



November 4, 2016

TO: David S. Ferriero
Archivist of the United States

FROM: James S. Springs *James Springs*
Inspector General

SUBJECT: Audit of NARA's Compliance with the Federal Managers' Financial Integrity Act for FY15

Attached for your action is our final report, *Audit of NARA's Compliance with the Federal Managers' Financial Integrity Act for FY15*. We incorporated the formal comments provided by your office.

The report contains ten recommendations aimed at improving the National Archives and Records Administration's (NARA) internal control program. Your office concurred with all but two of the recommendations. Based on your October 26, 2016 response to the draft report, we consider all the recommendations resolved and open, except Recommendations 6b and 8, which are considered unresolved and open until management decision can be met. We will continue to work with the agency to resolve those recommendations. Once your office has fully implemented the agreed upon recommendations, please submit evidence of completion of corrective actions so that recommendations may then be closed.

As with all Office of Inspector General (OIG) products, we will determine what information is publicly 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.

Consistent with our responsibility under the *Inspector General Act, as amended*, we may provide copies of our report to congressional committees with oversight responsibility over NARA.

Please call me with any questions, or your staff may contact Jewel Butler, Assistant Inspector General of Audits, at (301) 837-3000.



Audit of NARA's Compliance with the Federal Managers'
Financial Integrity Act for FY15

November 4, 2016

OIG Audit Report No. 17-AUD-03

Table of Contents

Executive Summary	3
Background	4
Objectives, Scope, Methodology	6
Audit Results	7
Finding 1. NARA’s Compliance with Circular A-123, FMFIA, and Internal Guidance	7
Recommendations.....	15
Appendix A – Acronyms	21
Appendix B – Management Response	22
Appendix C – Report Distribution List	26

Executive Summary

Audit of NARA's Compliance with the Federal Managers' Financial Integrity Act for FY15

OIG Report No. 17-AUD-03

November 4, 2016

Why Did We Conduct This Audit?

The annual Federal Managers' Financial Integrity Act (FMFIA) Assurance Statement represents the agency head's informed judgment as to the overall adequacy and effectiveness of internal control within the agency. Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control* (Circular A-123), emphasizes the need for integrated and coordinated internal control assessments that synchronize all internal control-related activities. We audited the National Archives and Records Administration's (NARA) compliance with Circular A-123, FMFIA, and internal guidance related to internal controls. We also evaluated the system of internal controls for NARA program offices, the accuracy of NARA's Fiscal Year (FY) 2015 FMFIA Assurance Statement, and supporting individual office assurance statements.

What Did We Recommend?

This report makes ten recommendations to initiate improvements which, when implemented, will strengthen NARA's Internal Control Program (ICP). The opportunity also exists for NARA to greatly improve its ICP by reviewing and adhering to the recent revision to Circular A-123, and addressing and implementing prior year audit recommendations.

What Did We Find?

NARA did not fully develop and maintain effective internal control over its programs and activities, did not sufficiently assess all risks, and did not adhere to all requirements of its own ICP. This condition occurred because NARA lacks complete commitment to internal controls among its managers; full awareness of internal controls and risks across the agency; and resources to develop and maintain an effective ICP. As a result, NARA remains unaware of potential risks and challenges to its programs and activities, and provided its final FY15 FMFIA Assurance Statement without adequate, sufficient, and reliable information to support its conclusion.



James Springs
Inspector General

Background

The Federal Managers' Financial Integrity Act of 1982 (FMFIA), requires the head of each executive agency to annually submit to the President and the Congress: (1) a statement on whether there is reasonable assurance the agency's controls are achieving their intended objectives; and (2) a report on material weaknesses in the agency's controls. The statement of assurance represents the agency head's informed judgment as to the overall adequacy and effectiveness of internal control within the agency. In deciding on the type of assurance to provide, the agency head should consider information from the sources described in Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control* (Circular A-123), with input from senior program and administrative officials and the Inspector General.

Circular A-123 defines management's responsibility for internal control and the process for assessing internal control effectiveness. Circular A-123 provides guidance on using the range of tools at the disposal of agency managers to achieve desired program results and meet the requirements of FMFIA. The internal control standards and the definition of internal control used in Circular A-123 are based on the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*. Circular A-123 provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control. Also, Circular A-123 emphasizes the need for integrated and coordinated internal control assessments that synchronize all internal control-related activities. Circular A-123 was revised during Fiscal Year (FY) 2016, after the scope of the audit.

GAO *Standards for Internal Control in the Federal Government* define internal control as a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. Further, internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. The five components of internal control are: (1) Control Environment; (2) Risk Assessment; (3) Control Activities; (4) Information and Communications; and (5) Monitoring.

