

United States General Accounting Office

---

**GAO**

Report to the Honorable  
Alan K. Simpson, U.S. Senate

---

May 1989

# NATIONAL ARCHIVES

## A Review of Selected Management Issues





United States  
General Accounting Office  
Washington, D.C. 20548

---

**Accounting and Financial  
Management Division**

B-229252

May 23, 1989

The Honorable Alan K. Simpson  
United States Senate

Dear Senator Simpson:

In response to your request, this report discusses allegations made by one of your constituents concerning improper practices followed by the National Archives and Records Administration and the National Archives Trust Fund Board.

This report presents the results of our review of allegations of abuses of appropriation, procurement, and personnel authority. We determined that there is no support for the allegations. The report also identifies financial management weaknesses associated with the National Archives Trust Fund and presents our recommendations for corrective actions.

We are sending copies of this report to the Archivist of the United States, the National Archives Trust Fund Board, the Director of the Office of Management and Budget, and interested congressional committees. Copies will be available to others on request.

This report was prepared under the direction of Jeffrey C. Steinhoff, Director, Financial Management Systems Issues. Major contributors are listed in appendix I.

Sincerely yours,

A handwritten signature in cursive script, appearing to read 'Frederick D. Wolf'.

Frederick D. Wolf  
Assistant Comptroller General

---

# Executive Summary

---

## Purpose

This report presents the results of GAO's review of allegations made to Senator Alan K. Simpson by a constituent who is also a former Archives employee. The allegations identify potential abuses of appropriation authority, federal procurement regulations, and federal personnel law at the National Archives and Records Administration (NARA). Specifically, the allegations indicated that

- NARA and the National Archives Trust Fund Board improperly commingled reproduction fees (appropriated funds) and unrestricted Trust Fund monies, which could allow appropriated funds to be improperly expended and that commingling of monies in NARA's income statement prevented determining whether reproduction services were provided at cost, as legally required;
- federal procurement and personnel regulations were violated by NARA; and
- Trust Fund personnel did not hold civil service appointments and, thus, would not be eligible to compete for remaining positions if a reduction-in-force were to occur.

This report also presents examples of weaknesses in Trust Fund accounting, reporting, and auditing, along with recommendations for corrective action.

---

## Background

Established in 1985 as an independent agency, NARA is the successor agency to the National Archives and Records Service. It provides services to both the public and federal agencies regarding the custody, use, and preservation of historic records and documents. NARA assists federal agencies in managing their records and assists the public in accessing historically valuable government records. NARA is funded by direct annual appropriations, reimbursable income for providing records services to federal agencies, and funds made available from the National Archives Trust and Gift Funds.

The National Archives Trust Fund was created in 1941 primarily to handle gifts and other bequests for the general benefit of the National Archives. In 1948, the law was amended to authorize the Archivist to charge for reproductions of archival records and materials and deposit these fees in the Trust Fund. The revenues from sales of historic documents reproduced by NARA, sales and rentals of audiovisual materials produced by or for the federal government, publications and souvenirs sold in the National Archives Museum store and in the Presidential Libraries, and admission fees to the Presidential Libraries are deposited

in the Trust Fund, which is managed by a Board of Trustees. The law requires that the fees charged by the Archivist for reproduction of historic materials be based on cost. The Trust Fund, however, may add a 10-percent profit to the cost of its publications and releases.

---

## Results in Brief

GAO did not identify any evidence to substantiate the allegations. However, GAO identified weaknesses in financial reporting and auditing and found a lack of written policies and procedures. This affected the reliability of the Trust Fund's financial reports and its ability to ensure compliance with the legislated 10-percent profit margin on the sale of Trust Fund publications and releases.

---

## Principal Findings

---

### Allegations Not Substantiated

GAO determined that the allegations of abuses of appropriation, procurement, and personnel authority were unsupported. GAO found that NARA's reproduction fees deposited in the Trust Fund were recorded in separate accounts. In addition, since fees are available for any appropriate Trust Fund expenditure, they were not improperly expended as alleged. GAO found, however, that while a profit factor was not included in developing the fee schedule of prices for NARA's sale of reproductions of historic documents, improved documentation is needed to support calculations on which the fee schedule is based. Regarding the alleged abuse of federal procurement regulations, GAO found that the Trust Fund is not required to follow Federal Acquisition Regulations when purchasing goods and services. With regard to alleged personnel regulation abuses, GAO determined that NARA personnel appointments, including appointments for employees assigned to Trust Fund work, were consistent with the law and Office of Personnel Management regulations. Thus, all employees would compete equally for remaining positions in the event of a reduction-in-force.

---

### Legislative Compliance Not Ensured

Incidental to its work on the allegations, GAO found that the Trust Fund could not provide assurance that it had complied with the legislative requirement that its profits not exceed the 10-percent profit margin allowed for its publications and releases.

---

**Policies and Procedures  
Lacking**

GAO's review identified several internal control weaknesses, including the lack of written policies, procedures, and documentation for Trust Fund financial operations, as required by GAO's Policy and Procedures Manual for Guidance of Federal Agencies, Title 2. For example, the Trust Fund operations manual, which is to include information pertinent to a wide variety of Trust Fund activities, has been in draft form for over 2 years. In addition, the Trust Fund has no written policy or procedures for periodic, timely account reconciliations.

