THE LIBRARY OF CONGRESS

FINANCIAL STATEMENTS FOR FISCAL 1995

April 1996

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FINANCIAL STATEMENTS FOR FISCAL YEAR 1995

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THE LIBRARY OF CONGRESS AND ITS MISSION

The Library of Congress, a part of the Legislative branch of the government, is the world's largest and most comprehensive library maintaining a collection of over 108 million items -- many of them unique and irreplaceable -- in more than 450 languages.

The Library's mission is to make its resources available and useful to the Congress and the American people and to sustain and preserve a universal collection of knowledge and creativity for future generations.

STRATEGIC PLAN AND PRIORITIES

The Library of Congress faces the fundamental challenge of sustaining and making more efficient its basic services to the Congress and the nation while effecting a transition into the new electronic services required for the information age. The Library developed a broad strategic plan in December 1992 which assigned top priority for 1993-96 to certain longstanding core needs of the traditional library -- arrearage reduction (in cataloging), collections security, and infrastructure improvements. The second phase (1997-2000) adds the need for planning, testing, and then developing the "electronic Library" to serve Congress and the nation in the 21st Century. A recent restatement of the Library's mission and strategic priorities will help to guide implementation of the plan. The Library's strategic priorities are:

1. to serve the information and research needs of the United States Congress;

2. to preserve, secure, and sustain for the present and future of the Congress and the nation a universal collection of human knowledge including a comprehensive record of American history and creativity;

3. to make its collections maximally accessible to the Congress, the U. S. Government, and the public; and

4. to add interpretive and educational value to the basic resources of the Library.

BRIEF HISTORY

The Library of Congress is a living monument to the remarkable wisdom of the Founding Fathers who saw access to an ever-expanding body of knowledge as essential to a dynamic democracy. Its three buildings are named for Thomas Jefferson, John Adams, and James Madison. With their support, the Congress established the Library in 1800 as it prepared to move to the new capital city of Washington and created the Joint Committee on the Library as the first Joint Committee of the Congress in 1802.

Thomas Jefferson, in particular, took a keen interest in the new institution. After the British burned the Capitol and the Library during the War of 1812, Congress accepted Jefferson's offer to "recommence" the Library with his own 6,487-volume collection (then the finest in America) at a price of $23,950. It contained volumes on everything from architecture to geography and the sciences. Anticipating the argument that his collection might seem too comprehensive for Congress, Jefferson said that there was "no subject to which a Member of Congress might not have occasion to refer."

Jefferson's ideals of a "universal" collection and of sharing knowledge as widely as possible still guide the Library. With Congressional blessing, it has grown to serve the Congress and the nation -- largely as a result of four milestone laws: (1) the copyright law of 1870, which stipulated that two copies of every book, pamphlet, map, print, photograph, and piece of music registered for copyright in the United States be deposited with the Library; (2) the 1886 authorization of a separate Library building that contained book stacks, public reading rooms, and exhibition space to serve and house the large collections accumulated through copyright deposits; (3) a 1902 law which authorized the Library to sell its cataloging records inexpensively to the nation's libraries; and (4) a law in 1931 that established a program that creates and supplies free library materials to blind and physically handicapped readers throughout the country. Congress thereby established the basis both for the continued growth of the collections and for the extension of the Library's services to citizens everywhere.

As the Library evolved into a national institution, Congress decided to create a separate entity in 1914: the Legislative Reference Service (LRS), which was authorized to provide specialized services to "Congress and committees and Members thereof." In 1946, the Congress granted LRS permanent status as a separate department of the Library and directed it to employ specialists to cover several broad subject areas. Finally, in the Legislative Reorganization Act of 1970, Congress renamed the LRS the Congressional Research Service (CRS) and enhanced its analytical research capabilities by adding additional staff and placing more emphasis on research support to the committees of Congress.

More recently, laws creating the American Folklife Center (1976), the American Television and Radio Archives (1976), the National Center for the Book (1977), and the National Film Preservation Board (1988), have further extended the Library of Congress' national role.

FINANCIAL RESOURCES AND RESULTS OF OPERATIONS

In 1990, the Library developed a strategic plan for financial management which called for improved policies and procedures, improved professional staffing, and an integrated financial management system which conforms to the systems requirements of the Joint Financial Management Improvement Program (JFMIP) and other Federal financial system standards. The Library's agency-wide strategic plan, developed in 1992, provided for the continued implementation of the financial management improvement plan. The Library purchased the Federal Financial System (FFS), an off-the-shelf software package, on December 1, 1993. The new system, a major element of the Library's strategic plan, became operational on October 1, 1994.

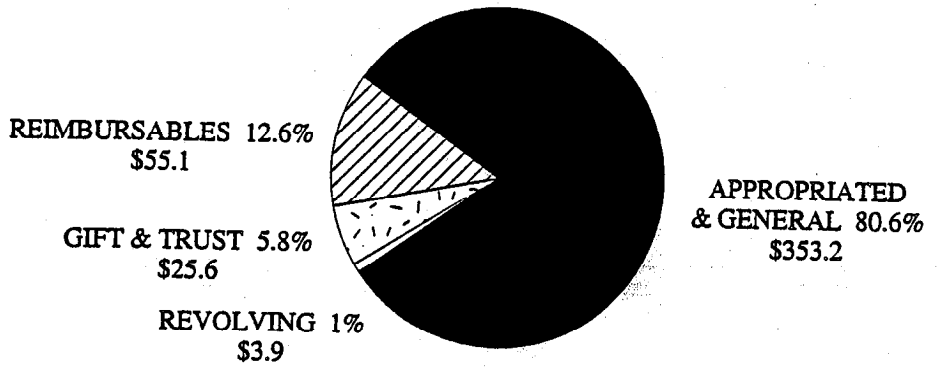
To permit complete implementation and refinement of the new system, the financial management strategic plan called for formal audited financial statements for fiscal year 1996, prepared in fiscal year 1997. However, the Congress has requested that the Library prepare and have audited the fiscal year 1995 financial statements in fiscal year 1996, a year earlier than originally planned. The Library began preparing fiscal 1995 financial statements in November 1995; the independent auditors also initiated audit steps in late November 1995. The Congress requested that the audit be completed by March 31, 1996. As a result of the audit's late start, the lack of prior planning for the preparation of the financial statements and for the audit, and the fact that fiscal year 1995 marked both the initial audit of and the first operating year for the Library's new financial system, the auditors, Price Waterhouse, were only able to express an opinion on the Library's Statement of Financial Position. The Library prepared a Statement of Operations and Changes in Net Position which is included as an unaudited supplemental schedule to the financial statements.

The assets, as reported on the Statement of Financial Position, total nearly $700 million. Non-entity assets (e.g., funds held and invested for future distribution to copyright owners) comprise 60 percent of all assets. The fund balance with the Department of the Treasury is the Library's largest entity asset and primarily represents the balance of unexpended appropriations. The largest class of property totaling $37.3 million (net), is talking book machines on loan to blind and physically handicapped individuals. The largest liabilities relate to custodial and deposit account activities (e.g., funds held for future distribution to copyright owners). Other large liabilities include funds advanced from other governmental agencies for the FEDLINK program and accounts payable for various operating expenses. The accompanying Statement of Financial Position does not include the acquisition and improvement costs of the Library's buildings and grounds. By law, these buildings and grounds are owned and maintained by the Architect of the Capitol.

For reporting purposes, Library operations have been divided into five fund groups: Appropriated and General Funds; Reimbursable Funds; Revolving Funds; Gift and Trust Funds; and Custodial Funds. Funding sources of Library functions for fiscal year 1995, excluding custodial activity, total approximately $437.8 million. Appropriations from the Congress accounted for 80.6 percent. The remainder came from gift, trust, and revolving funds and reimbursements for services provided to other entities.

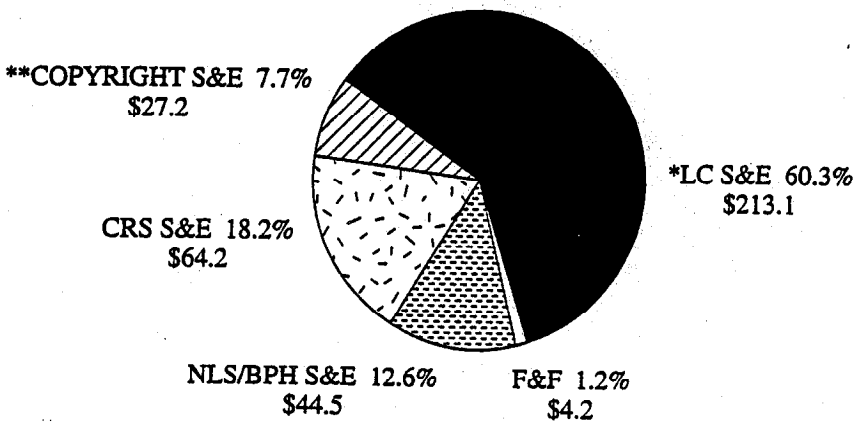
MAJOR CATEGORIES OF FUNDING:

Total All Sources - $437.8 Million



APPROPRIATED AND GENERAL FUNDS - Appropriations account for $353.2 million (80.6 percent) of Library available funding and include both annual and no-year funds. The annual appropriations are: Library of Congress Salaries and Expenses (LC S&E), Congressional Research Service (CRS S&E), Copyright Office (CO S&E), National Library Service for the Blind and Physically Handicapped (NLS/BPH S&E), and Furniture and Furnishings (F&F). The LC S&E appropriation includes no-year funds for library materials, deacidification preservation projects, and secondary storage. The NLS/BPH appropriation includes a no-year account for the NLS program machines, and the Furniture and Furnishings appropriation has a no-year account for restoration and renovation.

Total Appropriations Used - $353.2 Million



* Includes $6.5 million of offsetting collections
** Includes $17.5 million of offsetting collections

<u>Library of Congress (LC S&E)</u> - This appropriation funds the infrastructure support (i.e., agency management, Human Resources, Information Technology Services, Financial Services, Integrated Support Services) for the Library's three other salaries and expenses (S&E) appropriations -- Congressional Research Service, Copyright Office, and the National Library Service for the Blind and Physically Handicapped.

This appropriation also funds a wide range of National Library and Congressional Services including:

- **Cataloging** - The Library produces bibliographic records and related products for libraries and bibliographic utilities in all 50 states and territories -- cataloging that saves America's libraries in excess of $268 million annually, the money it would cost them if they had to catalog the materials themselves.

- **Research and Reference** - The Library makes available to scholars and other researchers vast information resources, many of which are unique, covering almost all formats, subjects, and languages -- each year serving over 750,000 readers in the 20 reading rooms in Washington, D.C. open to the public and responding to nearly 1.1 million information requests a year from all over the nation. In addition, the Library responds to more than 38,000 free interlibrary loan requests a year from every state in the nation and to over 30,000 requests for book loans to Congress each year.

- **On-line Services** - The Library provides on-line, free access, via Internet, to its automated information files which contain more than 40 million records -- to Congressional offices, Federal agencies, libraries, and the public. Through **THOMAS**, the user-friendly and searchable World-Wide Web site supporting Internet access to the Congress, the Library freely provides the full text of Congressional bills, the Congressional Record, and other legislative information.

- **American Creativity** - The Library manages the nation's most important archival collections of motion pictures, sound recordings, maps, prints, photographs, manuscripts, music, and folklore covering a wide range of ethnic and geographic communities; provides reference assistance to researchers and the general public; conducts field research and promotes the preservation of American culture throughout the United States.

- **Preservation** - The Library manages a preservation program that covers the many materials and formats in the Library - including preservation treatment for over 300,000 items a year, assuring that staff are trained and equipped to handle emergencies; conducts research on new preservation technologies (e.g., mass deacidification of paper); develops preservation standards for American libraries; administers the National Film Preservation Board; and runs the only full-time film restoration laboratory in the country, reconstructing two-thirds of the archival-quality restorations in the United States.

- **Legal Information** - The Law Library of Congress supplies law research covering over 200 foreign jurisdictions to Congress, the Judiciary, Federal agencies, and the public -- serving 100,000 users annually

- **Reading Promotion and Outreach** - The Library promotes books, reading, and literacy through the Library's Center for the Book and its 30 affiliated State Centers for the Book and its 121 national organizational partners -- and encourages knowledge and use of the collections through other Library outreach programs (cable TV programs, traveling exhibits, publications, conferences and symposia, poetry readings, electronic information dissemination), often with private funding. The Library also gives some 69,000 surplus books and serials annually to qualified libraries through a nation-wide donation program.

Congressional Research Service (CRS S&E) - This appropriation funds the exclusive and impartial, on-demand analytical research and information to all Members and committees of Congress. CRS works directly for Congress in support of its legislative, oversight, and representative functions. CRS maintains a cost-effective shared pool of expertise to provide timely, balanced analyses of public policy issues and legislative proposals, tailored confidential memoranda, personal consultations, and briefings; and is a source of information and resource materials on almost any subject. During the past year, CRS delivered nearly 600,000 research responses and services; of these, about 235,000 were responses to requests for analysis, information, and research. CRS delivered to Congress upon request almost 785,000 copies of CRS reports and other CRS general distribution products.

CRS S&E also supports the Parliamentary Assistance Programs, non-expenditure transfer programs undertaken by the Congress to provide assistance to emerging democratic legislatures in Eastern Europe, the former Soviet Union and Egypt through the use of research, information, and modern equipment. The programs, totaling $3.8 million in fiscal year 1995, are funded by the Agency for International Development (USAID) and conducted through CRS under the auspices of the House Special Task Force on the Development of Parliamentary Institutions in Eastern Europe or the Joint Committee on the Library. All Parliamentary Assistance Programs will be completed by December 1996.

Copyright Office (CO S&E) - The Library administers the U.S. copyright laws and actively promotes international protection for intellectual property created by U.S. citizens -- processing more than 600,000 claims for copyright registration and 500,000 requests for information annually. Most of the Copyright Office is funded by registration fees and authorized deductions from royalty receipts. The copyright deposits form the core of the Library's Americana collections.

National Library Service for the Blind and Physically Handicapped (Books for the Blind and Physically Handicapped S&E) - The Library manages a free national reading program for blind and physically handicapped people -- circulating at no cost to users approximately 23 million items a year; audio and braille books and magazines through regional and subregional libraries and two multistate centers. This program consists of three segments:

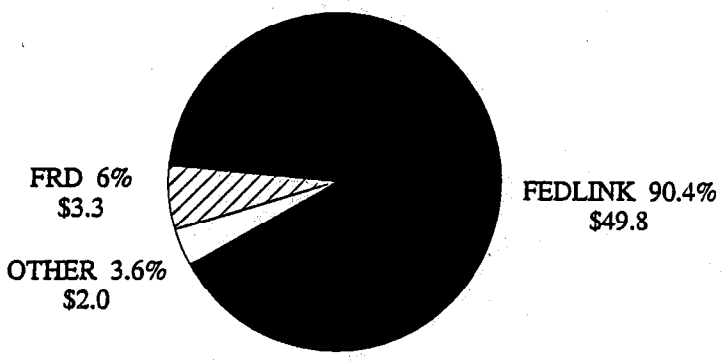
1. The Library of Congress, with the cooperation of authors and publishers who grant permission to use copyrighted works, selects and produces full-length books and magazines in braille and on recorded disc and cassette and contracts for the production of talking book machines.

2. A cooperating network of over 140 regional and subregional (local) libraries distribute the machines and library materials provided by the Library of Congress.

3. The U.S. Postal Service receives an appropriation to support postage-free mail for magazines, books, and machines which are sent directly to readers. Reading materials (books and magazines) and playback machines are sent to a readership of over 770,000.

REIMBURSABLE FUNDS - Reimbursable programs accounted for $55.1 million (12.6 percent) of Library funding in fiscal 1995. Intra-Library revenue of $2.7 million was eliminated for consolidation purposes. Two major reimbursable programs make up the major portion of the reimbursable revenues: the Federal Library and Information Network (FEDLINK) and the Federal Research Division (FRD). The Library also provides accounting services for four Legislative agencies under cross-servicing agreements (i.e., the Congressional Budget Office, the Office of Technology Assessment, the John C. Stennis Center, and the Capitol Preservation Commission).

Reimbursable Funds - $55.1 Million



FEDLINK - FEDLINK is a program which was designed to support the Federal Library and Information Center Community (FLICC) in the cost-effective procurement of books, serials, and computer-based information retrieval services. Under this program, the consolidated purchasing power of more than 1,300 Federal libraries across the government permit the Library to negotiate economical contracts with some 80 vendors resulting in savings to Federal agencies of an estimated $15 million annually. Most of the funds transferred from agencies participating in the program are for services provided by these vendors.

Federal Research Division (FRD) - The Federal Research Division provides customized research services that the Library is uniquely able to perform as a result of its collections and subject and language expertise of its staff. A popular FRD product, available on-line via the Library's World Wide Web (WWW) homepage, is the country study series of books. These books are produced as a result of a reimbursable agreement with the Department of Defense.

GIFT AND TRUST FUNDS - Under the authority of 2 U.S.C. 175; 20 U.S.C. 2106; and the Trust Fund Board Act of 1925, as amended (2 U.S.C. 154-163), the Library operates 230 Gift and Trust Funds which made up approximately 5.8 percent of the Library's funding in fiscal 1995. Gifts to the Library for immediate use may be accepted by the Librarian of Congress. The Trust Fund Board receives, administers, and invests gifts, bequests, and devises of property for the benefit of the Library, its collections, or its services. The Trust Fund Board consists of thirteen members: three ex-officio members, the Librarian of Congress, the Secretary of Treasury, and the Chairman of the Joint Committee on the Library; two members appointed by the President of the United States; four members appointed by the House of Representatives; and four appointed by the Senate.

Activities supported by gift and trust funds include:

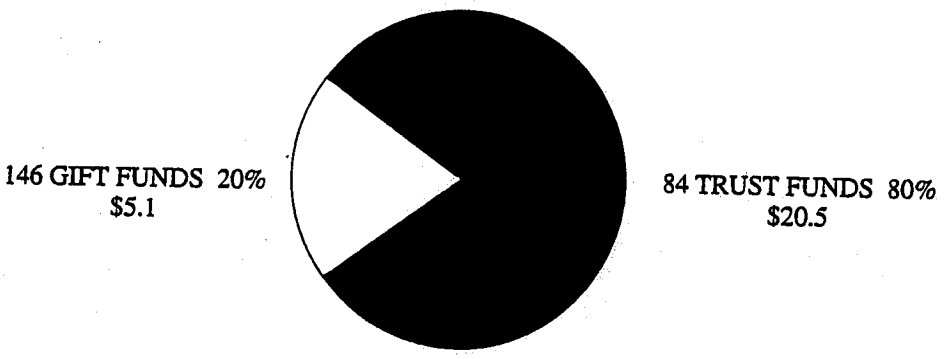
- acquisition of library materials, including obtaining hard-to-acquire research materials on behalf of participating U.S. research libraries and the maintenance and development of a Japan Documentation Center to increase knowledge of and access to current Japanese public policy information;

- research, reader and reference services, including the Library's National Digital Library, the Film Preservation Program, and activities related to acquisition and maintenance of research materials from Korea;

- organization (e.g., cataloging) of the collections, including the centralized services of Documents Expediting Project, Dewey Decimal classification, and maintenance and development of the Caroline and Erwin Swann Collections and the Charles and Ray Eames Collections; and

- public programs, including Library exhibitions, music programs and performances, and public outreach presentations through lectures, symposia, publications, special events and electronic distribution of information.

Gift and Trust Funds - $25.6 Million



Major trust funds include: the Madison Council Fund, the National Digital Library (see Major Accomplishments), the Carolyn R. Just Fund, and the Leonora J. McKim Fund. Gift and trust fund revenue for fiscal 1995 totaled $25.6 million which includes $6.7 million in pledges.

<u>James Madison Council Fund</u> - The James Madison National Council is an advisory body of public spirited individuals that contributes ideas, expertise, and financial support to promote the Library's collections and programs. The Fund was begun in 1989 by Dr. James Billington, the Librarian of Congress, to encourage donations and counsel. Since the initial contribution from the Encyclopedia Britannica, the Fund has benefitted from the many donations of the Council members. The money is used for special programs of the Library. At the end of fiscal year 1995, the value of the Fund was $2 million and revenue for the year, including donations and interest, was $1.2 million.

Carolyn R. Just Fund - The purpose of the Carolyn R. Just Fund is for performances or broadcasting of concerts of classical chamber music at the Library of Congress in the Coolidge Auditorium. The value of the Fund at September 30, 1995, was $2.7 million.

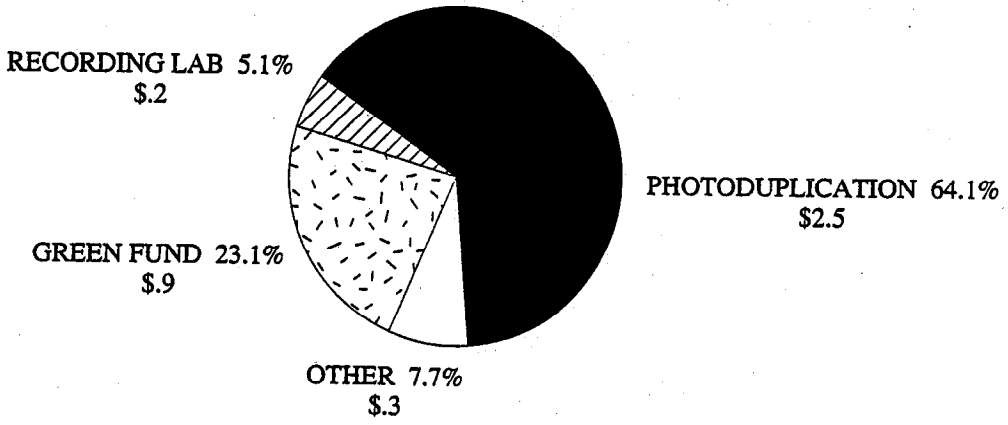
Leonora Jackson McKim Fund - The McKim Fund's purpose is for furtherance of original violin compositions with piano accompaniment, composed by American students of the violin, and to advance student studies in the United States and abroad through payment of tuition and travel. The value of the Fund was $3 million at September 30, 1995.

REVOLVING FUNDS - Under the authority of 2 U.S.C. 160, the Library of Congress operates eleven gift revolving fund activities to provide, in various formats, duplication and preservation services, exhibits and other special programs, and retail marketing, to other Government agencies, libraries, other institutions, and the general public. Through these activities, the Library is able to further its programs dealing with the acquisition of library materials, reader and reference services, and support for public programs.

Although these funds were created by gifts which donors designated to be used for self-sustaining activities, the General Accounting Office (GAO) believes that the Library has exceeded its authority by operating revolving funds with gift monies which generate revenues exceeding the original gifts. Therefore, as recommended by GAO, the Library has requested specific statutory authority to operate the gift revolving funds. The revolving fund legislation has been submitted to the Congress annually since 1991.

After eliminating intra-Library transactions, revolving fund activities accounted for $3.9 million (1 percent) of the funding in fiscal 1995. The major funds are: Photoduplication Service, Recording Laboratory, and the Constance Green Fund.

Gift Revolving Funds - $3.9 Million



Photoduplication Service - The Photoduplication Service provides preservation microfilming services for the Library's collections and reprographic services to other libraries, research institutions, government agencies, and individuals in the United States and abroad. Revenues were $5.9 million in fiscal year 1995 and intra-Library transactions of $3.4 million were eliminated during consolidation.

Recording Laboratory - The Recording Laboratory provides preservation services for the Library's collections and audio and video duplication services for the general public. Audio and video products are also produced for sale to the general public. Revenue for fiscal year 1995 was $501 thousand of which $312 thousand was for intra-Library transactions which were eliminated in the consolidated statements.

Constance Green Fund - The Constance Green Fund supports the Library's retail marketing sales shop activities. Revenue for fiscal year 1995 was $867 thousand before elimination of intra-Library revenues of approximately $5 thousand.

CUSTODIAL FUND - The Library administers the national compulsory and statutory licensing provisions in the Copyright Act (Title 17 of the United States Code). These are:

- Compulsory license for secondary transmissions by cable systems (section 111);
- Compulsory license for making and distributing phonorecords (section 115);
- Compulsory license for the use of certain works in connection with noncommercial broadcasting (section 118);
- Statutory license for secondary transmissions by satellite carriers for private home viewing (section 119);
- Compulsory license for public performances on coin-operated phonorecord players (section 116, [1978-1989, 1993-], section 116A (1990-1993);
- Statutory obligation for distribution of digital audio tape recorders and media (chapter 10).

The Library's Copyright Office Licensing Division collects royalty fees from cable operators for retransmitting television and radio broadcasts (section 111), from satellite carriers for retransmitting "superstation" and network signals (section 119), and from importers or manufacturers for distributing digital audio recording products. The Library deducts its full operating costs from the royalties (as appropriated by Congress as offsetting collections), and invests the balance in interest-bearing securities with the U.S. Treasury for later distribution to copyright owners. The Library of Congress held $420 million at September 30, 1995, for distribution to copyright owners.

KEY PERFORMANCE MEASURES

In the 15 years since fiscal 1980, the Library has increased: (1) the number of Congressional requests annually answered by the Congressional Research Service (CRS) from some 340,000 to almost 600,000; (2) the number of print materials cataloged annually for the nation's libraries from 206,000 to 276,000; (3) the annual number of registrations in the Copyright Office from some 465,000 to nearly 610,000 and the number of copyright inquiries answered from 170,000 to over 500,000; and (4) the number of free reading materials delivered across the country each year to the blind and physically handicapped from 16.9 million to nearly 23 million.

The Library's electronic transactions have grown from almost zero in fiscal 1980, to eight million a month in fiscal 1992, to 21 million a month in fiscal 1995. This rapid growth is the result of putting large portions of the Library's card catalog and copyright records online, along with Congressional information through the THOMAS system, and the contents of all the major exhibits since 1991. These numbers will almost certainly continue to increase. The Library has

just begun to put online American history collections as the core of a National Digital Library. This program seeks to make five million items from these unique collections locally available in electronic form throughout the country by the year 2000.

