



AGENCY FINANCIAL REPORT FY 2018



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.

STRATEGIC GOALS

Make Access Happen

NARA will make all records available to the public in digital formats, to ensure that anyone can explore, discover, and learn from NARA holdings.

Connect with Customers

NARA will improve internal and external customer engagement to cultivate and sustain public participation.

Maximize NARA's Value to the Nation

NARA will reform and modernize records management policies and practices within the Federal government to effectively support the transition to digital government. NARA will drive public and commercial re-use of historical government data and records to create measurable economic activity.

Build our Future Through Our People

NARA will create and sustain a culture of empowerment, openness, and inclusion; and ensure that NARA has a diverse workforce with the skills necessary to fulfill the agency's mission.

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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/.

LETTER FROM THE ARCHIVIST OF THE UNITED STATES



I am pleased to present the FY 2018 Agency Financial Report (AFR) of the National Archives and Records Administration (NARA). The AFR is a report on NARA's

financial and performance results for FY 2018. It allows the President, Congress, and the American people to assess our stewardship over the Government resources that have been entrusted to NARA.

One of our most notable accomplishments in FY 2018 was the completion of system development for the next-generation Electronic Records Archives (ERA 2.0) system. ERA 2.0 represents a significant advancement in our ability to accept, store, and provide public access to electronic archival records. ERA 2.0 will allow NARA to manage electronic archival records at a massive scale and in a flexible environment that will help us prepare for our goal of accepting records in only electronic formats by the end of 2022. ERA 2.0 will support a broad range of records management and archival functions, from the scheduling and accessioning of Federal records to the preservation of born-electronic and digitized Federal records.

ERA 2.0 is one of the many successes that NARA enjoyed in FY 2018 that demonstrated significant progress towards meeting the goals in our FY 2018–FY 2022 Strategic Plan. The accomplishments highlighted below provide additional examples of NARA's effective stewardship of Federal resources and our continued commitment to modernizing Government for the 21st century.

Key Accomplishments

- In FY 2018, NARA released its new 2018–22 Strategic Plan. Our new Strategic Plan announced our commitment to transition Federal recordkeeping to a fully electronic environment and end NARA's acceptance of paper records by December 31, 2022. Our plan promises to develop and deploy modern information systems to retain electronic archival records and provide Federal agencies with the guidance and training they need to transition to fully electronic recordkeeping. It also includes our commitment to investing in our greatest resource, NARA's employees, to ensure that all NARA staff are appropriately trained and prepared for productive and rewarding careers.
- NARA released the *Criteria for Successfully Managing Permanent Electronic Records*, which supports the 2019 target from the Managing

Government Records Directive (OMB M-12-18) requiring agencies to manage their permanent electronic records in electronic formats throughout their lifecycle. The criteria included a high-level overview of the areas agencies to focus on the target and a set of operational activities for agencies to accomplish.

- NARA also marked a major milestone in the completion of the Managing Government Records Directive’s initiative to overhaul the General Records Schedule (GRS) to reduce the scheduling and appraisal burden on agencies. General Records Schedule 5.7, Agency Accountability Records, was the final schedule to be signed in this effort to reduce the need for multiple, unique records schedules covering similar or related records. The GRS was released in December 2018.
- NARA released more than 49,000 John F. Kennedy assassination-related documents online, either in full or in part, in accordance with the John F. Kennedy Assassination Records Collection Act of 1992 and guidance from the White House. Much of the collection (88 percent) has been open to the public since the late 1990s. The newly released records are documents previously identified as assassination records but withheld in part or in full.
- In FY 2018, NARA opened a new exhibition, “Remembering Vietnam:

Twelve Critical Episodes in the Vietnam War.” This 3,000-square-foot exhibit used more than 80 original records from NARA—including newly declassified documents—to critically reexamine major events and turning points in the war. The exhibit provides a framework for understanding the decisions that led to the war, events and consequences of the war, and its legacy.

Management Challenges and Opportunities

The NARA Inspector General has identified 10 challenges, detailed in the “Other information” section of this report, which present opportunities for improvements. Management is aware of these issues and is committed to working collaboratively with our Inspector General to either mitigate or resolve these risks.

Information Technology security continues to present challenges as technology is constantly changing and security threats are constantly evolving. As an ever-increasing volume of records are born electronic, we are looking at ways to ensure sufficient capacity, efficiency in throughput, and security of the Federal Government’s records that must be preserved and made available to the public.

In FY 2018, NARA identified a new material weakness in Human Capital practices. NARA will be transitioning to a human resources shared service provider to ensure that we have an

effective hiring process in order to reach the best talent in a competitive market. We must have highly qualified, highly motivated, and a diverse workforce in order to achieve the agency's strategic goals and objectives.

Based on the status and progress that NARA has made to address its challenges and risks in FY 2018, I am able to provide a modified statement of assurance that--with the exceptions of material weaknesses in IT security and Human Capital practices--NARA's internal controls are meeting their intended objectives, as defined by OMB Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Controls."

My assessment is based on results of internal control monitoring, testing and reporting conducted by NARA offices, 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.

Our FY 2018 accomplishments are the result of the commitment and dedicated efforts of NARA employees, who take great pride in our mission. We take our responsibilities seriously and routinely review our business processes and internal control environment to detect, mitigate, and address control weaknesses and management challenges. We will continue to directly address our challenges, meet our opportunities, and improve the efficiency and effectiveness with which we fulfill our mission to ensure meaningful public access to the records of the U.S. Government.



David S. Ferriero
Archivist of the United States

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

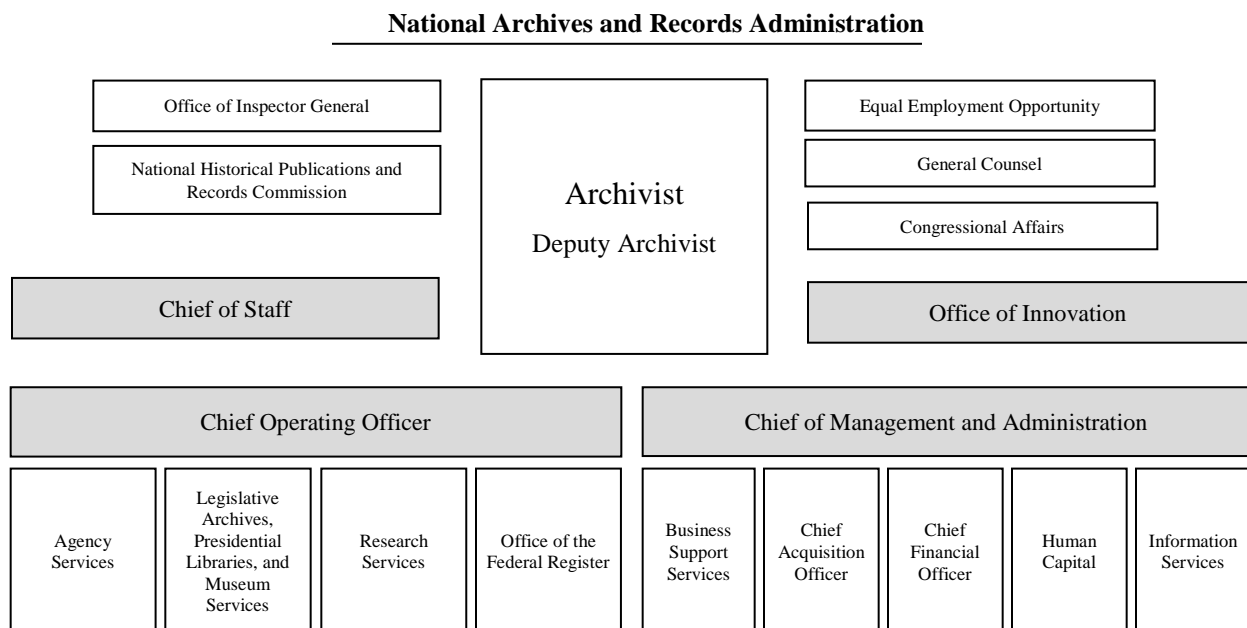
The Management's Discussion and Analysis (MD&A) section presents NARA's financial condition and program performance.

