans as of September 30, 2004.

Objectives, Scope, and Methodology:

The objective of the audit was to determine if loans are made in accordance with procedures established in NARA 1701 and 1702 and were protected from loss. Specifically, the review was to determine whether NARA is maintaining required documentation to ensure items on loan can be adequately accounted for, documenting a continuous chain of custody, and ensuring that these items are properly transported. In addition, the audit evaluated whether NPOL's procedures for having loans declared as unrecoverable were followed.

The audit was performed by reviewing all open loan file documentation and interviewing NARA staff at NR, NL, NW, and NWE (Exhibits) offices at College Park, Maryland, Pacific Region San Francisco Archival Operations (NRHSA), Great Lakes Region Chicago Archival Operations (NRDCA), Northeast Region Boston Archival Operations

(NRABA), Central Plains Region Kansas City Archival Operations (NREKA), Southwest Region Fort Worth Archival Operations (NRFFA), the Ronald Reagan Presidential Library (NLRR), the Gerald R. Ford Library (NLGRF) and Museum (NLGRFM), and the Franklin D. Roosevelt Presidential Library (NLFDR). The auditor examined all open loan¹ files (61) at these sites. In addition as time permitted, closed loan documentation in the current and two prior fiscal years were randomly selected and examined.

The audit was conducted between November 2004 and July 2005, and was performed in accordance with generally accepted government auditing standards.

¹ An open loan is a loan where the documents/artifacts borrowed have not been returned.

Findings:

Incomplete and Missing Loan Documentation

Loan forms and pertinent loan documentation was not adequately completed for all loans reviewed. This condition existed because management did not ensure loans were completed and processed in accordance with NARA 1701 and 1702. This guidance requires that a completed and signed copy of either NA Form 16002 or 14014 be placed in the loan file to document the duration, changes of custody, and condition of loaned items. NARA records and artifacts cannot be properly accounted for when loan documentation is not adequately filled out and maintained. Additionally the chain of custody is broken when loan records do not reflect critical elements of the loan such as who the borrower is, where the items were shipped, and who took custody of the shipped item.

We reviewed documentation for 61 open loans at seven NARA facilities including: NWE, NLRR, NLGRF, NLFDR, NRHSA, NRDC, and NRABA to determine whether loans were appropriately documented. We found that loan documentation was not complete as it was missing one of the following: (1) documentation for an entire loan; (2) documentation extending the period of loans past the due dates; and (3) the loan due dates.

No loan documentation existed for 157 items loaned to President Ronald Reagan Library Foundation when the library was opened in November 4, 1991. NARA 1701 went into effect on September 1, 1999, and requires a loan form for all loans. Our review revealed that NLRR had not yet prepared a loan document for the items on loan to the President Ronald Reagan Library Foundation. NLRR staff said the items were loaned to the Foundation when the Library was opened. Since the Foundation and NLRR were collocated in the same building, the former staff did not believe they were required to prepare a loan document. The Director of NLRR was informed that no loan document exists for the 157 items on loan. Subsequently, NLRR staff emailed a plan to correct the condition.

The items loaned were sculptures, crystals, vases, paintings, clocks, a ceremonial sword, and other gifts given to President Ronald Reagan and Nancy Reagan. The list of 157 items included:

- A white porcelain woman kneeling
- A footed silver engraved dish
- Waterford crystal
- A porcelain, quadrilateral vase styled with multi-colored Chinese designs
- Photograph of the flag raising at Iwo Jima signed by Joe Rosenthal and the marines
- An Arabian gold plated saber with rhinestones
- An Ivory handle sword case sheath in 23K gold plate with rubies and sapphires.

Twelve loan files at, NLFDR, NLGRFM, and NRHSA were missing required documentation evidencing that the loans had been extended. The staff did not review the loan files and identify when loan extension documentation was needed and aggressively follow-up and obtain signed documentation. Specifically, seven loans at NLFDR, three loans at NLGRFM, and two loans at NRHSA were missing required signed loan extensions before the old loans expiration dates. Our review of two NLGRF loan files made in 1998 found the files did not contain a loan form with a due date and no follow-up written correspondence was made until December 2004 and February 2005.