The overarching structure for the National Archives and Records Administration's (NARA) Enterprise Governance, Risk, and Compliance (EGRC)¹ Program is described in NARA Directive 160, *NARA's Enterprise Governance, Risk, and Compliance Program*. The directive

¹ EGRC is a foundational structure that creates consistency and transparency, enables collaboration, fosters operational efficiencies, and ensures the continuity and success of NARA's business.

describes the three major components of the EGRC Program: (1) Internal Control Program (ICP); (2) Enterprise Risk Management (ERM); and (3) Issues Management Program. The first major component of the EGRC Program is NARA's ICP, which is transmitted in NARA Directive 161, *NARA's Internal Control Program*. NARA Directive 161 provides guidance on what is required to ensure NARA fulfills its internal control obligations under Circular A-123 and FMFIA. The directive contains three appendices: (1) Appendix A contains instructions for carrying out internal control responsibilities and is updated annually; (2) Appendix B provides a description of the lifecycle for NARA's ICP; and (3) Appendix C is an overview of internal control definitions, standards, processes, and norms based on guidance from OMB and the Committee of Sponsoring Organizations of the Treadway Commission (COSO).² Policies for ERM and NARA's Issues Management Program have not been completed.

NARA's ICP is managed through the Accountability Office in the Office of the Chief Operating Officer. The ICP has two employees devoted full time to the program, and receives some assistance from three other Accountability staff members. NARA's Management Control Oversight Council (MCOC) provides leadership and oversight necessary for the effective implementation of NARA's ICP. Among its duties, the MCOC determines the contents of the Archivist of the United States' (Archivist) annual FMFIA Assurance Statement, determines which issues should be identified in the statement as material weaknesses or significant deficiencies, and approves the plans and schedules for correction.

Quarterly, NARA functions must report on internal controls using NARA's Access database tool (ICP Tool). For FY15, NARA had 288 functions reporting on internal controls from 82 programs across 12 offices. As part of this audit, we judgmentally selected five NARA offices based on size and impact on NARA's mission for detailed examination of ICP Reports: (1) Agency Services; (2) Business Support Services; (3) Information Services; (4) Office of Innovation; and (5) Research Services. We also performed a cursory review of ICP reports for the other seven NARA offices. Each function's report contains fields for the function's risk ranking, criticality, controls, indicators, processes, monitoring plans and results, test plans and results, audit recommendations, and audit recommendation responses. Each program owner provides an analysis on the controls in place and the risks present in all functions of the program. Further, NARA Executives provide an overall assurance statement to the Chief Operating Officer (COO) encompassing the risks and controls of all programs and functions of their office. These reports are used as a basis for the Archivist's annual FMFIA Assurance Statement to the President and the Congress.

² COSO is a joint initiative of five private organizations dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control, and fraud deterrence.

Objectives, Scope, Methodology

The audit objective was to evaluate NARA's compliance with FMFIA, Circular A-123, and NARA-developed internal control guidance. Specifically, we evaluated the accuracy of NARA's final FY15 FMFIA Assurance Statement, assessed the accuracy of individual office assurance statements, and identified and evaluated the system of internal controls for NARA program offices. To accomplish our objectives, we interviewed personnel in the Office of the Chief Operating Officer, Agency Services, Business Support Services, Information Services, Office of Innovation, and Research Services. We reviewed ICP reports and FMFIA action plans for FY15. We received a demonstration of the ICP Tool and its capabilities. We examined applicable Federal requirements and NARA guidance, including:

- a) Federal Managers' Financial Integrity Act of 1982, Public Law 97-255;
- b) OMB Circular A-123, *Management's Responsibility for Internal Control*;
- c) GAO *Standards for Internal Control in the Federal Government*;
- d) NARA Directive 101, Part 2, *Office of the Chief Operating Officer*; Part 5, *Office of Innovation*; Part 7, *Agency Services*; Part 8, *Research Services*; Part 10, *Information Services*; and Part 11, *Business Support Services*;
- e) NARA Directive 160, *NARA's Enterprise Governance, Risk, and Compliance Program*; and
- f) NARA Directive 161, *NARA's Internal Control Program* (and related appendices A-C).

We also reviewed NARA's 2015 Agency Financial Report, MCOC Charter, meeting minutes, and various internal reports. Additionally, we reviewed prior Office of Inspector General (OIG) and GAO audit reports and outstanding recommendations concerning NARA's ICP, and prior OIG reports detailing internal control concerns. We also reviewed various industry reports on risk management and internal controls.

This performance audit was conducted in accordance with generally accepted government auditing standards between February 2016 and June 2016. The generally accepted government auditing standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit was conducted by William Brown, Program Auditor.

Audit Results

Finding 1. NARA's Compliance with Circular A-123, FMFIA, and Internal Guidance

NARA did not fully develop and maintain effective internal control over its programs and activities, did not sufficiently assess all risks, and did not adhere to all requirements of its own ICP. This condition occurred because NARA lacks complete commitment to internal controls among its managers; full awareness of internal controls and risks across the agency; and resources to develop and maintain an effective ICP. As a result, NARA remains unaware of potential risks and challenges to its programs and activities, and provided its final FY15 FMFIA Assurance Statement without adequate, sufficient, and reliable information to support its conclusion.

Circular A-123 Internal Controls/Internal Control Reporting/Risk Assessment

Circular A-123 states management has a fundamental responsibility to develop and maintain effective internal control and Federal employees must ensure that Federal programs operate and Federal resources are used efficiently and effectively to achieve desired objectives; and documentation should be appropriately detailed and organized and contain sufficient information to support management's assertion. Quarterly, NARA functions must report on internal controls using an internally-developed ICP Tool. For FY15, NARA had 288 functions reporting on internal controls from 82 programs across 12 offices. NARA's ICP reports did not contain sufficient detail for the OIG to determine how all controls in place functioned and were monitored or tested during FY15. NARA also did not sufficiently and effectively assess the risk facing the agency. The ICP reports and risk assessments were insufficient for any NARA management or ICP official to rely upon in determining the function's internal control effectiveness. When completing their assurance statements, NARA officials indicated they relied upon other sources such as management knowledge gained from daily operations and management reviews conducted.