THE LIBRARY OF CONGRESS
COMPARISON OF STAFF, COLLECTIONS, AND WORKLOAD STATISTICS
For the Fiscal Years 1980, 1992, 1993, 1994, and 1995

	FY 1980	FY 1992	FY 1993	FY 1994	FY 1995	CHANGE 1980-1995	% CHANGE	
ACTUAL FULL-TIME EQUIVALENT (FTE) POSITIONS: APPRORIATED	N/A	4,549	4,492	4,163	4,180	- 369	- 8.1	*
NON-APPRORIATED	N/A	320	330	319	300	- 20	- 6.3	*
SIZE OF LIBRARY COLLECTIONS	88,535,157	101,395,257	104,834,652	107,814,587	108,433,370	+ 19,898,213	+ 22.5	
UNPROCESSED LIBRARY ARREARAGES	N/A	33,576,196	27,456,787	25,431,296	22,491,071	- 11,085,125	- 33.0	**
WORKLOAD STATISTICS:								
CRS - Requests & Services Provided Congress	340,526	644,668	615,913	593,000	592,731	+ 252,205	+ 74.1	
Loans of Collections to Congress	34,894	48,790	43,876	43,465	36,368	+ 1,474	+ 4.2	
Copyright Claims Registered	464,743	606,253	600,000	530,332	609,195	+ 144,452	+ 31.1	
Copyright Inquires	170,000	430,773	433,700	402,163	500,746	+ 330,746	+ 194.6	
Services to the Blind & Physically Handicapped (BPH) - Readership	605,200	761,300	767,800	777,300	777,000	+ 171,800	+ 28.3	
BPH - Books & Magazines; Total Circulated	16,888,700	21,284,200	21,802,200	22,586,000	23,000,000	+ 6,111,300	+ 36.1	
BPH - New Braille & Audio Books & Magazines Titles	2,044	2,199	2,322	2,327	2,169	+ 125	+ 6.1	
Print Materials Cataloged	206,497	266,793	260,957	279,809	276,348	+ 69,851	+ 33.8	
National Coordinated Cataloging Operation (NACO) - LC Contribution	95,203	122,861	118,921	114,333	124,911	+ 29,708	+ 31.2	
National Coordinated Cataloging Operation - Outside Contribution	8,990	61,730	75,794	78,176	96,655	+ 87,665	+ 975.1	
Exhibits, Displays, & Publications (Funded by Appropriations)	35	35	31	31	27	- 8	- 22.9	
Regular Tours	39,764	44,440	27,954	29,952	47,300	+ 7,536	+ 19.0	
Reference Service	1,265,716	1,326,945	1,306,264	1,198,358	1,145,757	- 119,959	- 9.5	
Main Reading Room & Five Other Reading Rooms Hours Per Week	78	78	69	65	65	- 13	- 16.7	
Items Circulated	2,132,726	2,522,620	2,345,151	2,403,002	2,289,981	+ 157,255	+ 7.4	
Preservation Treatment - Original Format	235,904	269,388	304,134	288,111	339,636	+ 103,732	+ 44.0	
Mainframe Computer Transactions	22,560,000	97,372,626	112,491,847	152,095,306	197,216,679	+ 174,656,679	+ 774.2	
Machine Readable Cataloging (MARC) Records	1,993,553	23,981,266	24,670,791	25,090,965	26,100,661	+ 24,107,108	+ 1,209.3	
Internet Transactions (i.e., LOCIS, MARVEL, WORLD-WIDE-WEB, and THOMAS public transactions)	N/A	N/A	7,028,995	38,422,986	92,873,807	+ 85,844,812	+ 1,221.3	***

* Actual FTEs are not available for fiscal 1980; change and % change are based on 1992-1995 comparison.
** A complete census of unprocessed library arrearages was not made until 1989; change and % change are based on 1992-1995 comparison.
*** Internet was not available until 1993; change and % change are based on 1993-1995 comparison.

April 9, 1996

To have accomplished so much despite a steadily downsized work force is a good example of doing more with less in a public agency. The Library has dramatically increased private-sector support for funding outreach projects and other areas not covered fully by federal appropriations (e.g., exhibits, leadership training). The additional appropriated support of $3 million approved for fiscal year 1996 by the Congress for the National Digital Library Program has provided an incentive for private-sector support which now stands at $19 million of the $45 million needed by the year 2000 to complete the initial project.

MAJOR ACCOMPLISHMENTS IN FISCAL YEAR 1995

During fiscal 1995, the Library radically improved services to the Congress and the nation through technology, succeeded in gaining permission to microfilm the hitherto inaccessible papers of the Marquis de Lafayette, reduced the backlog of uncataloged items by another 2.9 million, continued to implement elements of its Plan for Enhancing Collections Security, trained all managers and supervisors in diversity awareness, and implemented a modern financial management system. Consistent with the Library's mission, the major achievements are listed below:

- **CRS Legislative Support to Congress** - The congressional agenda during fiscal year 1995 was fast-paced and characterized by complex and controversial domestic legislative proposals concerning reform of the welfare system and health care, food and agriculture policy, regulatory reform, environmental protection programs, and the federal government's role in education. Equally challenging were foreign policy debates in Congress regarding Bosnia, possible NATO expansion, the Israeli-Palestinian Agreement, changes in Russia, aid to Africa, and Mexico's financial crisis. CRS attorneys, analysts, and information specialists provided Congress with assistance on, among other issues, the balanced budget constitutional amendment, the legislative line-item veto, congressional term limits, election law, and immigration, as well as banking and securities laws, changes in R&D funding and organization, transportation and energy concerns, and telecommunications reform legislation.

- **Copyright Office Legislative Support to Congress** - Congress faced a number of significant copyright challenges during fiscal 1995 including the effect of the National Information Infrastructure (NII) on copyright law and policy. The Office began a series of conferences for congressional staff to provide background information on proposed legislation on copyright and the NII and explore the future of copyright policy in a digital information and technology age. The Office also advised Congress on a bill that created a performance right in digital transmissions of sound recordings, a proposal to extend the copyright term, and a number of other bills that would amend existing provisions.

- **CRS Legislative Alert Service** - The Legislative Alert, a new CRS service, was created early in fiscal 1995 to assist congressional staff in quickly identifying CRS products that directly relate to legislation up for immediate floor consideration in the House and Senate. The Alert is available in printed copy at the beginning of the week to every congressional office while Congress is in session and is accessible through the CRS World Wide Web Home Page (available to congressional offices only), CRS Reference Centers, the Product Distribution Center, and selectively through the fax-on-demand system.

- **Budget and Appropriations Report Series** - To respond to congressional work on federal budget and appropriations issues, CRS inaugurated a series of reports specifically covering each of the thirteen annual appropriations bills as well as a special report covering issues in the reconciliation deliberations. The objective for developing the appropriations and budget reconciliation reports was to ensure the timely and systematic availability to Members of comprehensive summaries of appropriations legislation at each stage of the legislative process. Approximately 7000 copies of these reports have been distributed to congressional offices in response to their requests. After assessing this pilot, CRS concluded that, while some reports met the needs of congressional requests, others were not useful. Therefore, the series will not be continued for the fiscal year 1997 cycle, and CRS will continue to analyze budget and appropriations issues as they affect federal programs and activities.

- **Providing Better Services to the Congress and the Nation Through Technology:**

  - **THOMAS Internet System** - In January 1995, at the request of the House Congressional Leadership, the Library of Congress implemented **THOMAS**, a world-wide-web (WWW) site that provides searching and access to the full-text of

bills and the Congressional Record for the 103rd and 104th Congresses. THOMAS is available free of charge, 24 hours a day, to Internet users throughout the world. Work is continuing to expand and improve this system. By October 31, 1995, nearly 11 million transactions had been processed by the THOMAS system.

- **CRS Innovations in Service Delivery** - In fiscal 1995, CRS expanded use of new technology-based information systems to improve congressional access to CRS services, such as a fax-on-demand system and an on-line system that provides access to the full text of selected CRS products, and the development of a CRS Home Page on the secure Capitol Hill Internet network. These efforts continue to enable the Library to provide more effective service to Congress.

- **Internet Access** - The Library is providing more information to the Congress and the public via its Internet-based systems including three world-wide-web services (THOMAS, LC-Web, and CRS-Web), gopher services (LC-MARVEL), the Library of Congress Information System (LOCIS), and various file transfer options. Public LC-Web transactions have grown from 391,000 per month in October 1994 to over 3 million per month in October 1995.

- **National Digital Library** - A major priority of the Library of Congress is to make parts of its historical collections maximally accessible to the general public through the creation of a National Digital Library. The Library's goal is to digitize a critical mass of five million items from its core American history collections by the year 2000 -- the Library's bicentennial. A private-public partnership is the key strategy for raising the $60 million to cover the five-year period needed to achieve the goal -- $45 million from the private sector and $15 million from additional Federal appropriations. During fiscal 1995, the Congress approved the first of five installments of $3 million (starting in fiscal 1996) to meet the public commitment to this initiative, and the private sector made gifts and pledges totalling $19 million as of December 20, 1995.

- **ACCESS System** - The Library's ACCESS system, a user-friendly way for patrons visiting a reading room to access the Library's information files electronically without training and without assistance, was expanded to include the Bill Digest for the 104th Congress. ACCESS now operates in 14 locations at the Library and at several House and Senate locations. Future development of ACCESS will focus on an Internet model.

- **Geographic Information System** - The Geography and Map (G&M) Division established itself as a leader in the cartographic and geographic communities through its work in geographic information systems (GIS). Through G&M's initiative, the Center for Geographic Information was founded with the support of private sector firms. Under the auspices of the Center, G&M received donations of funds, hardware, and software, in fiscal year 1996, valued in excess of $670,000 for scanning National Digital Library materials.

- **Projects in Test Status:**

  - The Copyright Office Electronic Registration, Recordation and Deposit System (CORDS), a project sponsored by the Advanced Research Projects Agency (ARPA) and the U.S. Copyright Office at the Library, in cooperation with the Corporation for National Research Initiatives, will allow the electronic registration and deposit of works and provide electronic access to copyright ownership information. **Status:** in fiscal year 1995, the software programming for the registration testbed system neared completion, and the initial testing of the system will begin early in calendar year 1996. Planning began for development of the system for recording documents concerning ownership and licensing of copyright works.

  - The Electronic Cataloging in Publication (CIP) project is testing the feasibility of the electronic transmission of manuscripts for cataloging via the Internet in lieu of mailing them. At the end of fiscal year 1995, 26 publishers were participating in the test phase. This project will improve the timeliness, cost, and efficiency of cataloging by sharply limiting the number of keystrokes required to create a record, by eliminating mail time and postage costs, and by improving the quality of cataloging. **Status:** the number of participants increased in fiscal year 1995 from six to 26; and the Library processed 375 manuscripts electronically. A survey was distributed to all CIP publishers to determine their interest and capability in joining Electronic CIP; the responses were decidedly favorable.

  - The Global Legal Information Network (GLIN) is a cooperative international network in which nations are contributing the full text of statutes and regulations to a database hosted by the Law Library of Congress. **Status:** the prototype is complete and there are eleven partners participating via the Internet. The Library projects that GLIN membership will increase to 15-20 nations in the near future. A satellite uplink/downlink capability to upgrade telecommunications capabilities of GLIN members that have no direct access to Internet is being implemented.

- **Security of Staff and Collections** - The Library engaged experts at the end of fiscal 1995 to assess its collections security program and began to centralize security policy oversight to improve accountability and to ensure that elements of the Library's Plan for Enhancing Collections Security continue to be implemented in an effective manner. Major accomplishments during fiscal year 1995 include the following:

  - heightened perimeter security was implemented consistent with that for other Capitol Hill buildings;

  - all book stacks in the John Adams and Thomas Jefferson buildings are controlled by an electronic access system;

  - police patrols of the book stacks have been intensified;

  - the number of people authorized access to the general collection stacks has been reduced by more than 50 percent;

  - anti-theft devices were placed in an additional 1.8 million books bringing the number of targeted volumes to more than 3 million; and

- an additional 250,000 volumes were barcoded and linked to the automated Collections Control Facility system and a contract awarded for another 600,000 volumes.

In the test stage are pilots to use a theft detection gate at the exit of the Newspaper and Current Periodical reading room and an automated reader registration system which issues patron photo-identification cards upon verification of name and address to control access to the collections in any of the Library's 20 public reading rooms. The system also maintains a database of patron information to facilitate follow up or investigation requirements.

- **Arrearage Reduction/Cataloging** - The Library continues to reduce its arrearage of unprocessed materials as demonstrated by another cut of 2.9 million items during fiscal 1995--achieving a cumulative 43 percent decrease since the unprocessed items were counted and totalled in September 1989. Selected arrearages such as the Altshuler Jazz Collection were reduced by over half by the end of fiscal year 1995. As arrearage goals for 1996-2000 are pursued, the Library continues to implement changes in procedures and technology that will increase productivity and throughput. Replacing dumb terminals used by cataloging staff with intelligent PC-based workstations has bolstered output and enabled additional automation enhancements in support of more efficient cataloging. Major progress was achieved in processing print materials, including cataloging 276,348 titles, a near record.

- **Off-Capitol Hill Collections Storage** - During fiscal 1995, the Architect of the Capitol (AOC) initiated site development of the approximately 100 acres of land and improvements, located at Fort Meade, Maryland, that were transferred from the Department of the Army in 1994. The Library and the AOC are now completing plans for the construction of the first collections storage facility to be ready for occupancy by mid-1998.

- **Important New Acquisitions** - The Library receives millions of pieces each year, from copyright deposits, from Federal agencies, and from purchases, exchanges, and gifts. Notable acquisitions during fiscal 1995 include: the archives of Gordon Parks, noted photographer and creative artist; the music, papers, and photographs of jazz musicians by William Gottlieb, the gift of architectural drawings and maps from the Engineering Societies Library; the Lafayette papers from LaGrange, microfilmed on site in France; and a collection assembled by William Gladstone of nearly 800 manuscripts, photographs, and other original documents relating primarily to the African-American participation in the United States Military from the Revolutionary War until the turn of the century. Other important acquisitions included rare books, films, and other audio visual items. Recovered by the Library after a disappearance of fifty years, four notebooks of Walt Whitman and a cardboard butterfly produced great excitement for Whitman scholars.

- **Preservation Improvements** - The Library took action during 1995 to improve the preservation of its vast and diverse collections by (1) contracting for a new audio system that will significantly improve capability for preservation reformatting and creation of preservation masters of audio materials; (2) protecting the Top Treasures by designing and constructing oxygen-free, closed system display and housing cases and an environmentally stable room in which to store them; (3) developing an emergency preparedness and rapid-response plan for stabilizing and recovering collections in the event of disaster; (4) continuing the testing of the Bookkeeper mass deacidification process and initiating a pilot project that will treat 36,000 books in the general

collections in fiscal 1996; (5) increasing the capacity to produce protective book boxes by installing a computer-operated automated box-making machine; (6) contributing to the National Digital Library by initiating procedures for the preparation, treatment, and scanning of fragile rare materials; and (7) publishing research results that contribute to the electronic preservation of visual materials.

- **Copyright Arbitration Royalty Panels (CARPs)** - The Copyright Office completed the absorption of the functions of the former Copyright Royalty Tribunal (CRT) by publishing final regulations governing all CARP royalty distribution and rate adjustment proceedings. With the new rules in place, the Office initiated distribution proceedings for royalties collected under the cable compulsory license and the digital audio recording (DART) license. On March 21, 1995, the Office published a notice consolidating the distribution of the 1990, 1991 and 1992 cable royalty funds and setting the precontroversy discovery schedule. The Copyright Office also administered distribution of the 1992, 1993, and 1994 DART royalty funds, and a partial distribution of 1992 and 1993 cable royalty funds.

- **National Library Service for the Blind and Physically Handicapped (NLS)** - During 1995, NLS published its 10,000th numbered braille book -- Brother Eagle, Sister Sky: A Message from Chief Seattle. NLS also revised its standards used to evaluate network library activities and determine how well each library is meeting common goals for providing special-format reading materials to patrons. The standards list thirteen principles of service, followed by specific standards for meeting the goals in areas such as resource development and management, public education, volunteers, and policies and procedures.

- **Bringing Treasures to the People** - The Library's collections were shared with tens of thousands of Americans through exhibitions, tours, special events, symposia, traveling exhibits, poetry readings, and major publications. The Library continues to lead the Nation in the presentation of on-line exhibitions which now number ten. Major exhibitions in fiscal year 1995 included:

  - Creating French Culture: Treasures from the Bibliotheque nationale de France, a major international event and the second in a series of unprecedented exhibits on the great libraries of the world;

  - In the Beginning Was the Word: the Russian Church and Native American Cultures, which was jointly opened by Presidents Clinton and Yeltsin;

  - The Gettysburg Address, shown in conjunction with the National Archives' exhibition of the Emancipation Proclamation;

  - Temple of Liberty: Building the Capitol for a New Nation, which examined the Capitol's architectural form from the 1790s to the 1820s;

  - Declaring Independence: Drafting the Documents, featuring Thomas Jefferson's first draft of the Declaration of Independence; and

  - Women Come to the Front, the female journalists of World War II.

- **Restoration and Renovation of the Thomas Jefferson and John Adams Buildings** - The Library is in the process of executing a multi-year plan to outfit and occupy renovated spaces in the Jefferson and Adams Buildings. The Great Hall of the Jefferson Building has been open for the last year to visitors taking guided tours and starting in September 1995 the west front entrance was opened to the public.

- **Human Resources Improvement** - The Library is implementing key recommendations of a Librarywide task force to streamline competitive selection procedures without jeopardizing the objectivity of the revamped system. Other improvements include a pilot program to select library technicians through the Office of Personnel Management's Microcomputer Assisted Rating System (MARS) and the establishment and enforcement of performance standards for personnel managers and staff. In September 1995, U.S. District Court Judge Norma Holloway Johnson approved a final settlement agreement of the Cook class action suit that originated as an EEO complaint in 1975. Appeals are pending in the United States Court of Appeals for the District of Columbia circuit. In conjunction with this settlement agreement, the Library trained all managers and supervisors in diversity awareness.

- **Financial Management Improvement Project** - The Library processed over one million general ledger postings during the first year's operation of its new and modern financial system. For the first time in the Library's history, FFS integrates and links the budget, procurement, accounting, and disbursing functions, which improves accountability to the Congress.

STEWARDSHIP REPORTING

In accordance with new Federal Accounting Standards Advisory Board (FASAB) standards, the Library's collections have been classified as heritage assets, and, as such, their value is not reported in the financial statements. Consistent with the guidance provided by FASAB, the Library has prepared a stewardship report on its collections which provides the suggested relevant information concerning asset description, acquisition, preservation, security, use, and estimated number of items. The Stewardship Report is included in Section 5 of this report.

THE LIBRARY OF CONGRESS
Consolidated Statement of Financial Position
As of September 30, 1995
(In Dollars)

ASSETS			
Entity Assets:			
Fund Balance With Treasury (Note 2)	$180,691,549		
Investments, Treasury Securities (Note 4)	12,545,930		
Investments, Governmental Securities (Note 4)	12,917,822		
Accounts Receivable, Net - Intragovernmental (Note 5)	7,193,192		
Accounts Receivable, Net - Public (Note 5)	461,319		
Interest Receivable (Note 5)	152,912		
Advances and Prepayments	37,967		
Pledges Receivable - Donations (Note 5)	9,125,315		
Cash and Other Monetary Assets	66,062		
Inventory	274,526		
Operating Materials and Supplies	1,875,788		
Property and Equipment, Net (Note 6)	49,499,220		
Library Collections (Note 1.M.)			
Total Entity Assets		$274,841,602	
Non-Entity Assets:			
Fund Balance With Treasury (Note 2)	385,511		
Investments, Treasury Securities (Note 4)	419,665,140		
Accounts Receivable, Net - Intragovernmental (Note 5)	4,998		
Accounts Receivable, Net - Public (Note 5)	2,902		
Interest Receivable (Note 5)	540,292		
Total Non-Entity Assets		420,598,843	
Total Assets			$695,440,445
LIABILITIES			
Liabilities Covered by Budgetary Resources: (Note 8)			
Accounts Payable	$20,512,007		
Accrued Funded Payroll, Benefits	9,957,998		
Total Liabilities Covered by Budgetary Resources		$30,470,005	
Liabilities not Covered by Budgetary Resources: (Note 8)			
Accounts Payable	253,093		
Advances from Others - Intragovernmental	33,205,327		
Advances from Others - Public	1,240,336		
Custodial and Deposit Account Liability	424,152,003		
Misc. Receipts Held for Treasury	76,843		
Disbursing Officer's Accountability	14,677		
Accrued Unfunded Annual Leave	15,224,877		
Accrued Unfunded Workers' Compensation (Note 9)	11,271,423		
Total Liabilities not Covered by Budgetary Resources		485,438,579	
Total Liabilities			$515,908,584
NET POSITION (Note 11)			
Balances:			
Unexpended Appropriations	98,317,148		
Invested Capital	49,042,547		
Unrealized Gain on Investments, Governmental Securities (Note 4)	560,345		
Cumulative Results of Operations	44,038,874		
Donations - Restricted	14,069,248		
Future Funding Requirements	(26,496,301)		
Total Net Position			179,531,861
Total Liabilities and Net Position			$695,440,445

The accompanying notes are an integral part of this statement

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1995

Note 1. Significant Accounting Policies

A. Reporting Entity

The Library of Congress is a legislative branch agency of the federal government. It was established in 1800 primarily to provide information and policy analyses to the members and committees of the Congress. Since then, the Library has been assigned other major missions such as administering the U. S. copyright laws, providing cataloging records to the Nation's libraries, and coordinating a national program to provide reading material for blind and physically handicapped residents of the U. S. and its territories and for U. S. citizens residing abroad. The Library also provides services to other federal agencies and administers various gift and trust funds.

The Library's programs and operations are subject to oversight by the Joint Committee on the Library which comprises members of the U. S. House of Representatives and Senate. The Library relies primarily on appropriated funds to support its programs and operations. Budget requests are subject to review by the House and Senate Appropriations Committees' Subcommittees on Legislative Branch Appropriations. The Library also receives funds from other agencies for services provided under the Economy Act and other statutes. In addition, the Library receives donations from the public in the form of gifts and trusts. The trust funds are controlled by the Library of Congress Trust Fund Board, which consists of the Librarian of Congress (who is Chairman and Secretary of the Trust Fund Board), the Chairman of the Joint Committee on the Library, the Secretary of the Treasury (or an assistant secretary designated in writing by the Secretary of the Treasury), and ten additional members appointed by the President (2), the U.S. House of Representatives (4), and the U. S. Senate (4).

B. Basis of Presentation

The accompanying consolidated statement reports the financial position of the Library of Congress for the fiscal year 1995. It was prepared from the Library's financial management system (FFS) in accordance with the form and content for entity financial statements specified by the Library's Financial Management Regulations and Directives and the accounting policies summarized in this note.

As a legislative branch agency, the Library is not required to follow the executive agency accounting principles established by the Comptroller General under 31 U.S.C. 3511 or the new standards now being developed by the Federal Accounting Standards Advisory Board (FASAB). However, the Library maintains its fund balances with the Department of the Treasury and submits information required to incorporate its financial and budget data into the overall federal government structure. For purposes of financial management and reporting, the Library has issued a regulation (LCR 1510) which adopts the executive branch reporting requirements in a manner consistent with a legislative agency.

For this reporting period, year ended September 30, 1995, the Library prepared two consolidated financial statements: (1) Consolidated Statement of Financial Position (audited), and (2) Consolidated Operating Statement and Changes in Net Position (unaudited).

C. Basis of Accounting

The General Accounting Office (GAO), Office of Management and Budget (OMB), and Department of the Treasury established the Federal Accounting Standards Advisory Board (FASAB) for the purpose of considering and recommending accounting principles, standards, and requirements to GAO, Treasury, and OMB. The three principals of FASAB, the Comptroller General, the Secretary of the Treasury, and the Director of OMB, will decide upon new principles, standards, and requirements after considering FASAB's recommendations. The resulting standards are concurrently issued by GAO and OMB. Pending issuance of a sufficiently comprehensive set of accounting standards, and in accordance with interim guidance agreed to by the three principals, the accompanying Consolidated Statement of Financial Position has been prepared in accordance with the following hierarchy of accounting principles and standards:

- Individual standards agreed to and published by the Joint Financial Management Improvement Program (JFMIP) Principals, GAO, OMB, and the Department of Treasury;

- Form and content requirements included in OMB Bulletin 94-01, dated November 16, 1993, and subsequent issuances;

- Library of Congress Regulations and Financial Services Directives; and

- Accounting principles published by authoritative standard setting bodies and other authoritative sources (1) in the absence of other guidance in the first three parts of this hierarchy, and (2) if the use of such accounting standards improve the meaningfulness of the financial statements.

The Consolidated Statement of Financial Position was prepared using the accrual basis of accounting. All significant intra-agency balances and transactions have been eliminated in consolidation. The statement includes five general fund accounts; eleven gift revolving funds; reimbursable funds (including 4 major programs); 84 trust funds; and 146 gift funds. The supplemental schedules display the funds in five groupings: appropriated; reimbursable; gift and trust; revolving; and custodial.

D. Revenues and Other Financing Sources

The Library receives the majority of its funding to support its programs through appropriations. The Library receives both annual and multiyear appropriations that may be used, within statutory limits, for operating and capital expenditures including equipment, furniture and furnishings. Additional amounts are obtained through reimbursements from services performed for other federal agencies as authorized by the Economy Act and the Library's annual appropriation legislation. Also, the Library receives gifts from donors and interest on invested funds. In addition, the Library operates several self-sustaining gift revolving funds which generate revenues from sale of various products and services to the public and federal customers.

Appropriations are recognized as revenues at the time they are used to pay expenses. Other revenues are recognized when earned. A future financing source is recognized for unfunded expenses such as annual leave earned but not taken and the liability for future workers' compensation.