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

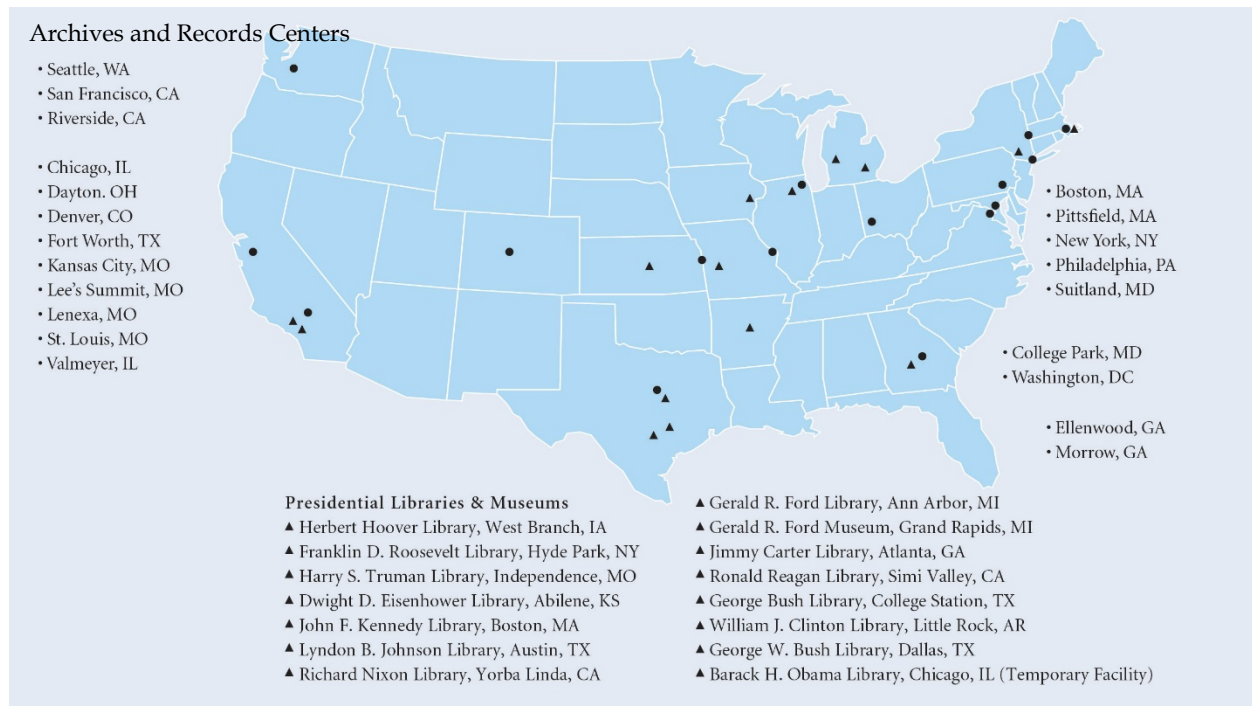
The National Archives and Records Administration ensures continued public access to historically valuable Federal records through services provided to other Federal agencies and the public. NARA is organized around customer segments, which ensures that resources and management attention are focused on 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”: 1) Agency Services, 2) Research Services, and 3) 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.



- *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 2018 target to conduct basic archival processing on 79 percent of NARA’s archival holdings. FY 2018 was the first full year of performance under new definition and standards for “basic processing”. NARA attributes FY 2018 performance to increased standardization and new controls that give greater insight into performance against agency processing goals.

NARA processed 196,900 cubic feet in FY 2018. This amount was offset by more than 123,500 cubic feet of new,

unprocessed archival records NARA received in FY2018, producing a net decrease in the processing backlog totaling 73,400 cubic feet.

As a result of the progress made in FY 2018, NARA has more than 4.5 million cubic feet of records that are processed and available for discovery and use by the public. NARA ended FY 2018 with 707,100 cubic feet of unprocessed records down from 780,500 cubic feet in FY 2017 and 1.17 cubic feet million in FY 2016.

Performance Goal: By FY 2021, 82 percent of NARA holdings will be processed to enable discovery and access by the public.

<i>Performance Measure</i>	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Target	2018 Actual	Status
Percent of archival holdings processed	68%	72%	74%	78%	79%	79%	Met

Connect with Customers

NARA exceeded its performance target for timeliness in responding to customer requests, achieving 96 percent in FY 2018. NARA’s FY 2018 performance also exceeded FY 2017 performance by 4 percentage points. NARA is committed to providing excellent customer service and timely responses to customer requests within the promised time.

This performance target consolidates separate metrics for NARA responses to written reference requests from the public and from other Federal agencies, items NARA furnished in public research rooms, orders NARA fulfilled for copies of military separation documents, and responses to FOIA requests. Despite an increase in more than 418,000 requests in FY 2018, NARA successfully achieved its target. The National Personnel Records Center (NPRC) responses to requests for military separation documents is one of the largest components of NARA’s

consolidated timeliness metric. In FY 2018, the NPRC responded to 93 percent of these requests within our target response time of ten working days or less. During FY 2018, the NPRC responded to more than 530,000 requests for military separation documents. The NPRC maintained its 93 percent responsiveness despite a seven percent increase in requests over FY 2017.

In FY 2019, NARA will pilot new initiatives to continue to improve the efficiency and timeliness of our services to our customers. In FY 2019, NARA will digitize records currently available only on microfiche, pilot technology to scan documents in records storage bays (instead of moving them to office space to scan), and will expand customer options for digital delivery of requested documents.

Performance Goal: By 2020, 93 percent of customer requests will be ready within the promised time.

<i>Performance Measure</i>	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Target	2018 Actual	Status
Percent of customer requests ready within the promised time	—	—	95%	92%	93%	96%	Met

Maximize NARA’s Value to the Nation

NARA exceeded its FY 2018 target to inspect Federal agencies records management practices and programs, inspecting 35 agencies, or 13 percent of covered agencies. Under 44 U.S.C. 2904(c)(7) and 2906(a), NARA has authority to conduct inspections or surveys of the records and records management practices of Federal agencies for the purpose of providing recommendations for improvements. On-site inspections of other agencies’ records management practices help those agencies strengthen their records management programs.

Federal agencies are selected for inspections based on several factors, such as the agency’s records management self-assessment survey results, the historical and public

significance of their records and related business processes, and known or suspected incidents of improper management of records.

In FY 2018, NARA completed formal (single-agency) inspections of twelve agencies as well as multi-agency assessments of email records management and records management training programs at an additional 23 Federal agencies. Some of the agencies inspected included the Department of Defense, Department of Homeland Security, and the Department of Justice.

NARA inspections and assessments include published findings and recommendations in a written report to the head of an agency.

Performance Goal: By FY 2019, NARA will conduct inspections of records management practices at 10 percent of Federal agencies per year, to ensure that Federal email and other permanent electronic records are being managed in an electronic format.

Performance Measure	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Target	2018 Actual	Status
Percent of Federal agencies inspected	—	—	—	3%	10%	13%	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 were able to decrease the time to fill vacancies from an average of 100 days in FY 2017 to 93 days in FY 2018. NARA identified obstacles in the staffing workflow which resulted in modest changes to improve timeliness.

NARA is migrating to human resources shared services in order to improve the hiring process. NARA strives to fulfill its goal to have a timely and efficient hiring process that reaches the best talent. A shared service approach will provide NARA with standardized processes, consistent service to NARA staff, and will ensure that more NARA hiring actions are completed within the 80-day standard.

Performance Goal: By FY 2020, 85 percent of NARA positions will be filled within 80 days

Performance Measure	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Target	2018 Actual	Status
Percent of NARA positions filled within 80 days	—	—	53	40	65	47	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, 2018. 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, 2018, and September 30, 2017, and the status of those resources.

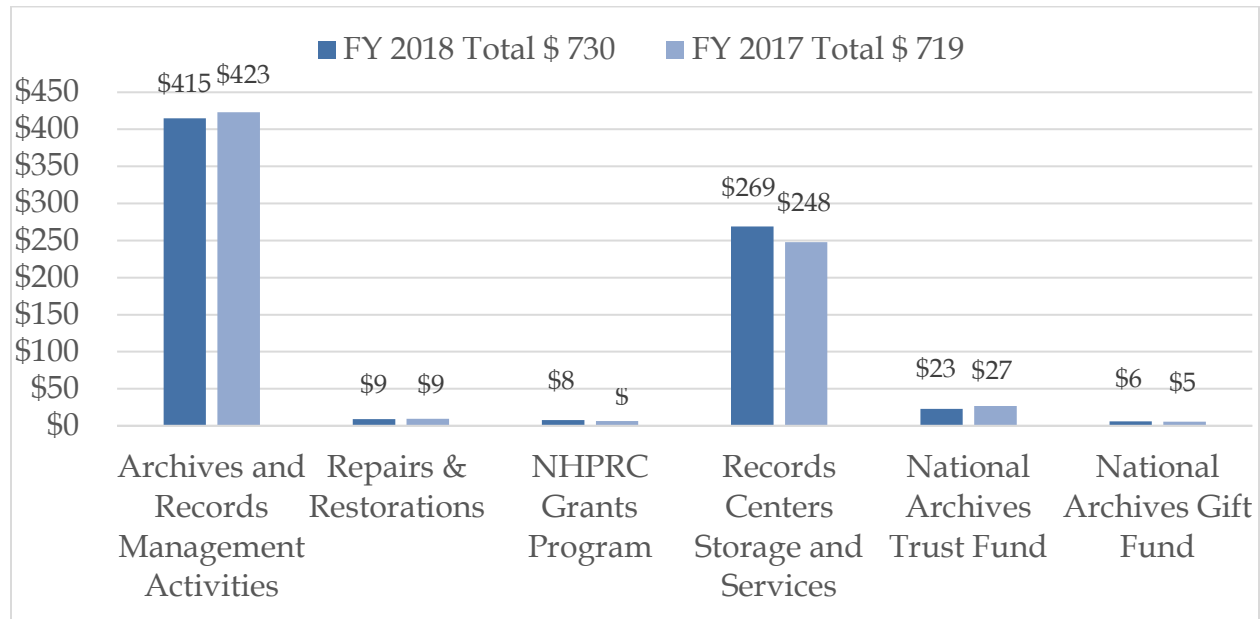
Budget authority is the authority provided to NARA by law to enter into obligations that will result in future expenditures (outlays) of federal funds. Obligations are incurred when an order is placed, contract awarded, service received, or similar transaction, which will require payments during the 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 \$731 million in total budgetary resources in FY 2018, an increase of \$12 million over FY 2017. 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) decreased \$16 million from \$384 million in FY 2017 to \$368 million in FY 2018.

Total Budgetary Resources by Program

Dollars in Millions



Approximately 56 percent (\$407 million) of NARA’s total budgetary resources came from current-year appropriations, and an additional 30 percent (\$220 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 (\$104 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 \$466 million at the end of FY 2018 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*).