As a result of the lack of written policies and procedures, the Trust Fund has incomplete documentation for its accounting practices. The absence of written policies and procedures also contributed to the Trust Fund's inability to ensure compliance with the legislated 10-percent profit margin on Trust Fund publications and releases.

---

**Financial Reporting  
Weaknesses**

The Statement of Changes in Financial Position was not published in NARA and Trust Fund annual reports. Also, the financial statements did not fully disclose unusual transactions, such as a \$1.3 million inventory adjustment, and the statements were unaudited. As a result, Trust Fund managers did not have accurate and reliable financial information for use by program managers and for presentation to the Congress.

---

**Recommendations**

GAO recommends that the Trust Fund Board take specific actions (described in chapter 3) to improve financial reporting and internal controls. Corrective actions include increased compliance with federal accounting standards and reporting requirements and an independent annual audit of the Trust Fund's financial statements.

---

**Agency Comments**

GAO obtained official oral comments from NARA officials on a draft of this report. They agreed with the contents of this report and indicated that some improvements are planned or are underway.



---

# Contents

---

<b>Executive Summary</b>		2
<b>Chapter 1</b>		8
<b>Introduction</b>	Background	8
	Objectives, Scope, and Methodology	9
<b>Chapter 2</b>		11
<b>Allegations Are Not Substantiated</b>	Use of Appropriated Funds	11
	Applicability of Federal Procurement Law	14
	Compliance With Federal Personnel Laws	16
<b>Chapter 3</b>		18
<b>Improvements Are Needed in Accounting, Financial Reporting, and Auditing</b>	Accounting Practices Cannot Ensure Compliance With Law	18
	Financial Policies and Procedures Are Needed for Adequate Internal Control	20
	Improvements Needed in Financial Reporting	22
	Annual Audits of Financial Statement Data Are Needed	24
	Conclusions	25
	Recommendations	25
	Agency Comments	26
<b>Appendix</b>	Appendix I: Major Contributors to This Report	28

---

## Abbreviations

GSA	General Services Administration
NARA	National Archives and Records Administration
NEAR	National Electronic Accounting and Reporting
OMB	Office of Management and Budget
OPM	Office of Personnel Management





---

# Introduction

---

This report responds to a request from Senator Alan K. Simpson to investigate allegations made by one of his constituents. The allegations related to certain practices followed by the National Archives and Records Administration (NARA)<sup>1</sup> and the National Archives Trust Fund Board regarding appropriation authority, federal procurement regulations, and federal personnel law. This report discusses the specific allegations and our evaluation of these matters. We also discuss improvements needed in financial management and reporting which were identified during our review of the allegations. Finally, the report includes recommendations to the Trust Fund Board which call for improvements in Trust Fund accounting, reporting, internal controls, and auditing to provide adequate control over resources and to ensure reliability of financial statement data.

---

## Background

NARA is responsible for providing a wide variety of archival services to both the public and federal agencies related to the custody, use, and preservation of records and documents. Under the direction of the Archivist of the United States, it establishes policies and procedures for managing the records of the federal government and assists federal agencies in administering their records management programs and retiring their records to Federal Records Centers. NARA also makes the historically valuable records of the federal government available to the public and manages the Presidential Libraries system. NARA is funded by direct annual appropriations, reimbursable income for providing services to other agencies, and funds made available from the National Archives Trust Fund and the National Archives Gift Fund.

The National Archives Trust Fund was created by the National Archives Trust Fund Board Act in 1941 primarily to handle gifts and other bequests for the general benefit of the National Archives. In 1948, the law was amended to authorize the Archivist to charge for reproductions of archival records and deposit these fees in the Trust Fund. Two separate accounts have been established (1) to handle gifts and donations to the National Archives (Gift Fund) and (2) to administer the revenue-producing activities of the National Archives (Trust Fund). Our review centered on the Trust Fund.

---

<sup>1</sup> The National Archives and Records Administration was established by an act of October 19, 1984 (98 Stat. 2282; 44 U.S.C. 2101), effective April 1, 1985, as an independent agency in the executive branch of government. NARA is the successor agency to the National Archives Establishment, which was created by an act of June 19, 1934 (48 Stat. 1122), and was subsequently incorporated into the General Services Administration as the National Archives and Records Service by section 104 of the Federal Property and Administration Services Act (63 Stat. 381), approved June 30, 1949.

The Trust Fund receives revenues principally from reproduction fees charged by the Archivist; sales of audiovisual materials produced by or for the federal government, publications and souvenirs sold in the museum store in the National Archives building in Washington, D.C., and publications and souvenirs sold in the Presidential Libraries located in seven states and the District of Columbia; and admission fees to the Presidential Libraries. Trust Fund revenues are invested and the income is used to support archival functions, such as preparation of historic publications. The Trust Fund is governed by a Board of Trustees which consists of 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.

The relationship between NARA and the Trust Fund has been the subject of General Services Administration (GSA) internal audit, GAO audit,<sup>2</sup> and congressional inquiry. These inquiries were made, in part, due to concerns about NARA and the Trust Fund each bearing a proportionate share of the expenses associated with archival activities.