E. Gift and Trust Funds

During fiscal 1995, the Library administered 230 gift and trust funds with combined asset value of approximately $52 million. All the funds are restricted as to their use which must be in accordance with the terms of the gift agreement. In general, funds are either temporarily restricted (principal may be spent) or permanently restricted (principal may not be spent). Additional restrictions may be imposed on the trust funds by the terms of a trust agreement or donor's will. Library fund managers administer and oversee the gift and trust funds to ensure they are used as directed by the donor and in accordance with Library policy.

F. Funds with the U. S. Treasury

The amount shown as Funds with the U.S. Treasury represents the balances of the appropriated, reimbursable, gift and trust, revolving, and custodial funds that are on deposit with the U. S. Treasury.

G. Translation of Foreign Currencies

The Library of Congress receives and utilizes foreign currencies in carrying out operations abroad. It conducts business through six overseas offices and uses local currencies. Additionally, the Library administers two U.S. Treasury foreign currency accounts (Indian rupees and Japanese yen). At year-end, account balances remaining in foreign currencies are translated to U.S. dollar equivalents at the uniform government-wide Treasury reporting rates.

H. Receivables (Net)

Receivables consist of accounts receivable for various programs, interest accrued on investments in market-based Treasury securities and on various other trust fund investments, and travel advances. Most of the accounts receivable resulted from billings to other federal agencies under reimbursable interagency agreements for data base retrieval and other library services. The Library has established an allowance for doubtful accounts based on three percent of the receivables from federal agencies.

I. Pledges Receivable

Pledges of contributions to the Library and the Library of Congress Trust Fund Board which the Library believes will be received in the next future are recorded as receivables and as revenue based on their present value at the time the promise is made.

J. Inventories and Operating Materials and Supplies

The Library's inventories are comprised, primarily, of unissued supplies that will be consumed in future operations, materials used to reproduce printed materials, sound recordings for both internal and external sales, and sales shop merchandise for resale. Consumable operating supplies are valued at cost using a first-in first-out (FIFO) method of valuation.

K. Investments (Net)

Investments in U.S. Government securities consist of non-marketable market-based Treasury securities. The Treasury securities are valued at cost less unamortized discounts and premiums. Interest is computed by the straight-line method which approximates the effective interest method. Most of these Treasury securities were purchased with the Copyright royalties collected by the Copyright Office on behalf of copyright owners. These investments will be held in trust until distributions are made to copyright owners. The investments purchased with copyright royalties are held in a custodial capacity and income does not accrue to the Library's benefit.

The remainder of the Treasury securities are obtained and held by the trust funds under conditions set forth in the respective trust instruments.

Other investments of trust funds are held by a commercial bank and managed by an investment management company. These securities consist of common stocks, and other agency and corporate obligations and are carried at cost value.

L. Property and Equipment (Net)

Furniture and equipment are capitalized at cost if the initial acquisition cost is $10,000 or more. Depreciation is computed on a straight-line basis using estimated useful lives. The largest category of equipment is for the National Library Service for the Blind and Physically Handicapped lending program which is capitalized although each individual item of equipment is not valued at $10,000 or more. This unique specially designed equipment is purchased from the manufacturer in large lots usually valued at $1 million or more. The equipment has an estimated life of ten years.

The next largest category, office equipment, is depreciated over a five to fifteen year period. Software is capitalized if the initial cost of an individual item is $10,000 or more and the useful life is 3 years or longer.

The Library occasionally acquires property and equipment by direct gift or by purchase from funds donated for a specific purpose or project. Because it is the Library's policy that property accounts are not maintained in the gift and trust funds, property and equipment acquired through gifts are transferred to the Library's general fund as donated capital and captured on the Library's automated inventory system.

Land, buildings, and improvements have been excluded from the Library's property and equipment accounts because they are under the custody and control of the Architect of the Capitol. This arrangement encompasses four Capitol Hill buildings (the Thomas Jefferson, James Madison, John Adams Buildings, and the Special Facilities Center) and a secondary storage facility at Fort Meade, Maryland. Costs associated with the acquisition and maintenance of these buildings are accounted for by the Architect. In fiscal year 1995, the Architect received an appropriation totalling $12.5 million to fund the structural and mechanical care of these buildings.

M. Library Collections

The Library's collections are classified as Heritage Assets in accordance with new FASAB standards, and as such, are not valued and presented on the financial statements. However, as recommended by FASAB, the collections are described in a supplementary Stewardship Report.

N. Accounts Payable

Accounts Payable represent the amounts payable by the Library at the end of the fiscal year as a result of a transaction or event that has already occurred.

O. Accrued Payroll and Benefits

Employee accrued payroll and benefits consist of unpaid personnel compensation and employee benefits accrued to Library employees as of September 30, 1995.

P. Accrued Annual, Sick, and Other Leave, and Workers' Compensation

Accrued annual leave is adjusted at the end of each fiscal year based on annual leave earned and taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. Sick leave and other types of nonvested leave are expensed as taken. The accrued costs and estimated liability related to future workers' compensation claims have been recognized as an unfunded liability.

Q. Retirement Plans

Approximately 56 percent of the Library's employees participate in the Civil Service Retirement System (CSRS), to which the Library makes matching contributions equal to seven percent of pay. Forty-four percent are covered by the Federal Employees Retirement System (FERS) to which the Library makes employer contributions equal to the agency's share of the normal costs of benefits; automatically contributes one percent of pay for the Thrift Savings Plan (TSP) and matches any employee contribution to the TSP up to an additional four percent of pay. Under FERS, the employee is also covered by social security to which the Library contributes the employer's matching share. The accrued amounts due for the contributions at the end of the fiscal year are reported as current liabilities.

R. Accounting for Intergovernmental Activities

The financial activities of the Library of Congress interact with and depend on other federal government agencies. Thus, the Library's Consolidated Statement of Financial Position does not reflect all financial decisions and activities applicable to it as if it were a stand-alone entity.

1. The Library's Consolidated Statement of Financial Position and Statement of Operations and Changes in Net Position are not intended to report the agency's share of the federal deficit or of public borrowings, including interest thereon.

2. The Library does not report retirement (CSRS or FERS), health benefits, or life insurance assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management.

3. The Library's program for the blind and physically handicapped participates in the U.S. Postal Service's "Matter for blind and other handicapped persons" program (39 U.S.C. 3403 - 3406). This Postal Service program receives an appropriation from Congress to provide free postage for qualifying organizations, programs, and individuals such as mail from war zones, letters from blind people to anyone, and organizations which work for the blind. The Library's National Library Service for the Blind and Physically Handicapped uses this free matter program for mailing all books and equipment to its participating lending libraries and patrons.

4. Certain legal actions to which the Library may be a named party are administered and, in some instances, litigated by other federal agencies. Generally, amounts (over $2,500 for Federal Tort Claims Act cases) to be paid under any decision, settlement, or award pertaining to these litigations are paid from the Treasury's Claims, Judgments, and Relief Acts Fund. Since the Library, except for contract dispute payments, is not required to reimburse this fund for payments made on its behalf, the decision to make such payments is not reflected in the Library's statement of financial position.

5. Governmental Services:

a. The Library of Congress is authorized to provide to other federal libraries and agencies services such as automated library information and other data base retrieval services through data base vendors and in-house research studies. These services are provided on a cost reimbursement basis and are billed in advance of providing the services. At year-end the Library estimates the amount received in advance (Advances From Others - Intragovernmental), and the amount to be received for services provided (Accounts Receivable - Intragovernmental).

b. Three government agencies provide administrative services to the Library on a reimbursable basis:

- The Department of Agriculture's National Finance Center (NFC) processes the Library's personnel, payroll, and employee benefits accounting transactions. In fiscal year 1995, the Library paid $485,813 for these services.

- The Library utilizes the services of the Department of State as documented by the Foreign Affairs Administrative Support (FAAS) system to support the Library's six overseas field offices. The Library paid $391,703 for these support services in fiscal year 1995.

- The General Services Administration (GSA) provides building and vehicle leasing services for the Library. (See Note 7)

c. As noted under Note 1.L, the Architect of the Capitol provides the structural and mechanical care of the Library's capitol hill facilities and remote storage site at Fort Meade, Maryland.

S. Related Party Organizations

The Library lends support to several related organizations, projects, and programs from which it receives benefits in various forms. The following is a list of these organizations or programs:

1. Civilization Magazine - ***Civilization,*** a bimonthly magazine published under license from the Library by a partnership controlled by L.O.C. Management Corporation based in New York City, was launched in November 1994. The enterprise was approved by the Joint Committee on the Library in the fall of 1993. Under the licensing agreement, the Library may receive donations and must approve all promotional, editorial, and advertising material using the Library name. Twelve hundred federal depository libraries and the Congress received free subscriptions in fiscal 1995. In connection with ***Civilization***, the Library formed the Library of Congress Associates Program. By subscribing to ***Civilization***, a person becomes an Associate entitled to special tours and discounts on food and gift shop merchandise sold at the Library. By the end of 1995, ***Civilization*** had a circulation of more than 200,000.

2. Telephone Pioneers of America - The Telephone Pioneers is a large industry-related organization which voluntarily repairs playback machines for the blind and physically handicapped program.

3. Library of Congress Child Care Association (LCCCA) - The LCCCA is a nonprofit corporation under the District of Columbia's Nonprofit Corporation Act. It was granted 501(c)(3) status by the Internal Revenue Service on August 31, 1992, and currently operates as the "Little Scholars Child Development Center." The center is located on the ground floor of the Library's Special Facilities Center, 601 East Capitol Street in the District of Columbia. The center provides child care for Library employees and other legislative branch employees. Its operations, management, and employees are the responsibility of the corporation and not the Library of Congress. However, the Library and the Architect of the Capitol support the center with equipment, free space, cleaning and maintenance of grounds and building, utilities, local telephone service, and security. The Library provides an official who is a non-voting representative on the center's Board of Directors and who acts as a liaison with the Library.

4. Ira and Leonore Gershwin Trust Fund and Related Charitable Trust - Under the will of Mrs. Leonore Gershwin, the Library of Congress Trust Fund Board is the beneficiary of 37.5 percent of Mrs. Gershwin's "1987 Trust." The will established the "Library Charitable Trust" which was accepted by the Library of Congress Trust Fund Board in January 1992. The primary purpose of the Trust is to perpetuate the name and works of George and Ira Gershwin through all resources of the Library. The Charitable Trust does not belong to the Library but is a separate entity administered by trustees. The net income of the Charitable Trust is distributed to the Library's Ira and Leonore Gershwin Trust Fund monthly or in installments after the Library submits project requests. The balance or principal of the Charitable Trust will be distributed to the Library in 2033, fifty years after the date of death of Ira Gershwin. As of September 30, 1995, the charitable trust income account had a balance of $1,038,643 which was available for activities following the development of project requests by the Library.

5. "Friends" Organizations" - Three organizations exist which lend support to Library programs through gifts of money and other property but are incorporated as independent entities under the Internal Revenue Service Code, Section 501 (c)(3).

a. Millennium Foundation, Inc. - The foundation operates for charitable, educational and literary purposes solely to benefit, support, and carry out the purposes of the Library of Congress. The Library allows the Foundation to use its name in connection with the performance of activities approved by the Library. This right exists only so long as Millennium is engaged in activities that directly or indirectly support the mission and objectives of the Library.

b. Friends of the Law Library - The non-profit organization's purpose is to stimulate interest in the Law Library among lawyers, librarians, and legal scholars worldwide; to acquire additional legal materials and to sponsor legal research. Among other projects supported by the Friends in fiscal year 1995, the Law Library received $7,730 to cosponsor a lecture with the Supreme Court Historical Society.

c. Friends of Libraries for the Blind - The non-profit organization's purpose is to heighten awareness and visibility of national library services for blind and physically handicapped individuals in the United States and Canada and assist and promote library services, provide cultural enrichment programs and create and issue periodic communications on topics related to blind and physically handicapped individuals.

Note 2. Fund Balance With Treasury

A. Fund Balances:

1. ENTITY	Obligated	Unobligated/Available	Unobligated/Restricted	Total
Appropriated Funds	$ 85,712,265	$ 34,694,178		$120,406,443
Reimbursable Funds	32,653,859	981,186		33,635,045
Gift and Trust Funds	3,417,490	9,417,681	$ 5,330,224 (2)	18,165,395 (1)
Gift Revolving Funds	1,351,003	3,595,948		4,946,951
Other		3,537,715 (3)		3,537,715
Total Entity	$123,134,617	$ 52,226,708	$ 5,330,224	$180,691,549
2. NON-ENTITY				
Custodial Funds			$ 385,511	$ 385,511
Total Non-Entity			$ 385,511	$ 385,511

(1) Includes permanent loan to U.S. Treasury in amount of $9,999,999.
(2) Permanent loan principal amount restricted - $5,330,224.
(3) Balances in deposit, suspense, clearing and other accounts which are included in Appropriated Fund Balance.

B. Permanent Loan to U.S. Treasury:

Under 2 U.S.C. 158, up to $10,000,000 of the Library's trust funds may be invested with the U.S. Treasury as a perpetual loan, at a floating rate of interest, adjusted monthly, but no less than four percent per annum. At September 30, 1995, the gift and trust fund balance included $9.99 million invested in the permanent loan at an interest rate of 6.5 percent.

C. Fund Balance with Treasury Includes Foreign Currency Translated:

Japanese Yen - Y22,587,345 @ 96.69 = $233,606
Indian Rupees - Rs3,211,349 @ Rs31.81/1 = $100,954

The exchange rate is of August 31, 1995, taken from the Treasury Reporting Rates of Exchange Report, as of September 30, 1995. To ensure all reports are translated at uniform exchange rates, all agencies are directed to use the current quarterly Treasury exchange rate report for the period reported on.

Note 3. Custodial Funds

The Library of Congress Copyright Office Licensing Division administers the compulsory and statutory licenses covered by the Copyright Act (17 U.S.C.). The Licensing Division receives royalty fees from the cable television operators for retransmitting television and radio broadcasts, from satellite carriers for retransmitting "superstation" and network signals, and from importers and manufacturers for distributing digital audio recording products (DART). Refunds may arise when a cable, satellite, or DART remitter inadvertently overpays or is otherwise entitled to a refund. The Licensing Division invests the licensing royalty fees in market-based U.S. Treasury notes and bills. Because these investments are held in a custodial capacity, income does not accrue to the Library's benefit.

The Copyright Royalty Tribunal Reform Act of 1993, Public Law 103-198, eliminated the Copyright Royalty Tribunal (CRT) and transferred its duty to distribute copyright royalties to the Copyright Office, Library of Congress. If disputes arise regarding the disposition of the royalties, the Copyright Office recommends that the Librarian convene a copyright royalty arbitration panel (CARP). The panel consists of two arbitrators selected from three recommended by the Register of Copyrights. The three recommended arbitrators are selected from a list of professional arbitrators nominated by professional arbitration associations. The two selected arbitrators select a third who acts as the chairperson of the panel. The Librarian of Congress reviews the panel's decisions and has 60 days to adopt or reject the panel's decision. Decisions may be appealed in the Federal court.

Note 4. Investments (Net)

1. ENTITY ASSETS - TRUST FUNDS	Cost	Unamortized Premium	Unrealized Discount	Investments, Net	Market Value
A. Intragovernmental Securities Non-Marketable, Market-Based	$12,608,000	$ 29,597	$(91,667)	$12,545,930	$12,590,295
B. Governmental Securities Private Sector	12,357,477			12,357,477	12,917,822
Sub-total - Entity	$24,965,477	$ 29,597	$(91,667)	$24,903,407	$25,508,117

II. NON-ENTITY ASSETS- Custodial (Copyright Royalties)	Cost	Unamortized Premium	Unrealized Discount	Investments, Net	Market Value
A. Intragovernmental Securities Non-Marketable, Market-Based	$423,745,000	$233,042	$(4,312,902)	$419,665,140	$420,473,820
Sub-total - Custodial	423,745,000	233,042	(4,312,902)	419,665,140	420,473,820
Total Entity and Non-Entity Assets	$448,710,477	$262,639	$(4,404,569)	$444,568,547	$445,981,937

A. Intragovernmental Securities

Non-marketable, market-based securities are Treasury securities issued to governmental accounts that are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms. At the direction of the Trust Fund Board, or as specified by donors, trust funds are invested in U.S. Treasury securities, the U.S. Treasury permanent loan, and private sector securities.

Copyright royalties are invested by the Library in U.S. Treasury securities as directed by the Copyright Office until the distributions are made to the copyright owners.

Intragovernmental securities are intended to be held until maturity.

B. Governmental Securities

Governmental securities are the Library's investments that are held in trust by a commercial bank and are managed by a private investment management company. These investments consist of various financial instruments such as money market funds and mutual funds that own common stocks, agency and corporate obligations and preferred stock. Cost value was derived from the investments made, plus gains, dividends, income or additional investments and less any losses, fees or distributions. Governmental investments are intended to be available for sale. (See Note 12.)

C. Portfolio Summary for all Trust Fund Private Sector Investments

Type of Investment	Cost Basis	Market Value	Unrealized Gains
Cash and Cash Equivalents	$ 975,127	$ 975,127	$ -0-
Equities	4,731,708	5,113,297	381,589
Fixed Income:			
Treasury Securities	2,673,464	2,719,356	45,892
Other	3,977,178	4,110,042	132,864
Total	$ 12,357,477	$ 12,917,822	$ 560,345

Note 5. Receivables (Net)

A. Accounts Receivables, Advances, and Interest Receivable as of September 30, 1995

Fund	Intra-govern-mental	Public	Travel Advances	Interest Receivable Gift & Trust	Interest Receivable Copyright Royalties	Total Receivables
1. ENTITY						
Appropriated	$ 217,785	$ 236,073	$ 23,183			$ 477,041
Reimbursable	7,186,514*	2,671	927			7,190,112
Gift & Trust		2,961	13,857	$ 152,912		169,730
Revolving	19,468	270,907				290,375
Total Entity	$7,423,767	$ 512,612	$ 37,967	$ 152,912		$8,127,258
Less: Allowance for Losses	230,575	51,293				281,868
Total Net Entity Receivables	$7,193,192	$ 461,319	$ 37,967	$ 152,912		$7,845,390
2. NON-ENTITY						
Appropriated	$ 4,998	$ 2,902				$ 7,900
Custodial					$ 540,292	540,292
Total Non-Entity	$ 4,998	$ 2,902			$ 540,292	$ 548,192
Total Entity and Non-Entity Receivables	$7,198,190	$ 464,221	$ 37,967	$ 152,912	$ 540,292	$8,393,582

* Intragovernmental Accounts Receivable - The major portion of the Library's accounts receivable are in the FEDLINK program. The balances are due from Federal agencies which use the FEDLINK services under interagency agreements.

B. Pledges Receivable - At the end of fiscal year 1995, the Library had pledges of contributions totaling $9.8 million. Of this total, $8.6 million is pledged to support the National Digital Library. For fiscal 1995, an accrual was made for the present value of the pledges, $9,125,315 of which $6.7 million is fiscal year 1995 revenue and $2.4 million is prior year revenue. Of this amount, $2.4 million is pledged for fiscal 1996; $3.7 million for fiscal 1997; $1.4 million for fiscal 1998; $1.4 million for fiscal 1999; and $228 thousand for fiscal 2000.

Note 6. Property and Equipment (Net)

Operating property and equipment consists of equipment, furniture and furnishings, equipment on loan to the public for the National Library Service for the Blind and Physically Handicapped program, and automated data processing (ADP) software. Operating equipment includes document imaging systems, valued at $200,000, on loan from the Library to the Appropriations Committees of the U.S. House of Representatives and the U.S. Senate.

Capitalized equipment is serialized equipment (containing manufacturer's serial number) such as computers, printers, and other equipment which has an acquisition cost of $10,000 or greater.

Furniture and furnishings for the Library's use in its operations are capitalized if the acquisitions or appraised value is $10,000 or more.

Equipment on loan to the public includes cassette players, talking books, and other specialized equipment specifically developed for use by the blind and physically handicapped. This equipment is distributed through a network of participating libraries that loan the equipment to blind and physically handicapped individuals. Inventory records of the equipment are maintained by the Library of Congress, and on-site physical inventories are performed periodically by contracted auditors. The value of the capitalized items range from $100 to $500 each; however, the equipment is manufactured and shipped in large lots valued at more than $1 million each. The equipment inventory is capitalized at invoice price which does not include any freight or postage costs. These shipping costs are covered by the U.S. Postal Service's "free matter for the blind and handicapped." The value of this free service, which ordinarily would be included in the inventory value, is undetermined.

ADP software consists of software purchased from outside vendors with a value of $10,000 or more per item and an estimated useful life of three years or more. It does not include internally developed or leased software.

The following table shows property and equipment which was capitalized at September 30, 1995.

Classes of Property	Acquisition Value	Accumulated Depreciation	Net Book Value
Appropriated: Operating equipment	$ 30,182,888	$ 19,974,942	$ 10,207,946
ADP software	2,546,400	1,537,760	1,008,640
Furniture & Furnishings	609,600	70,440	539,160
NLS/BPH Equipment - loan to public	81,060,479	43,773,679	37,286,800
Total Appropriated	114,399,367	65,356,821	49,042,546
Revolving Funds: Equipment	1,037,896	581,222	456,674
Total Property	$115,437,263	$ 65,938,043	$ 49,499,220

Note 7. Leases

The Library leases office space and vehicles from the General Services Administration and has entered into other operating leases for various types of equipment. Additionally, the Library's overseas field offices lease operating space from the Department of State. Lease costs for office space, vehicles and equipment for fiscal year 1995 amounted to $6,833,205. Estimated future minimum lease payments through fiscal year 2006 are as follow:

Fiscal Year Ended September 30	
1996	$ 6,120,169
1997	2,241,812
1998	2,131,811
1999	2,132,512
2000	2,111,472
Thereafter	12,622,080
Total Estimated Future Lease Payments	$27,359,856

Note 8. Liabilities

Liabilities represent the amounts that are likely to be paid by the Library as a result of transactions that have already occurred. Liabilities for which an appropriation has not been enacted, or are the result of custodial and deposit account activities, are classified as liabilities not covered by budgetary resources. For accrued unfunded annual leave and workers' compensation liabilities, it is not certain that appropriations will be enacted to fund these amounts.

Accounts Payable are amounts due to vendors and other agencies for goods and services received prior to the end of the fiscal year.

Accrued Payroll and Benefits, Unfunded Annual Leave, and Unfunded Workers' Compensation are amounts earned or due as of the end of the fiscal year plus an unfunded future liability for workers' compensation.

Advances and Deferred Credits are funds received for the reimbursable programs and the Photoduplication Service that have not yet been earned. An additional deferred credit in the amount of $438,600 represents a trust fund receipt which was received but remained unprocessed at September 30, 1995, pending final acceptance by the Joint Committee on the Library.

Deposit Liabilities are customer funds on deposit for Copyright and Cataloging Distribution products and services. This category also includes the custodial funds for Copyright royalties.

Liabilities Covered by Budgetary Resources:

Governmental:

	Appropriated	Reimbursable	Gift & Trust	Revolving	Custodial	Combined	Eliminations	Consolidated
Accounts Payable	$ 12,994,934	$ 7,359,725	$ 747,278	$ 352,888		$ 21,454,825	$ (942,818)	$ 20,512,007
Accrued Funded Payroll and Benefits	9,388,172	316,983	100,845	151,998		$ 9,957,998		9,957,998
Total Liabilities Covered by Budgetary Resources	$ 22,383,106	$ 7,676,708	$ 848,123	$ 504,886		$ 31,412,823	$ (942,818)	$ 30,470,005

Liabilities not Covered by Budgetary Resources:

IntraGovernmental

	Appropriated	Reimbursable	Gift & Trust	Revolving	Custodial	Combined	Eliminations	Consolidated
Accounts Payable			$ 5,528			$ 5,528	$ (5,528)	-0-
Other	91,520					91,520		91,520
Advances/Deferred Credits		33,205,327				33,205,327		33,205,327
Total: Intra-Governmental	$ 91,520	$ 33,205,327	$ 5,528			$33,302,375	$ (5,528)	$ 33,296,847

Governmental

Accounts Payable					253,093	253,093		253,093
Accrued Unfunded Annual Leave	14,558,525	374,495	107,962	183,895		15,224,877		15,224,877
Accrued Unfunded Workers' Compensation	11,271,423					11,271,423		11,271,423
Deposit Liability	3,814,153				420,337,850	424,152,003		424,152,003
Deferred Credits			438,600	801,736		1,240,336		1,240,336
Total Governmental	$ 29,644,101	$ 374,495	$ 546,562	$ 985,631	$420,590,943	$452,141,732		$452,141,732
Total Liabilities Not Covered by Budgetary Resources	$ 29,735,621	$ 33,579,822	$ 552,090	$ 985,631	$420,590,943	$485,444,107	$ (5,528)	$485,438,579

Note 9. Workers' Compensation

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for Library employees under FECA are administered by the Department of Labor (DOL) and later billed to the Library.

The Library accrued its workers' compensation costs that were unbilled or unpaid as of September 30, 1995 ($2,206,433), and established an unfunded liability for future costs. An analysis of the claims for the past six years indicated that 95.2 percent of the claims filed by employees were paid within ten years. Therefore, the estimated future unfunded liability of $9,064,990 was based on a ten year projection.

Note 10. Contingent Liabilities

The Library does not have any pending material lawsuits or claims in which the amounts are estimable and will probably result in payment by the Library. When claims are expected to result in payments, and the payment amounts can be reasonably estimated, appropriate provisions are included in the principal statements.

However, a liability of $8.5 million plus legal fees exists in the Cook vs. Billington case now pending in the United States Court of Appeals. This settlement will be made from the Treasury's Claims, Judgments, and Relief Act Fund.

In the opinion of management and legal counsel, the resolution of other claims and lawsuits will not materially affect the financial position or operations of the Library.