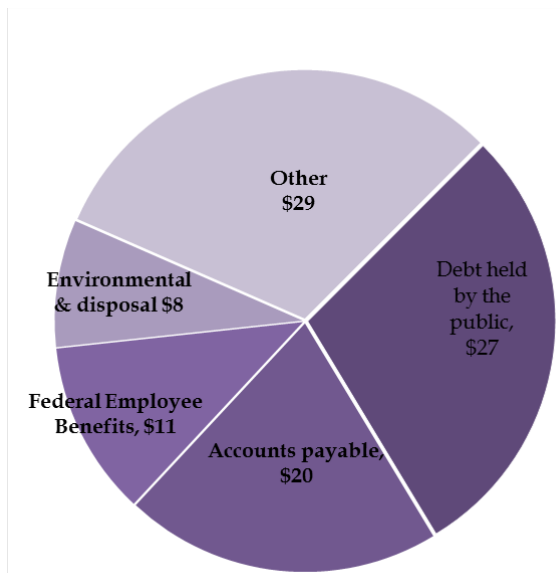
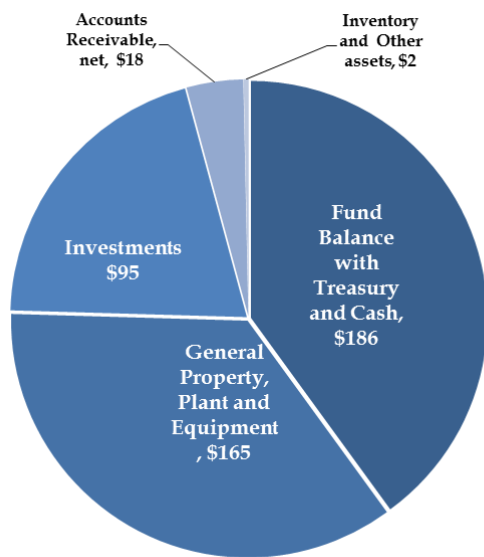
NARA’s FY 2018 total asset balance decreased from FY 2017, declining by about \$28 million primarily due to reductions in Fund Balance with Treasury and Property Plant and Equipment.

NARA held *Total Liabilities* of \$95 million at the end of FY 2018, a decline of 22 percent (\$27 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 28 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.

Sixty percent (\$57 million) of NARA's total liabilities are unfunded, i.e., budgetary resources are not yet available as of September 30, 2018. The major elements of unfunded liabilities are \$27 million for *Debt held by the public*, \$11 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, 2018

Dollars in Millions



Total Assets, \$466 million Total Liabilities, \$95 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.

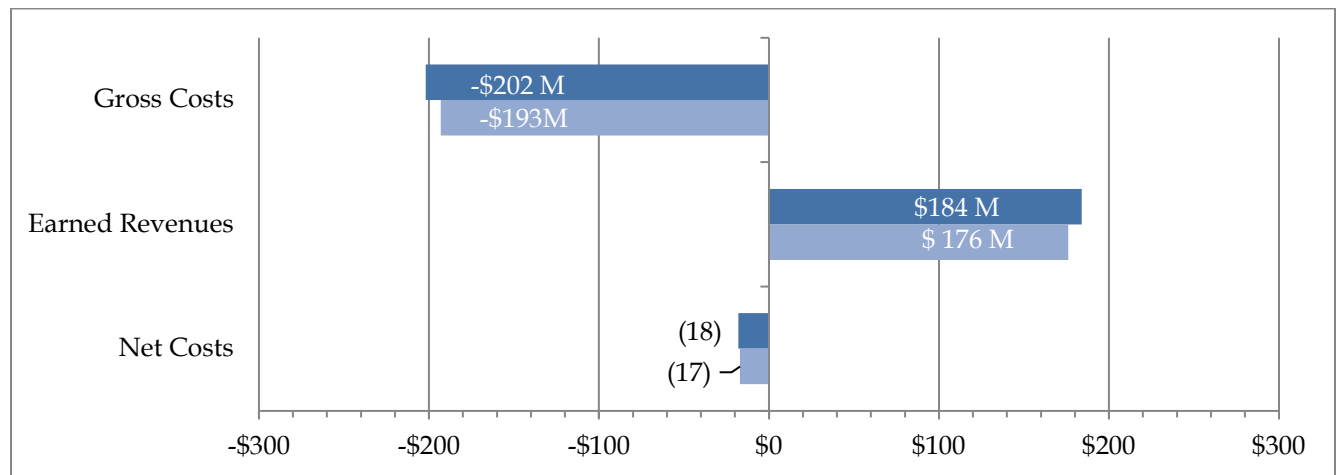
NARA’s total net cost of operations was \$417 million for FY 2018. NARA incurred \$625 million in gross costs in FY 2018, which were partially offset by \$207 million in revenues collected from

Federal and non-Federal sources. Expenses financed by Congressional appropriations represent about 65 percent (\$408 million) of NARA’s FY 2018 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 2018 and 2017, 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 2018, the Records Centers Revolving Fund incurred \$202 million in gross costs, and earned \$184 million in revenues, resulting in net costs of \$18 million. Gross costs increased in FY 2018 due to increased payroll expenditures required to reduce existing

backlogs, as well as increased rent. Revenues remained stable resulting in relatively consistent net costs for FY 2018.

National Archives Trust and Gift Funds,
Net Results of Operations

The National Archives Trust and Gift Funds realized net revenues from operations of \$8.67 million in FY 2018, a decrease of \$1.7 million over FY 2017 levels. This decrease was primarily due to combination of increased investment

in capital improvements over 2017 levels and an overall decrease in revenue from library admissions and records management training.

The increase in heritage asset renovation costs was attributable to capital improvements made at the John F. Kennedy Library.

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 2018 FMFIA assurance statement is included in the report.

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).

NARA's evaluation of its internal controls for the year ended September 30, 2018, provides reasonable assurance that – except for material weaknesses associated with Information Technology Security and Human Capital – the Agency's internal controls achieved their intended objectives in FY 2018.

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 #19-01, *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.

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.

Digital Accountability and Transparency Act (DATA Act) of 2014

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-18-20, dated June 26, 2018, updated government-wide guidance on the implementation of IPERIA. This guidance is contained in Appendix C of OMB Circular A-123, *Requirements for Payment Integrity Improvement*. 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

The Digital Accountability and Transparency Act of 2014 (DATA Act) (P.L. 113-101) was intended to make it easier to understand how the Federal government spends taxpayer dollars and improve oversight, data-driven decision-making, and innovation both inside and outside of the government.

NARA works cooperatively with our financial management shared services provider, the Department of Treasury, Bureau of the Fiscal Service, Administrative Resource Center (ARC), to certify and publish detailed quarterly spending data on the USAspending.gov website in compliance with the Data Act.

Forward-Looking Information

Make Access Happen

Make Access Happen affirms that “public access” is NARA’s core mission and is a higher calling that gives purpose and meaning to all our work. NARA is reaching beyond the traditional role of making records available for others to discover and is instead making access happen by delivering increasing volumes of electronic records to the American public online, using flexible tools and accessible resources that promote public participation. In order to achieve success in this goal, NARA must digitize millions of records we hold in analog formats, keep pace with the continuous stream of new records we receive each year, and develop new ways to help citizens find our records through the online National Archives Catalog.

In FY 2019, NARA will issue a new processing manual for analog records and analyze processing performance against established benchmarks. NARA will use this analysis to improve quality control and accelerate textual processing. Processing archival records ensures that critical physical and intellectual controls of NARA’s holdings are in place and that more holdings are discoverable and available for access by potential users. Additionally, NARA has entered into new digitization agreements with private partners that – once completed – are expected to add 12 million digitized pages to the Catalog. NARA has also procured several

desktop scanners for use by NARA staff to digitize, describe, and upload more records into the Catalog.

Connect with Customers

In FY 2019 and FY 2020, NARA will pilot several new initiatives to improve customer service, including digitizing records currently available only on microfiche, scanning military separation documents in records storage bays (instead of moving them to office space to scan), and expanding customer options for digital delivery of requested documents. Additionally, in FY 2020, NARA will develop new interfaces to the National Archives Catalog that integrate citizen archivist activities throughout NARA’s other web platforms.

Maximize NARA’s Value to the Nation

In FY 2019, NARA will make improvements to the National Archives Catalog API to make it easier to access and re-use Catalog records. In FY 2020, NARA will improve how it maintains relationships with its customers online, including external platforms that use or seek to use our data.

Build our Future through our People

NARA must have a cadre of skilled leaders in order to effectively transition to a fully-electronic environment. In FY 2019, NARA plans to transition Human Capital functions to a human resources provider.

Management Assurances



NATIONAL
ARCHIVES

ARCHIVIST *of the*
UNITED STATES

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November 8, 2018

FY 2018 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), OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, and the Digital Accountability and Transparency (DATA Act) of 2014. I am able to provide a modified statement of assurance that, with the exception of material weaknesses in NARA's Information Technology Security and Human Capital practices, 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
700 PENNSYLVANIA AVENUE, NW
WASHINGTON, DC 20408-0001
www.archives.gov


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 first identified by NARA Management as a material weakness in fiscal year 2015. Although actions from the fiscal year 2015 weakness were completed leading to improvements in NARA's IT Security posture, I conclude that it remains a material weakness. Our plan to resolve this weakness consists of actions to implement the OMB/DHS Cybersecurity Framework strategy and demonstrate sustained "green" / "managing risk" ratings in the annual OMB/DHS Risk Management Assessment (RMA). Our action plan is expected to be completed in fiscal year 2020.

Human Capital Material Weakness

In fiscal year 2018, NARA Management identified a material weakness in Human Capital practices. This material weakness is associated with internal control deficiencies in Human Capital policies and procedures with emphasis on NARA's challenges in recruiting staff within OPM's 80-day hiring metric. NARA's primary strategy to address this weakness is to migrate human capital services to a shared service provider. NARA expects to begin migration in FY 2019.