ICP reports contained 11 fields, which the ICP official stated were not all required to be completed in FY15. Our review of NARA ICP reports found NARA's functions generally completed all required fields, with limited exceptions. The ICP Tool has a Missing Data Report, which users can run to show missing information in reports. However, with the presence of incomplete reports, some NARA staff were either unaware of the Missing Data Report, or chose not to use it. The ICP reports had other non-required fields (e.g. indicators), which some offices chose to complete while others did not. This inconsistency gave the appearance of non-commitment from employees completing the reports. While the goal of the ICP is to build out the reports over time, if fields are included in the report but are not required to be completed,

staff should still state the field is not applicable to their function. In addition, although ICP staff focused on the quality of monitoring and testing plans of high risk functions, some of those function's ICP reports contained insufficient information. Incomplete and insufficient ICP reporting was caused by a lack of commitment from some NARA employees to the internal control process; lack of resources in the ICP; internal control responsibilities not being appropriately defined; ICP software limitations; and lack of formal training.

Commitment from NARA employees to the internal control process

While some employees embraced NARA's internal control process and made the effort to integrate the reports into their management processes, other employees saw the process as unnecessary. These employees viewed ICP reporting as a paper exercise, with no management value added to their function by completing it. This viewpoint led to insufficient reporting as the ICP reports were not a priority for all functions. The COO stated he continually stresses the importance of internal controls to NARA Executives and fully expects these managers to push the importance of internal controls down to their managers and supervisors. However, not all employees showed full commitment to the importance of internal controls as evidenced by incomplete and insufficient ICP reporting, and as indicated through discussions with the OIG.

ICP resources

NARA's ICP does not have the resources necessary to ensure internal controls are completely and sufficiently documented, monitored, tested, and reported on. With current resources, the ICP staff focused on high risk function monitoring and testing of internal controls, but was unable to get to all functions. Therefore, control activities occurring in non-high risk functions may not be captured in ICP reports, or may not be sufficient to provide assurance on the controls of the function. Greater resources placed on developing, implementing, monitoring, and reporting on internal controls would improve NARA's control environment and allow for improved assurance on internal controls. A NARA official responsible for internal controls in one office stated the addition of a new ICP staff member in FY15 increased the quality of their office's internal control monitoring, testing, and reporting for the year. A McKinsey and Company³ report, *Strengthening Risk Management in the US Public Sector*, suggests the size of an agency's risk department be large enough to dedicate at least one to two people to each high-priority area.

³ McKinsey & Company is a global management consulting firm that serves leading businesses, governments, non-governmental organizations, and not-for-profits.

Internal control responsibilities not adequately defined

NARA Directive 161 places internal control and internal control reporting responsibilities on NARA management. However, NARA Directive 101, which outlines the organization of the agency and all of its offices, does not specifically record internal control responsibilities under each program function. For the five offices reviewed, two functions sufficiently detailed their responsibility for ICP reporting and management of the office's internal control process. Circular A-123 states internal control should be an integral part of the entire cycle of planning, budgeting, management, accounting, and auditing. Further, management's commitment to establishing and maintaining effective internal control should cascade down and permeate the organization's control environment. In our opinion, NARA's stated commitment to internal controls throughout the agency would be exhibited and enhanced by establishing internal control responsibilities as a core part of the agency's business through NARA 101 policy. While internal control responsibilities have been included in performance plans for NARA Executives, these responsibilities are not part of performance plans for NARA program and function owners.

ICP software limitations

Although the ICP official acknowledged the existence of internal control software that he thought could enhance NARA's internal control process, both the COO and the ICP official stated the ICP Tool meets their current needs. NARA personnel familiar with the tool generally found it adequate; however, they expressed some concerns. We noted issues with the ICP Tool and its ability to allow for fully effective ICP reporting, which included the following:

- Inability to streamline internal control data directly into the ICP Tool from the source. Some employees saw ICP reporting as an extra task on top of reporting already performed. Integrating the ICP software with other sources of internal control data would not isolate ICP reporting. Having data in the ICP Tool or linked from the ICP Tool would enhance the documentation behind the annual assurance statements.
- No audit trail of coaching notes. ICP staff will provide coaching notes in ICP reports, but there is no ability for the ICP Tool to track those notes to ensure the function or program owner addressed the note.
- Lack of read-only access. Anyone with access to the ICP Tool can view and make changes to any function's reporting information.
- Lack of remote access capabilities.

Lack of Formal Training

NARA does not provide formal ICP training which would increase awareness of internal control across NARA, emphasize the importance of internal controls to the agency and its mission, and improve ICP reporting. In the absence of a formal training plan, the ICP official stated a substantial percentage of ICP staff's time is spent performing ad hoc training of function and program owners on internal controls. In our audit discussions, agency personnel stated they had received communication on risks and internal controls, through in-person meetings with ICP staff.