---

## Objectives, Scope, and Methodology

Senator Alan K. Simpson asked us to review several alleged abuses of appropriation authority, personnel law, and procurement regulations in NARA and Trust Fund operations. The request arose from allegations reported to the Senator by one of his constituents who is a former employee of the National Archives and Records Service (NARA's predecessor, as discussed in footnote 1).

The objectives of our review were to determine whether

- NARA and the Trust Fund Board improperly commingled reproduction fees (appropriated funds) and unrestricted Trust Fund moneys which may have allowed appropriated funds to be improperly expended and whether commingling of moneys in NARA's income statement prevented a determination that reproduction services were provided at cost, as legally required;
- federal procurement and personnel regulations were violated by NARA; and
- Trust Fund personnel held civil service appointments and would be eligible to compete for remaining positions if a reduction-in-force were to occur.

---

<sup>2</sup>Improvements Are Needed in the Management of the National Archives Preservation and Trust Fund Activities (GAO/LCD-80-13, October 26, 1979).

To determine the validity of the allegations, we reviewed pertinent laws and regulations regarding NARA and the National Archives Trust Fund Board. We interviewed NARA officials and reviewed agency procedures, documents, and other records related to the allegations. We also looked at the National Archives Trust Fund financial statements, draft operating manual procedures, and Office of Management and Budget (OMB) and Department of the Treasury financial reporting requirements. We reviewed the Trust Fund's procurement procedures for compliance with the law and Federal Acquisition Regulations. The allegations did not address, nor did we review, NARA procurement practices. We also spoke with Office of Personnel Management (OPM) officials and reviewed OPM documents and regulations to determine the appointment status of NARA employees. In addition, we reviewed recent reports the agency filed under the Federal Managers' Financial Integrity Act of 1982<sup>3</sup> to ascertain whether the agency has identified material internal control or accounting weaknesses related to the issues included in the allegations.

Our work was conducted from January 1988 to October 1988 at the NARA offices located in Washington, D.C., and was performed in accordance with generally accepted government auditing standards. NARA officials commented on a draft of this report, and we incorporated their comments where appropriate.

---

<sup>3</sup>The Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512(b) and (c)) requires agencies to report material weaknesses in agency internal control and accounting to the President and the Congress each year, along with plans to correct the problems.

---

# Allegations Are Not Substantiated

---

The allegations forwarded by Senator Simpson cover three principal areas. First, the allegations indicated that the fees collected from the public for reproductions of historic documents and deposited in the Trust Fund were, in fact, appropriated (restricted) moneys and were improperly commingled with other unappropriated and unrestricted Trust Fund moneys, which may allow them to be diverted to unauthorized purposes. Second, it was alleged that the reproduction fees collected were not disbursed in accordance with federal procurement and personnel regulations. Third, the allegations indicated that certain Trust Fund employees did not hold civil service appointments and would not be eligible to compete for remaining positions if a reduction-in-force were to occur at NARA.

Our findings did not substantiate these allegations. We did not identify any instances which indicated that NARA or the National Archives Trust Fund Board

- improperly commingled appropriated and unrestricted Trust Fund moneys,
- violated federal procurement and personnel regulations, or
- improperly made non-civil service appointments to employees assigned to Trust Fund activities.

A discussion of each of the allegations and our analyses and conclusions follow.

---

## Use of Appropriated Funds

It was alleged that NARA and the National Archives Trust Fund Board had systematically violated the law, thereby resulting in “unlawful expenditures of appropriated funds and diversion of appropriated funds to unauthorized purposes.” Specifically, it was alleged that about \$6 million of the fees NARA collected in fiscal year 1986 for providing reproductions of records to the public<sup>1</sup> were appropriated funds and were improperly commingled with other Trust Fund moneys. The allegation also stated that the Trust Fund improperly treated these fees as unrestricted funds rather than as appropriated funds, and thus circumvented regulations that apply to appropriated funds and those that apply to federal procurement and personnel. The allegation also stated that commingling these fees with Trust Fund moneys prevented the

---

<sup>1</sup>Under the authority of 44 U.S.C. 2116(c), the Archivist charges a reproduction fee set to recover the costs of making or authenticating copies of archival material. These fees are deposited in the National Archives Trust Fund and expended as part of the fund.

proper reporting of NARA reproduction services in the Trust Fund Statement of Operations and did not allow for a determination of whether reproduction services were provided at cost as required by law (44 U.S.C. 2116(c)). The allegation referred to the Trust Fund Statement of Operations for fiscal year 1986 in concluding that combining the revenues from activities that are to break even (reproductions) with those allowed to make a 10-percent profit (Trust Fund publications and releases, as discussed in chapter 3) prevented measuring compliance with congressional intent to limit reproduction fees to the recovery of cost.

## GAO Analysis and Conclusion

Although the Trust Fund receives revenue from several activities, the principal source is reproduction fees charged to the public by the Archivist to recover NARA's costs for making copies of archival material. In fiscal year 1987, NARA reproduction fees accounted for over \$4 million of nearly \$10 million in Trust Fund receipts. Although these fees are collected under the authority of the Archivist (44 U.S.C. 2116(c)), they are deposited in, and expended by, the Trust Fund. The Trust Fund, however, reimburses NARA for costs associated with reproducing the archival material.