Note 11. Net Position

	Consolidated
A. Unexpended Appropriations:	
Undelivered Orders	$ 65,450,186
Unobligated	34,947,342
Prior Years' Obligations Adjusted (Net)	(2,080,380)
Sub-total	$ 98,317,148
B. Invested Capital	49,042,547
C. Unrealized Gain on Governmental Securities	560,345
D. Cumulative Results of Operations	44,038,874
E. Other: Donations Restricted	14,069,248
F. Future Funding Requirements	(26,496,301)
G. Total	$179,531,861

A. Unexpended Appropriations

Unexpended appropriations consist of unobligated balances and undelivered orders. Unobligated balances represent amounts appropriated which are unobligated and have not lapsed, been rescinded, or withdrawn. Undelivered orders represent obligations the Library had incurred as of September 30, 1995, for goods and services which were ordered but had not been received by that date.

Unobligated balances - 91-95 years: $ 18,072,722
No-Year: 16,874,620

Prior Years' Obligations Adjusted (Net) - represent upward and downward adjustments for various transactions.

B. Invested Capital

Invested capital represents U.S. Government resources invested in certain Library assets. This balance consists of the undepreciated value of property and equipment that is financed by appropriations. This balance also includes the undepreciated value of property and equipment donated to the Library, which is transferred to the appropriated fund upon acquisition of the capital asset. These assets are available for the general use of the Library of Congress. Revolving fund property and equipment balances are not included since they are not purchased from appropriated funds.

C. Unrealized Gain on Governmental Securities

Unrealized gain represents the difference between the cost and market value of trust funds invested with the private sector in governmental securities.

D. Cumulative Results of Operations

Cumulative Results of Operations represent the net difference between expenses and losses and financing sources, including appropriations, revenue and gains, since the inception of the activity.

E. Other - Donations Restricted

Donations Restricted represent the total trust fund balance from current and prior years that is permanently restricted (principal may not be spent).

F. Future Funding Requirements

Future Funding Requirements represent liabilities reported in the Statement of Financial Position which are not covered by available resources. This amount consists of the Accrued Unfunded Annual Leave and Workers' Compensation Liability balances.

Note 12. Subsequent Events - Governmental Securities

On December 4, 1995, the Library of Congress Trust Fund Board directed the Library to terminate its investment contracts with a commercial bank and increase its percentage of equity investments by placing the funds with five new investment managers. In March 1996, the commercial bank liquidated a total of $503,000 from ten accounts and remitted the funds to the Library. On April 4, 1996, the bank remitted $12.17 million to the Library. The final portion of the proceeds of approximately $40,000, consisting of dividends and interest, will be remitted to the Library by the end of April 1996. The proceeds received as of April 4, 1996, were invested in U.S. Treasury bills maturing on May 2, 1996, at which time the Library will invest the funds with each of the five new managers in accordance with percentages prescribed by the Trust Fund Board.

THE LIBRARY OF CONGRESS
Statement of Financial Position by Fund Type
As of September 30, 1995
(In Dollars)

	APPROPRIATION	REIMBURSABLE	GIFT AND TRUST	REVOLVING	CUSTODIAL	COMBINED	ELIMINATION'S	CONSOLIDATED
ASSETS								
Entity Assets:								
Fund Balance With Treasury	$123,944,158	$33,635,045	$18,165,395	$4,946,951		$180,691,549		$180,691,549
Investments, Treasury Securities			12,545,930			12,545,930		12,545,930
Investments, Governmental Securities			12,917,822			12,917,822		12,917,822
Accounts Receivable, Net - Intragovernmental	347,007	6,974,583	15,845	735,161		8,072,596	(879,404)	7,193,192
Accounts Receivable, Net - Public	230,290	2,671	2,961	225,397		461,319		461,319
Interest Receivable			152,912			152,912		152,912
Advances and Prepayments	23,183	927	13,857			37,967		37,967
Pledges Receivable - Donations			9,125,315			9,125,315		9,125,315
Cash and Other Monetary Assets	66,062					66,062		66,062
Inventory				274,526		274,526		274,526
Operating Materials and Supplies	1,502,411			373,377		1,875,788		1,875,788
Property and Equipment, Net	49,042,546			456,674		49,499,220		49,499,220
Library Collections								
Total Entity Assets	175,155,657	40,613,226	52,940,037	7,012,086		275,721,006	(879,404)	274,841,602
Non-Entity Assets:								
Fund Balance With Treasury					385,511	385,511		385,511
Investments, Treasury Securities					419,665,140	419,665,140		419,665,140
Accounts Receivable, Net - Intragovernmental	73,940					73,940	(68,942)	4,998
Accounts Receivable, Net - Public	2,902					2,902		2,902
Interest Receivable					540,292	540,292		540,292
Total Non-Entity Assets	76,842				420,590,943	420,667,785	(68,942)	420,598,843
Total Assets	$175,232,499	$40,613,226	$52,940,037	$7,012,086	$420,590,943	$696,388,791	($948,346)	$695,440,445

The accompanying notes are an integral part of this statement

THE LIBRARY OF CONGRESS

Statement of Financial Position by Fund Type

As of September 30, 1995

(In Dollars)

	APPROPRIATION	REIMBURSABLE	GIFT AND TRUST	REVOLVING	CUSTODIAL	COMBINED	ELIMINATION'S	CONSOLIDATED
LIABILITIES								
Liabilities Covered by Budgetary Resources:								
Accounts Payable	$12,994,934	$7,359,725	$747,278	$352,888		$21,454,825	($942,818)	$20,512,007
Accrued Funded Payroll, Benefits	9,388,172	316,983	100,845	151,998		9,957,998		9,957,998
Total Liabilities Covered by Budgetary Resources	22,383,106	7,676,708	848,123	504,886		31,412,823	(942,818)	30,470,005
Liabilities not Covered by Budgetary Resources:								
Accounts Payable			5,528		253,093	258,621	(5,528)	253,093
Advances From Others - Intragovernmental		33,205,327				33,205,327		33,205,327
Advances From Others - Public			438,600	801,736		1,240,336		1,240,336
Custodial and Deposit Account Liability	3,814,153				420,337,850	424,152,003		424,152,003
Misc. Receipts Held for Treasury	76,843					76,843		76,843
Disbursing Officer's Accountability	14,677					14,677		14,677
Accrued Unfunded Annual Leave	14,558,525	374,495	107,962	183,895		15,224,877		15,224,877
Accrued Unfunded Workers' Compensation	11,271,423					11,271,423		11,271,423
Total Liabilities not Covered by Budgetary Resources	29,735,621	33,579,822	552,090	985,631	420,590,943	485,444,107	(5,528)	485,438,579
Total Liabilities	52,118,727	41,256,530	1,400,213	1,490,517	420,590,943	516,856,930	(948,346)	515,908,584
NET POSITION								
Balances:								
Unexpended Appropriations	98,317,148					98,317,148		98,317,148
Invested Capital	49,042,547					49,042,547		49,042,547
Unrealized Gain on Investments, Governmental Securities (Note 4)			560,345			560,345		560,345
Cumulative Results of Operations	1,584,026	(268,809)	37,018,193	5,705,464		44,038,874		44,038,874
Donations - Restricted			14,069,248			14,069,248		14,069,248
Future Funding Requirements	(25,829,949)	(374,495)	(107,962)	(183,895)		(26,496,301)		(26,496,301)
Total Net Position	123,113,772	(643,304)	51,539,824	5,521,569		179,531,861		179,531,861
Total Liabilities and Net Position	$175,232,499	$40,613,226	$52,940,037	$7,012,086	$420,590,943	$696,388,791	($948,346)	$695,440,445

The accompanying notes are an integral part of this statement

THE LIBRARY OF CONGRESS
Consolidated Operating Statement And Changes In Net Position
(Unaudited)
For the Year Ended September 30, 1995
(In Dollars)

Revenues and Financing Sources			
Appropriated Capital Used	$353,181,759		
Revenue from Sales of Goods	994,768		
Revenue from Services Provided	57,848,550		
Donations	23,454,077		
Interest Earned	1,703,816		
Other Revenues and Financing Sources	4,107,924		
Less: Receipts Transferred to Treasury	(3,532,029)		
Total Revenues and Financing Sources		$437,758,865	
Expenses			
Program/Operating Expenses: Salaries and Benefits	244,935,912		
Program/Operating Expenses: Non-Personal	143,730,042		
Depreciation	18,236,440		
Bad Debts and Write-offs	131,244		
Other Expenses	1,868,346		
Total Expenses		408,901,984	
Excess of Revenues and Financing Sources over Total Expenses			$28,856,881
Changes in Net Position			
Net Position, Beginning Balance (Adjusted)		$143,040,069	
Excess of Revenues and Financing Sources over Total Expenses		28,856,881	
Plus: Non-Operating Changes		7,634,911	
Net Position, Ending Balance			$179,531,861

THE LIBRARY OF CONGRESS

Statement of Operations and Changes in Net Position

(By Fund Type - Unaudited)

For the Year Ended September 30, 1995

(In Dollars)

	APPROPRIATION	REIMBURSABLE	GIFT AND TRUST	REVOLVING	CUSTODIAL	COMBINED	ELIMINATION'S	CONSOLIDATED
Revenues and Financing Sources								
Appropriated Capital Used	$353,181,759					$353,181,759		$353,181,759
Revenue from Sales of Goods			$3,644	$1,018,333		1,021,977	($27,209)	994,768
Revenue from Services Provided		$57,774,631	(4,268)	3,339,144		61,109,507	(3,260,957)	57,848,550
Donations			23,286,680	167,397		23,454,077		23,454,077
Interest Earned			1,703,816			1,703,816		1,703,816
Other Revenues and Financing Sources	3,532,029		659,366	3,112,441		7,303,836	(3,195,912)	4,107,924
Less: Receipts Transferred to Treasury	(3,532,029)					(3,532,029)		(3,532,029)
Total Revenues and Financing Sources	353,181,759	57,774,631	25,649,238	7,637,315		444,242,943	(6,484,078)	437,758,865
Expenses								
Program/Operating Expenses: Salaries and Benefits	231,109,304	7,396,238	2,599,128	3,914,713		245,019,383	(83,471)	244,935,912
Program/Operating Expenses: Non-Personal	88,890,699	52,807,096	6,560,264	1,872,590		150,130,649	(6,400,607)	143,730,042
Depreciation	18,029,959			206,481		18,236,440		18,236,440
Bad Debts and Write-offs	2,985	128,259				131,244		131,244
Other Expenses	1,735,423	33,111	83,858	15,954		1,868,346		1,868,346
Total Expenses	339,768,370	60,364,704	9,243,250	6,009,738		415,386,062	(6,484,078)	408,901,984
Excess (shortage) of Revenues and Financing Sources over Total Expenses	$13,413,389	($2,590,073)	$16,405,988	$1,627,577		$28,856,881		$28,856,881
Changes in Net Position								
Net Position, Beginning Balance (Adjusted)	$102,625,817	$1,946,769	$34,573,491	$3,893,992		$143,040,069		$143,040,069
Excess (shortage) of Revenues and Financing Sources over Total Expenses	13,413,389	(2,590,073)	16,405,988	1,627,577		28,856,881		28,856,881
Plus: Non-Operating Changes	7,074,566		560,345			7,634,911		7,634,911
Net Position, Ending Balance	$123,113,772	($643,304)	$51,539,824	$5,521,569		$179,531,861		$179,531,861

THE LIBRARY OF CONGRESS

Stewardship Report
HERITAGE ASSETS

September 30, 1995

Library Collections

The Library of Congress has the world's largest library collection comprising over 108 million items including research materials in over 450 languages and various media. The collections include approximately twenty-six million books and other printed materials, forty-six million manuscripts, thirteen million photographs, four million maps, three million pieces of music, two million audio recordings, and seven hundred thousand motion pictures. The collection of incunabula (books printed before 1500) is the largest in the Western Hemisphere, and the collections of maps, atlases, newspapers, music, motion pictures, photographs, and microforms are probably the largest in the world. Other collections include drawings, posters, prints, technical reports and other printed materials; computer programs, videotapes and disks, talking books, and other audio and visual materials.

The Library has the papers of 23 presidents of the United States as well as papers of people from many diverse arenas -- Susan B. Anthony, Sigmund Freud, Averell Harriman, Henry Kissinger, Thurgood Marshall, Irving Berlin, and many others. The Library's treasures include one of three perfect copies in the world of the three-volume Gutenberg Bible printed on vellum, two of the five known copies of the Gettysburg address, Thomas Jefferson's handwritten draft of the Declaration of Independence, and many other rare books and manuscripts including the oldest example of printing in the world.

The collections are organized into two major categories: the print collections which include classified books, serials, and pamphlets; and the special format collections such as maps, motion pictures, music, manuscripts, photographs, sound recordings, and prints.

Collections Policy

The Library's collections are universal in scope; however, the Library does not collect everything or keep everything it receives. The collections development policy has evolved over the years and follows the concept of "universality" as stated by Thomas Jefferson. In 1814, Jefferson offered to sell his personal library to the Library Committee of Congress in order to "recommence" the Congressional library after the British burned the U. S. Capitol destroying the Library of Congress. Jefferson stated: " I do not know that it contains any branch of science which Congress would wish to exclude from their collection; there is, in fact, no subject to which a Member of Congress may not have occasion to refer." In 1815, President James Madison approved an Act of Congress appropriating $23,950 for the acquisition of Jefferson's library of 6,487 volumes.

As set forth in the Library's Collections Policy Statements, the Library's collections development policies are directed towards its responsibilities to serve (1) the Congress and United States Government as a whole, (2) the scholarly and library community, and (3) the general public. The Library's mission is "to make its resources available and useful to the Congress and the American people and to sustain and preserve a universal collection of

knowledge and creativity for future generations." Written collections policy statements assure that every effort is made to possess all books and library materials necessary to the Congress and various offices of the United States Government to perform their duties; a comprehensive record, in all formats, documenting the life and achievement of the American people; and a universal collection of human knowledge (except clinical medicine and technical agriculture, which are the responsibility of the National Library of Medicine and National Agricultural Library respectively) embodying primarily in print form the records of other societies, past and present.

The major source of the Library's collections of Americana is the copyright deposit program. The copyright law of 1870 for the first time combined the registration and deposit functions in the Library of Congress and required that two copies of everything registered be deposited in the Library.

The Cataloging in Publication (CIP) Program is the other principal source of U.S. published books that the Library acquires. A mainstay of U.S. library service for more than twenty years, the program provides cataloging data, based on prepublication galleys, to participating publishers who include the data in their published books. As participants, these publishers are required to submit a copy of the published book to the Library. This copy is in addition to the two copies mandated under the copyright law. In fiscal year 1995, the Library obtained 49,201 books through the CIP program. These additional titles are either added to the collections or used as part of the Library's exchange program.

The Library also acquires materials by purchase (essential publications not available though copyright deposit or the CIP program), transfer from other federal agencies, gift, domestic and international exchange, or by provisions of state and federal law. Many of these materials are foreign publications. The Library maintains six overseas offices and has arrangements with book dealers, agents, and publishers to ensure efficient and prompt acquisition of current foreign publications of research value on a world-wide basis.

The following are brief descriptions of the Library's International Exchange and Federal transfer programs:

Of its 15,000 exchange agreements, the Library of Congress maintains fewer than one hundred "official" exchanges with major national and parliamentary libraries around the world. These exchanges were instituted and are overseen by the Library; however, the Government Printing Office has the responsibility to ensure that this select group of exchange partners receives U.S. Government publications. Pursuant to 44 U.S.C. 1719, the Superintendent of Documents distributes U.S. government publications "to those foreign governments which agree, as indicated by the Library of Congress, to send to the United States similar publications of their governments for delivery to the Library of Congress." The Government Printing Office pays for the cost of this program from funds appropriated for the Superintendent of Documents. In fiscal year 1995, the Exchange and Gift Division (E&G) received 162,000 items, or 45 percent of its exchange receipts, from these official central sources.

Pursuant to 36 C.F.R. 701.33, Federal libraries send their surplus materials to the Exchange & Gift Division for addition to the Library's own acquisitions to use in the exchange and surplus books program. In fiscal year 1995, the Library received more than two million items from Federal agencies, and, although only a very small number were selected for the

collections, several thousand were used in exchanges with other libraries for materials needed by the Library of Congress. Many thousands of other Federal transfers were used in the Library's surplus books programs.

The primary resources for recent acquisitions are as follow:

	1992	1993	1994	1995
Annual Appropriations Authorized	$ 7,636,000	$ 7,669,000	$ 8,127,000	$ 8,458,000
Estimated Value of Copyright Deposits Transferred to the Library	$12,134,000	$13,547,000	$15,711,000	$20,158,594
Government Printing Office Appropriation (part of Superintendent of Documents) for International Exchange	$ 750,000	$ 637,000	$ 712,000	$ 462,000

Acquisitions by source:

Source	Pieces 1992	Pieces 1993	Pieces 1994	Pieces 1995
Purchases:				
Appropriated GENPAC	930,747	914,742	799,110	714,127
Appropriated Other	230,213	202,853	197,970	146,828
Special Foreign Currency	101,304	78,108	66,081	65,827
Gift and Trust Funds	5,774	20,318	5,541	3,712
Total Purchases	1,268,038	1,216,021	1,068,702	930,494
Non-Purchases:				
Exchange	473,394	529,125	558,327	453,857
Government - Transfers	992,694	720,925	727,874	732,087
Gifts	1,439,056	650,282	1,246,809	744,860
Cataloging in Publication	53,016	46,048	56,345	49,201
Copyright Deposits	827,173	833,929	757,082	855,022
Total Non-Purchases	3,785,333	2,780,309	3,346,437	2,835,027
Total All Acquisitions	5,053,371	3,996,330	4,415,139	3,765,521

Preservation and Conservation

The collections are maintained and preserved through an extensive and diverse preservation program. The preservation of Library materials budget element totaled $10.6 million in fiscal year 1995. Recent preservation projects include:

- use of a new book deacidification technology to ensure uniform, effective deacidification of 72,000 books over the next two years;

- a project to improve in-house reformatting capabilities for audio preservation in either analog or digital form;
- a pilot digitization program to explore the possibilities of transferring motion picture film to digital formats for preservation and access and for securing the digitized collections;
- extensive study of a broad range of scanning schemes for conversion of visual images or documents to a digital format for preservation recording;
- cleaning, relabeling, and rehousing of documents (see statistics below); and
- installation of a cold temperature vault with a multi-layered security system and an ozone friendly non-aqueous fire suppression system for 18 of the Library's top treasures.

Preservation statistics for fiscal year 1995 are as follow:

Treatment:	
Volumes treated	3,982
Unbound items treated, paper-based	8,619
Non-paper-based items treated	135
Commercial library binding, volumes	235,070
Housing/Rehousing:	
Protective boxes constructed, for paper-based materials	17,469
Items rehoused, paper-based	6,583
Discs, film (reels), magnetic tape (reels/cassettes) cleaned, packaged	67,913 (58,963 discs; 7,500 reels; 1,450 reels/cassettes)
Copying/Reformatting:	
Paper-based materials converted to microfilm, items	11,477 (2,873,433 feet microfilm)
Audio materials converted to magnetic tape, titles	2,656
Video materials converted to magnetic tape, titles	1,694
Motion picture films converted, reels	2,240 (1,066,000 feet)
General Preservation of the Collections	
Items surveyed, paper-based	12,977

Deacidification of Printed Materials - One of the most serious preservation issues facing the Library of Congress, and all libraries, is the problem of brittle, deteriorating books caused by acid introduced during the paper manufacturing process. The Library of Congress has an estimated 15 million books that require deacidification treatment at an estimated cost of $11.00 - $15.00 per book (1995 estimate). Recognizing the limited resources and technical capacity to deacidify all of these books, the Library sets priorities so that books of the greatest value and which are most at-risk receive treatment first.

The acidic books issue began in the mid-1800's when acidic wood pulp was substituted for rags in the manufacture of paper. This manufacturing change has resulted in the natural deterioration of printed books and other Library materials made from the acidic paper. The pages of the books and materials become so brittle within a few decades that they virtually self-destruct.

The Library of Congress is providing the leadership in a research effort to solve the acidic book problem. Library chemists invented the diethyl zinc (DEZ) mass deacidification process in the mid-1970's and have evaluated and tested other deacidification processes. In 1984, Congress appropriated $11.5 million in no-year funding for deacidification research and a deacidification test facility. However, in 1994, the primary contractor for the DEZ process withdrew from the deacidification business and terminated its license with the U. S. Government, temporarily halting the DEZ phase of the deacidification effort. As of January 1995, $5.8 million remained in the appropriated no-year fund.

In 1995, Congress approved a Library preservation plan that proposed a pilot project using a new deacidification technology. As a result, the Library awarded a two-year contract to Preservation Technologies, Inc. (PTI) that will use the Bookkeeper III deacidification process on approximately 72,000 books at a cost of $1.062 million. If the project is successful, the Library will continue to use this process for the deacidification of its collections. The Library has also advertised the availability of technical evaluation and testing services aimed at encouraging other companies with mass treatment capability to come forward.

Preservation of Audio/Video Materials - Another serious issue facing the Library is the preservation of its magnetic media materials (audio, video, and data). As magnetic materials age they can develop any one of a number of conditions, all of which eventually result in an inability to play them, which means that the data they contain can never be retrieved. The physical life span of these materials is generally considered to be 20-30 years, under good conditions. The Motion Picture, Broadcasting, and Recorded Sound Division (M/B/RS) alone has 650,000 tapes (approximately 500,000 hours of sound or video), some dating from the 1940s. Conversion rates for these materials are shown on the Preservation Statistics chart. Ancillary to the deterioration of magnetic materials is the difficulty of maintaining appropriate play-back systems for them. For example, video tape can be played back only on the system that created it. Since over 200 record and playback systems have been produced since the invention of video tape, the Library cannot maintain them all. At present the Library uses 12 of the most common systems -- 6 playback and record systems and 6 playback only systems. As part of its preservation approach to magnetic materials, the Library is conducting a condition survey to estimate the environmental, housing, and physical condition of its holdings. Studies to determine the nature and requirements for preservation transfer media and equipment are in progress.

The National Film Preservation Board and Nitrate Film Preservation - The National Film Preservation Board, originally established by the National Film Preservation Act of 1988 (2 U.S.C. 179b et seq.), serves as a public advisory group to the Librarian of Congress. The Board consists of 36 members and alternates representing the film industry, archives, scholars, film makers and others who make up the diverse American motion picture community. As its primary mission, the Board works to ensure the survival, conservation and increased public availability of America's film heritage, including: advising the Librarian on the annual selection of 25 films to the National Film Registry, and counseling the Librarian on development and implementation of the national film preservation plan. As of September 30, 1995, 175 films had been selected to the National Film Registry.

In May 1995, legislation was introduced to reauthorize the Board and establish a National Film Preservation Foundation. The Foundation would work with the Library and other film archives throughout the United States to raise funds from private sources to benefit

national film preservation efforts. The request for appropriations is up to $2 million on a one-for-one matching basis annually over the ten-year authorization period.

The nitrate base used by the commercial film industry between 1893 and 1951 was inherently unstable. The rate of deterioration is unpredictable but is significantly influenced by previous and current storage conditions. Materials kept at a low constant level of temperature and humidity since the time of manufacture could conceivably last for 100 years.

The Library has 120 million feet of nitrate film in its collection of which between 40 and 60 million still need to be preserved. The Library's Motion Picture Conservation Center in Dayton, Ohio, is specifically staffed and equipped to undertake the copying of nitrate film onto 35mm acetate film which, if stored correctly immediately after duplication, will not suffer significant decomposition. At present, staffing levels permit the Library to copy just over one million feet per year. This rate will not present a long-term problem if the Library can update its existing nitrate storage facilities to meet the generally accepted archival environmental recommendations of 37 degrees fahrenheit and 25 percent relative humidity. The Library is in the early stages of planning for such facilities at the remote storage site to be built at Ft. Meade, Maryland.

Service

The Library of Congress is a public institution that is open to everyone over high school age, with limited exceptions. Its collections are available to users in numerous public reading rooms located in three Library buildings on Capitol Hill. The Library's first service priority is to the Congress; second, to other branches of the Federal government; and third, to scholars, other libraries and the general public. The Library is not a lending library. Only members of Congress and other statutory borrowers are authorized to remove materials from the Library. For selected other users--primarily other libraries--the Library is considered a "library of last resort," which means that they may borrow certain materials through interlibrary loan if the needed materials are not otherwise available in the United States.

To use Library collections, researchers identify the items they want through card and on-line catalogs, finding aids, and bibliographies. They request the items, showing photo-identification, by submitting call slips to the staff, who retrieve the items from the secured collections storage areas and deliver them to the reader. In addition, the Loan Division is responsible for retrieving, packaging, and preparing loan charge records for materials that circulate outside the Library. In fiscal year 1995, the Library served over 2 million items in the Library. It also circulated over 36,000 items to Congressional borrowers and nearly 45,000 items to other agencies and libraries. At the end of fiscal year 1995, 16,100 external loans were outstanding.

Collections Security

In 1992, following evidence of theft and mutilation of the collections, the Librarian of Congress closed the stacks to the public and all Library staff except those whose assigned duties required access to perform their work. All Library staff are required to wear ID cards visibly at all times within the Library.

At the same time, the Library developed a Plan for Enhancing Collections Security, and, since 1992, has taken extensive measures to implement the plan. Security is now in "layers" beginning with entrance to the Library and generally consists of the following elements (which vary by type of collection and current stage of implementation):

- inspections are performed at building entrances;
- personal belongings in selected reading rooms are restricted -- patrons must use cloak rooms and lockers for personal belongings (this requirement is being extended to additional reading rooms in 1996);
- book stacks in the Thomas Jefferson and John Adams buildings are electronically controlled by an electronic access system;
- police patrols in book stacks have increased;
- access to general collection stacks has been reduced by 50 percent;
- anti-theft targets have been placed in more than 3 million books;
- the automated Collections Control Facility, which provides item-level inventory control for books, continues to be expanded;
- beginning in February 1996, patron photo-identification cards are issued to identify users and a data base of patron information is maintained;
- locked vaults and cages have been installed in stack areas for a number of valuable collections;
- video surveillance cameras have been installed in a number of reading rooms and stacks;
- electronic anti-theft detection gates have been placed at active pedestrian exits; and
- exit inspections are performed.

