



OFFICE *of*
INSPECTOR GENERAL

Date: December 21, 2015

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

Subject: OIG Audit Report No. 16-04: NARA FY 2015 Financial Statements Independent Audit Report performed by CliftonLarsonAllen LLP

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

Enclosed are the reports prepared by CliftonLarsonAllen, LLP (CLA) for the subject audit. CLA issued an unmodified opinion on NARA's FY 2015 financial statements.

CLA reported no material weaknesses in internal control over financial reporting. CLA disclosed one significant deficiency in internal control over financial reporting related to Information Technology controls and no instances of noncompliance with certain provisions of laws and regulations.

In connection with the contract, we reviewed CLA's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. Generally Accepted Government Auditing Standards (GAGAS) was not intended to enable us to express, as we do not express, an opinion on NARA's financial statements or conclusions about the effectiveness of internal control or on whether NARA's financial management system substantially complied with the Federal Financial Management Improvement Act of 1996, or conclusions on compliance with laws and regulations. CLA is responsible for the attached Independent Auditors' Report dated November 06, 2015 and the conclusions expressed in the report. However, our review disclosed no instances where CLA did not comply, in all material respects, with GAGAS.

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

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

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

James Springs
Inspector General

Enclosure: Final Report No. 16-04: CliftonLaresonAllen's NARA FY 2015 Financial Statements
Independent Audit Reports



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 National Archives and Records Administration (NARA), which comprise the consolidated balance sheets as of September 30, 2015 and 2014, and the related consolidated statements of net cost and changes in net position, and 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 audits. We conducted our audits 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. 15-02, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 15-02). Those standards and OMB Bulletin 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

INDEPENDENT AUDITORS' REPORT (Continued)

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, 2015 and 2014, 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.

Required Supplementary Information

Accounting principles generally accepted in the U.S. issued by the Federal Accounting Standards Advisory Board (FASAB) require that NARA's Management Discussion and Analysis (MD&A) and other Required Supplementary Information (RSI), on pages 5 through 20 and 51 through 54, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by FASAB, who 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 MD&A and other RSI 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 audit of the financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The other information on pages 2, 21, 63 through 73 is presented for purposes of additional analysis and is not a required part of the financial statements or RSI. This information has not been subjected to the auditing procedures applied in the audit 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 Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered NARA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NARA's internal control or on management's statement of assurance 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. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

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

INDEPENDENT AUDITORS' REPORT (Continued)

prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 first paragraph of this section 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 were not 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 did identify a deficiency in internal control related to information technology controls, described below and in Exhibit A, which we consider to be a significant deficiency.

Longstanding Control Deficiency Related to Information Technology Controls

Several control deficiencies under the general control categories of security management, contingency planning, and access controls have existed since at least FY 2008 and not corrected, indicating longstanding deficiencies in information technology controls.

Report on Compliance

As part of obtaining reasonable assurance about whether NARA's financial statements are free from material misstatements, we performed tests of NARA's compliance with certain provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. The results of our tests disclosed no instances of noncompliance that are required to be reported in accordance with *Government Auditing Standards* and OMB Bulletin No. 15-02.

Management's Responsibility for Internal Control and Compliance

Management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under the 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 noncompliance with which could have a direct and material effect on the determination of the financial statements amounts.

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

INDEPENDENT AUDITORS' REPORT (Continued)

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 of compliance to certain provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a direct and material effect on the determination of the financial statements amounts. 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 Finding

Management's response to the finding identified in our report is presented in Exhibit B. We did not audit NARA's response and, accordingly, we express no opinion on it.

Purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance sections of this report 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, these reports are not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Arlington, Virginia
November 06, 2015

EXHIBIT A Significant Deficiency

Longstanding Control Deficiency in Information Technology Controls

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.

In general, NARA's networks support workstations, servers, utilities, software tools, routers, databases, and communications which provide connectivity, availability and integrity to NARA's significant financial applications and its users. If an attacker makes the network goes down, it will render the financial applications inaccessible. If an attacker exploits vulnerabilities to escalate privileges, it could alter, remove or destroy database tables that are an integral to the operation of the significant accounting applications. The general IT controls designed and implemented by an entity would provide the structure, and policies and procedures that apply to an entity's overall computer systems. General IT controls include entity-wide security management, access controls, configuration management controls, segregation of duties and service continuity controls.