Our analysis of applicable legislation, review of Trust Fund financial statements and accounting reports, and interviews with NARA personnel disclosed that the fees in question are not restricted moneys. Thus, they were not improperly commingled with other Trust Fund moneys and were not diverted to unauthorized purposes. Our analysis of the applicable legislation (44 U.S.C. 2116(c)) showed that the Congress intended NARA-generated sales revenues to be deposited in the Trust Fund and that the revenues are to be available for any appropriate Trust Fund expenditure. Once these fees are deposited in the Trust Fund, they are by law to be "administered and expended as part of the National Archives Trust Fund." Since the law places no restriction on the use of these fees, they are available for the same purposes and in the same manner as are unrestricted donations to, or investment income of, the trust. Thus, the fact that the revenues deposited in the Trust Fund are fees collected under the Archivist's authority in 44 U.S.C. 2116(c) and are made available (appropriated)<sup>2</sup> for expenditure for trust purposes,

<sup>2</sup>See 65 Comp. Gen. 25 (1985). This decision states that "where Congress authorizes the collection or receipt of certain funds by an agency and has specified or limited their use or purpose, the authorization constitutes an appropriation...."

does not impose any additional restrictions other than those that would generally apply to Trust Fund expenditures.

Our analysis of Trust Fund statements of operations and accounting reports showed that although the fees in question were received and accounted for by the Trust Fund, the fees were recorded in accounts which separate them from other Trust Fund income. The fact that these fees were included in the Trust Fund Statement of Operations together with other types of Trust Fund revenues does not indicate that the revenues were improperly commingled.

Our analysis of the fees charged for reproductions did not identify any factors which indicated that the Trust Fund did not comply with congressional intent to limit reproduction fees to recover only cost. We agree with the allegation that the Trust Fund's fiscal year 1986 Statement of Operations does not disclose any data which would allow a reader to determine whether an individual activity breaks even or earns a profit. However, a statement of operations is generally prepared on an entity's total financial activity and not on individual programs, unless specifically required by law. NARA has detailed data which are more appropriate for determining whether fees charged represent the costs incurred to reproduce items sold.

We reviewed NARA's process for establishing the fees for reproduction services to determine if the prices are based on cost. NARA's reproduction fees are based on time studies performed in 1983, which established standard amounts of time for reproducing historic documents. Using these time studies, NARA developed standard costs, which are adjusted periodically. Standard costs were established for archival handling; laboratory costs, including materials, labor, and depreciation; and related costs, such as postage and overhead. We did not identify any instances where a profit factor was included or where fee schedules exceeded established costs.

Although we did not identify a profit factor in NARA's fee schedules, we could not follow all of the calculations made in establishing the fees. We found that as changes were made in the calculations, the reason or authorization for the change was seldom documented. Therefore, we could not validate the amounts for some cost components included in the fee schedules, and thus could not determine whether reproduction services were provided on a break-even basis. In our discussion on a draft of this report, NARA officials advised us that they would take action to adequately document the reproduction fee schedules. Although not part

of the allegations, we discuss the Trust Fund's compliance with its legislated 10-percent profit margin on the sales of its publications and releases in chapter 3.

---

## Applicability of Federal Procurement Law

The second allegation indicated that NARA disregarded Federal Acquisition Regulations for Trust Fund purchases because it used letter contracts<sup>3</sup> in some instances and did not use GSA schedules<sup>4</sup> in other instances to purchase goods and services. Furthermore, because appropriated funds (reproduction fees) were used, the allegation indicated that a violation of the procurement regulations was automatic, i.e., Federal Acquisition Regulations must be followed when expending appropriated funds.

---

## GAO Analysis and Conclusion

Our analysis of the data does not support the allegation. Federal Acquisition Regulations apply differently to trust funds than to appropriated funds. The difference is based on the role of the trust fund activity and the beneficiary. Generally, when a government agency acts as a trustee for the benefit of private parties, it is not bound by Federal Acquisition Regulations when procuring items or services in the furtherance of its trust purposes.<sup>5</sup> While the law authorizes fees, donations, and trust income to be deposited in the Trust Fund and makes these moneys available for expenditure (thus, technically appropriating them), they are to be treated as trust funds for all purposes under the law. Furthermore, the Trust Fund Board has all the usual powers and obligations of a trustee with respect to the property and funds it administers (44 U.S.C. 2303). Therefore, in the absence of express statutory requirements to comply with Federal Acquisition Regulations, the Trust Fund is not required to follow these regulations when procuring items or services.

---

<sup>3</sup>A letter contract is a written, preliminary contractual instrument that authorizes a contractor to begin immediately manufacturing supplies or performing services as stipulated in the contract. Within certain limitations, the Federal Acquisition Regulations permit federal agencies to use letter contracts when there are time constraints and prescribe procedures for their use.

<sup>4</sup>GSA provides federal agencies with a simplified process for obtaining commonly used supplies and services through its Federal Supply Schedule program. The schedules contain information on the items, vendors, and terms necessary for federal agencies to place orders. Federal agencies are generally required by Federal Acquisition Regulations to use these schedules as sources of supplies; however, the requirement can be waived when needed items or services are not covered by the GSA schedules or when they can be obtained more economically elsewhere.

<sup>5</sup>See the Comptroller General decision on the matter of the Pension Benefit Guaranty Corporation's Use of Contingent Fee Arrangement With Outside Counsel, B-223146, October 7, 1986.