An additional security measure in the planning stage is an on-line item level tracking system for print materials which will replace the Library's manual 12-million-plus card shelflist file. The system will enable the Library to better control the collections by keeping track of items added, in circulation, and on the shelf. An existing database is now in use to track items on loan to Congressional and Library staffs and other agencies. The new technologies help the Library to control the collections and makes it easier to identify and investigate losses. Finally, in February 1996, the Library conducted a survey of its collections to establish an accurate identification of items which are known to have been missing for thirty days or more. It is in process of assessing the results of this survey to determine whether it should apply special means to search for missing items, whether items reported as missing should be replaced (either in original or surrogate format), and what additional safeguards may need to be implemented.

Arrearage Reduction

An important priority of the Library is establishing bibliographic control over the collections to increase their accessibility and, at the same time, their security. In 1989, an inventory of unprocessed materials determined the backlog (arrearage) to be 39.7 million items. During the past five years, the Library has put forth an extensive effort to reduce the cataloging arrearages and bring all the collections under bibliographic control. At the beginning of fiscal year 1995, the arrearages, mostly in non-book formats, exceeded 25 million items. This figure was reduced by 2.9 million during the fiscal year. Arrearage statistics for fiscal 1995 are as follow:

Items in Arrearage	1994	1995	Change	Percent Change
Print Materials	818,839	599,375	(219,464)	(26.8)
Special Materials	24,612,457	21,891,696	(2,720,761)	(11.1)
Total	25,431,296	22,491,071	(2,940,225)	(11.6)

The Library is continuing with its effort to protect its collections, while at the same time, making the collections available to its users and maintaining its status as the Nation's Library.

Financial Reporting

For financial reporting, the Library's collections are classified as "Heritage Assets" which, in accordance with the Federal Accounting Standards Advisory Board's (FASAB) recommended standard on stewardship reporting, shall be reported as required supplementary stewardship information accompanying the financial statements of the Federal government and the component units of the Federal government responsible for such assets. The Supplementary Stewardship Reporting standard is still in draft form and has not as yet been accepted by the FASAB principals (the General Accounting Office, The Office of Management and Budget, and the Department of Treasury) as an accounting standard. However, the section for reporting on "Heritage Assets" is expected to be accepted in its present form.

The FASAB recommended standard states that the costs of the stewardship-type resources shall be treated as expenses in the financial statements in the year the costs are incurred. However, the costs and resultant resources are intended to provide long-term benefits to the public and should be included in stewardship reporting to highlight to the reader their long-term benefit nature and to demonstrate accountability over them.

Heritage assets are defined as:

- Property, plant and equipment that are unique for one or more of the following reasons:

  - historical or natural significance;

  - cultural, educational, or aesthetic value; and

- significant architectural characteristics.

The standard states that heritage assets shall be quantified in terms of physical units (for example, number of items in collections or the number of national parks). No asset amount shall be shown on the balance sheet of the Federal financial statements for heritage assets. The quantities of items in the Library's collections shown in the table below were taken from Library statistics collected on a regular basis and records that were accumulated over the years.

Estimated Quantity of Each Category of Collection Materials at September 30, 1995

Category of Collection	Added During Year	Withdrawn During Year	End-of Year Total	Method of Acquisition and Withdrawal
Print Collections - Classified Books	345,424	29,088	16,764,805	Acquisitions: Copyright deposits, purchase, gifts, exchanges, cataloging-in-publication Withdrawals: exchange & gift of unwanted or duplicate copies; depreciation or depletion through use; disposals through GSA
Other Print Materials - includes books in large type, newspapers, pamphlets, technical reports, incunabula, serials, etc.	98,780	24,717	9,169,903	Acquisitions: Copyright deposits, purchase, exchange and gift Withdrawals: exchange & gift; depreciation or depletion through use; or disposals through GSA
Total Print Collections	444,204	53,805	25,934,708	
Other Collections - includes audio materials, talking books, books in raised characters, manuscripts, maps, microforms, music, visual materials (moving images, posters, photographs, photocopies, prints & drawings, etc.), and machine readable materials	2,076,093	1,574,289*	82,498,662	Acquisitions: Copyright deposits; purchase; manufacture or copy; exchange & gift Withdrawals: exchange & gift of unwanted copies; losses, depreciation and depletion through use; or disposals through GSA. (Also, adjustments made to previous estimates.)
Total Collections	2,520,297	1,628,094	108,433,370	

* Included in Items withdrawn is an adjustment for 1,279,836 Prints and Photograph Division items which were counted twice during the fiscal 1989 arrearage census:
990,844 Postcards/Souvenir Viewbooks collection;
25,121 HABS/HAER 1 photographs and drawings
263,871 New York World-Telegraph & Sun collection

Attached is a further breakdown of Library materials including additions and withdrawals.

ADDITIONS TO THE COLLECTIONS-ITEMS

Print Collections	Added	Withdrawn	Total
Classified Book Collections			
Class A (General Works)	4,695	130	408,041
Class B-BJ (Philosophy)	7,047	33	276,309
Class BL-BX (Religion)	13,632	17	612,053
Class C (History, Auxiliary Sciences)	7,315	9	232,497
Class D (History, Except American)	24,567	39	1,120,626
Class E (American History)	6,888	15	250,009
Class F (American History)	9,139	42	398,440
Class G (Geography, Anthropolgy)	14,302	437	381,133
Class H (Social Sciences)	45,175	167	2,588,988
Class J (Political Science)	11,425	28	751,038
Class K and LAW (Law)	45,966	48	2,046,754
Class L (Education)	8,309	121	481,147
Class M (Music)	11,168	23	599,543
Class N (Fine Arts)	16,333	18	447,311
Class P (Language and Literature)	46,619	159	2,231,077
Class Q (Science)	20,690	2,005	1,039,192
Class R (Medicine)	11,752	3,570	436,971
Class S (Agriculture)	6,517	106	397,973
Class T (Technology)	20,255	7,191	1,192,617
Class U (Military Science)	2,724	9	191,267
Class V (Naval Science)	1,792	12	99,251
Class Z (Bibliography)	9,114	14,909	582,568
Total Classified Book Collections	345,424	29,088	16,764,805
Other Print Materials or Products			
Books in large type	0	0	8,668
Books in raised characters	837	30	68,424
Incunabula	1	0	5,693

Minimal-level cataloging (monographs and serials)	42,720	0	454,542
Newspapers (bound)	0	9	35,777
Pamphlets	7,671	15,400	260,876
Technical reports	20,097	8,926	1,397,481
Other	27,454	352	6,938,442
Total Other Print Materials	98,780	24,717	9,169,903
TOTAL PRINT COLLECTIONS	444,204	53,805	25,934,708
Other Collections	**Added**	**Withdrawn**	**Total**
Audio materials	47,454	24,668	2,175,345
Talking books	1,860	47	47,721
Manuscripts	1,325,063	2,242	46,623,436
Maps	115,472	114,972	4,346,337
Microforms	530,613	3,491	10,842,392
Music	447	0	3,774,600
Visual material			
Moving images *	25,766	34,312	715,763
Photographs (negatives, prints, and slides)	21,693	1,386,141	12,251,346
Posters	715	0	81,282
Prints and drawings	2,244	8,374	362,475
Other (broadsides, photocopies, nonpictorial material, etc.)	199	18	1,254,138
Machine-readable material**	4,567	24	23,827
TOTAL OTHER COLLECTIONS	2,076,093	1,574,289	82,498,662
TOTAL (items)	2,520,297	1,628,094	108,433,370

* Total adjusted to correct FY 1993 transcription error

** New category

THE LIBRARY OF CONGRESS
MANAGEMENT REPORT ON FINANCIAL CONTROLS

Fiscal Year Ended September 30, 1995

The Library of Congress has a complex and diversified financial management system which includes a central system, 7 subsidiary systems, and 9 program systems. The system manages 5 appropriations, 146 gift funds, 84 trust funds, and 11 gift revolving funds. Although the Library of Congress, a legislative agency, is not required to comply with the Federal Financial Managers' Integrity Act (FMFIA), the Government Management and Reform Act (GMRA) or the Chief Financial Officers Act (CFO), it has chosen to follow these Acts in a manner consistent with a legislative agency in order to fulfill its internal control objectives.

The Library's financial management policy, LCR 1510, requires regular internal control reviews by its program and subsidiary system managers. Criteria applied in these reviews are based on the internal control standards and financial systems standards presented in Appendices 2 and 3 of title 2 of the GAO's Policy and Procedures Manual for Guidance of Federal Agencies. Library management evaluates the responses to these reviews, as well as information provided by the Library's Inspector General, by independent auditors under contract with GAO to audit the Library's consolidated statement of financial position and by independent external auditors under contract to the Library's Office of Inspector General to review the Library's cash management processes, to determine the extent of compliance with the following internal control objectives.

- Assets are safeguarded against loss from unauthorized acquisition, use or disposition
- Transactions are executed in accordance with budget authority and with laws and regulations that could have a direct and material effect on the financial statements
- Transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and to maintain accountability for assets.

Financial managers are advised that the concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits expected to be derived therefrom, and errors or irregularities may occur and not be detected because of inherent limitations in any system of internal control. Managers are cautioned to take all necessary measures to ensure that the limited reviews are conducted in a thorough and conscientious manner and internal control objectives, as described in the accompanying guidelines, were achieved within the limits prescribed. Any deficiencies are disclosed with recommended plans and schedules for correcting such deficiencies. This report does not address safeguarding of the Library's collection assets. A separate management report on the collections is presented at 5-4.

The Library evaluated its internal controls as of September 30, 1995, on the basis of criteria for effective internal controls in the federal government described above and identified the following deficiencies.

- The Library did not have in place a process to accumulate and summarize the information needed to perform proprietary financial reporting as of September 30, 1995. As a result of the GAO's 1991 report on its audit of the Library's financial statements, Library management adopted a formal plan to correct the significant

findings and implement recommendations identified by the GAO and, further, to achieve an audit in the future. That plan called for the implementation of a new financial management system in fiscal year 1995 and an audit of the Library's fiscal year 1996 financial statements to be performed in fiscal year 1997. That plan was prepared in recognition of the limited resources available to perform these major undertakings. Thus, the Library had not anticipated and was not fully prepared for the current audit. However, the Library has gained valuable insights into establishing a financial reporting process and will proceed to implement recommendations made by the independent external auditors in fiscal year 1996.

- The reconciliations of the Library's records with the Department of the Treasury's records were not complete as of September 30, 1995. However, the records were reconciled by the time of the completion of the audit in April 1996. While primary reconciliations were completed as of September 30, 1995, two additional reconciliations were delayed as a result of the conversion to the new financial system.

- The property control system is still in the development stage. The records for furniture and furnishings and capital leases are currently incomplete. Equipment of the National Library Services for the Blind and Physically Handicapped (NLS/BPH) program is not under general ledger control, nor are the Library's records of that equipment reliably reconciled to information maintained by the various agencies that participate in the program. A complete system that is consistent with the FASAB principles and standards is included in the Library's Financial Management Improvement Plan.

- Information Technology Service's current security practices expose the Library to a higher level of risk than desired regarding the possibility of unauthorized transactions, theft and/or misuse of assets, and loss of data and programs for all library computer center and network activities.

- The Library has not yet tapped the full capabilities of its new financial management system to aggregate financial data by program, and to accumulate data for determining the cost of programs and special projects. While this does not affect the ability of the Library to meet the three internal control objectives described above, it means that the Library is not yet able to have readily available program and project cost information that would be useful in making resource allocation decisions.

- As of September 30, 1995, the Library needed to establish improved controls in its new financial management system to prevent certain individuals from performing incompatible functions. Because of significant resource requirements during conversion to the new system, operating accountants were given authority to enter and approve journal vouchers. Other senior individuals were given authority to enter and approve payments from the Library's imprest cash accounts. Additional access authority was provided temporarily to other staff members in order to accelerate the input of documents during the implementation of the system. Now that day-to-day use of the system is current and more routine, the Library has changed these initial settings to provide for a more controlled environment.

- The Library's self-assessment and review of its internal control and accounting systems is incomplete in certain instances. The Library plans to reinstitute training for the conduct of these self-assessments during the next review cycle.

- The Library lacks a formal business continuity plan for its automated data processing systems, which exposes it to risk of lost data and resources.

- Procedures and controls over check processing and to a limited extent, cash handling, need improvement.

When GAO performed the first audit of the Library's financial statements, the Library's accounting systems suffered so many deficiencies that GAO was unable to render any opinion on the financial statements produced from those systems. Since then, the Library has made a number of improvements in its systems, most importantly installing a new financial management system in fiscal 1995. As a result of these improvements, independent external auditors were able to express a qualified opinion on the Library's Consolidated Statement of Financial Position as of September 30, 1995. We believe internal controls were generally effective at September 30, 1995, in providing reasonable assurance that transactions were executed in accordance with budget authority and with laws and regulations that could have a direct and material effect on the financial statements. We cannot provide reasonable assurance that internal controls in place at September 30, 1995, met the other two objectives (that assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and that transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and to maintain accountability for assets) because of the material weaknesses, as described above, in the following four areas: (1) processes for the preparation of proprietary financial statements; (2) reconciliation of records; (3) control over property and equipment; and (4) Information Technology Service's security practices. However, we would like to note that the preparation of the accompanying financial statements was made possible by the implementation of a new financial system in fiscal year 1995 which records, processes, and summarizes financial transactions in accordance with federal accounting standards.

THE LIBRARY OF CONGRESS CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The accompanying Consolidated Statement of Financial Position summarizes the Library's assets, liabilities, and net position as of September 30, 1995. The basis of accounting used for the statement is described in the notes to the statement. While the Library is not subject to the Chief Financial Officers Act of 1990 or FMFIA, it is committed fully to the principles and objectives of both Acts and has elected to comply with their requirements in a manner consistent with a legislative agency.

The audit of the Consolidated Statement of Financial Position was performed by the independent accountants, Price Waterhouse LLP. The independent accountants' report on the Consolidated Statement of Financial Position, internal controls, and compliance with certain laws and regulations is included in Section 6 of this report.

Director, Financial Services

Librarian of Congress

THE LIBRARY OF CONGRESS
MANAGEMENT ASSERTION ON CONTROLS FOR THE COLLECTIONS

Fiscal Year Ended September 30, 1995

The purpose of this section is to assert management opinion about the effectiveness of the Library of Congress' internal control structure for the collections.

Preamble -- the Mission of the Library of Congress

The mission of the Library of Congress is to acquire, preserve, and make maximally accessible the intellectual and information heritage of the United States and, to the degree desirable, the world. The Library serves, in priority order: the Congress; other branches of the government; other libraries and archives; researchers; and the general public. It is custodian of over 108 million items, in over 450 languages and in the following formats: monographs and serials; manuscripts; prints, posters, and photographs; maps, atlases and globes; music manuscripts and scores; motion picture, broadcasting and recorded sound; rare books; microforms; machine readable formats; and digital files. It makes these materials available to Congress and other government entities through loans; to the research public in its reading rooms on Capitol Hill and through interlibrary loan; and to the general public through the National Digital Library and such outreach programs as exhibitions, publications, videos, CDs, and tapes.

The Library of Congress, as the nation's library of last resort, has a special obligation to acquire comprehensively the creative and intellectual legacy of this nation; to secure and preserve those items for present and future generations; and to make these items as available as possible and prudent to its constituents, primarily Congress and the research community. Achieving and maintaining the proper balance among preservation, security, and access is a dynamic and challenging process, faced by all libraries and archives. The process is influenced by the changing demand of the users, the development of technological and other means for preserving and securing collections, and the judgment of management about the equilibrium itself. Maintaining an equilibrium in the midst of change is in turn influenced by the financial and personnel resources the Library has, through appropriations and other sources, to invest in acquiring, preserving, securing, and serving the heritage assets which comprise not only the Library's holdings, but in fact the official record of the history and creativity of the American people throughout its history.

The risks to the national collections are: not acquiring materials that are critical to the continued development of the research collections that meet the needs of Congress and the research community; not preserving the collections from the physical degradation inherent in each of the various media the Library holds and from deterioration through use; the theft, mutilation, or accidental loss of the items in the collection; and the failure to make the collections available to users in a timely and appropriate fashion. In the course of its nearly two hundred-year history, the Library has provided outstanding service to the Congress, and has over time added service to other constituencies -- the Executive and Judicial Branches, the library and academic communities of America, and the general public -- while continuing to make service to Congress its first priority. With time the risks to the collections have increased greatly, especially the matter of physical degradation with the introduction of wood pulp (i.e., highly acidic) paper in the mid-nineteenth century and a variety of highly unstable media in the twentieth (nitrate and acetate film stock, wax cylinders, audio tape, etc.). In addition, as the Library has striven to serve a wider

audience as the collections have grown, the risk of theft, mutilation, and accidental damage through handling has become more serious. Although this problem has always been widely recognized and conscientiously addressed with special format materials such as manuscripts and rare books, it was not until recently that the Library recognized the same problem afflicted the General Collections (i.e., books and serials published after 1800).

While the Congress has, within the past one hundred years, approved the construction of three special library buildings on Capitol Hill for storage and service of the collections, as well as the acquisition of acquired space for special storage in Ohio, Pennsylvania, and Maryland, the physical plant has not kept pace with the growth of the collections and their demand for a controlled environment to slow inherent physical degradation. In order to ensure continued excellent service to Congress, as well as the Library of Congress' mission to document the history and creativity of the American people, the Library has been zealous in fulfilling its obligation to sustain a comprehensive collection base, even, at times, running the risk that accumulation of items for the collections might outstrip the Library's ability to preserve, secure, and gain bibliographical control of the collection in a timely fashion. While this has been a conscious decision on the part of management -- that without acquiring appropriate collections as they become available, the Library has no chance of fulfilling its most fundamental mission to Congress and the nation -- this has led to a cataloging backlog, inadequate storage, and insufficient security, in an environment of limited resources.

The Library of Congress recognizes these problems and has taken important steps to address them. It opened the Preservation Directorate in 1967. It made an aggressive assault on the uncataloged backlog in 1989 when it launched its Arrearage Reduction effort. And in 1992, it took the unprecedented step of closing its book stacks to the general public altogether and to its own staff for all purposes not directly related to their duties; and began the systematic upgrading of security in all its reading rooms and installation of perimeter security of the collections. For almost a decade it has sought additional space and resources for secondary storage and film and audio preservation facilities. However, much remains to be done. A new balance between preservation, security, and access is necessary for the twenty-first century, and it will not come without significant cost.

MANAGEMENT ASSERTION

We confirm, to the best of our knowledge and belief, the following:

1) We are responsible for establishing and maintaining the internal control structure for the collections;

2) We have assessed the effectiveness of the Library of Congress' internal control structure over safeguarding of assets (collections) against unauthorized acquisition, use, or disposition, based upon control criteria established. Those control criteria include: bibliographical controls, preservation controls, inventory controls, and physical security controls. Specific controls over items depend upon the individual format, demand for and conditions of use, and the value and risk assessment for that item.

Bibliographical controls include cataloging, archival processing, and arrearage reduction.

Preservation controls include use of surrogates (digital, microform, service copies of audiovisual materials); collections care programs; disaster preparedness; Top Treasures security; de-acidification; conservation of individual items; preservation treatment of processed items; preservation research and testing program to define actions for deacidification, storage, audio preservation, studies of longevity of new digital media, etc.; and special congressionally-mandated preservation programs such as the National Film Preservation Board and American Television and Radio Archive.

Inventory controls include the automated circulation control system; manual shelflist; finding aids and other detailed descriptions; and registry of items lent for exhibition.

Physical security controls include perimeter security (e.g., exit inspections and theft detection devices); stacks closed to the public and all staff except those who require daily access in order to perform their jobs; reader registration; security in reading rooms (cameras, police patrols, etc.); caging or further reducing access to high risk collections; and secured loan stations.

3) Serving members of the research community and the public in our reading rooms exposes the collections to risks of loss and damage that could impair the Library's ability to serve users in the future, yet, the Library's collections exist to be used. Since 1992, the Library has increasingly limited these risks by reducing direct access to the collections and enhancing other controls over the collections. We believe these steps have limited these risks to a level where the benefits of continued reading room service to the research community and public outweigh the potential losses that could result from providing these services. Nevertheless, our assessment of internal controls identified the following weaknesses in controls which could adversely affect the Library's ability to meet its internal control objectives, and, as a result, we cannot provide reasonable assurance that the internal control structure over safeguarding collection assets against unauthorized acquisition, use, or disposition, was generally effective at September 30, 1995.

Bibliographical controls: As of September 30, 1995, the Library had reduced the arrearage count by 17.2 million items from the 1989 benchmark number of 39.7 million -- a decrease of 43.3 percent. However, arrearage reduction staff has suffered severe attrition due to budget cutbacks, so that the Library's projected goal of 80 percent reduction of the backlog by the year 2000 will not be met until 2005.

Preservation controls: the Library has inadequate temperature and humidity control in collections storage areas; inadequate space for appropriate storage of collections materials; insufficient space for reformatting acetate negative collection; and insufficient funds for reformatting. These conditions cannot be fully addressed with current funds and physical plant. The development of the off-capitol-hill collections storage facility is expected to remedy many of these difficulties beginning in fiscal year 1998. Setting up an effective deacidification program, planning a new nitrate film preservation and storage facility, and revamping the Photoduplication Service -- all begun in fiscal year 1996 -- will improve preservation.

Inventory controls: The 12-million card print materials shelflist exists in manual form only, which prevents the Library from having an easily updatable tracking system for the exact location of any given cataloged item. Plans for an automated shelflist are completed; work will begin when funds, requested in fiscal year 1997, are obtained.

Physical security controls: In September 1995, many physical security risks remain, although the Library has taken extensive measures to limit the risks. The Library lacks a comprehensive and integrated security plan and does not have adequate staff charged solely and specifically with responsibility for the security program. **The security plan will be addressed after a Library consultant has made its recommendations in May 1996.** The James Madison Building loading dock is inadequately supervised and unauthorized entry is possible. **An acting Dockmaster was appointed to oversee the loading dock in November 1995.** The Landover Center Annex has poor control over collections because there are no systems for tracking items removed, several inoperative alarms, and inadequate police staff. **A full-time Security Manager was appointed in January 1996; an electronic access control system was activated and all alarms were tested and repaired as needed in March 1996.** Not all Library materials bear Library of Congress ownership markings. **Research is currently underway by Preservation on how to mark materials that cannot be stamped.** Not all bound materials have theft detection targets. **Insertion of targets is an ongoing process that has been accelerated to include items in the Copyright Office, Order Division, etc.** Except in the case of those reading rooms which serve the very highest risk and value materials, such as Manuscript and Rare Book Reading Rooms, more video surveillance cameras are needed. **One hundred and forty-two cameras have been installed, and fiscal year 1996 funds allow installation of 130 more.** Insufficient controls exist over items that one can bring into and remove from reading rooms. **A new policy for increased control of reading rooms will go into effect in April 1996.** The Library has insufficient police staff to provide a visible, effective deterrent presence in collection storage areas, book stacks, reading rooms, and throughout the Library's buildings. We believe there is inadequate protection of the buildings and collections from terrorist attacks: no barriers to prevent vehicles with bombs from approaching. **Concrete planters have been placed to block vehicular access to the Jefferson Building;** available police resources do not allow for adequate patrols of exteriors; video surveillance of exteriors is limited; and entry inspections of people do not meet federal guidelines. **Fiscal year 1997 funds are requested for X-ray machines and staff.**

4) We have disclosed all significant deficiencies in the design or operation of the internal control structure which could adversely affect the Library's ability to meet the internal control objectives.

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REPORT OF INDEPENDENT ACCOUNTANTS

Comptroller General of the United States:

We have audited the accompanying Library of Congress (Library) Consolidated Statement of Financial Position as of September 30, 1995. The GAO task order specified that the operating statement was also to be audited. However, we could not opine on the operating statement as opening balances were not available for audit, as well as for other reasons detailed further in Appendix I, Weakness 1 on pages 6-13 through 6-15 of this report. We have also examined management's assertion, included in the management report on financial controls in Section 5 of the Library's Annual Financial Report, regarding effectiveness of the Library's internal control structure over financial reporting in place as of September 30, 1995. Lastly, we have examined management's assertion regarding the sufficiency of controls for safekeeping the Library's collections in Section 5 of the Library's Annual Financial Report. Our conclusions on the Consolidated Statement of Financial Position and on management's assertion about the effectiveness of the Library's internal control structure over financial reporting are discussed in more detail below. Our opinion on management's assertion about the effectiveness of internal controls over safeguarding collection assets is included in a separate report at pages 6-40 to 6-54 of this report.

In our audit of the Library of Congress for fiscal year 1995, we found:

- Except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding property and equipment balances, the Consolidated Statement of Financial Position presents fairly, in all material respects, the Library's financial position as of September 30, 1995, in conformity with the basis of accounting described in Note 1 to the Consolidated Statement of Financial Position;

- Management fairly stated that it cannot provide reasonable assurance that internal controls in place at September 30, 1995, met two objectives (that assets are safeguarded against loss from unauthorized acquisition, use, or disposition and that transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and to maintain accountability for assets), but that internal controls were effective in assuring material compliance with relevant laws and regulations;

- Reportable noncompliance with certain laws and regulations we tested concerning the Library's revolving fund operations and investment of gift securities that were not material to the Consolidated Statement of Financial Position; and

- Management fairly stated that it cannot provide reasonable assurance that the internal control structure over safeguarding of collection assets against unauthorized acquisition, use, or disposition was generally effective at September 30, 1995.