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 2018 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 2018.

**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
Human Capital	0	1	0	0	1
Total Material Weaknesses	1	1	0	0	2

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 2018 and FY 2017 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, 2018 and 2017
 (in thousands)

Assets	2018	2017
Intragovernmental:		
Fund balance with Treasury (Note 2)	\$ 186,275	\$ 191,353
Investments (Note 3)	12,057	10,202
Accounts receivable (Note 4)	17,236	15,634
Other (Note 8)	752	4,471
Total intragovernmental	\$ 216,320	\$ 221,660
Cash and other monetary assets	\$ 32	\$ 33
Investments (Note 3)	82,694	75,352
Accounts receivable, net (Note 4)	822	921
Inventory, net (Note 5)	514	630
General property, plant and equipment, net (Note 6)	165,364	195,501
Other (Note 8)	326	380
Total assets	\$ 466,072	\$ 494,477
Stewardship PP&E (Note 15)		
Liabilities		
Intragovernmental		
Accounts payable	\$ 481	\$ 1,748
Other (Note 11)	4,741	4,676
Total intragovernmental	\$ 5,222	\$ 6,424
Accounts payable	\$ 19,111	\$ 20,411
Debt held by the public (Note 9, 10)	27,417	52,643
Federal employee benefits (Note 9)	10,788	10,050
Environmental and disposal liabilities (Note 9, 17)	7,855	7,823
Other (Note 11)	24,675	24,595
Total liabilities	\$ 95,068	\$ 121,946
Commitments and Contingencies (Note 13)		
Net Position:		
Unexpended appropriations - other funds	\$ 104,910	\$ 113,794
Cumulative results of operations - Funds from Dedicated Collections (Note 14)	94,889	85,709
Cumulative results of operations - other funds	171,205	173,028
Total Net Position	371,004	372,531
Total Liabilities and Net Position	\$ 466,072	\$ 494,477

The accompanying notes are an integral part of these statements

National Archives and Records Administration
FY 2018 Agency Financial Report

Consolidated Statement of Net Cost

*For the years ended September 30, 2018 and 2017
(in thousands)*

	2018	2017
Archives and Records Management Activities		
Gross costs	\$ 387,803	\$ 384,218
Less: Earned Revenue	(20)	(89)
	\$ 387,783	\$ 384,129
Total net Archives and Records Management Activities program costs	\$ 387,783	\$ 384,129
Trust and Gift funds		
Gross costs (excluding heritage asset renovation)	\$ 14,387	\$ 14,318
Heritage asset renovation costs (Note 15)	463	99
Less: Earned Revenue	(23,525)	(24,749)
	\$ (8,675)	\$ (10,332)
Net Program Costs	\$ (8,675)	\$ (10,332)
National Historical Publications and Records Commission Grants		
Gross costs	\$ 4,989	\$ 4,709
Less: Earned Revenue	-	-
	\$ 4,989	\$ 4,709
Total net National Historical Publications and Records Commission Grants program costs	\$ 4,989	\$ 4,709
Archives facilities and presidential libraries repairs and restoration		
Gross costs (excluding heritage asset renovation)	\$ 5,752	\$ 374
Heritage asset renovation costs (Note 15)	9,454	7,891
Less: Earned Revenue	-	-
	\$ 15,206	\$ 8,265
Total net Archives Facilities and Presidential Libraries Repairs and Restoration program costs	\$ 15,206	\$ 8,265
Revolving Fund Records Centers Storage and Services		
Gross costs	\$ 201,847	\$ 193,332
Less: Earned Revenue	(183,683)	(176,479)
	\$ 18,164	\$ 16,853
Total net Revolving Fund Records Centers Storage and Services program costs	\$ 18,164	\$ 16,853
Net Cost of Operations	\$ 417,467	\$ 403,624

The accompanying notes are an integral part of these statements

National Archives and Records Administration
 FY 2018 Agency Financial Report

Consolidated Statement of Changes in Net Position

For the year ended September 30, 2018
 (in thousands)

	2018		
	Funds from Dedicated Collections	All Other Funds	Consolidated Total
Unexpended Appropriations:			
Beginning Balance	\$ -	\$ 113,794	\$ 113,794
Budgetary Financing Sources:			
Appropriations received	-	403,212	403,212
Other adjustments	-	(13,436)	(13,436)
Appropriations Used	-	(398,660)	(398,660)
Total Budgetary Financing Sources	-	(8,884)	(8,884)
Total Unexpended Appropriations	-	104,910	104,910
Cumulative Results of Operations:			
Beginning Balance	\$ 85,708	\$ 173,028	\$ 258,736
Budgetary Financing Sources:			
Appropriations Used	-	398,660	398,660
Nonexchange Revenue	751	-	751
Donations and forfeitures of cash and cash equivalents	2,158	-	2,158
Transfers-in/out without reimbursement	(606)	606	-
Other	46	-	46
Other Financing Sources:			
Imputed financing	393	23,421	23,814
Other	(604)	-	(604)
Total Financing Sources	2,138	422,687	424,825
Net Cost of Operations	(7,043)	424,510	417,467
Net Changes	9,181	(1,823)	7,358
Cumulative Results of Operations:	94,889	171,205	266,094
Net Position	\$ 94,889	\$ 276,115	\$ 371,004

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

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
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
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	17,171
Other	(237)	-	(237)
Total Financing Sources	1,459	426,943	428,402
Net Cost of Operations	(8,653)	412,277	403,624
Net Changes	10,112	14,666	24,778
Cumulative Results of Operations:	85,709	173,028	258,737
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 2018 Agency Financial Report

Combined Statement of Budgetary Resources

For the years ended September 30, 2018 and 2017

(in thousands)

	2018	2017
BUDGETARY RESOURCES:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	\$ 103,848	\$ 106,240
Appropriations (discretionary and mandatory)	406,775	401,472
Spending authority from offsetting collections (discretionary and mandatory)	220,034	211,176
Total budgetary resources	<u>\$ 730,657</u>	<u>\$ 718,888</u>
Memorandum (non-add) Entries:		
Net adjustments to unobligated balance brought forward, Oct. 1	\$ (145,531)	\$ (187,441)
STATUS OF BUDGETARY RESOURCES:		
New Obligations and Upward adjustments (total)	618,243	612,052
Unobligated balance, end of year:		
Apportioned, unexpired account	72,898	65,218
Exempt from apportionment, unexpired account	5,721	5,173
Unapportioned, unexpired accounts	15,136	8,791
Unexpired unobligated balance, end of year	<u>93,755</u>	<u>79,182</u>
Expired unobligated balance, end of year	18,659	27,654
Unobligated balance, end of year (total)	<u>112,414</u>	<u>106,836</u>
Total budgetary resources	<u>\$ 730,657</u>	<u>\$ 718,888</u>
Outlays, net (discretionary and mandatory)	\$ 371,514	\$ 386,712
Distributed offsetting receipts	(3,429)	(2,516)
Agency Outlays, net (discretionary and mandatory)	<u>\$ 368,085</u>	<u>\$ 384,196</u>

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 include accounts of all funds under NARA's control. The accounts are also detailed in the Financial Summary of Management Discussion and Analysis. NARA does not have reportable balances with disclosure entities or related parties.

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, 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 14). 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, 2018 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

Status of Fund Balances with Treasury	2018	2017
Unobligated Balance		
Available	\$ 66,531	\$ 60,156
Unavailable	33,795	36,446
Obligated Balance not yet disbursed	85,586	94,491
Sequestration for Trust fund	363	260
Total	\$ 186,275	\$ 191,353
Unavailable unobligated balance includes the following		
Allotments - Expired Authority	\$ 18,659	\$ 27,655
Unapportioned Authority	15,136	8,791
Total	\$ 33,795	\$ 36,446

This note provides additional information supporting the Fund 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, 2018 is \$23,816 thousand (of which \$1,290 thousand is unobligated) compared to the balance as of September 30, 2017, which was \$23,782 thousand (of which \$815 thousand is unobligated).

The unused fund balance of \$8,537 thousand in canceled FY 2013 appropriation was returned to Treasury at the end of FY 2018.

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 2018 Agency Financial Report

As of September 30, 2018
(in thousands)

	Cost	Interest Receivable	Investments Net	Adjustments to Fair Value	Market Value Disclosure
Intragovernmental Securities:					
Non-Marketable	\$12,056	\$1	\$12,057	\$0	\$12,057
Total Intragovernmental	\$12,056	\$1	\$12,057	\$0	\$12,057
Other Securities:					
Vanguard Intermediate Term Investment Grade	12,979	0	12,979	(736)	12,243
Vanguard Developed Markets Index Fund	2,897	27	2,924	393	3,317
Vanguard Dividend Growth Fund	4,921	31	4,952	1,786	6,738
Emerging Markets Stock Index Fund	4,333	18	4,351	69	4,420
Short-Term Investment Grade	13,410	0	13,410	(245)	13,165
Small-Cap Index Fund	6,186	38	6,224	3,676	9,900
Vanguard Total Bond Market Index	6,956	0	6,956	(94)	6,862
Vanguard Total International Bond Index	521	0	521	17	538
Vanguard Total Stock Market Index	5,677	14	5,691	3,246	8,937
Vanguard PRIMECAP Core Fund	1,653	27	1,680	1,756	3,436
Vanguard GNMA Fund	965	0	965	(56)	909
Vanguard Wellesley Fund	995	11	1,006	38	1,044
Vanguard High-Yield Corporate Fund	5,008	0	5,008	(131)	4,877
Vanguard Information Technology Index	4,371	9	4,380	1,709	6,089
Vanguard Intermediate-Term Corporate Bond Index	113	0	113	(5)	108
Equity Income Fund Admiral	51	0	51	5	56
Total STAR Fund	51	1	52	3	55
Total Other	\$71,087	\$176	\$71,263	\$11,431	\$82,694
Total Investments	\$83,143	\$177	\$83,320	\$11,431	\$94,751

National Archives and Records Administration
 FY 2018 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
Emerging Markets Stock Index Fund	3,898	12	3,910	329	4,239
Short-Term Investment Grade	13,281	-	13,281	52	13,333
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

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.