We reviewed the FY15 risk assessments for the five program offices selected for analysis. The documents provided were not detailed enough to show sufficient identification and assessment of risks. The ICP official stated in the entrance conference he had seen improvement in the risk assessments for FY16. Circular A-123 states management should identify internal and external risks that may prevent the organization from meeting its objectives. Only high risk and high criticality functions were required to be identified. However, inconsistency was found as some offices identified functions as medium or low risk, but other offices did not provide a risk ranking at all. We identified several concerns with the risk and criticality rankings. For example:

- Information Technology (IT) Security is rated as medium risk, high criticality. We agree the function is highly critical; however, we do not agree it is medium risk. IT Security is a high risk function, based on our findings in previous OIG audits, NARA declaring IT Security a Material Weakness, and recent IT Security failures across the government such as the Office of Personnel Management (OPM) breach.
- Space Management was not ranked high risk or high criticality. As space impacts all parts of the agency and both an internal analysis and an OIG audit of space found NARA faces critical needs, this cross-cutting risk was not ranked appropriately.
- Preservation and Holdings Protection, both long-standing FMFIA material weaknesses,⁴ were not ranked as high risk or high criticality in FY15. While NARA management believes it has mitigated risk sufficiently, both functions remain highly critical to the agency.

Further, the methods to perform risk assessments varied. Risk assessments varied in their format, including emails, spreadsheets, and one-page memos.⁵ Some offices decided on risk rankings at management meetings, while others sent out internally-developed questionnaires to

⁴ Holdings Protection has been a FMFIA weakness since 2001 (both a material weakness and a reportable condition). Preservation was a FMFIA weakness (both a material weakness and a reportable condition) from 2005 until it was removed in 2015.

⁵ The ICP official is considering requiring a standard risk assessment format in FY17 based on a best practice format from one office's FY16 risk assessment.

function owners. Circular A-123 states identified risks should then be analyzed for their potential effect or impact on the agency. The risk assessment documents reviewed contained varying details into analysis performed on the potential effect or impact of the risk. NARA's risk assessments should identify all risks, then analyze the potential effect or impact on the agency.

We found some function risk rankings did not undergo re-assessment in FY15. If the function was initially ranked one way, it may have stayed the same since the establishment of the ICP, even if circumstances may have changed. Other functions changed the rankings based on re-assessment in FY15. Circular A-123 states when identifying risks, management should take into account relevant interactions within the organization as well as with outside organizations. Viewing the risk only by function may cause NARA to not fully assess cross-cutting, enterprise-wide risks.

NARA has multiple programs where the risk is shared across multiple offices (e.g. digitization, processing, accessioning, preservation, websites). NARA's management of risks in programs which cut across multiple NARA offices is of concern. An IBM Center for the Business of Government report, *Managing Risk in Government: An Introduction to Enterprise Risk Management*, describes the need to integrate risk management into the strategic and decision-making processes that cut across the organization, and abandon the outdated practice of managing risks within functional silos and stovepipes. With risk reported only through the lens of individual functions, cross-cutting risks may not be considered and managed appropriately.

After the agency assesses risk, Circular A-123 states control activities should be implemented. Some NARA officials lack a full understanding of how to assess risk, manage risk, implement control activities, and raise risk to the necessary management level. GAO *Standards for Internal Control in the Federal Government* state management should define objectives clearly to enable the identification of risks and define risk tolerances. Some NARA officials are in position to take risks, but may not be fully aware they are making a risk decision. NARA does not have an ERM policy⁶ to communicate and for NARA officials to rely upon. As a result, risks may be managed and responded to very differently across the agency. Further, risks may not be elevated to the appropriate level of management.

Risk assessments were the responsibility of program offices for FY15. The risk assessments were to be provided to the COO, who also serves as NARA's Chief Risk Officer.⁷ Currently, the

⁶ In May 2016, a NARA employee was detailed to Accountability to complete the ERM policy, and after the detail is complete, another NARA employee will be detailed to Accountability to test the new ERM policy.

⁷ In OIG Audit Report No. 13-01, we recommended NARA employ a Chief Risk Officer. The Archivist's response to our report stated the COO would serve as Chief Risk Officer, but as NARA's ICP matures, the agency would return to our observation about organizational placement of the Chief Risk Officer for consideration.

COO has eight offices⁸ report to him, and thereby owns the risks of those offices. Circular A-123 states within the organizational structure, management must clearly and appropriately delegate the authority and responsibility throughout the agency. Further, a PWC Report, *The Role of the Federal Chief Risk Officer*, provides a Chief Risk Officer should maintain a level of independence, including not sitting in another function that could potentially impede its independence. Separating the Chief Risk Officer role from the COO would ensure independence of the Chief Risk Officer and foster a more mature risk culture.

FMFIA Assurance Statement

In NARA's 2015 Agency Financial Report, the Archivist provided a qualified statement of assurance, with IT Security reported as a material weakness. The Archivist certified all other NARA internal controls met their intended objective of providing reasonable assurance: (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. According to NARA, the basis for his assessment was results of internal control monitoring, testing, and reporting via NARA's ICP, information obtained and evaluated through daily operations, discussions of weaknesses and risks conducted by the MCOC, and audits and evaluations conducted by the OIG, GAO, and other third parties.