Our audit work identified significant deficiencies involving the internal control structure and its operation that we consider to be reportable conditions[1] under standards established by the American Institute of Certified Public Accountants. The reportable conditions we found, of which the first four we consider to be material weaknesses, can be summarized as follows:

1. Financial Reporting Preparation Process Is Inadequate to Meet Proprietary Reporting Requirements

2. Reconciliations of Cash with Treasury and of Various General Ledger Balances with Subsidiary Systems Are Not Routinely Performed

3. Library Property and Equipment Records Are Not Reliable or Complete and Portions of Property and Equipment Are Not Adequately Controlled

4. Current Information Technology Services (ITS) Security Practices Expose The Library to Risk of Unauthorized Transactions, Theft and/or Misuse of Data Processing Assets, and Loss of Data and Programs For All Library Computer Center and Network Activities

5. The Internal Financial Reporting Process Should Be Enhanced to Provide Management with More Meaningful Information

6. The Financial Services Directorate Needs to Receive Authorization For and Fill Its Additional Positions In Order to Provide More Useful Information to Management

[1] Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Library's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Certain more severe reportable conditions are also considered to be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

7. Deficiencies in Certain Controls Over The Library's New Financial Management System Application Security Expose The Library to Risk of Unauthorized Transactions, Incorrect Data, and Misuse or Loss of Data

8. The Library's Self-Assessment and Review of Its Internal Control and Accounting Systems is Inconsistent with Audit and Other Findings

9. Lack of a Formal Business Continuity Plan Exposes The Library to Loss of Data and Resources

10. Procedures and Controls Over Cash Handling, Check Processing and Certain Disbursing Office Responsibilities Need Improvement

11. Trust Fund Accounting and Investing Are Not Subject to Sufficient Review and Oversight to Prevent Misclassification of Funds and to Ensure That Investments Comply with Legal Requirements

Through substantive audit procedures, which are detailed tests and analytical procedures performed to detect material misstatements in the classification of transactions, account balances, and disclosure components of the Consolidated Statement of Financial Position, we were able to satisfy ourselves that the weaknesses, outlined above and detailed in Appendix I on pages 6-13 through 6-37 of this report, did not have a material effect on the September 30, 1995 Consolidated Statement of Financial Position of the Library, except for property and equipment balances as discussed later in this report. However, these deficiencies in internal controls may adversely affect any decision by management which is based, in whole or in part, on information that is inaccurate because of the deficiencies. Unaudited financial information reported by the Library, including budget information, also may contain misstatements resulting from these deficiencies.

The Library has not completed a comprehensive risk assessment and collection security plan to identify the risks to its collections, the proposed or established control activities to address the risks, the required management information it needs to carry out its responsibilities, and the methods by which management will monitor the effectiveness of the established control procedures. Until it has performed a risk assessment, implemented a comprehensive security plan, and established mechanisms to monitor the implementation of that plan, Library management will not have reasonable assurance that the risk of unanticipated loss (theft, mutilation, destruction, or misplacement) of collection items of significant market value, cultural or historical importance, or information content is reduced to an acceptable level. In addition, the Library has a number of significant weaknesses in preservation controls, inventory controls, and physical security controls over collection assets as of September 30, 1995. These conditions are described in more detail in our separate report on management's assertion about the effectiveness of internal controls over safeguarding collection assets at 6-40 through 6-54.

This report also discusses significant matters considered in performing our audit and forming our opinions, which are presented in the following sections.

SIGNIFICANT MATTERS

As a result of GAO's audit of the Library's 1988 financial statements[2], Library management adopted a formal plan in 1990 to correct the significant findings and implement recommendations identified by GAO and, further, to achieve an audit in the future. One of the key GAO recommendations for achieving an audit was development of an integrated financial management system. Library management chose to implement a new financial management system to meet this recommendation, which was done during fiscal year 1995. In our review of the Library's plan, an audit of the financial statements was not planned until fiscal year 1996, i.e., 1995 was to debug the system and reconcile account balances. As a result, the Library was not prepared for an audit in 1995. Further, the inadequate time for the Library to prepare for the fiscal year 1995 financial statement audit contributed to certain of the significant matters identified in this report and contributed to limiting the 1995 audit to the Consolidated Statement of Financial Position. It is important to note, however, that the deficiencies in internal controls can not be excused by the demands of implementing a new financial management system or on not intending to have an audit for fiscal year 1995. Certain of the conditions identified, specifically the lack of various reconciliations and loss of accountability for property and equipment discussed in Weaknesses 2 and 3, should not exist in any system, audited or unaudited.

In order to form a foundation for financial reporting within the Library as well as provide strategic direction on how to achieve a meaningful 1996 financial reporting process and effective financial management, the Library must set expectations, comparable to those of executive branch agencies required to comply with the Chief Financial Officers (CFO) Act of 1990, although the Library is not required to comply with the CFO Act. The expectations include developing better performance and cost measures, as well as designing results-oriented reports on the Library's financial condition and operating performance by integrating budget, accounting, and program information.

Like many Executive Branch agencies, the Library must meet three implementation challenges if it is to build upon its progress to date and put lasting improvements in place:

- first, fully implement a process for preparing complete, auditable financial statements to improve the reliability of data for decision-making and strengthen the efficiency of financial operations and controls;
- second, continue to build stronger financial management within the Library by upgrading skill levels, enhancing training, and ensuring that the CFO possesses all the necessary authority within the Library to achieve change; and
- third, design comprehensive accountability reports to permit more thorough and objective assessments of the Library's costs, performance and financial condition,

[2]Financial Audit: First Audit of the Library of Congress Discloses Significant Problems, GAO/AFMD-91-13, August 22, 1991.

by program and service unit, as well as to enhance the budget preparation and deliberation process.

If the Library implements the reporting requirements of the CFO Act and the Government Performance and Results Act, decision makers (both within the Library and in Congress) will ultimately have available unprecedented, reliable information on the financial condition of Library programs, service units and operations and the performance and costs of these activities.

In connection with our audit, we developed, with assistance from the Library, a diagram of its missions and organizational units. We believe that this diagram is useful in understanding and visualizing the diversity and complexity of the Library's missions and operations. Accordingly, we have included it as Exhibit I on pages 6-38 and 6-39 of this report.

Reportable Noncompliance with Selected Provisions of Laws and Regulations

During our review of the Library's compliance with selected provisions of laws and regulations, we identified the following reportable noncompliance findings:

- GAO has found that the Library's use of certain revolving gift funds exceeds its scope of authority to accept gifts and use them to fulfill the donor's intent. (Library of Congress Revolving Trust Funds, FGMS-80-76, September 24, 1980; Financial Audit: First Audit of the Library of Congress Discloses Significant Problems, GAO/AFMD-91-13, August 22, 1991.) In fiscal year 1988, the Library operated 12 revolving funds to finance a number of activities with revenue ranging from $940 to almost $3.7 million per fund. The funds were created by gifts which donors designated to be used for self-sustaining activities. The gifts were then operated as revolving funds, which had grown to many times larger than their original size.

  During the course of our fiscal year 1995 audit work, we followed up on GAO's earlier findings and noted that this condition continues to exist. Specifically, we identified 11 revolving funds, none with specific Congressional authorization and all with fund balances in excess of the original gift.

  In accordance with 2 U.S.C. 160, the Library is authorized to "accept gifts or bequests of money for immediate disbursement in the interest of the Library, its collections, or its services." However, as the GAO reports concluded, section 160 does not authorize the Library, without specific statutory authority, to set charges for goods or services provided through self-sustaining (revolving) gift funds which (1) enlarge the funds beyond the scope of the donor's gift, (2) produce revenues for other activities, or (3) create a substantial surplus.

Over the years since the GAO reports, the Library has sought, but not received, specific statutory authority to operate these gift revolving funds. Consequently, the Library continues to operate certain revolving gift funds beyond the scope of its authority.

- The Library of Congress Trust Fund Board is authorized by 2 U.S.C. 156 to accept and use gifts as approved by the Board and the Joint Committee on the Library. Congress enacted 2 U.S.C. 158a in 1992 to authorize the Librarian to temporarily accept a gift of money or securities for 12 months while awaiting the required approvals. However, while section 158a authorizes the Librarian to temporarily retain a gift of securities and use any income earned from it during the 12-month period, section 158a prohibits the Librarian from investing or reinvesting the securities. From April through June 1995, the Library took possession of a gift of various securities valued at $439,000. From April through August 1995, the Library liquidated these securities and reinvested the proceeds without obtaining the approval of the Joint Committee on the Library as required by section 156. Neither the Library's general counsel nor chief financial officer were made aware of these actions until October 1995. In this instance, the cash management analyst mistakenly believed it had both required approvals, while actually only having the approval of the Board, and the Library believes this was an isolated error. The Library liquidated the improper investments on November 3, 1995, and Treasury is holding the proceeds on the Library's behalf pending the Joint Committee's approval of the gift. Under 2 U.S.C. 158a, the Library is to return the principal of the gift to the donor if the gift is not approved within 12 months after the Librarian took possession of the gift.

There also is an outstanding legal issue regarding the Library's retention of certain monies incident to its operation of the overseas participant program. The Library conducts this program to purchase collection materials, upon request, for participants, usually a university or a library. The Library charges both the direct costs for materials as well as an overhead cost based on a percentage of direct costs. According to Library employees overseeing the operation, the Library's accounts for this program have an approximate ending balance of $1.9 million. They estimate that of that amount, approximately $1 million is a liability representing the refund that would be due if every participant canceled their requests as of the date of the ending balance, and about $300,000 represents unliquidated obligations for items on order at September 30, 1995. The Library's remaining $600,000 in effect is a "residual", which has been accumulated over at least twenty-five years. While the Library apparently has retained the residual in a Treasury account and not used it for an improper purpose, it is not clear to us on what basis it has been retaining and accounting for the $600,000. This issue deserves further development in order to reach a conclusion on compliance and we have referred it to the GAO's Office of the General Counsel, who will be addressing this matter separately with Library management.

OPINION ON CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding property and equipment balances, the Consolidated Statement of Financial Position presents fairly, in all material respects, the Library's financial position as of September 30, 1995, in conformity with the basis of accounting described in Note 1 to the Consolidated Statement of Financial Position.

As described in Note 1, the Library prepared its Consolidated Statement of Financial Position in conformity with the hierarchy of accounting principles and standards approved by the principals of the *Federal Accounting Standards Advisory Board,* which is a comprehensive basis of accounting other than generally accepted accounting principles.

OPINION ON MANAGEMENT'S ASSERTION ON THE INTERNAL CONTROL STRUCTURE OVER FINANCIAL REPORTING

We have examined management's assertion, included in the accompanying management report on financial controls, regarding internal controls designed by management to provide reasonable, but not absolute, assurance that the following objectives were met:

- assets are safeguarded against loss from unauthorized acquisition, use, or disposition;
- transactions are executed in accordance with laws governing the use of budget authority and with other laws and regulations that have a direct and material effect on the Consolidated Statement of Financial Position; and
- transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and to maintain accountability for assets.

Management fairly stated that it cannot provide reasonable assurance that internal controls in place at September 30, 1995, met two objectives (that assets are safeguarded against loss from unauthorized acquisition, use, or disposition and that transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and to maintain accountability for assets), but that internal controls were effective in assuring material compliance with relevant laws and regulations.

Management made this assertion based upon criteria established under the internal control standards and financial systems standards presented in Appendices 2 and 3 of Title 2 of the GAO's Policy and Procedures Manual for Guidance of Federal Agencies (Title 2).

In our opinion, management's assertion that, because of the material weaknesses described in its report, it cannot provide reasonable assurance that internal controls in place at

September 30, 1995, met the objectives that assets are safeguarded against loss from unauthorized acquisition, use, or disposition and that transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and to maintain accountability for assets is fairly stated, in all material respects, based upon the control criteria used. In our opinion management's assertion that internal controls were generally effective at September 30, 1995, in providing reasonable assurance that transactions were executed in accordance with budget authority and with laws and regulations that could have a direct and material effect on the financial statements is fairly stated, in all material respects, based upon the control criteria used.

In addition to the material weaknesses and reportable conditions described in this report, we noted other less significant matters involving the Library's internal control structure and its operations which we will be reporting separately to the Library's management.

COMPLIANCE WITH LAWS AND REGULATIONS

Except as noted on pages 6-5 and 6-6, our tests for compliance with selected provisions of applicable laws and regulations disclosed no other instances of noncompliance that would be reportable under *Government Auditing Standards*, as issued by the Comptroller General of the United States, or Office of Management and Budget (OMB) Bulletin 93-06, "Audit Requirements for Federal Financial Statements." However, the objective of our audit of the Consolidated Statement of Financial Position, including our tests of compliance with selected provisions of applicable laws and regulations, was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

This conclusion with respect to our tests of compliance with selected provisions of applicable laws and regulations is intended solely for the information of United States Congress, the General Accounting Office, and the Library's management. However, this report is a matter of public record and its distribution is not limited.

CONSISTENCY OF OTHER INFORMATION

Our audit was conducted for the purpose of forming an opinion on the Consolidated Statement of Financial Position taken as a whole. The Overview of the Library of Congress, Supplemental Schedules and Stewardship Report presented in Sections 1, 3, and 4 are presented for purposes of additional analysis and are not a required part of the Consolidated Statement of Financial Position.

- The Statement of Financial Position by Fund Type, on pages 3-1 and 3-2, is presented for purposes of additional analysis of the Consolidated Statement of Financial Position rather than to present the financial position of the individual fund types. The Statement of Financial Position by Fund Type has been subjected to the auditing procedures applied in the audit of the Consolidated Statement of

Financial Position and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding property and equipment balances, it is fairly stated in all material respects in relation to the Consolidated Statement of Financial Position taken as a whole.

- The Consolidated Operating Statement and Changes in Net Position and the Statement of Operations and Changes in Net Position by Fund Type for the year ended September 30, 1995, presented on pages 3-3 and 3-4, respectively, were not audited by us and, accordingly, we do not express an opinion on them.

The Overview of the Library of Congress and the Stewardship Report in Sections 1 and 4, respectively, in the Library of Congress Financial Statements for fiscal year 1995 contain a wide range of data, most of which are not directly related to the Consolidated Statement of Financial Position. Professional standards require the auditor to read this information and consider whether such information, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, appearing in the Consolidated Statement of Financial Position. If based on such reading the auditor concludes that there is a material inconsistency, the auditor should determine whether the Consolidated Statement of Financial Position, the report, or the other information require revision. The information presented in the Overview of the Library of Congress and the Stewardship Report has not been subjected to the auditing procedures applied in the audit of the Consolidated Statement of Financial Position, and, accordingly, we express no opinion on it.

RESPONSIBILITIES AND METHODOLOGY

Management is responsible for:

- preparing the Consolidated Statement of Financial Position in conformity with the comprehensive basis of accounting described in Note 1 to the Consolidated Statement of Financial Position;
- establishing and maintaining an effective internal control structure over financial reporting; and
- complying with applicable laws and regulations.

Our responsibility is to express opinions on the Consolidated Statement of Financial Position and on management's assertion about the effectiveness of the Library's internal control structure over financial reporting based on our audit and examination, respectively. Accordingly, we planned and performed the audit and examination to obtain reasonable assurance about whether (1) the Consolidated Statement of Financial Position is free of material misstatement and presented fairly, in all material respects, in accordance with the basis of accounting described in Note 1 to the Consolidated Statement of Financial Position, and (2) management's assertion that it cannot provide reasonable assurance that internal controls in place at September 30, 1995, met two objectives (that assets are safeguarded against loss from unauthorized acquisition, use, or disposition and that transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and to maintain accountability for assets), but that internal controls were effective in assuring material compliance with relevant laws and regulations, is fairly stated, in all material respects, based upon criteria established under the internal control standards and financial systems standards presented in Appendices 2 and 3 of Title 2 of the GAO's Policy and Procedures Manual for Guidance of Federal Agencies. We are also responsible for testing compliance with selected provisions of applicable laws and regulations that may materially affect the Consolidated Statement of Financial Position and for performing limited procedures with respect to certain other information appearing in this annual financial statement.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the Consolidated Statement of Financial Position;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the Consolidated Statement of Financial Position;

- obtained an understanding of the internal control structure over financial reporting;

- obtained an understanding of the internal control structure related to performance measures reported in the Overview of the Library's Annual Financial Report;

- assessed the design of performance measure controls and whether they had been placed in operation;

- tested and evaluated the design and operating effectiveness of relevant internal controls over significant cycles, classes of transactions, and account balances;

- tested compliance with selected provisions of the following laws and regulations that may materially affect the Consolidated Statement of Financial Position:

  - the Library's authorizing legislation;
  - the Copyright Law;
  - the Anti-deficiency Act;
  - the 1995 Legislative Branch Appropriations Act;
  - the Economy Act;
  - Fair Labor Standards Act;
  - Civil Service Retirement Act;
  - Civil Service Reform Act;
  - Federal Employees' Health Benefits Act;
  - Federal Employees' Group Life Insurance Act;
  - Federal Acquisition Regulation;
  - legislation concerning recording obligations and balances available for obligation;
  - the Advertising Act; and
  - the Federal Property and Administrative Services Act; and

- performed other procedures as we considered necessary under the circumstances.

We did not evaluate all internal controls relevant to operating objectives, but limited our work to accounting and other controls necessary to achieve the objectives identified in our opinion on management's assertion on the internal control structure over financial reporting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. We also caution that projecting the results of our examinations to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

Except for the lack of available evidential matter supporting the Consolidated Statement of Financial Position balance for property and equipment as described in our report, we did our work in accordance with generally accepted auditing standards; *Government Auditing Standards,* as issued by the Comptroller General of the United States; and OMB Bulletin 93-06, "Audit Requirements for Federal Financial Statements." Our examination

of management's assertion, included in the accompanying management report on financial controls, that it cannot provide reasonable assurance that internal controls in place at September 30, 1995, met two objectives (that assets are safeguarded against loss from unauthorized acquisition, use, or disposition and that transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and to maintain accountability for assets), but that internal controls were effective in assuring material compliance with relevant laws and regulations, is fairly stated, in all material respects, as of September 30, 1995, was conducted in accordance with standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards*. We believe that our audit and examination provide a reasonable basis for our opinions expressed above.

Library Comments and Our Evaluation.

In response to a draft of our report, which was provided to the Library on April 19, 1996, the Library prepared written comments, which are presented beginning on page 6-65. These comments express general agreement with the findings and recommendations resulting from our financial statement audit. In its separate response to a draft *Management Review of the Library of Congress*, prepared by a management consulting firm engaged by the GAO, the Library stated that critical data from a study by the Library's security consultants, due to be reported on June 7, 1996, will enable the Library to proceed with risk assessment and overall formulation of a complete policy on the safeguarding of the Library's collections. Library management has advised us that this response also applies to the recommendations resulting from our examination of the Library's assertion about internal controls over the safeguarding of its collections.

Subsequent to the issuance of our draft report, the Library amended its assertions about the effectiveness of internal controls to state that it cannot provide reasonable assurance that its internal controls in place at September 30, 1995, met certain objectives. As a result of those revisions, we updated our reports to express opinions that those assertions are fairly stated. Where appropriate, we have made other revisions to our report based on oral comments from the Library.

Price Waterhouse LLP

April 5, 1996
Arlington, VA

INTERNAL CONTROL WEAKNESSES

Weakness 1: Financial Reporting Preparation Process Is Inadequate to Meet Proprietary Reporting Requirements

The Library is not required to follow executive branch reporting requirements of the Chief Financial Officers (CFO) Act of 1990. However, in lieu of developing its own standards the Library has elected to follow the related CFO Act and Executive Branch directives for financial statement reporting, as further described in Note 1 to the Consolidated Statement of Financial Position. The Library has not developed formal policies, procedures, duty assignments or timetables for meeting these requirements. As a result, the Library is not able to promptly, accurately and efficiently accumulate and summarize the information needed to perform proprietary financial reporting.

When considering the Library's implementation of a new financial management system and other issues discussed below, the fiscal year 1995 audit took on characteristics of an initial audit, despite GAO performing an audit of the 1988 financial statements. This resulted in the Library's 1995 audit results being relatively consistent with other initial Federal agency audits, which disclose agencies having extraordinary financial management problems in even the fundamental areas of performing reconciliations, documenting adjustments, ensuring that inventories are taken, and making supervisory reviews of accounts and transactions.

As discussed in the Significant Matters section of our report, the Library had not planned on having an audit performed until fiscal year 1996 which contributed to certain of the deficiencies identified herein. It is also important to note, however, that the deficiencies in internal controls can not be excused by the demands of implementing a new financial management system or on not intending to have an audit for fiscal year 1995. Certain of the conditions identified, specifically the lack of various reconciliations and loss of accountability for property and equipment, should not exist in any system, audited or unaudited. As a result of not preparing for an audit of 1995, the Library had not established policies and procedures for the preparation of financial statements or assessed the new financial management system to determine programming and coding necessary to provide audit supporting documentation and facilitate preparation of financial statements. This was evidenced by the following:

- Routine formal reconciliations of accounts or subsystems were not performed, which allows for potential errors in reporting. (See weakness 2);

- There were many easily identifiable unusual balance conditions in both the general ledger and the initial drafts of financial statements prepared by management. For example, during our review of general ledger account balances during the audit, we noted the following unusual summary level items: a $27 million *credit* balance in an operating expense account; a $23 million *credit* balance in depreciation expense; and a $4.7 million *credit* balance in interest receivable;

- Effectively, management was closing the books during the audit. Adjusting entries were still being identified and posted during the last week of the audit and accounts payable accruals were not prepared on a timely basis;

- Accounting shortcuts impeded auditability and limited the availability of reliable management information for the following:

  - Federal Library and Information Network (FEDLINK) revenue is fully recognized upon receipt of cash for the amount remitted. At the end of each fiscal year, Financial Services Directorate (FSD) posts an adjustment to record the estimated unearned portion of the previously recognized revenue as a liability. The estimate is based on an equation that considers cash received and fiscal year end accounts receivable and accounts payable balances, rather than actually verifying deferred credit balances per the FEDLINK SYMIN system as of fiscal year end;
  - all property and equipment acquisitions are expensed during the fiscal year. At the end of the fiscal year, FSD posts an adjustment to agree the general ledger balance to the property and equipment records for both Contracts and Logistics and National Library Services/Blind Physically Handicapped (NLS/BPH);
  - management does not maintain a comprehensive listing of all leases. Further, the leases are not evaluated as to whether the lease should be categorized and accounted for as an operating versus capital lease. As a result, all leases are currently treated as operating leases and expensed, despite the fact that the Library has identified certain leases that should be categorized as capital leases; and
  - accounts payable was accrued by FSD at September 30, 1995 by recording all invoices received and date stamped by that date, rather than performing an accurate assessment of unrecorded liabilities in existence at September 30, 1995;

- Key accounting policy decisions were made during the audit, including the:

  - capitalization threshold policies for property and equipment, including capital leases,
  - methodology for estimating the worker's compensation accrued liability, and
  - gift and trust fund donation accounting policies for pledges receivable, recognition of donated revenues, donated property and equipment, and donated services;

- The new financial management system had not yet been configured to prepare supporting trial balances necessary for an audit. Specifically, the following trial balances as of or for the year ended September 30, 1995, could not be generated without special programming and report coding: accounts receivable by customer/agency, accounts payable by vendor, FEDLINK revenues by remitter, and undelivered orders;

- During fiscal year 1995, a high volume of journal vouchers, over 630, were recorded. The entries resulted primarily from recording the beginning balances in accounts during the conversion from the old financial management system to the new financial management system, correcting conversion entry postings, and correcting entries with incorrect account or transaction coding. This high volume of journal vouchers contributed to the difficulty in auditing certain accounts balances and selecting certain receipt or disbursement activity for testing;

- An operating statement, detailed by type of expense and revenue, was difficult for the Library to prepare and not prepared by the Library on a timely basis. Furthermore, once prepared, we determined we could not opine on the operating statement for the following reasons:

  - unaudited opening balances from the old financial management system, which did not meet Federal standards,
  - high volume of journal voucher transactions (as discussed above) in revenue and expense accounts which would require significant detail testing and impeded the performance of analytical procedures,
  - adjusting entries not pushed down to individual cost centers impeded the performance of analytical procedures,
  - the new account coding structure, though needed to adopt the Joint Financial Management Improvement Program Standard General Ledger, prevented meaningful analysis of 1995 data versus 1994 data,
  - late reconciliations of cash with Treasury and of general ledger balances with subsidiary systems (see weakness 2), and
  - revenue source codes were inconsistently and inaccurately used by Library personnel in recording cash receipt and revenue transactions; and

- Generally, performance measure criteria are not formally established, nor is financial position and operations data maintained in a manner that facilitates performance measure analysis.

Recommendations:

Since the benefits of long-term efforts to improve agency systems often require years to realize, the Library needs to make its existing systems work better in the interim. An important aspect of this is to ensure the validity of existing data and vigilantly maintain the routine controls needed to keep these data reliable, such as reconciliations to identify and resolve discrepancies. Such efforts will improve data reliability and help ensure that information reported in the new systems is accurate.

Procedures must be developed to ensure the orderly and effective closing of books monthly, quarterly, or at fiscal year end, and for the day to day accumulation of financial data, supported by appropriate documentation, that is easily accessible. The procedures must be adequate to ensure that financial records are supported by either underlying accounting records or other documentation, as adequate audit trails are critical to providing support for

transactions and balances maintained by the general ledger. Additionally, key accounting policies should be formally determined and documented in policy statements by management.

A strategic plan for the approach to the fiscal year 1996 year end close and report preparation should be developed and formally documented, with an achievable timeline. The Library should develop a methodology and plan specifying corrective actions and milestones which will lead to the production of an effective set of internal controls, a more fully integrated financial management system, and an annual report that includes financial statements generated from the new financial management system. The plan should provide for periodic reviews of internal reports of the Library's financial operations by financial or fund managers to ensure the integrity and reliability of data produced by the financial system. Further, as the culmination of the financial reporting process, we recommend the Library obtain an annual audit of its financial statements.