	2018		2017	
	Intra-governmental	With the public	Intra-governmental	With the public
Accounts receivable	\$ 17,236	\$ 822	\$ 15,634	\$ 921
Accounts receivable, net	\$ 17,236	\$ 822	\$ 15,634	\$ 921

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)

	2018	2017
Inventory held for sale	\$ 613	\$ 829
Allowance for damaged and obsolete goods	(99)	(199)
Net realizable value	\$ 514	\$ 630

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, 2018 and 2017.

(in thousands)

Asset category	Estimated useful life in years	Acquisition cost	Accumulated depreciation/ amortization	2018	2017
				Net book value	Net book value
Land	N/A	\$2,628	\$0	\$2,628	\$6,159
Buildings and structures	30	404,920	(318,922)	85,998	94,753
Construction in progress	N/A	5,948	0	5,948	14,689
Equipment & Shelving	3 to 20	125,563	(109,348)	16,215	17,703
Leasehold Improvements	various	43,433	(27,072)	16,361	18,687
Internal-use software	5	372,365	(341,883)	30,482	35,094
Software in development	N/A	7,732	0	7,732	8,416
Total property, plant and equipment		\$962,589	(\$797,225)	\$165,364	\$195,501

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)	1	12	-	-
Affiliated archives	-	-	7	1	-
Presidential Libraries	13	-	14	4	14
TOTAL	16	1	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 comprise a combination 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 a parcel of land designated as multi-use at the National Archives in Atlanta, GA. In fiscal year 2018, the undeveloped land originally acquired for a new field archival facility in Anchorage, Alaska was sold to the Municipality of Anchorage.

Traditional Archival Holdings

Traditional archival 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 in digital form, 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. Electronic Records from Federal agencies are maintained in the Electronic Records Archives (ERA) Base System and the new ERA 2.0 System just launched in October 2018. Three Presidential electronic holding collections, from the Ronald Reagan, George H.W. Bush, and William J. Clinton administrations, are maintained in College Park, MD. Unclassified electronic

materials from the George W. Bush and Barack H. Obama administrations have been ingested to our Executive Office of the President (EOP) instance of the ERA system.

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 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)

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.

	2018		2017	
	Intra-governmental	With the public	Intra-governmental	With the public
Advances	\$ 752	-	\$ 4,471	-
Deferred assets	-	326	-	380
Total other assets	\$ 752	326	4,471	\$ 380

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, 2018 and 2017 are presented below.

(in thousands)

	2018	2017
Intragovernmental		
Other - Workers' compensation	\$ 557	\$ 569
Total Intragovernmental	\$ 557	\$ 569
Debt held by the public	\$ 27,417	\$ 52,643
Other - Accrued unfunded leave	11,220	11,316
Environmental cleanup cost-Asbestos	7,855	7,823
Federal employee benefits-actuarial FECA liability	10,788	10,050
Total liabilities not covered by budgetary resources	57,837	82,401
Total liabilities covered by budgetary resources	37,228	39,545
Total liabilities not requiring budgetary resources	3	(1)
Total liabilities	\$ 95,068	\$ 121,946

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.

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(in thousands)

	2018		2017	
Beginning balance - Principal	\$	52,273	\$	75,321
Less : Debt repayment		25,049		23,048
Ending balance - Principal		27,224		52,273
Accrued interest payable		193		370
Total debt at September 30	\$	27,417	\$	52,643

Note 11 – Other Liabilities

(in thousands)

	2018			2017		
	Non-Current	Current	Total	Non-Current	Current	Total
Intragovernmental						
Workers' and unemployment compensation	\$1,238	\$802	\$2,040	\$1,101	\$799	1,900
Accrued payroll	-	2,432	2,432	-	2,409	2,409
Advances from others	-	269	269	-	366	366
Total Intragovernmental	\$1,238	\$3,503	\$4,741	\$1,101	\$3,574	\$4,675
Accrued funded payroll and leave	-	13,363	13,363	-	13,187	13,187
Unfunded leave	11,220	-	11,220	11,316	-	11,316
Miscellaneous liabilities	-	88	88	-	72	72
Advances	-	4	4	-	20	20
Total other liabilities	\$12,458	\$16,958	\$29,416	\$12,417	\$16,853	\$29,270

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./Dunn 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 August 31, 2024
Ft. Worth, TX	October 1, 2006 through October 31, 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:

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(in thousands)

<u>Fiscal year</u>		<u>Land</u>	<u>Fed Buildings</u>	<u>Non-Fed Buildings</u>	<u>Total</u>
2019	\$	161	\$ 28,187	\$ 10,508	\$ 38,856
2020		165	27,793	10,627	38,585
2021		169	27,722	10,680	38,571
2022		173	27,934	10,698	38,805
2023		103	24,614	10,698	35,415
After 2023		-	211,435	29,345	240,780
Total future lease payments	\$	771	\$ 347,685	\$ 82,556	\$ 431,012

Note 13 - Commitments and Contingencies

NARA has incurred various claims in the normal course of business. As of September 30, 2018, and in the opinion of the General Counsel, NARA has no outstanding claims that have a reasonable possibility of an unfavorable outcome.

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.

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Financial information for NATF and NAGF as of September 30, 2018 consists of the following:
(in thousands)

	2018		
	NATF	NAGF	Total
Balance Sheet as of September 30, 2018			
Assets			
Fund balance with Treasury	\$ 592	\$ 101	\$ 693
Cash	32	-	32
Investments, net	66,091	28,660	94,751
Accounts receivable	506	-	506
Inventory	514	-	514
Total assets	\$ 67,735	\$ 28,761	\$ 96,496
Liabilities			
Accounts payable	261	\$ 12	\$ 273
Federal employee and veteran benefits	523	-	523
Other liabilities	811	-	811
Total liabilities	\$ 1,595	\$ 12	\$ 1,607
Net position			
Cumulative results of operations			
Conditional	\$ -	\$ 23,816	\$ 23,816
Unconditional	66,140	4,933	71,073
Total net position	\$ 66,140	\$ 28,749	\$ 94,889
Total liabilities and net position	\$ 67,735	\$ 28,761	\$ 96,496
Statement of Net Cost for the Period Ended September 30, 2018			
Gross Program Costs	\$ 15,475	\$ 1,007	\$ 16,482
Less Earned Revenues	(23,525)	-	(23,525)
Net Costs of Operations	\$ (8,050)	\$ 1,007	\$ (7,043)
Statement of Changes in Net Position For the Period Ended September 30, 2018			
Net position, Beginning of fiscal year	\$ 57,702	\$ 28,005	\$ 85,707
Non-exchange revenue	1	750	751
Donations	-	2,158	2,158
Transfers-in/out without reimbursements	(6)	(599)	(605)
Other Budgetary Financing Sources	-	46	46
Imputed financing from costs absorbed by others	393	-	393
Other Financing Sources	-	(604)	(604)
Total financing sources	388	1,751	2,139
Net cost of operations	(8,050)	1,007	(7,043)
Change in Net Position	8,438	744	9,182
Net Position, End of fiscal year	\$ 66,140	\$ 28,749	\$ 94,889

This note is presented on a combined basis.

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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	57,343	28,212	85,555
Accounts receivable	653	-	653
Inventory	630	-	630
Total assets	\$ 59,333	\$ 28,313	\$ 87,646
Liabilities			
Accounts payable	257	\$ 308	\$ 565
Federal employee and veteran benefits	426	-	426
Other liabilities	946	-	946
Total liabilities	\$ 1,629	\$ 308	\$ 1,937
Net position			
Cumulative results of operations			
Conditional	\$ -	\$ 23,782	\$ 23,782
Unconditional	57,704	4,223	61,927
Total net position	\$ 57,704	\$ 28,005	\$ 85,709
Total liabilities and net position	\$ 59,333	\$ 28,313	\$ 87,646
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.

Note 15 – 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 for the year ended September 30, 2018 and 2017.

<i>(in thousands)</i>	2018			2017			
	Asset	Appropriation	Gift	Trust	Appropriation	Gift	Trust
National Archives Building	\$ 491	-	-		\$ 1,303	-	-
Libraries:							
Roosevelt	156	-	-		727	-	-
Hoover	91	-	-		2	-	-
Truman	685	-	-		76	-	-
Eisenhower	517	-	-		1,224	-	-
Kennedy	588	-	463		264	-	66
Johnson	715	-	-		61	-	-
Nixon	131	-	-		166	-	-
Ford	1,872	-	-		317	2	31
Carter	692	-	-		3,351	-	-
Reagan	377	-	-		41	-	-
Bush	3,046	-	-		359	-	-
Clinton	31	-	-		-	-	-
G.W. Bush	62	-	-		-	-	-
Total	\$ 9,454	\$ -	\$ 463		\$ 7,891	\$ 2	\$ 97

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

Note 16 – 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 17 – 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 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 18 - 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	
	2018	2017	2018	2017	2018	2017	2018	2017
Direct	\$374,885	\$374,884	\$28,296	\$30,594	-	-	\$403,181	\$405,478
Reimbursable	1,536	1,489	196,499	183,647	17,027	21,439	215,062	206,574
Total	\$376,421	\$376,373	\$224,795	\$214,241	\$17,027	\$21,439	\$618,243	\$612,052

Note 19 – 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 2018 actual budgetary execution information has not yet been published. The *Budget of the United States Government* is scheduled for publication in February 2019. 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)

	2017			
	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	\$ 719	\$ 612	\$ (3)	\$ 387
Difference-Expired appropriations	(28)	(1)	-	-
Difference-Rounding	1	(0)	(0)	0
Budget of the U.S. Government	\$ 692	\$ 611	\$ (3)	\$ 387

Note 20 – Undelivered Orders at the End of the Period

The amount of budgetary resources obligated for undelivered orders at September 30, 2018 was \$5,031 thousand federal and 94,855 thousand non-federal. The amount for undelivered orders at September 30, 2017 was \$101,563 thousand.