The auditor found in one NLFDR loan file a letter sent in April 2004 requesting a new loan agreement to replace the old loan agreement that expired on May 1, 2004. A signed agreement was not received from the borrower and seven months passed before a second letter was sent. There was no new loan agreement when the auditor reviewed the file in March 2005. Examples of items covered by the loans are:

- Bronze colored plaster bust of Franklin D. Roosevelt
- Red, white, and blue quilted NRA bedspread
- Birch bark canoe used by FDR at Campobello

Six loans at NRHSA and NLGRFM either did not have an expiration date or were for multiple years. NARA 1701 requires loan agreements to have a return date not to exceed one year. The two NRHSA loans had blank due dates. This condition of leaving the due date blank was observed in our review of previously completed loans at NRDCA. Nine NRDCA loans made and returned in 2003 had no due dates. A loan of 11 items to President Gerald R. Ford was not supported with a current NA Form 14014. A loan agreement was prepared and signed for the items loaned to President Ford on January 25, 1986. The period of the loan was indefinite. These items were loaned to President Ford before NARA 1701 went into effect on September 1, 1999. The old loan agreement was not in accordance with NARA 1701 guidance. NLGRF staff did not prepare a loan form to replace the outdated loan agreement. One NLGRF loan made on December 2, 1994, had the term indefinite period instead of a due date. The other two loans were for three or more years. Examples of items covered by NLGRFM loans are:

- A 17 - inch sculpture given by Leonid Brezhnev
- Photo Albums from various heads of states containing photos of Gerald R. Ford's official state visits.

The Library and Regional Directors at the various facilities were asked by the auditor whether they reviewed their loan program and were aware of the problems identified in the audit. The responses received stated that the loan program was assigned to staff within their organization who they relied on and that they had not reviewed the loan program data nor were they aware of the problems documented by the auditor.

After our visit to NLRR and NLFDR, the offices sent documentation showing they have taken corrective action. NLRR has implemented a process to photograph, enter the items

in the iO² system and sign a loan agreement with the Foundation. NLFDR have signed extensions with the borrowers for the seven loans discussed previously in the report.

Recommendation 1:

We recommend the Assistant Archivist for the Office of Regional Records Services and the Assistant Archivist for Presidential Libraries insure all loans meet the documentation requirements of NARA 1701 and 1702.

Management Comments

Management concurred with the finding and recommendation.

Unreported Overdue Loans

Twenty-two overdue loans at the Fort Worth Region Center Archival Operations (NRFFA) and Kansas City Region Center Archival Operations (NREKA) were not reported to NR for inclusion in their quarterly overdue loans report to the Archivist. The Directors of NRFFA and NREKA said they were instructed by management in 1999 not to report loans over 10 years old as overdue. NARA 1701 defines overdue loans as holdings not returned to NARA by the established due date. NARA 1701 requires that if the borrower does not return the loan after being contacted twice, the loan is reported as overdue. The custodial unit head creates a dossier explaining the circumstances, a copy of NA Form 14014, a written summary of verbal contacts, copies of all relevant correspondence and any other pertinent documentation. Per procedure the dossier is sent to NL, NW, or NR who consult with NGC and makes recommendations to the Archivist for further action as appropriate. This procedure has not been accomplished. As a result, the Archivist was not receiving overdue loan reports with accurate and pertinent data to make decisions on whether:

- to send a letter requesting the loan items be returned in 60 days
- request the OIG or NAS to do an analysis on the missing loan items
- declare the loans as unrecoverable.