Specifically, we believe the Library should include the following steps, among others, in developing the strategic plan for preparing the 1996 financial statements and having them audited:

1. Configure the new reporting system to generate trial balances supporting asset and liability accounts.

2. Update the Library of Congress Regulation (LCR) on accounting policies to reflect decisions about adoption of relevant *Federal Accounting Standards Advisory Board* (FASAB) and *Financial Accounting Standards Board* (FASB) standards.

3. Adopt a checklist for review of presentation and disclosure of draft financial statements to assure that statements meet applicable standards. Complete review of statements before presenting them to auditors. Review should include analyses of amounts for reasonableness.

4. Analyze the amounts in property prior to fiscal year 1996 for accurate cost. (See Weakness 3 below).

5. Identify recurring journal entries and provide information about those to help management and the auditors assess their reasonableness.

6. Establish standards for the format and documentation necessary to complete cash reconciliations. Complete and review reconciliations of all Treasury accounts. Reconciliations should be kept current throughout fiscal year 1996. (See Weakness 2 below).

7. Establish standards for the format and documentation necessary to complete the new financial management system-subsidiary system reconciliations. Complete and review reconciliations between the new financial management system and all

subsidiary systems. Reconciliations should be kept current throughout fiscal year 1996. (See Weakness 2 below).

8. Correct accounting procedures for deferred revenue and property to have transactions affecting those balances recorded regularly throughout the period.

9. Prepare detail listing of all leases outstanding and future lease payment commitments. Analyze leases with payments over a certain threshold to determine if they are capital leases. (See Weakness 3 below).

10. Establish policies and accounting procedures to properly recognize premiums and discounts on investments and to amortize them.

11. Perform a review of outstanding obligations from prior years to determine if they remain valid.

12. Coordinate with Development Office on recognizing pledges receivable when an unconditional promise to give is made and on identifying contributed goods and services that should be recognized in the financial statements.

13. Establish a process for closing the general ledger proprietary accounts at 9/30/96. Do a trial run of this process before the close of the year. Establish a timetable for pre-audit closing entries; then compile any additional adjustments identified for review by the auditors. Make those adjustments after concurrence by auditors, together with adjustments identified in the performance of the audit.

14. Prepare accrual of accounts payable at 9/30/96 and audit trail supporting that accrual.

15. Have planning meetings with the auditors prior to close of the fiscal year, preferably in June or July 1996.

    a. Inform auditors of status of prior internal control findings.
    b. Discuss parameters to be included in downloads of transaction files.
    c. Provide results of interim financial statement closing for analysis and comment.
    d. Determine if any information to support the audit can be compiled prior to the end of the fiscal year for interim testing.
    e. Discuss the adoption of new accounting principles.
    f. Establish timetable and responsibilities for providing information necessary to support completion of the audit.
        i. Define form and content of information to be provided so it can be efficiently used in the audit.
        ii. Critically assess the reasonableness of that timetable in light of FSD staff's other responsibilities.

Further, we recommend that Library management enforce proper revenue source coding of transactions to ensure consistency in reporting of Library transactions between service units. This could be accomplished by programming the new financial management system to preclude specific funds from using revenue source codes inconsistent with the funds purpose or revenue/cash receipt sources. To the extent necessary, additional revenue source codes should be defined and created within the new financial management system to ensure that the source coding adequately reflects the current operations and sources of either cash receipts or revenues within the Library. Further, management should consider enhancing the types of reports currently available on the new financial management system and ensure the system is configured to prepare any reports/trial balances necessary for the audit.

Weakness 2: **Reconciliations of Cash with Treasury and of Various General Ledger Balances with Subsidiary Systems Are Not Routinely Performed**

The Library's strategic plan indicated that reconciliation's were to be completed during fiscal 1995. However, policies and procedures developed by the Library requiring routine reconciliations were not followed during fiscal 1995, as detailed below.

Reconciliations that were not performed or were not formally documented include, but are not limited to, the following:

- General ledger cash balances to Treasury Accounts
- General ledger investment balances to investment balances at Treasury and/or the outside investment management firm's records
- Copyright Office's records to the general ledger for all items, including cash, investments, custodial assets and liabilities, and unearned and earned registration fee revenue
- FEDLINK SYMIN system accounts payable to the general ledger's accounts payable balance for FEDLINK funds

Some reconciliations had not been performed since fiscal 1994 and took in excess of four months for the Library to complete, as the reconciliation process was not initiated until the 1995 audit process began in November 1995. Although all significant reconciliations were ultimately performed in conjunction with the audit, as a result of not performing the reconciliations on a timely basis there were many reconciling items requiring much research and resolution.

Cash differences between Treasury and Library records have occurred during fiscal year 1995 due to reconciliations not being performed, among other things. While differences in cash transactions and balances may result from errors by either agency, the Library periodically adjusts its cash receipt records to agree with Treasury's without determining which records are correct. Using such "global, non-specific" adjustments to reconcile with Treasury-reported balances could result in Library reported balances being misstated. For

example, FSD recorded a $528 thousand transaction to agree with Treasury's monthly statement (for the Copyright Division Treasury Symbol), even though the Library's records were correct. These types of adjustments also affect other financial statement balances; in this example, the Copyright Deposit Liability was overstated.

Recommendations:

Accounting system standards in Title 2 of the GAO's Policy and Procedures Manual for Guidance of Federal Agencies (Title 2) require that reconciliations between summary and detailed records be performed periodically and documented and that adjustments, if necessary, be made promptly to properly bring these records into agreement. If it is determined that two sets of independently derived records are not in agreement, management is alerted to a potential problem. Management can then follow up and determine the causes, either errors or system weaknesses, and take appropriate corrective actions. Reconciliation requires identifying, investigating, and resolving all discrepancies between general ledger control accounts and subsidiary records, and where warranted, making the appropriate adjustments to either the subsidiary records or to the general ledger control accounts.

In the short term, Library management should implement and monitor basic procedures, such as reconciliations and appropriate supervisory approval, to ensure that cash and other assets are properly managed and accounted for. Reconciliations must be performed routinely and on a timely basis. The reconciliations must be performed between each subsidiary system and the new financial management system records, as well as between general ledger and entities external to the Library, such as Treasury.

Management should adequately research all differences between the general ledger account balances and Treasury, before posting adjustments to the Library's records to bring them into agreement with Treasury. Adjustments should be made only if the Library's records are determined to be incorrect.

Certain Copyright Office reconciliation discrepancies, specifically over collection of royalty remittances, resulted from the apparent duplicative recording of detailed information in both FSD and Copyright Office records. During our control and compliance reviews and testing, we determined that the Copyright Office records appear to maintain the more accurate listing of royalty receipts. As a result, we recommend that the Copyright Office continue to record the detail level activity, rather than FSD. At least monthly, the Copyright Office receipts should be posted, in summary, to the new financial management system by FSD. At such time, a reconciliation should be performed to ensure the new financial management system account balances agree with the Copyright Office records. Recording the detail activity in only one place will cause the reconciliation process to be more efficient and will be a better utilization of FSD resources.

Weakness 3: Library Property and Equipment Records Are Not Reliable or Complete and Portions of Property and Equipment Are Not Adequately Controlled

Policies and procedures in place within FSD are inadequate to ensure the accuracy of the data included in the Contracts and Logistics International Bar Code Fixed Asset Control System (IBCFACS) property and equipment ledger or that NLS/BPH property is properly controlled and accounted for. Title 2 requires that property records be established and maintained for all acquisitions, whether by purchase or donation, as well as disposals. It also requires that when assets are reported in the financial statements, they be recorded in the accounting records at acquisition cost (if purchased), fair value (if donated or if cost records not available), or carrying value (if transferred from another agency).

The Library expenses all amounts disbursed for property and equipment during the fiscal year. At the end of each fiscal year, management determines the Contracts and Logistics property and equipment balance and the related accumulated depreciation balance, based on amounts in the IBCFACS ledger, and records a reversal of amounts expended during the respective fiscal year to reflect the total capitalization amount and net change in accumulated depreciation; property and equipment is not debited at any other point during the year. Further, as a result of posting only one entry per year to the general ledger and as there is not an interface between the general ledger and the IBCFACS ledger, the Library cannot ensure that acquisitions, disposals and donations of property and equipment are properly accounted for in its property and equipment systems or that items are not misappropriated or misplaced.

Library management has represented to us that the majority of Contracts and Logistics property and equipment was tagged and identified for inventory control purposes. In preparation for the Library's anticipated fiscal year 1996 audit, the Library initiated its first comprehensive physical inventory of property and equipment and began entering all cost data into the IBCFACS ledger. This costing and inventorying project was not yet completed, although officials have represented that they believe they have identified all assets costing greater than the capitalization threshold of $10,000 (for Contracts and Logistics property and equipment) for inclusion on the property and equipment detail listing.

Specifically, as a result of this project, the Library estimated that Contracts and Logistics property and equipment had a net book value of approximately $12.2 million. Management believes all office and computer equipment has been fully identified and that the full identification of furniture will be completed in late 1996.

However, during our testing of the IBCFACS ledger as of September 30, 1995, we found the listing to be unreliable and incomplete. The reasons we found the IBCFACS ledger to be unreliable and incomplete include, but are not limited to, the following:

- valuation errors; for example, the capitalized value of one asset included on the IBCFACS listing, identified as a printer computer, was entered in the property

system as $900,415, when the actual invoice cost was $24,905; upon further inquiry and review, we determined that the $24,905 invoice actually represented several equipment items, of which none exceeded the capitalization threshold;

- data entry errors (i.e., typographical errors);
- certain instances were identified where total estimated cost per the purchase order, rather than actual invoices, were used as the cost basis of the asset in the IBCFACS ledger;
- acquisition date errors, which cause misstatements in accumulated depreciation amounts; for example, in certain instances, we noted that the day the asset was counted was entered into the IBCFACS ledger as the acquisition date, rather than the actual date the asset was received;
- certain pieces of donated equipment, in excess of the capitalization threshold, received prior to September 30, 1995, were not recorded in the IBCFACS ledger;
- the cost basis for certain donated property and equipment assets was not estimated or could not be agreed to donation documents; and
- management informed us that they were unable to identify all acquisitions or dispositions occurring during fiscal year 1995, as not all equipment is received by the Contracts and Logistics Department. Specifically, in certain instances, the equipment is received directly by the ordering department, which circumvents the identification/labeling process and results in a lack of accountability over all owned assets.

Further, management has acknowledged that the Library has entered into several leases for office equipment under which the ownership of the equipment covered under the leases transfers to the Library when the leases expire. Currently, the Library accounts for the leases as operating leases, entering the equipment into the property records only upon conversion to the Library's ownership. As a result, insufficient lease data is available for the Library to perform a timely and reasonable estimate and identification of the assets that it leases which should be capitalized for inclusion in the 1995 financial statement property and equipment balance.

Management determined that the NLS/BPH program assets should be capitalized for inclusion in the 1995 financial statements. However, a detailed listing of all NLS/BPH machines is not maintained; NLS/BPH makes equipment shipments to lending agencies periodically throughout the year, after which the agencies have responsibility for tracking the machines, rather than NLS/BPH having tracking responsibility. Accordingly, management estimated the cost basis of the NLS/BPH equipment by using bulk purchase information (i.e., date of bulk purchase, number of machines purchased, and invoice cost). The net book value of NLS/BPH was estimated as approximately $37.3 million as of September 30, 1995. Once this information was compiled, it was compared to the

September 1995 monthly "machine reports" received from the individual lending agencies. As NLS/BPH management does not maintain an asset listing which could be periodically reconciled to the machine reports, the comparison performed identified certain quantities of machines as "missing" or in repair. We further noted that NLS/BPH management does not adequately track, by agency, those assets held in storage for repair, replacement, or received back from lending agencies, although these assets are included in the repair category in the analysis performed. Given the condition of the NLS/BPH records as discussed herein, management at NLS/BPH was unable to satisfy us through alternate procedures that the NLS/BPH asset balances were materially accurate.

Due to issues discussed above regarding the Contracts and Logistics IBCFACS ledger, the NLS/BPH asset records, and the lack of adequate accounting for or proper identification of capital leases, we were unable to verify or substantiate the reliability and completeness of the property and equipment balances as of September 30, 1995, and accordingly, qualified our report on the Library's Consolidated Statement of Financial Position as of that date. The net property and equipment balance in that Consolidated Statement of Financial Position is $49.5 million.

Recommendations:

The accuracy and maintenance of the Contracts and Logistics and NLS/BPH asset listings is critical for reliable financial reporting and maintaining accountability for the Library's property and equipment. In order to facilitate maintaining accurate property and equipment listings, we recommend that the Library establish two budget object class codes: one for assets capitalized and one for assets expensed. We further recommend that management post the entry to capitalize equipment at each month end, at which time a reconciliation between the monthly amount disbursed, per the capitalization budget object class, and the property and equipment monthly acquisitions per the IBCFACS ledger and NLS/BPH asset listing should be performed. As these amounts should agree, any discrepancies should be resolved by management on a timely basis.

In the interim, the Library should perform a detailed review of the IBCFACS ledger for propriety and accuracy, in conjunction with completing the physical inventory of assets currently in process. This review should include obtaining or verifying documentation supporting the cost basis and acquisition date for selected assets in excess of the capitalization threshold within the property and equipment records; however, the costing and acquisition date of assets should only be verified or substantiated for assets acquired in the last three to five years, as all other assets are almost fully depreciated and, accordingly, would not have a material impact on the financial statements taken as a whole. Further, the Library must establish a system or put procedures in place for monitoring and reporting acquisitions and disposals of property and equipment in order to maintain reliable property and equipment records. The procedures should require that all receipts of property go directly through Contracts and Logistics, rather than being received by the department that ordered the equipment.

Regarding NLS/BPH assets, we recommend that, at minimum, an asset listing be maintained which identifies, by agency location, the total number of units by acquisition date and bulk purchase amount, rather than attempting to maintain a listing by individual unit/machine. This layered cost listing, by acquisition date, should be updated periodically for additional machines shipped to lending agencies and for machines returned to NLS/BPH for repair or disposition. Further, this listing should be reconciled monthly to the machine reports remitted by each agency. To the extent discrepancies arise, NLS/BPH management should investigate any "missing" machines identified in the reconciliation process.

We further recommend that the Library maintain a listing of all leases, both capital and operating, that includes the date of lease inception, asset description, Library identification number (if applicable), lease terms, and amount of lease payments. Also, all leases with total payments over $10,000 should be analyzed by FSD to determine proper categorization as an operating or capital lease and to determine if it would, in the long run, be cheaper to buy the asset, i.e., evaluate the implicit interest rate on a Treasury borrowing rate. If it is determined that the lease is a capital lease, the present value of the equipment should be capitalized upon acquisition, if it exceeds the capitalization threshold of $10,000, and future lease payments be immediately recognized as a liability.

Weakness 4: **Current Information Technology Services (ITS) Security Practices Expose The Library to Risk of Unauthorized Transactions, Theft and/or Misuse of Data Processing Assets, and Loss of Data and Programs For All Library Computer Center and Network Activities**

Physical access to the organization's computer resources (e.g., hardware) and logical access security to system utilities, programs, and parameters is inadequate, providing the opportunity for gaps that expose the Library to unauthorized access. As a result of their security access, various individuals have the authority to perform the following:

- make changes to or delete production data
- delete audit trails that log activity and/or errors
- update, alter, or delete security profiles or critical system datasets

The weaknesses in the Library's security access controls indicate a potentially heightened risk that other general controls over the Library's automated data processing systems may not be effective. However, our testing did not encompass those controls and, therefore, we have not concluded on their effectiveness.

❑ ***An excessive number of programmers can make changes to production data***

We noted that several of the new financial management system application programmers have Write and Allocate access to certain production data files. This access is considered excessive for the performance of the job responsibilities of these end users. Such excessive

access increases the risk that improper or unauthorized updates may be made to production data.

❑ ***An excessive number of individuals have access to ACF2 "special privileges"***

We noted that various individuals, including both systems and user personnel, have access to the "special" privileges of the security software. These special attributes grant authority that is considered excessive or unnecessary for the individuals to perform their job responsibilities. In addition, granting these special privileges to an excessive number of users increases the risk of unauthorized updates or alterations to the ACF2 Logon ID records and/or inappropriate circumvention of ACF2, such that their accessing of files and programs could go undetected. Our review of the Logon IDs granted special ACF2 attributes indicated the following :

- Six individuals have the *SECURITY* and *ACCOUNT* attributes that allow them to establish, modify, and delete Logon ID records.
- Twenty system engineers (including several with multiple Logon IDs) have the *NON-CNCL* attribute that ensures that they will not be canceled by ACF2 for any security violations.
- The Default Started Task ID has the *NON-CNCL* attribute, allowing system-started tasks without Logon IDs or specifically defined access rules to assume excessive non-cancelable access to all system data and resources. Each started task should be individually defined to ACF2; the *NON-CNCL* attribute may then be granted to these unique IDs.
- A former computer operator (now employed in the Library's Congressional Research Services (CRS) organization) has the *NON-CNCL* attribute.
- Fifteen users (including production control, application programming, user support, CRS, and collections personnel) have the TAPE-BLP attribute that allows them to bypass ACF2 authorization checking when accessing tape datasets.

❑ ***Programmers have access to critical "system" datasets***

During our review of the ACF2 access rules protecting critical dataset libraries, we noted that various types of employees (e.g., system development, computer operations, production systems, and database administration personnel) have excessive Read/Exec access to these critical system datasets. Access to critical system datasets by these individuals appears unnecessary based upon their job responsibilities and increases the exposure to unauthorized access or improper use of the Library's data and resources.

❑ ***Some ACF2 security software parameters are not used effectively***

Lack of adequate global installation password options decrease the effectiveness of the passwords and increase the exposure to unauthorized access to the system datasets and resources. The following inadequate parameters were noted during our review:

❑ ***Physical security over the computer operations room, which is within the larger ITS area, does not prevent unauthorized personnel from gaining access***

The operations room is the facility that houses the mainframe computer, LAN and network connections, and electronic media storage. We noted that a number of individuals that are allowed access to the ITS area also have access to the operations room, even though their duties do not require such access. Exceptions noted were:

- rear entrances do not have adequate locking mechanisms;
- contractors performing unrelated tasks have unlimited access to facilities.

Recommendations:

- Systems personnel should be prohibited from Write and Allocate access to production data files; application end users who require knowledge of the new financial management system data should be granted Read access only to the applicable production data.

- A review of these privileges should be conducted on all user profiles to ensure that only appropriate personnel have these powerful attributes. Following this review, ongoing periodic reviews should be conducted to recertify users for correct usage of these attributes.

- Access to system datasets and resources should be granted on a "need-to-know" basis only. Current access rules should be reviewed, and excessive access to Library information system data and resources should be identified and revoked.

- The Quick Logon function should be disabled so that passwords must be input on a separate line from the Logon ID where they will be masked. In addition, passwords with lengths between five and eight characters should be required to increase the effectiveness of unique passwords.

- The current security procedures should be enhanced to include the timely reporting of employee terminations from the Human Resources organization and of employee transfers within the Library of Congress from the affected organization management. All Logon ID removal or modification requests made by Human Resources or other organizations should be processed by the ITS security administration personnel on a timely basis.

- A review of the various user IDs should be conducted to determine the appropriateness of authority for each ID. As a result, those IDs with access that is deemed excessive for the individual's job responsibilities should be removed.

- We recommend that access to the computer room and computer facilities be adequately restricted to only authorized personnel. This may include updating computer room doors and moving development staff to other areas of the Library.

- the Quick Logon function is allowed under the current security settings, permitting a one-line entry of user logon IDs and password while displaying the password on the screen unmasked;
- most user passwords must be changed every 180 days, while some did not have a password interval (e.g., security admin., systems engineering, contractor, Financial Services, and H/R);
- passwords have a minimum length of only one character.

❑ ***User profiles exist in the security tables for individuals that are no longer employed by the Library***

Current security procedures do not include routine or direct communication to the ITS security administration group from other Library of Congress organizations for the purpose of reporting changes in user employment status/locations and requesting modifications to the user system access privileges.

Our review of ACF2 listings identified hundreds of unused IDs (some as long as 5 years) not revoked or removed from the system. Unused IDs typically indicate that the users are no longer employed by the Library of Congress, or have been assigned new responsibilities that do not require system access.

❑ ***There was no formal security plan that documents guidelines for administering security***

The Library did not have a formal computer security plan that documents management's guidelines for providing, administering, and ensuring compliance to security policies. It should be noted that the Library issued LCR 1620, "Computer Security Policy of the Library of Congress" in November 1995.

❑ ***Various individuals have multiple Logon IDs for the system***

The use of a second, less powerful Logon ID is considered reasonable for certain types of users (e.g., systems engineers, security administrators). In addition, special situations require a limited number of users to have more than one Logon ID to access separate copies of the same system (e.g., the new financial management system). However, the use of multiple IDs by the same ITS user is considered excessive; and, other than the special situations noted, the use of more than one ID by end users is considered unnecessary.

Our review of the security access listings revealed that many users (e.g., ITS, Congressional Research Services) have been assigned multiple Logon IDs. The existence of an excessive number of Logon IDs increases the risk that these IDs may facilitate unauthorized access to Library of Congress data and resources, and may reduce the efficiency of the security administration.

REPORTABLE CONDITIONS NOT CONSIDERED TO BE MATERIAL WEAKNESSES

Condition 1: The Internal Financial Reporting Process Should Be Enhanced to Provide Management with More Meaningful Information

The Library implemented a new general ledger accounting system effective October 1, 1994 (beginning of fiscal year 1995). This commercial package provides considerably more power and capability than the previous accounting system. Although the Library has a new system, its primary reporting and financial management approach still is essentially budget formulation and funds availability control. The new financial management system does significantly enhance a cost center manager's ability to determine the cost center funding situation on a real time basis through accessing one of the system databases, and some of the managers are making significant use of this capability.

However, since the new financial management system has the capability to efficiently analyze and report data in a multitude of ways, the Library now needs to capitalize on this capability and, previously unavailable, opportunity.

As indicated in Exhibit I on pages 6-38 and 6-39 of this report, the Library is a complex and diverse organization. Several of its budgetary units provide support to the front line customer service organizations. These "service support" unit costs should be attributed to the customer service organizations to better understand where the Library's resources are being spent and to better correlate costs with customers, services, outputs, and outcomes. For example, through the use of certain account code fields, the Library now has a tool that can aggregate financial data by program, and that can accumulate data for determining the cost of special projects. These features were not implemented in the initial installation because of the short time available for the implementation, a restriction that was recognized in the Library's two phase financial management enhancement plan.

However, since these capabilities can provide valuable summary information to Library management and others, the Library should move expeditiously to gain the benefits of the new financial management system's capabilities by designing summary and group reporting that corresponds to the functional and management structure for fulfilling the missions of the Library.

Recommendations:

Accordingly, we recommend that the Library perform the following:

- Match the budget and actual accounting to the missions of the Library. Correlating planned and actual cost with the missions of the Library will improve the resource

allocation decision process and will communicate more effectively the costs of providing services to the Library's diverse user group.

- Match the Library's performance statistics to the service components, discard inappropriate statistics/measures, and add missing statistics/measures. This includes obtaining more information about the demographics of the users, including frequency, location, purpose of inquiry (e.g., personal research, government agency research, and private entity research, etc.), and other information that can be used to better serve the customers and prioritize resources. Until recently, many parts of the Library did not have a consistent, reliable method of collecting user information; however, with the advent of the "reader registration system", the Library has the tool to better serve the users and to allocation resources, if necessary, among the various Library collections.

- Improve budget vs actual reporting for the expenditures portions of the appropriated funds by budgeting them at the cost center (fund) level rather than at a group level. This could improve the accumulation of cost history over time, and thus could improve cost management and resource allocation decisions.

- Implement cost attributions and cost allocations between units where beneficial and significant. Several of the service support and institutional support units currently are charged out to the users, both within the Library and external to the Library. These charge-out units are primarily photoduplication and similar services that are relatively easy to establish a fee for service basis of allocation. However, several of the Library's largest service support components, including Preservation, Cataloguing, Collection Management, and Information Technology Services are not charged out to the specific user groups within the Library. Charging out these services could improve resource allocation decisions, because the users have a greater vested interest in efficient service.

- Implement commitment accounting for significant planned/budget expenditures. The Library has a significant amount of year end spending for non-salary items. This probably has a history associated with the old reporting system. However, the new financial reporting system should facilitate more timely procurement of budget items because of its commitment and encumbrance accounting capability.

The above suggestions will require the commitment of resources to analyze and group the cost centers appropriately, to modify the expense accounting coding requirements, and to prepare cost attribution and reporting programs. Furthermore, some parts of the Library might have to implement labor hour reporting, depending on the nature of the service unit involved. For instance, ITS might have to adopt project accounting for time spent in significant systems development and modification and cataloguing could have to attribute staff hours to particular parts of the collection rather than just the Cataloguing Division. We do not believe that labor hour reporting would have to be adopted universally.

Another factor to overcome is the fact that the service bureau that currently performs the payroll processing for the Library does not have the capability to distribute payroll costs on a basis besides assigned work unit (cost center). Accordingly, full implementation of the suggestions above might require the Library to develop supplementary methods and software for redistributing/coding selected labor costs across multiple cost centers and projects.

Condition 2: **The Financial Services Directorate Needs to Receive Authorization For and Fill Its Additional Positions In Order to Provide More Useful Information to Management**

The Library embarked on financial management improvement with its 1990 Improvement Plan which called for implementation of the new core accounting system (completed during 1995), out-sourcing payroll processing, implementation of an automated procurement tracking system (in process), among other things. These are significant improvements; however, they essentially only replaced antiquated methods, software and hardware for activities that were already being done. That is, they did little to move the Library's financial management to the next plateau (performance and measurement). The plan also included development of activity based costing, but that has not been implemented. The Library's plan to implement activity based costing is consistent with the direction Congress has given to Executive Branch agencies through the Government Performance and Reform Act (GPRA). However, as discussed below, the Library will need additional resources in order to realize its plan.