In October 2015, the OIG reviewed the statement and determined NARA under-reported material weaknesses and did not accurately reflect the breadth of risks in select NARA programs.⁹ We continue to agree with our assessment. Specifically, the OIG disagreed with the statement because NARA's entity-wide ICP is not comprehensive nor developed enough to clearly reflect NARA's internal control environment, management relied upon insufficient ICP reports when making assurances, and NARA did not agree with the OIG's recommendations for inclusions to FMFIA reporting. Without sufficient documentation of internal controls and effective assessments of agency risks, management's assertions, which ultimately lead to the Archivist's annual FMFIA Assurance Statement, were not supported and may have resulted in NARA reporting inaccurate information to the President and the Congress.

As an example, in OIG Audit Report No. 15-14, *NARA's Space Management*, we recommended NARA treat space management as a FMFIA weakness, but the MCOC did not declare it as a FMFIA weakness in FY15. As a result, the risk to NARA's mission caused by the agency's lack

⁸ Agency Services; Business Support Services; Information Services; Research Services; Federal Register; Office of Legislative Archives, Presidential Libraries, and Museum Services; Accountability; and Corporate Records Management.

⁹ Holdings Protection, Processing, Electronic Records Management, and IT Security.

of space was underreported. There are other risks facing the agency that have not been discussed at the MCOC, but should have risen to that level. However, due to the existing volume of FMFIA weaknesses tracked by the MCOC, those additional risks were not discussed and managed by the MCOC. The MCOC is not fully effective if it is capping its tracking and management of risks at a certain number and not tracking and managing all of the agency's high-level risks. As the MCOC recommends the weaknesses reported externally by the Archivist, if it limits the risks it tracks and manages, the Archivist will not have the entire picture of risks and weaknesses presented to him on which to base his annual FMFIA Assurance Statement.

Each Executive provides a yearly assurance statement for their office in support of the Archivist's annual FMFIA Assurance Statement. Each Executive relies in part upon the ICP reports of their program and function owners when making their yearly assurance statements to the Archivist. However, NARA's ICP reports were not entirely sufficient to be of use to management in making yearly assurance statements. In FY15, the only qualifications made by NARA Executives in their assurance statements were existing FMFIA material weaknesses or reportable conditions. NARA Executives assured all other controls were functioning as intended. Multiple OIG audits conducted during FY15¹⁰ found controls were missing or lacking in program areas where management certified with full assurance controls were adequate. Some of these reports include the following:

- Digitization Audits – OIG Audit Report No. 15-10 found control weaknesses related to NARA's Digitization Partnerships, which impacted NARA's ability to meet its strategic objectives. Additionally, OIG Audit Report No. 15-11 found risks to NARA's ability to achieve its strategic goal of Make Access Happen due to a lack of storage for digitized records.
- Space Management – OIG Audit Report No. 15-14 found NARA is facing critical space challenges, which impact NARA's ability to meet its mission of providing public access to Federal Government records. The report also detailed concerns with controls outside of space management, such as system data accuracy and accessioning, and suggested eight follow-on audits into risk areas identified during the audit.
- Cable Infrastructure – OIG Audit Report No. 15-15 identified weaknesses in the consistency of NARA's implementation of specific physical, environmental, and infrastructure controls.
- Web Hosting – OIG Audit Report No. 16-01 found NARA did not provide consistent oversight and management of the agency's public facing websites and web hosting environments. Further, control weaknesses were found in NARA's internal web hosting environments.

¹⁰ By conducted, we mean field work dates, not the date the final report was issued.

- Federal Records Centers (FRC) Audits – OIG Audit Report No. 16-03 found information security controls were not adequate to protect Personally identifiable information (PII) at one FRC. Further, physical security controls were insufficient to safeguard NARA’s special media records stored at one FRC. OIG Audit Report No. 16-07 found concerns with internal controls in place for refile processes at selected FRCs.

Internal Guidance for NARA’s Internal Control Program

After review of ICP reports for FY15, we found NARA did not fully comply with its internal guidance for reporting. With limited resources, NARA’s ICP staff was unable to provide necessary support and input for all functions. Combined with the lack of emphasis placed on reporting by some agency employees, ICP reporting did not fully meet internal guidance. For example:

- Quarterly Program Owner’s analyses were used for annual assurance statements for NARA programs.
- The results of the monitoring and testing plans were to be reported with sufficient narrative so a third party could review the narrative and understand the results. However, our review of monitoring and testing results found multiple reports with insufficient narratives.
- Functions listed superseded or canceled NARA policies and procedures.
- Functions mapped to programs that no longer were responsible for the function.
- Monitoring plans were required for all functions; however, one function did not have a monitoring plan in place. Other functions entered information into the monitoring fields, but the information did not describe a monitoring plan or results.
- Functions did not monitor or test to existing indicators. For example, one function listed an indicator to track timeliness. However, the monitoring plan put in place for the function did not address the timely performance of the function’s tasks.
- Test plans unable to be executed in time for end of year ICP reports, causing multiple functions to not have test data to rely upon when making their assurance statements.
- The ICP provided offices with guidance on monitoring¹¹ versus testing.¹² However, multiple functions used their monitoring plan as their test plan. Other functions had separate monitoring and testing plans, but the test plans did not meet the definition of testing per NARA-developed guidance.