We followed up on 269 loans identified as overdue in the prior OIG Report No. 98-05. We were able to account for 247 of these loans. However, for the remaining 22 loans that were 10 to 20 years old we were informed that a former NR staffer had made a decision to not comply with NARA 1701. Thus, they were not identified as overdue loans. We interviewed the Assistant for Operations, NR, to verify that NR staff had instructed the directors not to report old loans. The Assistant for Operations said he and his staff were unaware of the reporting instructions or that overdue loans were not reported in the quarterly overdue loan reports. The Assistant for Operations said he assumed the position

² Automated Collections Management Database (iO) is collection management software developed for NARA and used by the Presidential Libraries for collection management.

in the fall of 1999 and the former Assistant Archivist for Office of Regional Records Services and a former staff member were issuing instructions to the region. The Assistant for Operations said that there was no written documentation indicating the regions were instructed not to report old overdue loans. However, the Assistant for Operations said that the former staff may have interpreted NARA 1701 as not applying to old loans and issued the verbal instructions. The Assistant for Operations agreed the loans should be reported as overdue or unrecoverable following NARA procedures.

Recommendation 2:

We recommend the Assistant Archivist for the Office of Regional Records Services, in accordance with NARA 1701 procedures for overdue loans, prepare and submit dossiers for the 22 overdue loans to have them reviewed by the Archivist for further action.

Management Comments

Management concurred with the finding and recommendation.

Reporting Problem Loans

Loans that were determined to be missing or unrecoverable were not reported to NAS or the OIG. Neither the custodial unit nor central office management reported missing or unrecoverable loan information to NAS or the OIG. NARA 1701 requires management to report missing loans to NAS. As a result, neither NAS nor the IG were made aware of the unrecoverable/missing status of loaned items for appropriate resolution.

Our visit to NRDCa identified two loans to the U.S. Army Corps of Engineers (USACE) St. Paul [MN] District were reported as unrecoverable. The loans were made in 1994 and 1995. After several requests by NRDCa that the loans be returned, on August 1, 2002, the USACE records officer reported that the loaned records could not be located. Following NARA procedures to have the two loans classified as unrecoverable and dropped from the overdue loan report, NRDCa prepared a dossier for each loan and sent them to NR on November 7, 2002. NRDCa staff does not recall being informed by NR staff their requests to have the loans classified as unrecoverable were approved. The dossiers were returned to NRDCa, but NR did not include documentation showing the Archivist of the United States approved the requests. However, these lost loan items were not reported to NAS as required by NARA 1701. Effective September 1, 1999, NARA 1701 requires if holdings are missing, the custodian unit should attempt to ascertain the status of missing holdings and notify NAS. The Director of NAS said he was not made aware the two NRDCa loans were lost. The director said he and his staff have no recollection of being informed of any other lost loans. When the IG was informed of the two lost NRDCa loans, the IG stated he was not made aware that the loans were lost. The IG said to his knowledge, the Office of Inspector General has never received

documentation on any lost loans. The IG said all lost loans and documentation should be sent to his office. Subsequently the OIG can institute appropriate action as warranted.

Recommendations 3:

We recommend the Assistant Archivist for Regional Records Services ensure NARA 1701 procedures are followed for notifying NAS when NARA is notified or becomes aware when a loan has been lost or missing.

Management Comments

Management concurred with the finding and recommendation.

Recommendation 4:

We recommend the Director of Office of Policy and Communication amend NARA 1701 to require the OIG be notified of all lost/missing loans and requests to classify overdue loans as unrecoverable.

Management Comments

Management concurred with the finding and recommendation

Loan Database

No comprehensive loan database exists to track and monitor loan activity within NARA. NARA's 1701, Loan of Holdings in NARA's Physical and Legal Custody, does not require a database for loans to be maintained by either the custodial unit, NR, NL, NW, or other components of NARA. OMB Circular A-123, Management's Responsibility for Internal Control, states management is responsible for establishing and maintaining internal controls to achieve objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Effective internal controls provide assurance that loans are made in accordance with NARA 1701 procedures. A comprehensive loan database would provide management with information to adequately evaluate and make management decisions on the loan program as well as mitigate risk to NARA holdings.