Note 21 – Budget and Accrual Reconciliation

In 2018, NARA opted for early adoption of SFFAS 53, Budget and Accrual Reconciliation (BAR) to replace the statement of financing. The BAR explains the relationship between NARA’s net outlays on a budgetary basis and the net cost of operations during the reporting period.

The reconciliation starts with the net cost of operations as reported on the Statement of Net Cost and will be adjusted by components of net cost that are not part of net outlays. Common components include depreciation and gains and losses on disposition of assets and changes in assets and liabilities (e.g. accounts receivable, accounts payable and salaries and benefits) not affecting budget outlays.

Net cost of operations is also adjusted by budget outlays that are not part of net operating cost. Components of budget outlays that are not part of net operating cost include acquisition of capital assets, inventory and other assets.

Other reconciling differences, when applicable, include timing differences (e.g. prior period adjustments due to correction of errors).

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RECONCILIATION OF NET COST AND BUDGET OUTLAYS			
September 30, 2018			
(in thousands)			
	Intra- governmental	With the Public	Total
Net Operating Cost (SNC)	(\$32,909)	\$450,376	\$417,467
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Property, plant, and equipment depreciation		(37,291)	(37,291)
Property, plant, and equipment disposal & reevaluation	-	(7,738)	(7,738)
Other	-	(1,177)	(1,177)
Increase/(decrease) in assets:			
Accounts receivable	1,598	(77)	1,521
Other assets	(3,719)	(54)	(3,773)
Investments	-	3,845	3,845
(Increase)/decrease in liabilities not affecting Budget Outlays:			
Accounts payable	1,369	1,495	2,864
Salaries and benefits	(19)	(177)	(196)
Environmental and disposal liabilities		(32)	(32)
Other liabilities	(146)	(656)	(802)
Other financing sources:			
Federal employee retirement benefit costs			(23,814)
Total Components of Net Operating Cost Not Part of the Budget Outlays	(24,731)	(41,862)	(66,593)
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of capital assets	4,033	10,859	14,892
Acquisition of inventory	-	1,055	1,055
Acquisition of other assets	-	4,688	4,688
Other	18	(13)	5
Total Components of the Budget Outlays That Are Not Part of Net Operating Cost	4,051	16,589	20,640
Net Outlays (Calculated Total)	(\$53,589)	\$425,103	\$371,514
Related Amounts on the Statement of Budgetary Resources			
Outlays, net (SBR 4190)			\$371,514
Distributed offsetting receipts (SBR 4200)			(\$3,429)
Outlays, Net (SBR 4210)			\$368,085

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 2018 Ending Balance	FY 2018 Beginning
Heritage assets	\$47 million	\$43 million
General PP&E (Multi-use)	\$11 million	\$11.5 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 2018, current BCR reports identified necessary maintenance projects for seventeen locations, including thirteen of the fourteen Presidential Libraries. Increases to deferred maintenance estimates are the result from the progressing age of real property assets as well as inflation factors.

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 2018 Agency Financial Report

Schedule of Budgetary Resources by Major Budget Accounts

For the year ended September 30, 2018

(in thousands)

2018							
	Archives and Records Management Activities	Gift Fund	Trust Fund	NHPRC Grants	Archives Facilities and Presidential Libraries Repairs and Restorations	Records Center and Storage Services	Total
Budgetary Resources							
Unobligated balance brought forward, Oct 1	\$23,231	\$2,611	\$6,083	\$2,416	\$1,691	\$67,816	\$103,848
Appropriations (discretionary and mandatory)	389,712	3,563	-	6,000	7,500	-	406,775
Spending authority from offsetting collections	2,008	-	16,665	-	-	201,361	220,034
Total Budgetary Resources	414,951	\$6,174	\$22,748	\$8,416	\$9,191	\$269,177	\$730,657
Memorandum (non-add) Entries:							
Net adjustments to unobligated balance brought forward, Oct. 1	(150,322)	404	(1,780)	(7,723)	(9,932)	23,822	(145,531)
STATUS OF BUDGETARY RESOURCES:							
Obligations Incurred	\$386,109	\$2,649	\$17,027	\$6,873	\$9,086	\$196,499	618,243
Unobligated balance, end of year:							
Apportioned	10,183	3,506	-	1,359	20	57,830	72,898
Exempt from apportionment	-	-	5,721	-	-	-	5,721
Unapportioned	-	19	-	184	85	14,848	15,136
Unexpired unobligated balance, end of year	\$10,183	\$3,525	\$5,721	\$1,543	\$105	\$72,678	93,755
Expired unobligated balance, end of year	18,659	-	-	-	-	-	18,659
Unobligated balance, end of year (total)	\$28,842	\$3,525	\$5,721	\$1,543	\$105	\$72,678	112,414
Total budgetary resources	\$414,951	\$6,174	\$22,748	\$8,416	\$9,191	\$269,177	730,657
Outlays, net (discretionary and mandatory)	357,589	2,644	(854)	4,976	9,586	(2,427)	371,514
Distributed offsetting receipts	-	(3,429)	-	-	-	-	(3,429)
Agency Outlays, net (discretionary and mandatory)	\$357,589	(\$785)	(\$854)	\$4,976	\$9,586	(\$2,427)	\$368,085

National Archives and Records Administration
 FY 2018 Agency Financial Report

Schedule of Budgetary Resources by Major Budget Accounts

For the year ended September 30, 2017

(in thousands)

2017							
	Archives and Records Management Activities	Gift Fund	Trust Fund	NHPRC Grants	Archives Facilities and Presidential Libraries Repairs and Restorations	Records Center and Storage Services	Total
Budgetary Resources							
Unobligated balance brought forward, Oct 1	\$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
Memorandum (non-add) Entries:							
Net adjustments to unobligated balance brought forward, Oct. 1	(184,848)	(568)	(3,651)	(5,823)	(11,257)	18,706	(187,441)
STATUS OF BUDGETARY RESOURCES:							
Obligations Incurred	\$391,926	\$2,857	\$21,439	\$4,488	\$7,697	\$183,645	\$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		139	-	335	120	8,197	8,791
Unexpired unobligated balance, end of year	\$3,450	\$2,592	\$5,173	\$2,225	\$1,616	\$64,126	\$79,182
Expired unobligated balance, end of year	27,654	-	-	-	-	-	27,654
Unobligated balance, end of year (total)	\$31,104	\$2,592	\$5,173	\$2,225	\$1,616	\$64,126	\$106,836
Total budgetary resources	\$423,030	\$5,449	\$26,612	\$6,713	\$9,313	\$247,771	\$718,888
Outlays, net (discretionary and mandatory)	371,069	2,576	1,383	4,782	10,338	(3,436)	386,712
Distributed offsetting receipts	-	(2,516)	-	-	-	-	(2,516)
Agency Outlays, net (discretionary and mandatory)	\$371,069	\$60	\$1,383	\$4,782	\$10,338	(\$3,436)	\$384,196

Independent Auditors' Reports



November 15, 2018

TO: David S. Ferriero
Archivist of the United States

FROM: James Springs *James Springs*
Inspector General

SUBJECT: *19-AUD-01, Audit of National Archives and Records Administration's
Fiscal Year 2018 Consolidated Financial Statements*

This memorandum transmits the results of the audit of the National Archives and Records Administration's (NARA) financial statements for fiscal years 2018 and 2017; and the results of the Office of Inspector General's (OIG) oversight of the audit and review of that report. The report 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, 2018 and 2017, 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 19-01, *Audit Requirements for Federal Financial Statements*.

Results of the Independent Audit

CLA issued an unmodified opinion on NARA's FY 2018 and 2017 financial statements. CLA found:

- The fiscal years 2018 and 2017 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 8, 2018, and the conclusions expressed in the accompanying report. To ensure the quality of the audit work performed, we evaluated the independence, objectivity, and qualifications of the auditors; reviewed the plan and approach of the audit; monitored the performance of the audit; reviewed CLA's report 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 recommendations aimed at improving NARA's information technology controls. Your office concurred with the recommendations. Based on your November 8, 2018 response to the draft report (attached), we consider all the recommendations open. Please submit an action plan for each recommendation. Once your office has fully implemented the recommendations, please submit evidence of completion of agreed upon corrective actions so that recommendations may then be closed.

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.



CliftonLarsonAllen LLP
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Arlington, VA 22203
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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, 2018 and 2017, 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 audit. We conducted our audit 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. 19-01, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 19-01). Those standards and OMB Bulletin 19-01 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 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, 2018 and 2017, 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 (MD&A) and other Required Supplementary Information (RSI) sections 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 (FASAB), which 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. All other information exclusive of the financial statements, MD&A, and RSI such as the Letter from the Archivist of the United States, and the Other Information (OI) 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 and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered NARA's internal control over financial reporting (internal control) to determine the audit procedures that were 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 assertion 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 MD&A.