¹¹ Monitoring is observing, in the course of business, data or information associated with a function – whether it is daily, weekly, monthly or quarterly – that indicates whether the function, in the course of normal business, is achieving its intended objective.

¹² Testing is a thorough and detailed study, usually once a year, of the controls associated with a function to determine how well they are protecting the function from risk, ensuring the function is operating as intended, and achieving results economically and efficiently.

- Some functions provided very brief, insufficient narratives when explaining what actions had been taken in regard to audit recommendations.

For the assessment of internal controls, Circular A-123 states management should have a clear, organized strategy with well-defined documentation processes. Incomplete and insufficient ICP reporting affected NARA's ability to assess the effectiveness of its internal controls.

Recommendations

We recommend the following to initiate improvements which, when implemented, will strengthen NARA's ICP. The opportunity also exists for NARA to greatly improve its ICP by reviewing and adhering to the recent revision to Circular A-123, and addressing and implementing prior year OIG and GAO audit recommendations.

Recommendation 1: The Archivist provide the staffing resources necessary to provide sufficient coverage of the risks and internal controls of the agency.

Management Response

NARA concurs with this recommendation. NARA will evaluate resource needs to conduct these programs consistent with OMB models for internal control and risk management.

Target Completion Date: September 29, 2017

OIG Analysis

We consider NARA's proposed actions responsive to our report recommendations. All recommendations will remain open and resolved, pending completion of the corrective actions identified above.

Recommendation 2: The Archivist implement or upgrade current internal control software or utilize other mechanisms to enhance and improve the agency's ability to track and report on internal controls.

Management Response

NARA concurs with this recommendation. NARA has recently acquired a case management system and will evaluate the case management system, taking into consideration the OIG's findings in this report, and determine if case management is suitable for tracking and reporting on internal controls. If so, NARA will pursue configuring internal controls functionality in the case management system.

Target Completion Date: September 29, 2017

OIG Analysis

We consider NARA's proposed actions responsive to our report recommendations. All recommendations will remain open and resolved, pending completion of the corrective actions identified above.

Recommendation 3: The Archivist ensure formalized internal control training is provided to NARA staff.

Management Response

NARA concurs with this recommendation. NARA will develop Enterprise Risk Management training for all staff in FY17. This training may include materials specific to internal controls.

Target Completion Date: September 29, 2017

OIG Analysis

We consider NARA's proposed actions responsive to our report recommendations. All recommendations will remain open and resolved, pending completion of the corrective actions identified above.

Recommendation 4: The Archivist ensure the MCOC tracks and manages all high-level risks.

Management Response

NARA concurs with this recommendation. NARA will develop a documented Enterprise Risk Management framework that includes processes to ensure that senior leadership tracks and manages appropriate risks, consistent with OMB Circular A-123.

Target Completion Date: September 29, 2017

OIG Analysis

We consider NARA's proposed actions responsive to our report recommendations. All recommendations will remain open and resolved, pending completion of the corrective actions identified above.

Recommendation 5: The Archivist address outstanding recommendations from OIG Audit Report No. 13-01, including:

- a. Ensuring development and implementation of NARA's ERM policy.

Management Response

NARA concurs with this recommendation. NARA will issue and implement NARA 162, NARA's Enterprise Risk Management policy.

Target Completion Date: September 29, 2017

OIG Analysis

We consider NARA's proposed actions responsive to our report recommendations. All recommendations will remain open and resolved, pending completion of the corrective actions identified above.

- b.** Revisiting his decision on the placement and role in the organization of the Chief Risk Officer.

Management Response

NARA concurs with this recommendation. NARA will re-evaluate the placement of the Chief Risk Officer once an Enterprise Risk Management framework has been implemented.

Target Completion Date: September 29, 2017

OIG Analysis

We consider NARA's proposed actions responsive to our report recommendations. All recommendations will remain open and resolved, pending completion of the corrective actions identified above.

Recommendation 6: NARA Executives ensure:

- a.** Monitoring and testing plans are sufficiently reported in the ICP Tool.

Management Response

NARA concurs with this recommendation. NARA will develop an Enterprise Risk Management framework that includes processes to ensure that Executives review internal control test and monitoring plans for sufficiency.

Target Completion Date: September 29, 2017

OIG Analysis

We consider NARA's proposed actions responsive to our report recommendations. All recommendations will remain open and resolved, pending completion of the corrective actions identified above.

- b.** Results of monitoring and testing plans are achievable within the reporting timeframe.

Management Response

NARA does not concur with this recommendation. NARA states results of some tests are not completed and available for consideration in the fiscal year for which they are conducted. For example, any program that operates on a fiscal year basis, such as

financial management activities or FISMA testing, would not have results available in the fiscal year of reporting. Management believes that post-hoc review of program results is an essential control. The OIG's recommendation would increase risk to NARA functions and activities by excluding important controls over high-risk functions from NARA monitoring and test plans. Management will continue to include these test plans and results in NARA's internal control program, with the understanding that the results for one fiscal year are often reviewed in the next fiscal year.