As a result of not having a comprehensive loan database, NARA management was unaware of the following information:

- No loan documentation existed for 157 items loaned to the President Ronald Reagan Library Foundation;

- Loan extensions were not in place prior to loan expiration dates;
- Long-term loans were made by stating the period of the loan was indefinite or by renewing multiple year loans with multiple year extensions;
- Loans that had no due dates entered on the loan forms; and
- The number of overdue loans not reported in the quarterly report.

At the start of the review, we requested the number of open loans from NW, NR, and NL. Our points of contact in NR and NL took a couple of weeks to obtain the information because the respective offices did not maintain a loan database. We were informed by management at the entrance conference that the only loan information captured and reported quarterly to the Archivist was on overdue loans. NARA 1701 did not require a loan database and management did not establish a database to monitor the compliance and effectiveness of the loan program's internal controls. As a result, NARA senior management had insufficient data to track/oversee the loan program and only received reports when loans were listed as overdue.

A NARA wide loan database was discussed with the Assistant for Operations, NR, and senior NL staff who agreed that a database would provide management with the information on all loans made by NARA. The Assistant for Operations NR stated that the database should be designed to generate the quarterly overdue loan reports submitted to the Archivist and for reporting performance measuring data.

Recommendation 5:

The Archivist of the United States should require an organizational loan database be established to allow monitoring of NARA's loan programs by Assistant Archivist's staff to help ensure internal controls procedures are followed.

Management Comments

Management did not concur with the recommendation for an agency-wide loan database. Management acknowledge that current loan reporting method has been shown to have inconsistencies in reporting, but did not agree that an organizational database represents the best business solution at this time. Management will explore other means of addressing the underlying finding.

OIG Response

The OIG concurs with management plans to explore other means of implementing corrective action to address the intent of this finding.

**National Archives and Records Administration**

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Date:

To: OIG

From: NL, NPOL, NR, NW

Subject: Comments on Draft OIG Report 06-04, Review of NARA's Internal Control Procedures for Loan Items

Thank you for the opportunity to comment on the draft OIG report on NARA's internal control procedures for loan items. It is important to note that the review was based on policies and procedures found in two NARA directives, 1701 and 1702. These directives have been under revision since June 2005. The revisions will address the procedural differences between loan types as well as for loans made through different program units. The OIG will have the opportunity to comment on revisions for these directives.

We generally agree with the audit findings, but concur on only 4 of the 5 recommendations, as follows:

- Recommendation 1 relates to ensuring that all loans meet documentation requirements of NARA 1701 and 1702. We concur with the recommendation, but would like to note that these directives are undergoing revision. Specifics as to the documentation requirements may change.
- Recommendation 2 relates to documentation for a specific group of overdue loans. We concur that procedures for overdue loans be followed, and will take steps to prepare documentation for this group of overdue loans. As with recommendation 1, specifics as to procedures for overdue loans may change with the revision of NARA 1701 and 1702.
- Recommendation 3 relates to notification procedures when a loan has been lost or is missing. We concur with the recommendation and will take action to ensure compliance.
- Recommendation 4 relates to amending NARA 1701 to provide for OIG notification of all lost/missing loans and requests to classify overdue loans as unrecoverable. We concur with the recommendation and will incorporate this notification process with appropriate roles and responsibilities for each NARA unit in the revision now underway.

- Recommendation 5 relates to an organizational loan database. Currently, information on overdue loans is provided to the Archivist in quarterly reports from NL, NR, and NW. Each program area has its own mechanism for gathering this information from units that originate loans. Although this method has been shown to have inconsistencies in reporting, we do not agree that an organizational database represents the best business solution at this time. We do not concur with recommendation 5, but will explore other means of addressing the underlying finding.

If you have questions about this response, please contact Rod Carter, NR Management Control Liaison at 301-837-1848 or via email at rod.carter@nara.gov.

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