The National Archives Trust Fund Board by its resolution, dated July 19, 1983, established regulations for Trust Fund procurements. The Board's resolution requires that the Trust Fund follow Federal Acquisition Regulations, but allows the Trust Fund to deviate from this general policy when there is a fiscal, qualitative, or business advantage to do so. Although the National Archives Trust Fund Board is a government entity and its operations also serve to benefit government activities—specifically, NARA's archival mission—we cannot conclude, as a matter of law, that it is required to follow Federal Acquisition Regulations. We discussed the procurement procedures with the former Trust Fund Board Secretary<sup>6</sup> who advised us that, generally, GSA schedules were used, but there were instances where the Trust Fund did not do so. For example, GSA schedules were not used when the Trust Fund could obtain goods or services at a lower cost.

The allegations contended that NARA used informal letter-type contracts not permitted by Federal Acquisition Regulations. For example, the Trust Fund has usually obtained certain procurements relating to printing Trust Fund publications from publishers other than the Government Printing Office (GPO) through the use of letter contracts.

The Trust Fund Board believes that due to the nature of its publications—nontechnical, general-interest publications—and the desire for quality products, letter contracts are the best mechanism for ensuring that its specifications are met and that the contracting process is expedited. A list of contractors who have provided printing services in the past that were acceptable to the Board is maintained. The former Trust Fund Secretary advised us that in order to ensure competition, the Trust Fund's practice has been to obtain a minimum of three bids from these contractors and to award the contract to the lowest bidder.

We judgmentally selected and reviewed 7 of 42 letter contracts which were awarded for printing services from February 1987 through May 1988 to determine if Trust Fund policy was in fact being followed. Our review of the documentation for the seven contracts showed that at least three bids were obtained for each contract, and the contracts were awarded to the low bidder.

---

<sup>6</sup>The Trust Fund Secretary that we interviewed during the course of our review left the agency in July 1988.



While agencies are generally required by statute (44 U.S.C. 501, 1701) to obtain printing and distribution services through GPO<sup>7</sup> when serving the government's needs, agencies administering trust funds are not required to follow them when acting in their trustee capacity in the furtherance of their trust purposes.<sup>8</sup> The Trust Fund Board possesses all the powers of a trustee in administering funds and property under its control, regardless of their source. Therefore, we cannot conclude that the Trust Fund is legally required to use GPO when satisfying its printing and distribution needs in the furtherance of its trust purposes.

---

## Compliance With Federal Personnel Laws

The third allegation stated that personnel practices used by the Trust Fund Board were detrimental to Trust Fund employees and would not allow them to compete for positions with other NARA employees if a reduction-in-force occurred. Specifically, the constituent alleged that Trust Fund employees had excepted service appointments.<sup>9</sup> The constituent concluded that if a reduction-in-force occurred, a separate retention register would be created for Trust Fund employees, thereby preventing them from competing with NARA employees, who had civil service appointments, for the remaining positions.

---

## GAO Analysis and Conclusion

Our analysis of the allegation did not disclose any illegality relating to federal personnel laws. Prior to the 1984 act, the Trust Fund Board had the authority to hire employees on an excepted basis—that is, hire them directly without regard to civil service regulations. Two events occurred, however, which eliminated the Trust Fund Board's use of excepted service appointments. First, in May 1980, OPM reported abuses in the use of excepted service appointment authority by the Trust Fund and recommended corrective actions including a position management and reclassification review of every Trust Fund position to determine which ones should be converted to the competitive service. Second, the Congress enacted the National Archives and Records Administration Act (44 U.S.C 2101) in 1984, which rescinded the Trust Fund Board's exemption from the civil service laws.

---

<sup>7</sup>See also Legislative Branch Appropriations Act for 1989, Public Law 100-458, Section 309, 102 Stat. 2184 (1988).

<sup>8</sup>See the Comptroller General decision on the matter of the Pension Benefit Guaranty Corporation's printing and distribution requirements (65 Comp. Gen. 226 n.1 (1986)).

<sup>9</sup>Excepted service appointments are exempt from civil service competitive service requirements, such as public notice, Office of Personnel Management qualification standards, competitive examinations, position classifications, etc.

According to a NARA personnel official, the Trust Fund Board had converted about 170 Trust Fund employees from the excepted service to competitive civil service appointments prior to passage of the 1984 act in accordance with OPM requirements. On March 18, 1986, OPM directed NARA to complete all conversions to competitive service within 6 months. NARA personnel officials informed us that conversion of most of the employees was completed in April 1986. Because all of the employees were eventually converted from excepted service to civil service, there would be no basis for a separate retention register in the event of a reduction-in-force.

With regard to the allegation that employees held Trust Fund excepted service appointments rather than NARA civil service appointments, NARA personnel officials informed us that all employees currently hold NARA appointments, regardless of whether they work on Trust Fund or NARA activities. There are no Trust Fund appointments. Our review of official NARA employment reports submitted to OPM and NARA personnel reports summarizing appointment data (compilation of SF-50, Notifications of Personnel Action data) as of October 31, 1988, confirmed that there are no improper Trust Fund excepted service appointments.