Target Completion Date: May 3, 2017

OIG Analysis

NARA states results of some tests are not completed and available for consideration in the fiscal year for which they are conducted. The OIG contends that if such test results are not completed and available, they should not be considered for the fiscal year's annual assurance statement. This recommendation will remain **open and unresolved** until NARA provides evidence of how they plan to support the annual assurance statement if testing and monitoring results are not available within the reporting timeframe.

c. All information is up-to-date and reflects the current control environment.

Management Response

NARA concurs with this recommendation. NARA will develop an Enterprise Risk Management framework that includes processes to ensure that Executives review internal control information for accuracy and completeness.

Target Completion Date: September 29, 2017

OIG Analysis

We consider NARA's proposed actions responsive to our report recommendations. All recommendations will remain open and resolved, pending completion of the corrective actions identified above.

Recommendation 7: NARA Executives identify, develop, and include in ICP reports measurable indicators to evaluate functions.

Management Response

NARA concurs with this recommendation. NARA will develop an Enterprise Risk Management framework that incorporates organizational performance measures as a means of providing reasonable assurance that program goals and outcomes are being met and risks are being actively managed and mitigated.

Target Completion Date: September 29, 2017

OIG Analysis

We consider NARA's proposed actions responsive to our report recommendations. All recommendations will remain open and resolved, pending completion of the corrective actions identified above.

Recommendation 8: NARA Executives update NARA Directive 101 to include internal control responsibilities for each office.

Management Response

NARA does not concur with this recommendation. NARA stated internal control responsibilities for each office are documented in NARA 161, NARA's Internal Control Program policy and NARA 161, Appendix A, Internal Control Reporting guidance. The OIG did not provide any evidence to suggest that adding this responsibility to NARA 101 would lead to improved outcomes.

Target Completion Date: May 3, 2017

OIG Analysis

As NARA 101 is the agency's organization and delegation of authority which outlines roles and responsibilities, the OIG believes including internal control responsibilities in NARA 101 will highlight the importance of, and management's commitment to, enterprise-wide internal controls. *GAO Standards for Internal Control in the Federal Government* states internal control is recognized as an integral part of the operational processes management uses to guide its operations rather than as a separate system within an entity. In this sense, internal control is built into the entity as a part of the organizational structure to help managers achieve the entity's objectives on an ongoing basis. This recommendation will remain **open and unresolved** until NARA revises NARA 101 to reflect internal control responsibilities or provides signed memorandum stating the agency is willing to take no action.

Recommendation 9: The ICP Official develop and implement a consistent risk assessment process and format for risk ranking, analysis of effect or impact, and risk reporting.

Management Response

NARA concurs with this recommendation. NARA will develop an Enterprise Risk Management framework that includes processes to develop and maintain a risk profile, consistent with OMB Circular A-123.

Target Completion Date: September 29, 2017

OIG Analysis

We consider NARA's proposed actions responsive to our report recommendations. All recommendations will remain open and resolved, pending completion of the corrective actions identified above.

Recommendation 10: The ICP Official review the ICP reports and make and document any revisions necessary to the format to ensure all necessary information is obtained in the reports.

Management Response

NARA concurs with this recommendation. NARA will develop an Enterprise Risk Management framework and will make any changes to ICP reports necessary to manage risks in a manner consistent with OMB Circular A-123.

Target Completion Date: October 31, 2017

OIG Analysis

We consider NARA's proposed actions responsive to our report recommendations. All recommendations will remain open and resolved, pending completion of the corrective actions identified above.

Appendix A – Acronyms

COO	Chief Operating Officer
COSO	Committee of Sponsoring Organizations
EGRC	Enterprise Governance, Risk, and Compliance
ERM	Enterprise Risk Management
FMFIA	Financial Managers’ Financial Integrity Act
FRC	Federal Records Centers
FY	Fiscal Year
GAO	Government Accountability Office
ICP	Internal Control Program
IT	Information Technology
MCOC	Management Control Oversight Council
NARA	National Archives and Records Administration
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PII	Personally identifiable information
PWC	PricewaterhouseCoopers

Appendix B – Management Response



Date: OCT 26 2016

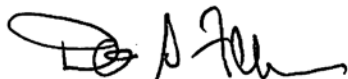
To: James Springs, Inspector General

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

Subject: *OIG Draft Report 17-AUD-03, Audit of NARA's Compliance with the Federal Manager's Financial Integrity Act for FY15*

Thank you for the opportunity to review and comment on your draft report. As you know, most of the field work for this audit was conducted before publication of the revised OMB Circular A-123 (July 2016), which established requirements for Enterprise Risk Management (ERM) in Executive agencies. We believe that most of the findings and recommendations of this audit will assist us in developing a new ERM program at NARA. However, we have left flexibility in our planned actions and target completion dates so that we can address the underlying findings and conclusions supporting your recommendations in a manner that is consistent with OMB's new standard.

We do not concur with recommendations 6b and 8. The reasons for our non-concurrence can be found in the attached Action Plan for the recommendations. As each recommendation is satisfied, we will provide documentation to your office. If you have questions about this action plan, please contact Kimm Richards at kimm.richards@nara.gov or by phone at 301-837-1668.