In FY 2015, NARA reported a material weakness in IT security in its Federal Managers' Financial Integrity Act (FMFIA) statement which identified a persistent pattern of recurring vulnerabilities with expected resolution by Sept 2016.

During our audit, we also identified several deficiencies under the general control categories of security management, contingency planning and access controls that have existed since FY 2008, indicating longstanding unresolved deficiencies impacting the effectiveness of NARA's information technology security program and internal controls.

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 those systems which feed into or are reconciled with data processed by the Records Center Program Billing System (RCPBS) and Order Fulfillment and Accounting System (OFAS) systems. We also noted control weaknesses for the NARA Network (NARANet), Order Fulfillment and Accounting System (OFAS), Visitor Services Reservation Scheduling System (VISTA) and Records Center Program Billing System (RCPBS) systems.

A summary of key findings related to NARANet, OFAS, VISTA, and RCPBS systems are categorized and listed by general control category as follows:

Access Controls - We identified the following access control weaknesses:

- inactive user accounts were not being disabled in a timely manner;
- no comprehensive, enterprise wide process to review user activity for potential security violations; and
- user access re-certifications were not performed on an annual basis.

Access controls are designed to limit or detect access to computer programs, data, equipment, and facilities to protect these resources from unauthorized modification, disclosure, loss or impairment. Such controls include logical and physical security controls.

Security Management - Prior security management control findings have not been completely addressed related to the completeness and timely remediation of issues noted within Plans of Actions and Milestones (POA&Ms), updating and completeness of system security plans, and updating of IT policies and procedures. Controls should be established for a framework and continuous cycle of activity for assessing risk,

EXHIBIT A

Significant Deficiency

developing and implementing effective security procedures, and monitoring the effectiveness of these procedures.

Contingency Planning - Prior contingency planning control findings have not been completely addressed related to the updating of system contingency plan documents. This year we also determined that backup tapes were not being stored at an offsite location for safekeeping. Internal controls should provide reasonable assurance that contingency planning (1) protects information resources and minimizes the risk of unplanned interruptions and (2) provides for recovery of critical operations should interruptions occur.

Segregation of Duties –This year we noted inappropriate access to Library Point of Sale (PoS) systems. Internal controls should provide reasonable assurance that incompatible duties, responsibilities and related policies are effectively segregated and there are effective controls of personnel activities through formal operating procedures, supervision, and review.

Configuration Management – Although prior configuration management control findings have been substantially addressed, additional configuration management weaknesses were identified this year. NARA did not have an effective process for monitoring, detecting and remediating known vulnerabilities related to software patches and updates, configuration management plans were outdated or did not exist, and system baseline configurations were not formally developed, approved and implemented for all devices and operating systems. Configuration management controls are designed to provide reasonable assurance that changes to information system resources are authorized and systems are configured and operated securely and as intended.

The criteria we used to vet against the IT control deficiencies identified above came from NARA, the National Institute of Standards and Technology (NIST), and the Office of Management and Budget (OMB) with some below:

- NARA IT Security Requirements
- NARA IT Security Methodology for Contingency Planning:
- NIST Special Publication 800-53, Revision 4, “*Security and Privacy Controls for Federal Information Systems and Organizations*”
- OMB M-16-03, *Guidance on Federal Information and Security and Privacy Management Requirements*
- Various other NIST Standards and Guidance
- Office of Management and Budget (OMB) Memorandum A-130, *Management of Federal Information Resources*

The IT control deficiencies resulted from an ineffective implementation and oversight by NARA management of key controls over security management, access controls, configuration management controls, segregation of duties, and service continuity controls.

Recommendation: We recommend that the NARA develop and execute a realistic holistic IT plan with target dates to resolve longstanding issues over access controls, security management, contingency planning, segregation of duties, and configuration management.

EXHIBIT B
Management's Response



NATIONAL
ARCHIVES

ARCHIVIST *of the*
UNITED STATES

DAVID S. FERRIERO

T: 202.357.5900

F: 202.357.5901

david.ferriero@nara.gov

Date: November 6, 2015

To: James Springs, Inspector General

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

Subject: Management Response to the FY 2015 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, 2015.

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 Technology security challenges identified in this reports and concurs in 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 2015 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

NATIONAL ARCHIVES *and*
RECORDS ADMINISTRATION
700 PENNSYLVANIA AVENUE, NW
WASHINGTON, DC 20408-0001
www.archives.gov