We identified only one NARA employee assigned to Trust Fund work as currently having an excepted appointment. This employee holds a Schedule B appointment under OPM's Professional Administrative Career Program. This program provides for conversion to competitive service after 2 years of employment. An OPM official responsible for approving NARA conversions advised us that NARA and the Trust Fund Board are currently complying with the law and OPM's regulations. Since virtually all employees working on Trust Fund related activities are NARA competitive service employees, they would compete equally for remaining positions in the event of a reduction-in-force.

# Improvements Are Needed in Accounting, Financial Reporting, and Auditing

During our review of the allegations, we identified a lack of written policies and procedures for Trust Fund accounting and weaknesses in financial reporting and auditing. These weaknesses could impair the effectiveness of management control over Trust Fund accounting and operations. For example, the Trust Fund does not have formal guidelines that require monitoring Trust Fund profits derived from the sale of publications and releases in order to ensure compliance with the statutory 10-percent profit limitation. In addition, the Trust Fund does not have adequate written procedures and documentation for managing other Trust Fund financial activities, such as the accumulation of costs associated with preparing manuscripts for publication, proper posting of transactions, and periodic reconciliation of accounts.

For fiscal years 1986 and 1987, we found that although Trust Fund financial statements required by GAO's Policy and Procedures Manual for Guidance of Federal Agencies, Title 2, and Treasury regulations were prepared for Trust Fund activities, they were not all published in the NARA and Trust Fund annual reports. Also, one significant transaction—a \$1.3 million inventory adjustment—was not adequately disclosed in the financial statements. In addition, the required business-type budget statements were not consistently submitted to OMB.

As a result of these weaknesses, the Trust Fund cannot ensure that it complies with the 10-percent profit margin allowed on its publications and releases, that its financial operations and policies are carried out effectively, or that its financial reports are reliable.

## Accounting Practices Cannot Ensure Compliance With Law

The Trust Fund's authorizing law allows a 10-percent profit to be added to the cost of its publications and releases. These publications and releases are produced at a profit as a Trust Fund activity and differ from NARA's reproduction of historic documents, which are required to be reproduced at cost. As discussed in chapter 2, we did not identify any factors which would indicate that NARA's reproduction fees exceeded cost, although we could not follow all of the calculations used in making this determination due to inadequate documentation. However, when we reviewed Trust Fund financial statements, we found that profits are not monitored and, therefore, the Trust Fund Board cannot ensure compliance with the legislated profit margin on its own publications and releases.

The law regarding the profit margin allowed on Trust Fund publications and releases is broadly written, and it is not clear whether the profit

margin should be applied to individual publications or to groups of publications. However, the former Trust Fund Secretary advised us that the 10-percent profit limitation is applied to the Trust Fund as a whole. The Trust Fund Board allows individual publications to be priced over or under their costs based on what they believe the market will bear. Applying the 10-percent profit margin against total sales gives the Trust Fund greater flexibility in setting prices for individual publications, enhances their marketability and, thus, makes more information available to the public about archival matters.

In discussing Trust Fund profit, the former Secretary told us that the Trust Fund exceeded the 10-percent profit margin for fiscal year 1987, but we did not obtain the actual profit percentage. He stated that the Trust Fund did not have an established policy for calculating the realized profits. In the absence of an established policy, he told us that he made a comparison of selected items shown on the Trust Fund's Statement of Operations. Specifically, net income, adjusted for interest income and other nonoperating revenue, was compared to the amount shown for cost of goods and services.

The methodology described indicates that the net operating profit would have amounted to about 19 percent for fiscal year 1987. However, we do not believe that statement of operations data should be used to calculate the profit margin because the financial information is not specific to publications and releases. For example, some items, such as inventory, are not included in the Statement of Operations, while revenue and expense items that are included are not restricted solely to the Trust Fund's publication activities. The former Trust Fund Secretary also informed us that the amount shown for cost of goods and services includes other costs, such as those related to NARA's reproduction services program, which does not earn a profit. It also includes expenses related to retail sales in Presidential Libraries. In addition, the revenue amount includes revenue from all operations, some of which do not include a profit. The inclusion of Trust Fund costs and revenues attributable to all operations in the calculation of the profit on publications is not appropriate and can misstate the profit realized. Without adequate accounting data and an established policy for determining the profit margin, accurate profit measurements are not possible.

In their comments on a draft of this report, Archives officials agreed that the methodology for calculating profits on Trust Fund publications and releases was a problem. They acknowledged that they may have exceeded the profit margin in some years, but pointed out they believed

that in other years profits were under 10 percent. Since the completion of our audit work, the Trust Fund's new Secretary has agreed to develop a methodology for calculating costs and determining prices for publications and releases and to monitor profits in the future.

---

## Financial Policies and Procedures Are Needed for Adequate Internal Control

Internal control systems are necessary to ensure that

- obligations and costs comply with applicable law;
- all assets are safeguarded against waste, loss, unauthorized use, and misappropriation; and
- revenues and expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained.

GAO's Standards for Internal Controls in the Federal Government issued pursuant to the Federal Managers' Financial Integrity Act, require that internal controls, including specific policies and procedures, provide a high degree of assurance that revenues and expenses are accounted for properly and that resources are adequately safeguarded. Specific internal control weaknesses we identified include the lack of written procedures and documentation for managing trust fund accounting and operations.