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 preceding paragraph 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 have not been 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 FY 2008. 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 with Laws, Regulations, Contracts, and Grant Agreements

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 19-01.

Management's Responsibility for Internal Control and Compliance

NARA 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 Audit 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.

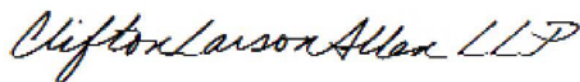
Status of Prior Year's Control Deficiencies and Noncompliance Issues

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 8, 2017. The status of prior year findings is presented in Exhibit C.

Purpose of the Report on Internal Control over Financial Reporting and 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's 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 8, 2018

EXHIBIT A
Significant Deficiency

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 FY 2018, 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.

A summary of key findings related to NARA Network (NARANet), Order Fulfillment and Accounting System (OFAS), and Records Center Program Billing System (RCPBS) systems are categorized and listed by general control category as follows:

Access Controls – We found prior year weaknesses related to account management unresolved. Instances of users with inactive accounts were identified along with instances of separated users who retained account access after their separation. In addition, weaknesses were found in regards to audit logging and incident response. It was noted that audit logs were not being retained for an entire year and not all security incidents were reported to US-CERT in a timely manner. Access controls should be established to ensure user accounts are effectively managed. In addition, incidents should be reported timely to mitigate the risk of subjecting systems to further exploits. Further, limited storage capacity can prevent NARA from conducting effective after-the-fact investigations of security incidents.

Security Management – We found prior year unresolved weaknesses related to system security plans which (a) were incomplete or not current; (b) plans of actions and milestones (POA&Ms) not updated timely; (c) missed milestone dates; or (d) contained incomplete data. Additionally, during FY 2018, we found that (a) system assessment reports did not have the recommended countermeasures for all failed controls; and (b) policies and procedures were not properly reviewed and approved. Security management controls provide the framework for the continual assessment of risk, development of security procedures and monitoring the implementation effectiveness of those procedures.

Configuration Management – We found that while there were improvements in this area compared to FY2017, configuration management weaknesses associated with vulnerability and patch management continue to exist. Specifically, we found prior year unresolved weaknesses related to the detection, remediation, and monitoring of known vulnerabilities for software patches and updates. Additionally, system configuration weaknesses existed on servers and workstations. Further, change management procedures for testing and approving system changes were not consistently implemented. Absent an effectively implemented and enforced configuration management program that addresses significant security weaknesses, there is an increased risk that financial information may be inadvertently or deliberately disclosed, manipulated, or misappropriated.

We believe that the IT control deficiencies resulted from inadequate resources, as well as

EXHIBIT A
Significant Deficiency

inadequate communication and oversight by NARA management. Management has been in the process of deploying an Information System Security Officer (ISSO) contract since FY 2017 to remediate these weaknesses, however, these efforts were still ongoing during FY 2018.

Our testing was based on the following key criteria:

- 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.
- The NARA Cybersecurity Framework Methodology, under Task 4.2: Update Risk Assessment, states:
 - "Risk assessment are updated annually or whenever there are significant changes to the information system or environment of operations (including the identification of new threats and vulnerabilities), or other conditions that may impact the security state of the system."
- OMB Memorandum A-130, Appendix I, *Responsibilities for Protecting and Managing 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 NIST.

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 its feeder systems.

EXHIBIT A
Significant Deficiency

Recommendations:

- 1) We recommend that the NARA Chief Information Officer continue to analyze and prioritize remediation efforts to accomplish security and control objectives. Key tasks should include, but are not limited to:
 - a. Ensure user accounts are reviewed and disabled in accordance with NARA's information technology policies and requirements (repeat recommendation).
 - b. Increase NARANet storage capacity to enable retention of NARANet events in accordance with NARA policy.
 - c. Ensure that all incidents are reported to US-CERT within one hour of discovery.
 - d. Ensure Security Assessment Reports are updated with summaries of test failures for all failed controls identified.
 - e. Ensure security documentation such as system security plans are reviewed and updated on an annual basis, for each system (repeat recommendation).
 - f. Ensure plans of actions and milestones are created, updated and remediated, for each system, in accordance with NARA policies, guidance and directives (repeat recommendation).
 - g. Implement remediation efforts to address security deficiencies identified during our assessments of NARA's database platforms and network infrastructure (repeat recommendation).
 - h. Fully complete the migration of applications to vendor supported operating systems (repeat recommendation).
 - i. Ensure all changes are tested and properly approved before being moved into the production environment.

EXHIBIT B
Management's Response



ARCHIVIST *of the*
UNITED STATES

DAVID S. FERRIERO
T: 202.357.5900
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david.ferriero@nara.gov

Date: November 8, 2018
To: James Springs
Inspector General
From: David S. Ferriero
Archivist of the United States
Subject: Management Response to the FY2018 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, 2018.

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 2018 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

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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 2017 Recommendation</i>	<i>Type</i>	<i>Fiscal Year 2018 Status</i>
a. Strengthen controls for internal website password transmission and encryption to include Hyper Text Transfer Protocol Secure (HTTPS) and Secure Socket Layer (SSL) technologies.	Significant Deficiency 2017	Closed.
b. Strengthen the review and disabling of user accounts in accordance with NARA's information technology policies and requirements.	Significant Deficiency 2017	In process; see 2018 Significant Deficiency, recommendation "a"
c. Implement enhanced processes to secure physical access controls to sensitive areas.	Significant Deficiency 2017	Closed
d. Continue to implement improved processes for reviewing and updating key security documentation, including system security plans on an annual basis.	Significant Deficiency 2017	In process; see 2018 Significant Deficiency, recommendation "e"
e. Implement improved processes for creating, updating and remediating plans of actions and milestones.	Significant Deficiency 2017	In process; see 2018 Significant Deficiency, recommendation "f"
f. Implement remediation efforts to address security deficiencies identified during our assessments of NARA's database platforms and network infrastructure.	Significant Deficiency 2017	In process; see 2018 Significant Deficiency, recommendation "g"
g. Fully complete the migration of applications to vendor supported operating systems.	Significant Deficiency 2017	In process; see 2018 Significant Deficiency, recommendation "h"

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 2018.

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

We conduct and supervise independent audits, investigations, and other reviews in order to make NARA a better agency, hold people accountable, and prevent problems before they happen. To fulfill this mission, we focus on areas we believe represent the agency's most significant challenges. Here are NARA's top ten management challenges.

1. Electronic Records Archives

Electronic records are the future of government archiving, and the vast volumes of electronic records that will need to be preserved are simply staggering. NARA's plan to tackle this mission critical issue is the Electronic Records Archives (ERA) system. Initially billed as a solution for storing files in any format for indefinite future access, the program has been fraught with delays, cost overruns, funding shortfalls, and technical short-comings virtually since inception. As a result, many core requirements from initial plans have never been addressed, and the ERA lacks the capabilities originally envisioned.

The ERA is a "system of systems", with the ERA Base System the main point for receiving and storing records from Federal agencies. NARA has recognized problems with the ERA Base System's reliability, scalability, usability, and costs have prevented it from being adequate for NARA's current and expected future workload. These problems, combined with advances in technology (particularly cloud computing), led NARA to determine it is essential to evolve the ERA Base System. This will allow NARA to fix and re-factor current capabilities, as well as adapt and expand new capabilities to meet the expected demands of a rapidly growing backlog of digital material. Named ERA 2.0, this is an on-going development effort with initial, limited implementation in 2018 and estimated lifecycle costs of \$86 million. The ERA 2.0 Project Plan also includes subsuming some of NARA's legacy IT systems and deploying a classified ERA 2.0 in FY 2020. However, until ERA 2.0's functionality is put into full production, the current ERA's longstanding deficiencies may continue to impact NARA.

ERA faces many challenges going forward, including the predicted massive growth in the amount and diversity of digital materials NARA will have to preserve. This is coming at the same time stakeholders expect expanded capabilities, such as online access and searching, that drive openness and cultivate public participation.

2. Improving Records Management

While the ERA system is intended to handle electronic records received by NARA, the agency needs to ensure the proper electronic and traditional records are in fact preserved and sent to NARA in the first place. NARA must work with Federal agencies to ensure proper appraisal, scheduling, and transfer of permanent records in all formats. The major challenge is how best to accomplish this in a rapidly changing technological environment.

The Office of Management and Budget (OMB) requires agencies to eliminate paper and use electronic recordkeeping to the fullest extent possible. Agencies were required to manage both permanent and temporary email records in an accessible electronic format by December 31, 2016, and must manage all permanent electronic records in an electronic format by December 31, 2019. NARA and the rest of the government is challenged with meeting these deadlines while determining how best to manage electronic records and make e-Government work more effectively.

To illustrate, a 2015 GAO study found NARA's plan to move agencies toward automated records management left out required metadata requirements. While NARA did subsequently issue metadata guidance, that is only one example of a complicated issue.

3. Information Technology Security

NARA's challenges in IT Security have been recognized for over a decade, and every year more risks are identified. Annual Federal Information Security Modernization Act (FISMA) assessments consistently identify areas in need of significant improvement. NARA labeled IT Security a "material weakness" under the Federal Managers' Financial Integrity Act (FMFIA) from 2007 to 2018 with exceptions of 2013 and 2014, when it was considered a "reportable issue." While management has developed an action plan to resolve their control deficiencies, NARA does not expect to fully implement it until FY 2020.