DAVID S. FERRIERO
Archivist of the United States

Attachment

NATIONAL ARCHIVES *and*
RECORDS ADMINISTRATION
8601 ADELPHI ROAD
COLLEGE PARK, MD 20740-6001
www.archives.gov

**Action Plan Response to OIG Report 17-AUD-03,
Audit of NARA's Compliance with the Federal Manager's Financial Integrity Act for
FY15**

Recommendation 1: The Archivist provide the staffing resources necessary to provide sufficient coverage of the risks and internal controls of the agency.

Planned Actions: Once the Enterprise Risk Management policy and processes have been implemented -- and Enterprise Risk Management, Internal Controls, and Strategic and Operational Planning have been more clearly aligned as a result of the recent reorganization - NARA will evaluate resource needs to conduct these programs consistent with OMB models for internal controls and risk management.

Target Completion Date: September 29, 2017

Recommendation 2: The Archivist implement or upgrade current internal control software or utilize other mechanisms to enhance and improve the agency's ability to track and report on internal controls.

Planned Actions: NARA has recently acquired an enterprise case management system. We will evaluate the case management system, taking into consideration the OIG's findings in this report, and determine if case management is suitable for tracking and reporting on internal controls. If so, NARA will pursue configuring internal controls functionality in the case management system.

Target Completion Date: September 29, 2017

Recommendation 3: The Archivist ensure formalized internal control training is provided to NARA staff.

Planned Actions: NARA will develop Enterprise Risk Management training for all staff in FY 2017. This training may include materials specific to internal controls.

Target Completion Date: September 29, 2017

Recommendation 4: The Archivist ensure the MCOC tracks and manages all high-level risks.

Planned Actions: NARA will develop a documented Enterprise Risk Management framework that includes processes to ensure that senior leadership tracks and manages appropriate risks, consistent with OMB Circular A-123.

Target Completion Date: September 29, 2017

Recommendation 5a: The Archivist address outstanding recommendations from OIG Audit Report No. 13-01, including ensuring development and implementation of NARA's ERM policy.

Planned Actions: NARA will issue and implement NARA 162, NARA's Enterprise Risk

Management policy.

Target Completion Date: September 29, 2017

Recommendation 5b: The Archivist address outstanding recommendations from OIG Audit Report No. 13-01, including revisiting his decision on the placement and role in the organization of the Chief Risk Officer.

Planned Actions: NARA will re-evaluate the placement of the Chief Risk Officer once an Enterprise Risk Management framework has been implemented.

Target Completion Date: September 29, 2017

Recommendation 6a: NARA Executives ensure monitoring and testing plans are sufficiently reported in the ICP tool.

Planned Actions: NARA will develop an Enterprise Risk Management framework that includes processes to ensure that Executives review internal control test and monitoring plans for sufficiency.

Target Completion Date: September 29, 2017

Recommendation 6b: NARA Executives ensure results of monitoring and testing plans are achievable within the reporting timeframe.

Comment: Management does not concur. The results of some tests are not completed and available for consideration in the fiscal year for which they are conducted. For example, any program that operates on a fiscal year basis, such as financial management activities or FISMA testing, would not have results available in the fiscal year of reporting. Management believes that post-hoc review of program results is an essential control. The OIG's recommendation would increase risk to NARA functions and activities by excluding important controls over high-risk functions from NARA monitoring and test plans. Management will continue to include these test plans and results in NARA's internal control program, with the understanding that the results for one fiscal year are often received in the next fiscal year.

Recommendation 6c: NARA Executives ensure all information is up-to-date and reflects the current control environment.

Planned Actions: NARA will develop an Enterprise Risk Management framework that includes processes to ensure that Executives review internal control information for accuracy and completeness.

Target Completion Date: September 29, 2017

Recommendation 7: NARA Executives identify, develop and include in ICP reports measurable indicators to evaluate functions.

Planned Actions: NARA will develop an Enterprise Risk Management framework that incorporates organizational performance measures as a means of providing reasonable assurance that program goals and outcomes are being met and risks are being actively managed and mitigated.

Target Completion Date: September 29, 2017

Recommendation 8: NARA Executives update NARA Directive 101 to include internal control responsibilities for each office.

Comment: Management does not concur. Internal control responsibilities for each office are documented in NARA 161, NARA's Internal Control Program policy and NARA 161, Appendix A, Internal Control Reporting guidance. The OIG did not provide any evidence to suggest that adding this responsibility to NARA 101 would lead to improved outcomes.

Recommendation 9: The ICP Official develop and implement a consistent risk assessment process and format for risk ranking, analysis of effect or impact, and risk reporting.

Planned Actions: NARA will develop an Enterprise Risk Management framework that includes processes to develop and maintain a risk profile, consistent with OMB Circular A-123.

Target Completion Date: September 29, 2017

Recommendation 10: The ICP Official review the ICP reports and make and document any revisions necessary to the format to ensure all necessary information is obtained in the reports.

Planned Actions: NARA will develop an Enterprise Risk Management framework and will make any changes to ICP reports necessary to manage risks in a manner consistent with OMB Circular A-123.

Target Completion Date: October 31, 2017

Appendix C – Report Distribution List

Archivist of the United States
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Chief Operating Officer
Deputy Chief Operating Officer
Chief of Management and Administration
Internal Control Program Official
Accountability

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