Written procedures are important to ensure adequate management control over an agency's operations and compliance with applicable laws and regulations. Procedures must be appropriately documented to prevent errors and irregularities that may affect the integrity of the operations. The documentation explains how the system or process is operated and facilitates efficient operations, audit, and other review. Good documentation also increases the ease and accuracy with which a process is performed and provides the basis for evaluating internal controls. GAO's internal control standards require that internal control systems and all transactions and other significant events be clearly documented and that the documentation be readily available for examination.

Our review disclosed that written procedures for Trust Fund operations are incomplete. The former Trust Fund Secretary advised us that most procedures have either not been written or have not been finalized. He indicated that the absence of written procedures slowed his efforts to

understand Trust Fund financial operations when he first joined NARA. For example, the Trust Fund operating manual, which is to include pertinent information on a wide variety of Trust Fund activities, such as procurement, is in draft form and has been for over 2 years. Procedures describing key activities, such as the issuance of letter contracts for publishing books on various archival subjects or the accumulation of the costs related to specific publications, have not been prepared. In a discussion on a draft of this report, NARA officials advised us that they are taking action to finalize the Trust Fund operating manual.

Documentation for accounting policies and decisions is also generally not available. Although NARA became independent from GSA in 1985, it continues to use GSA's National Electronic Accounting and Reporting (NEAR) system as its accounting system. The former Trust Fund Secretary informed us that certain types of transactions are not easily classified because GSA's accounting system chart of accounts is not completely relevant to Trust Fund transactions. For example, the former Secretary stated that because accounts do not exist for each specific type of Trust Fund transaction, certain transactions were recorded in accounts designated for other types of transactions.

When we attempted to identify some of these specific transactions, we were advised that the Trust Fund accountant who recorded them is no longer employed by NARA, and much of the information concerning their posting was never documented. Therefore, the inclusion of these transaction amounts in the proper accounts and in the financial statements cannot be validated. Without a properly documented accounting structure, the presentation of accurate data in financial reports is not ensured.

The Trust Fund's process for establishing selling prices for its publications and releases could also be improved by better documentation. We determined that Trust Fund management cannot ensure that all costs related to preparing documents for publication are considered in establishing selling prices because documentation is lacking on when a document is accepted for publication. For example, a Trust Fund manager stated that they begin tracking the costs associated with producing a publication when the decision is made to publish a particular manuscript. The decision, however, is oral and is not documented by a written agreement or memorandum, or by date. Because a clear starting point is not established for accumulating the costs, some applicable costs could be overlooked. A documented starting point is especially important as it may take several years before a publication is ready for production. The

cost of staff time devoted to a publication during this developmental phase should be recognized and considered when the selling prices are established. In our discussion on a draft of this report, NARA officials agreed to develop adequate documentation for the costs that will be used to establish selling prices of the Trust Fund's publications and releases.

In a related area, we did not find any analyses that documented how the final selling prices for publications were determined. In reviewing the basis for the overhead cost factor, we were provided with figures representing Trust Fund overhead that were to be used in establishing publication selling prices. We attempted to determine how the overhead factor was derived and were informed by the former Trust Fund Secretary that documentation to support the analysis, prepared by a former NARA employee, was not available. Because the basis for the overhead factor was not available and the determination of the final selling prices was not documented, management did not have adequate assurance that the selling prices for the publications were soundly based.

---

## Improvements Needed in Financial Reporting

Because the National Archives Trust Fund is a business-like activity, the financial results of its activities are presented annually in financial statements. We noted several opportunities for improving the quality of the statements prepared for fiscal years 1986 and 1987. For example,

- the Statement of Changes in Financial Position was not published in the annual reports on NARA and Trust Fund operations,
- the statements did not provide footnote disclosures to explain significant or unusual transactions,
- the statements did not report inventories in accordance with Title 2, and
- the statements were not audited.

In addition, for several years, business-type budget statements were not consistently submitted to OMB as required by Circular A-11, "Preparation and Submission of Budget Estimates."

---

## Financial Statements Could Be Improved

We identified several opportunities for improving the Trust Fund's financial reporting, including preparation of all financial statements required by OMB and the Department of the Treasury, full disclosure of significant transactions, reporting of inventories, and reconciliation of account balances.

First, we found that the full complement of financial statements required for business-like activities, such as the Trust Fund, were not published. The financial statements published included the Statement of Financial Position and the Statement of Operations. The Trust Fund has prepared these financial statements since its creation in 1941. However, the Statement of Changes in Financial Position, which summarizes all significant resources available to an agency fund and the uses made of those resources during the reporting period, was not published in the NARA and Trust Fund annual reports. In our discussion on a draft of this report, NARA officials agreed to include this statement in future annual reports.

Second, appropriate footnote disclosures to explain unusual transactions or events were not always provided. We noted, for example, that a \$1.3 million inventory adjustment was made in fiscal year 1986, the nature of which was not fully disclosed in the financial statements. The adjustment was made for items issued, but not expensed, in fiscal year 1985. Trust Fund inventories at September 30, 1986, after the \$1.3 million adjustment, amounted to \$1,229,093. Title 2 requires that all significant accounting policies be included in the footnotes of the financial statements, as well as significant transactions that materially affect the financial statements.