Many of NARA's issues stem from the Chief Information Officer (CIO)'s lack of insight into NARA's overall IT architecture and security. This is compounded by NARA's reliance on contractors to manage both its in-house and externally hosted systems, and a lack of properly qualified Contracting Officer's Representatives overseeing the contractors. Adding to the challenge, the CIO does not report directly to the agency head. These conditions cause current security and performance problems, and inhibit NARA from effectively establishing a strategy for the next generation of NARA's network.

While NARA has introduced initiatives to promote a mature program, real progress will not be made until NARA establishes an effective system of internal control for information security. NARA's mission relies on the confidentiality, integrity, and availability of our electronic records and IT systems. NARA must ensure the security of its data and systems, or risk undermining the agency's credibility and ability to carry out its mission.

4. Expanding Public Access to Records

Records that cannot be accessed have little use, and the public expects more and more records to be online. NARA's strategic goal to "Make Access Happen" affirms public access as NARA's core purpose, and NARA has committed to digitize the nation's archives and make them available online. This is a massive undertaking involving billions of pages, films and photographic media, and other records. However, NARA's historic digitization approaches were not large enough to make significant progress. Other attempts have had issues as well. For example, poor planning and system limitations kept millions of records digitized by NARA partners from being 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 an effective digitization strategy and expand public access to records.

At a basic level, in order to "Make Access Happen" NARA must gain physical and intellectual control over its holdings. That is, they must physically control the records and know what they are. This initial step is referred to as archival processing. However, approximately 21 percent of NARA's textual holdings have not been processed, so the public does not have efficient and effective access to them. Thus, the agency has begun an initiative to accelerate archival processing to increase the records available for research. 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. This includes standardizing processing procedures across the agency, strengthening internal controls, and monitoring performance.

5. Meeting Storage Needs of Growing Quantities of Records

NARA is running out of room, and is challenged in acquiring sufficient archival space to store its ever-increasing volume of textual records. Even with the rise of electronic records, there are decades' worth of paper records still scheduled to come to NARA. Thus, every year for the foreseeable future NARA will need more and more space. Currently space limitations affect NARA's accessioning, processing, preservation, and other internal efforts. By law, the Archivist is responsible for the custody, control, operation, and protection of buildings used for the storage of Federal records. NARA

regulations require these facilities to meet certain physical and environmental requirements. Without additional space, NARA may have to house historical records in space not meeting its own requirements. The challenge is to ensure NARA's and other agencies' facilities comply with NARA regulations; or to effectively mitigate risks to records stored in sub-standard facilities.

Additionally, the agency is also challenged to meet data storage requirements for electronic records. NARA's in-house data storage is reaching capacity, impacting the agency's digitization efforts and other IT programs. Increasing amounts of electronic data storage are necessary for NARA to meet its mission. Without adequate storage, NARA cannot continue accepting, storing, and processing electronic records, or make them available to the public. NARA is challenged to develop an enduring enterprise-wide data storage management solution appropriate for handling the nation's history while complying with OMB's Federal Data Center Consolidation Initiative, which focuses on reducing the energy and real estate footprint.

6. Preservation Needs of Records

Every day NARA's holdings age and slowly degrade. This is true for all records, not just paper, as the physical media electronic and audiovisual records are stored on are affected as well. Further, as computer programs become obsolete, the records stored in those formats may become impossible to use. 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. According to management, NARA does not have the resources to adequately address the growth in holdings needing preservation action. This has created a backlog of records needing preservation, and the backlog remains steady. NARA is challenged to address this backlog and future preservation needs, including the data integrity of electronic records. Complicating this, the ERA system is NARA's primary tool for preserving electronic records, but it does not have the ability to address record formats when the programs they were saved in become obsolete (see OIG Challenge #1). The challenge of ensuring storage facilities meet environmental standards for preserving records (see OIG Challenge #5) also plays a critical role in preserving records. Without action, pieces of the unique history of America will be lost.

7. Improving Project and Contract Management

NARA faces significant challenges concerning project and contract management. For example, there have been cost and schedule overruns, contract requirements are not always well defined, large dollar IT contracts have lacked adequate oversight, contractor performance is not consistently evaluated and reported, and IT projects are not always carried out in accordance with guidelines. This affects whether or not

NARA obtains the right goods and services at the right price. NARA is challenged with instilling the proper management structure, function, coordination, and visibility to adequately align acquisition functions with NARA's mission and needs. A significant part of this challenge is NARA's acquisition workforce. Strengthening the acquisition workforce is essential to improving contractor management and oversight. However, NARA does not effectively identify and track the agency's acquisition workforce, or coordinate with program areas when designating CORs. This has led to using CORs without proper certifications. NARA is challenged to strengthen internal controls over acquisition functions and provide better oversight and management of its procurement activities to ensure it effectively and efficiently adheres to Federal and internal guidance.

The OIG has encountered multiple examples of project management issues. NARA relied on end-of-life servers, hindering IT modernization efforts. NARA did not document briefings to its senior management oversight group during the development of NARA's largest IT project, the ERA system, and there is little evidence the group identified or took appropriate corrective actions. However, NARA spent over \$23 million and 3.5 years developing solutions to correct deficiencies in the ERA Base System. Its successor, the ERA 2.0 project, continued to experience challenges including funding and aligning with NARA's System Development Life Cycle (SDLC) policy. Despite spending approximately \$2.8 million over the past 12 years, NARA has not fully implemented all of the requirements in Homeland Security Presidential Directive-12. Further, the lapsed Information System Security Officer (ISSO) contract left many of NARA's systems without a designated ISSO for over a year, putting the security of the systems and their data at risk. The GAO also reported NARA inconsistently used 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 disciplines like EVM limits NARA's ability to effectively manage projects and accurately report on their progress.

8. Physical and Holdings Security

People continue to steal documents and artifacts from NARA for their monetary and historical value. Further, the priceless history represented in these records is threatened by fire and other man-made and natural disasters. Yet the threats do not stop there as NARA holds troves of national security information as well. NARA must ensure the safety and security of people and records in our facilities. NARA's security posture has improved with the implementation of the Holdings Protection Team and stricter access controls. However, NARA's challenge is to run an effective Holdings Protection Program in an environment where new threats emerge and adversaries are continuously adapting.

9. Human Resources Management

NARA's employees are the backbone of the agency, and one of NARA's strategic goals is to "build our future through our people." However, the agency has no comprehensive and cohesive approach to human capital management. NARA's ability to attract, recruit, and retain employees is critical to many of the other top management challenges, but NARA lacks adequate policies and procedures making it difficult to manage human capital effectively and efficiently. To address this, NARA had 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 expected this move to improve the timeliness of the hiring process and provide better human capital services. However, the agency recently announced they are participating in a new government-wide initiative to modernize Federal payroll systems requiring all Federal agencies to migrate to commercial, cloud-based solutions for payroll and time and attendance systems over a three-year period beginning in FY 2019. Because of this initiative, NARA has stated they are not able to move to a new human resources systems at this time.

10. Enterprise Risk Management

OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control is designed to ensure Federal managers effectively manage risks. It does this by implementing Enterprise Risk Management (ERM) practices and internal controls. 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.

However, NARA management has not made ERM a strategic priority, and has yet to implement an ERM program that clearly identifies, prioritizes, and manages risks. 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. 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 might not clearly reflect NARA's current internal control environment, including risks. NARA's challenge is to ensure the agency complies with the requirements of OMB Circular A-123, and develops and fully implements an ERM capability to effectively identify, manage, and mitigate critical agency risks.

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
Human Capital	0	1	0	0	0	1
Total Material Weaknesses	1	1	0	0	0	2

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) Memorandum M-18-20, OMB Circular A-123, Appendix C, Requirements for Payment Integrity Improvement, and OMB Circular A-136, dated July 30, 2018, section 11.4.5, 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 2018, NARA determined that the agency did not meet the threshold for significant improper payments. NARA's improper payments for FY 2018 totaled \$684,706 which were overpayments made directly by NARA. Seventy-six percent or \$517,553 of NARA's improper payments were erroneously paid to the contract vendor versus their assignee. All payments were immediately corrected except for two payments totaling, \$77,139 or 66% of unrecovered payments. NARA is actively seeking recovery of these funds which were paid from the non-appropriated Trust Fund account. The remaining, majority of unrecovered funds, 33%, are related to employee debts for which NARA is actively seeking recovery.

Program/Activity	FY 2018 Outlays Less Federal Vendors	FY 2018 Improper Payments	Percentage of Improper Payments
Legislative Archives, Presidential Libraries, and Museum Services	86,198,194	27,110	.03%
Research Services	51,364,176	525,057	1.02%
Agency Services	111,267,558	40,525	.04%
Administrative Overhead	201,272,876	92,014	.05%
Repairs and Restoration	9,585,421		
National Historical Publications and Records Commission (Grants)	4,975,869		
Office of Inspector General	3,572,913		
Total	\$468,237,007	\$684,706	

Per the Office of Management and Budget, NARA reports additional information on improper payments on the following website: <https://paymentaccuracy.gov/>.

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 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.

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: List of Excluded Individuals and Entities - Public, Office of Foreign Assets Control (OFAC), SAM Entity Registration Records, SAM Exclusion Records - Restricted, and SSA Death Master File.

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 2017 (CY - 1)	Change
Square Footage	10.8	11.2	.4

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

	FY 2015 Reported Cost	FY 2017 Reported Cost (CY - 1)	Change
Operation and Maintenance Costs	\$176	\$187	\$11

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	0	0	0
Number of Grants/Cooperative Agreements with	0	0	0
Total Amount of Undisbursed	\$0	\$0	\$0

Fraud Report

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

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.