Third, inventories of certain goods held for resale were not recorded in the accounts. Instead, they were immediately expensed and were not reported in the Statement of Financial Position. Title 2 requires that inventories be disclosed in the Statement of Financial Position by the appropriate category of use or sale. The absence of these inventories understated the Trust Fund's assets and overstated its expenses. The Director of the Publications Division advised us that action was underway to establish inventory values for these items, which should facilitate the proper presentation of these inventories in future financial statements.

Fourth, Trust Fund management did not perform periodic and timely reconciliations of accounts as required by Title 2. As in the case of undocumented transactions, Trust Fund management cannot ensure that financial reports prepared from unreconciled accounting data accurately disclosed the results of operations.

The former Trust Fund Secretary informed us that account reconciliations between Trust Fund records and general ledger accounts maintained for the Trust Fund in GSA's NEAR system were not performed



routinely. He stated that the investment balance shown in the Trust Fund subsidiary records and the general ledger accounts did not agree, and it was several months before all differences were fully resolved. He stated, for example, that one reconciling item related to a 1985 transaction had not been properly recorded. Although these investment statements were reconciled by the end of our review, adequate procedures are needed to ensure that reconciliations are performed periodically in the future.

Finally, in the past, business-type budget statements required by OMB Circular A-11 were not consistently submitted to OMB for presentation in the President's Budget. Circular A-11 requires a Statement of Revenue and Expense and a Statement of Financial Position for all revolving funds which conduct business-like activities. We raised this matter with an OMB representative who advised us that OMB budget examiners had not consistently requested these statements or included them in the budget. The OMB representative stated that these statements would be requested in the future, and they were included in the Budget of the United States Government, Fiscal Year 1990 Appendix.

---

## Annual Audits of Financial Statement Data Are Needed

Although Trust Fund management has prepared financial statements for many years, the statements have not been subject to an independent audit. Auditing increases discipline in the financial reporting process by confirming the accuracy and reliability of the financial statement information. It is also essential to any program to ensure accountability and strengthen internal controls. The omissions we noted in the financial statements and in specific accounts suggest that a thorough analysis of the Trust Fund's financial activities is necessary to determine if the current financial statements and the accounting system provide adequate information to the Congress, NARA management, and the Trust Fund Board.

In a July 1986 memorandum, the need for an audit of the financial statements was recognized by NARA, but no action was taken to initiate an audit. In December 1987, the former Trust Fund Secretary recommended to NARA that a complete financial review of the Trust Fund financial statements, procedures, and system requirements be performed. NARA officials advised us that they plan to contract with an independent public accountant to audit the Trust Fund's fiscal year 1990 financial statements.

---

## Conclusions

Our review of selected National Archives Trust Fund financial operations disclosed accounting, financial reporting, and internal control weaknesses which should be corrected. First, the Trust Fund cannot ensure that it complies with the legislated 10-percent profit margin on the cost of its publications and releases. Second, the Trust Fund did not have adequate written policies and procedures describing its operations. Third, Trust Fund accounting and financial reporting did not fully comply with Title 2 and GAO's internal control standards. Fourth, the Trust Fund's published financial statements did not include a Statement of Changes in Financial Position and did not fully disclose the nature of its financial activities in footnotes. Finally, the statements were not audited.

It is important that these accounting, financial reporting, and internal control weaknesses be corrected in order to ensure that resources are effectively and efficiently used, and that they are properly accounted for and safeguarded. Until these weaknesses are corrected, Trust Fund management cannot ensure that its financial reports accurately disclose the results of its financial operations, or that its policies are carried out as intended.

---

## Recommendations

In order to ensure the reliability of the Trust Fund's financial information and proper accounting, the Trust Fund Board should

- direct the Trust Fund Secretary to develop a methodology to account for costs and revenues associated with sales of publications and reproductions to the public and to monitor the financial results to ensure compliance with the 10-percent profit margin and with the break-even requirements legislated by the Congress;
- prepare and implement written financial policies and procedures for managing trust fund accounting and operations which describe how the accounting system and other financial processes operate, including the proper posting of transactions and preparation of adequate documentation;
- publish all appropriate financial statements, including the Statement of Changes in Financial Position and statement disclosures, as required by Title 2 and Treasury regulations;
- comply with Title 2 and Treasury requirements by reporting inventory status in the Statement of Financial Position;
- periodically reconcile accounts on a timely basis; and
- obtain an independent annual audit of the Trust Fund's financial statements.

---

## Agency Comments

We obtained official oral comments on this report in a meeting with NARA officials. They agreed with the contents of our report and indicated that some improvements are planned or are underway. We incorporated the information they provided on such improvements in the appropriate sections of the report.



# Major Contributors to This Report

---

Accounting and  
Financial Management  
Division,  
Washington, D.C.

Jeffrey C. Steinhoff, Director, Financial Management Systems Issues,  
(202) 275-9454  
Gayle L. Condon, Assistant Director  
Louise E. Mullen, Senior Accountant  
Karen L. Hudelson, Accountant

---

Office of the General  
Counsel

Richard T. Cambosos, Senior Attorney

---

**Requests for copies of GAO reports should be sent to:**

**U.S. General Accounting Office  
Post Office Box 6015  
Gaithersburg, Maryland 20877**

**Telephone 202-275-6241**

**The first five copies of each report are free. Additional copies are \$2.00 each.**

**There is a 25% discount on orders for 100 or more copies mailed to a single address.**

**Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.**