The intent of the CFO Act and GPRA are to, among other things, change the way government agencies think about missions and spending. These Acts are designed to significantly increase the emphasis on measurement of costs, inputs, output, customers, user satisfaction and customer needs monitoring. This is a significant change from the historical Federal government practice of FTE and expense budgeting and accounting that often does not correlate costs and benefits effectively. The success of the conversion to an external mission and use approach is dependent on four factors:

1. Legislative support
2. Top management support
3. Adequate systems and timely and reliable information
4. Budget, Programming and Accounting team work

We are concerned, however, that several key positions needed to implement activity based costing in the Financial Services Directorate have not been approved and, that fiscal year 1995 position requests were either not approved or were not filled.

Recommendations:

Given the Library's difficulty in its process to fill important positions, we believe that it is critical that the Library approve and begin filling the additional positions. We also believe

that several of these positions require cost, activity based, CFO Act, generally accepted accounting principles and financial statement accounting experience that is not present in any depth in the Library's current Financial Service Directorate workforce. Furthermore, existing knowledge of Library operations can be lost unexpectedly due to the demographics of the current key positions. Failure to identify fiscal year 1996 and fiscal year 1997 resources for these positions will significantly delay the improvements that the Library needs to make in order to meet proprietary reporting requirements and to implement certain of the recommendations made in this report.

Condition 3: **Deficiencies in Certain Controls Over The Library's New Financial Management System Application Security Expose The Library to Risk of Unauthorized Transactions, Incorrect Data, and Misuse or Loss of Data**

In addition to the general controls environment reviews that we made of the ITS data center, we specifically reviewed the application controls over the new financial management system, FEDLINK and Fedline. Application security for the new financial management system is inadequate. It allows individuals access to functions that conflict with their current job responsibilities. Such authority allows a user to input transactions that may go undetected by manual review. In addition, there are override capabilities that allow a user to "force" a transaction into the system despite identified errors.

❑ ***Security access to "supervisory" approval functions is weak***

Adequate separation of duties does not exist within FSD for the input and approval of critical documents as a result of users with access authority that conflicts with their job responsibilities. We have identified instances where individuals could:

- enter and approve manual journal entries;
- enter and approve cash receipts; and
- enter and approve disbursements from the imprest fund.

Additional access authority was provided to individuals in order to accelerate the input of documents during the implementation of the new financial management system. Additionally, due to the lack of staffing and open requisitions for key positions, individuals were granted additional authorization. However, now that the new financial management system day-to-day entries should be current and more routine, the Library needs to return to a more controlled environment.

❑ ***Too many users have the ability to override transaction edits in the system***

The new financial management system accounting application provides the ability to override various activities (e.g., nine separate levels of override authority), without generation and review of appropriate override logs. It appears that in some cases the

edits/validations are inappropriate; while in other cases, the override authority is not appropriate for the individual entering the data.

For example, we noted that the ability to enter and process duplicate payments exists within the new financial management system. Our review determined that this apparent weakness appears to be mitigated by monitoring procedures employed by the Library's fund managers and is limited to the availability of unliquidated obligations. However, the ability to issue duplicate payments in combination with the ability to override transaction edits could expose the Library to the risk of issuing inappropriate payments.

Recommendations:

- Review current access authority for all individuals to determine appropriateness of security levels granted. Supervisory-level personnel should be restricted from PASS 1 access (except for manual checks); however, should have access to PASS 2 capabilities (excluding edit/correct functions within PASS 2).

- Perform an analysis regarding the types and frequency of overrides currently being performed to determine the importance of the edit identifying the error. Based on this review, management should either remove the edit or generate a log of all overrides. This log should then be reviewed by appropriate management personnel to ensure each override is properly authorized.

Condition 4: **The Library's Self-Assessment and Review of Its Internal Control and Accounting Systems Is Inconsistent with Audit and Other Findings**

The Library has established a LCR which requires regular internal control reviews by its program and subsidiary system managers. The internal control questionnaires developed by the Library are based upon criteria established under the internal control standards and financial systems standards presented in Appendices 2 and 3 of Title 2.

In performing our audit procedures, we determined that, for certain system questionnaires reviewed, the Library manager's self-assessment and review of the internal control and accounting system for which the manager was responsible was inconsistent with our testing and findings regarding internal controls over financial reporting, as detailed within this report. Following are examples of questionnaire responses inconsistent with the results of our audit testing:

- Several service units that handle cash receipts responded to the questionnaires with a positive response that written policies and procedures manuals for cash receipts have been completed. However, the policies and procedures manuals referred to are currently in process of being developed by FSD;

- Several service units responded to the questionnaires that effective cash management controls are in place (i.e., regular reconciliations). However, we noted that service units either did not perform any reconciliations during the review period or only performed a year end reconciliation;

- Contracts and Logistics responded "yes" to the following Property and Equipment questions:

  - "The accounting system includes adequate monetary property accounting records"; and
  - "The basic cost of property includes the amount paid to acquire it, including transportation, installation, and related cost of obtaining the property in the form and place it is used or managed."

  However, our testing revealed that the IBCFACS records the cost of capital assets based on the purchase order amounts, not on the actual invoice cost. During detailed testing of capital property items, we identified instances where FSD could not support the purchase order cost with paid invoices, and as a result, these assets were written down to their invoice cost. Similarly, the NLS/BPH responses to the questionnaire did not fully disclose material weaknesses in controls over its equipment; and

- The Financial Systems Officer responded that appropriate segregation of duties between programming, data entry, and data processing was done through ACF2. However, we noted during our testing of ACF2 that multiple users had excessive access to the system.

Further, Library department responses regarding control deficiencies over cash receiving functions were also generally inconsistent with weaknesses identified by another accounting firm engaged by the Inspector General. For example, for five of the ten questions responded to by the Cataloging Distribution Service unit manager, the controls were identified as being adequate in the questionnaire, with no reference made to deficiencies in internal controls identified by the other accounting firm and agreed to by the service unit manager. In approximately 70% of the cases the service unit managers responded with a "yes" to the questionnaire that controls were in place; however, the service unit manager also agreed to the deficiencies in internal controls identified by the other accounting firm related to that same control issue, which would indicate that "no" would have been the appropriate response by the service unit manager.

Additionally, we noted that in certain instances the person completing the questionnaire indicated that controls were in place during the period under review, when the control procedures were not in place until subsequent to September 30, 1995, by their own acknowledgment. This indicated the preparer's apparent lack of understanding that the controls they were to evaluate and conclude as to the effectiveness thereof were the controls in place during the period under review.

Last, a questionnaire was prepared for the new financial management system at the highest level by one representative of FSD, rather than having questionnaires completed by persons responsible for key functions within FSD or having significant financial management responsibilities, i.e., the FSD Cash Receiving and Disbursing Office managers did not participate in completing the financial management system questionnaire, which was represented by management to encompass their responsibilities.

Recommendations:

We believe that the Library may have been able to detect many of the conditions identified in this report if it had fully implemented and consistently followed the accounting and financial management standards applicable to other federal agencies. Specifically, for the internal control structure, implementation of Office of Management and Budget Circular A-123, *Management Accountability and Control* could help the Library have a consistent means of reviewing risk, and identifying and correcting material weaknesses, if any, in internal control systems.

We recommend that Library FSD management reassess which managers should complete the internal control and accounting system questionnaires. Once those persons have been identified, the Library should conduct formal training of personnel regarding the purpose of the reviews, the types of testing to perform, and how to analyze testing results. This training should be conducted by persons knowledgeable regarding the evaluation of internal controls within accounting systems and should be given just prior to performance of the reviews.

Further, to facilitate management review and reporting of the internal control structure, the CFO should establish a method to

- monitor its systems and controls to regularly identify problems as they occur by establishing clear lines of responsibility and communication from top management to the lowest staff levels,
- develop action plans that are agreed upon by all affected groups and individuals to correct problems identified, and
- continuously monitor corrective actions to ensure that progress is achieved.

We further recommend that Library management involve the Inspector General office in testing and reviewing the questionnaires annually, as this will help validate the process and provide an independent assessment of the control environment within the Library.

Condition 5: Lack of a Formal Business Continuity Plan Exposes The Library to Loss of Data and Resources

A Business Continuity Plan should document the procedures for recovering and/or moving the computer operations function and provide alternate manual procedures for the various

user departments to continue processing in the event of extended computer downtime or natural disaster.

❑ ***The Library does not have a formal plan for recovering the computer operations functions in the event of a disaster***

Lack of documented procedures increases the risk that the organization will not be capable of full recovery in the event of a disaster, resulting in loss of data. Currently, the Library has a disaster recovery plan, in draft form, that outlines general procedures in the event of a disaster.

Recommendations:

We recommend the development of a comprehensive business recovery plan that will assist with continuation and rapid recovery of business operations after an emergency or disaster. The realization of this objective depends on the accomplishment of the following four project goals:

- Development of business recovery requirements that define the business risks and recovery time frames.
- Formulation and selection of cost-effective (commensurate with business risks) recovery strategies to address short- and long-term interruptions.
- Development of a detailed business recovery plan addressing personnel, recovery resources, and recovery actions. Specifically, this objective covers the identification of individuals responsible for managing and performing the recovery process, definition and assignment of team members' responsibilities, identification of key technical and non-technical resources, and development of detailed restoration procedures.
- Testing of the business recovery plan to evaluate different components of the plan, identify problems, and implement solutions.

Condition 6: **Procedures and Controls Over Cash Handling, Check Processing and Certain Disbursing Office Responsibilities Need Improvement**

During our walkthrough of the controls surrounding cash receipts in various areas of the Library, we identified certain weaknesses in the controls surrounding the cash receipts processing. These weaknesses were also identified by another accounting firm engaged by the Inspector General. Specifically, the following weaknesses were noted:

- cash receipts are not adequately safeguarded (i.e., lack of locked storage facilities);
- incompatible duties are not properly segregated (i.e., in the Disbursing Office);

- certain procedures ensuring appropriate control of cash receipts are not maintained (i.e., accountability, restrictive endorsement, mail logs);
- written policies and procedures are incomplete; and
- reconciliations of cash receipts are not performed on a routine basis.

Recommendations:

Weaknesses in the control structure of cash receipts leaves open the opportunity for misplacement or misappropriation of receipts, and the possible inability to identify if a loss even occurred and if it did, the cause or source of the loss. Formal documented procedures to process cash receipts can prevent difficulties in performing duties due to lack of understanding or inconsistent approaches, especially due to personnel changes. Furthermore, reconciliations are necessary to ensure the integrity of the Library's financial records.

We recommend that the Library of Congress take immediate corrective action for the findings identified during our review of cash receipts, as well as well as any additional findings identified by the other accounting firm. The Library should develop a systematic plan to address the control weaknesses, with an emphasis on the more significant findings (i.e., reconciliations, documented procedures, locked storage), including a time frame for expected completion.

We further recommend that certain responsibilities, over processing of cash receipts, preparing reconciliations, and making disbursements, be appropriately segregated within the Disbursing Office in order to adequately safeguard assets of the Library.

Condition 7: **Trust Fund Accounting and Investing Are Not Subject to Sufficient Review and Oversight to Prevent Misclassification of Funds and to Ensure That Investments Comply with Legal Requirements**

Accounting for trust fund investments and fund balance is not subject to sufficient review and oversight to prevent misclassification of funds as restricted or unrestricted and to ensure that investments comply with legal requirements. The Library's investment management analyst's accounting and investment functions have not been subject to timely review by general counsel or others, such as fund managers, who may be familiar with the legal terms of the trust fund instruments and the legal restrictions governing fund investments. Though the Library provides fund managers access to Status of Funds reports depicting fund spending during the year, during fiscal 1995 there were no formal periodic reports showing how fund balance is classified or how fund assets are invested, save for the annual report to the Trust Fund Board. For fiscal 1995, this annual report has not yet been prepared. In fiscal 1996, the Library will be issuing to trust fund managers reports showing the investments of the funds, but these reports will not indicate if fund balances are restricted or unrestricted.

This lack of timely, knowledgeable oversight of trust fund investing and accounting exposes the Library to the risks that it could misclassify fund balances or make investments that violate legal restrictions on them. During our audit we identified one instance of an improper investment, which was reported as a finding of noncompliance with selected laws and regulations on page 6-6 of our report. We also identified four instances where unrestricted funds were misclassified as restricted when the Library converted from its old financial management system to a new one in fiscal 1995. The investment management analyst decided whether individual trust fund balances would be established as restricted or unrestricted in the new general ledger. The analyst consulted with accountants in the Financial Services Directorate, but the decisions were not reviewed by general counsel or others knowledgeable of the provisions of the trusts. Restricted fund balances represent investment principal that, per the terms of the trusts, may not be spent. Unrestricted fund balances represent investment principal that may be spent for the purposes for which the trusts had been established. We found that the investment management analyst had misclassified four trust fund balances as restricted, when the terms of those trusts permit the Library to spend investment principal. If these misclassifications had remained undetected, the Library may have missed opportunities to use available funds to fulfill the purposes of these trusts. Because of these misclassifications, we expanded our testing to review all funds that were classified as unrestricted in the general ledger to determine whether the Library was at risk of spending moneys that trust instruments actually required to be invested permanently. We found that trust documents related to all of these funds supported their classification as unrestricted.

In performing our audit we found that financial and legal documents related to the trust funds are maintained in various locations throughout the Library. This fragmentation of responsibility for maintaining these documents may have contributed to the conditions we noted above. We also found that the account structure set up in the Library's new general ledger does not enable the Library to separately track the portion of trust fund balance attributable to cumulative dividend and interest income, which may be spent, and the portion attributable to capital gains on restricted trust fund investments, which may not be spent. This may make it more difficult for the various trust fund managers to determine amounts available to be spent when they formulate their budgets for the trust funds.

Recommendations:

The coding in the general ledger should be enhanced so it can track earnings which may be available to be spent in the future separately from gains that increase restricted fund balances.

To ensure that all trust funds and the cumulative earnings on their investments are properly classified within the Library's records, procedures should be established requiring formal documentation evidencing legal counsel's determination regarding the classification of all significant trust donations as restricted or unrestricted. Given the fund categorization exceptions identified above, we recommend that legal counsel review all trust funds, currently held by the Library, for propriety and accuracy of fund categorization as either unrestricted or restricted. That review should also include a formal redetermination of

whether or not the trust instruments and applicable laws permit the spending of capital gains earned on the investment of those funds. These reviews should serve as the basis for classifying each fund balance in the general ledger and for tracking the earnings of the funds in the general ledger. The results of those reviews should be documented and retained by general counsel, FSD, and the fund managers of each trust fund to ensure that they conduct their activities consistent with the intent of each trust. Accounting for future gifts to the Library's trust funds should be supported by clear, written communication from the Library's legal counsel concerning whether acceptance of the gift has been approved by both the Trust Fund Board and the Joint Committee on the Library and whether the principal of the gift is restricted or unrestricted.

To enable FSD management, legal counsel, and fund managers to determine that the accounting for the trust funds is consistent with legal determinations about restrictions on the investment and use of those funds, FSD should prepare financial statements, including a balance sheet and operating statement, for each significant fund at least quarterly. These financial statements would provide a basis for reviewing the actions of the investment management analyst. The routine preparation of these statements would facilitate preparation of the annual report for the Trust Fund Board.

Purpose of the Library Missions/Service Unit Diagram

The Library of Congress is a complex organization. Its name does not project this complexity. The accompanying diagram is a graphical display of the various units that are involved in fulfilling the missions of the Library. This display has three sets of components. First there are the "Service Delivery Components", comprised of those units that directly interact with the "Customers" and, in the case of the Library's Collections, are the custodians and protectors of those Collections. Next there are the "Service Support Components" which directly support and/or supervise the service delivery components. Lastly, there are the "Institution Support Components" which provide overall direction, administrative support, and facilities and protection to the Library. The diagram is not intended to be an organizational diagram of the Library, nor is it intended to be a highlight diagram solely of Library functions. Rather, it is intended to be an overview and aid to portray the customers, missions, services, and service units of the Library. Accordingly, the diagram does not include every facet of the Library; however, it does display the more significant components of the Library.

We have developed the Library of Congress Missions/Service Unit Diagram, with the assistance of the Library, to:

1. Capture in a "snapshot" the complexity of the Library, to emphasize that the Library is much more than books and documents on shelves.

2. Display where the Library resources are expended and to associate those expenditures with the Library's components.

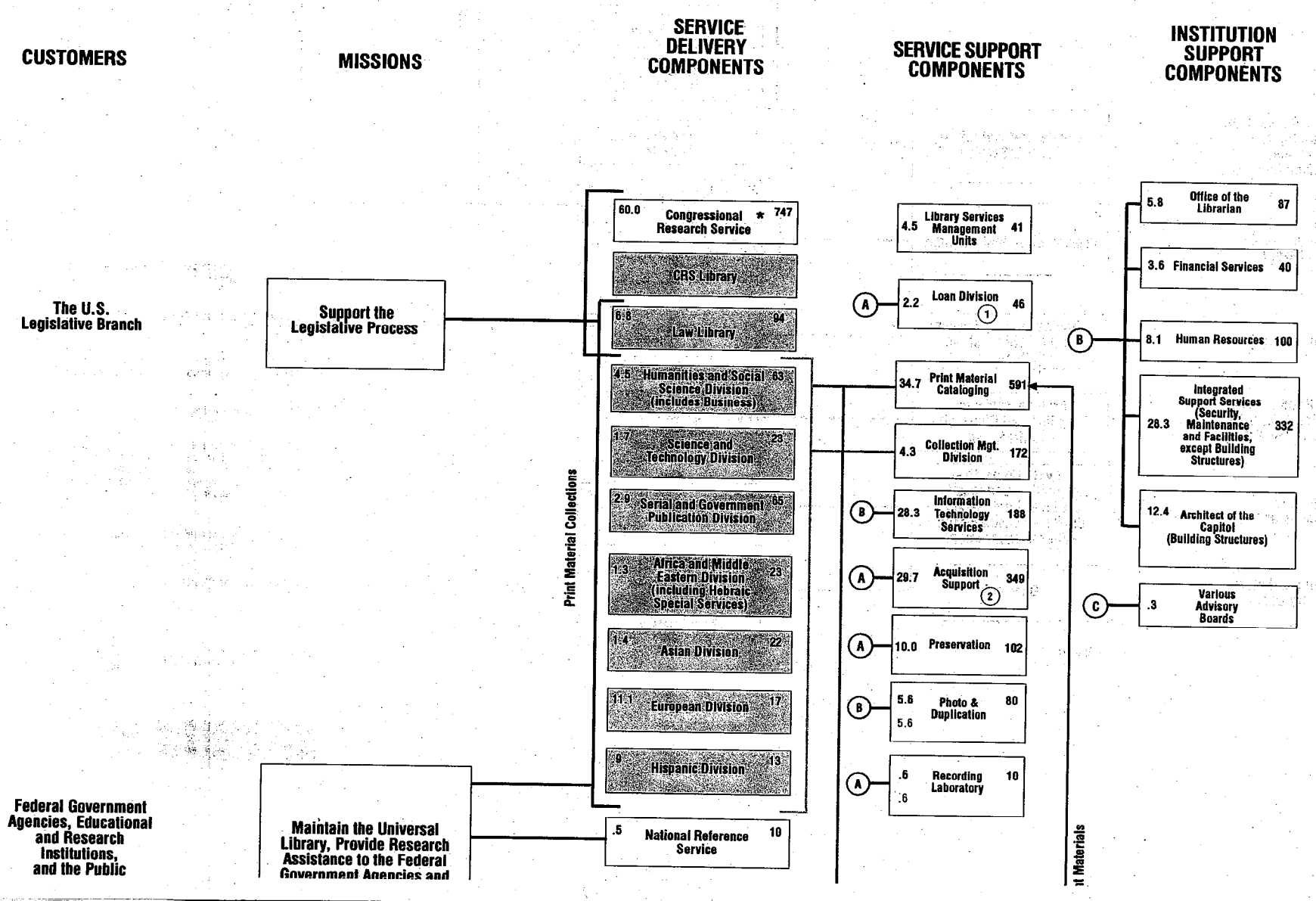
3. Assist with the tough day-to-day decision making of the Library and others in the allocation of resources and selection of missions.

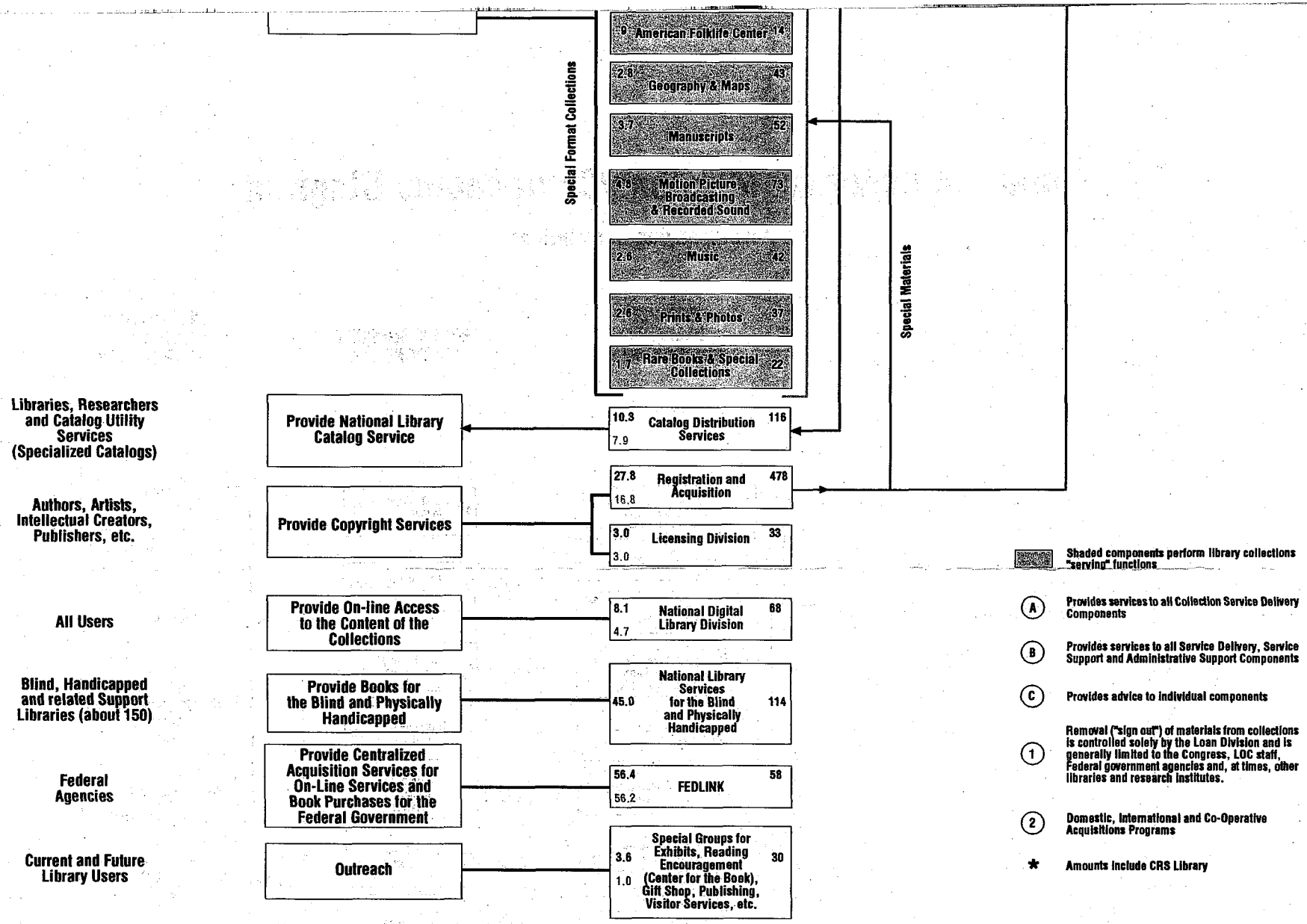
4. Stimulate development, implementation and use of activity-based costing, programmatic costing, performance reporting, and similar techniques within the Library, where appropriate, in the budgeting, internal analysis, and internal and external reporting functions of the Library.

The information in each of the "component" boxes includes the organizational title of the component, the 1996 expenditure budget for the component (in the left portion of the box - black figures are the components' gross expenditure budget, blue figures are the offsetting reimbursements/gifts budget, and red figures are the customer fees budget) and the 1996 FTE budgets (the right portion of the box). These figures, in some cases, do not agree to budget submissions and internal and external reports because certain non-salary expenditures have been allocated to units for this diagram that are budgeted and/or reported in the aggregate for these other purposes. Also the budgeted expenditure and offsetting collection and fee data do not represent the "cost" of the activity because activities in other components that support any one activity are not attributed to it, i.e., fully allocated cost accounting is not performed in the budget. The 1996 budget information presented in this Exhibit has not been subjected to the auditing procedures applied in the audit of the Consolidated Statement of Financial Position, and, accordingly, we express no opinion on it.

Library of Congress Missions/Components Diagram

(See Accompanying Description)




Special Format Collections
9 American Folklife Center 14
2.8 Geography & Maps 43
3.7 Manuscripts 52
4.8 Motion Picture & Broadcasting & Recorded Sound 73
2.6 Music 42
2.6 Prints & Photos 37
1.7 Rare Books & Special Collections 22
Special Materials
Libraries, Researchers and Catalog Utility Services (Specialized Catalogs)
Provide National Library Catalog Service
10.3 7.9 Catalog Distribution Services 116
Authors, Artists, Intellectual Creators, Publishers, etc.
Provide Copyright Services
27.8 16.8 Registration and Acquisition 478
3.0 3.0 Licensing Division 33
All Users
Provide On-line Access to the Content of the Collections
8.1 4.7 National Digital Library Division 68
Blind, Handicapped and related Support Libraries (about 150)
Provide Books for the Blind and Physically Handicapped
45.0 National Library Services for the Blind and Physically Handicapped 114
Federal Agencies
Provide Centralized Acquisition Services for On-Line Services and Book Purchases for the Federal Government
56.4 56.2 FEDLINK 58
Current and Future Library Users
Outreach
3.6 1.0 Special Groups for Exhibits, Reading Encouragement (Center for the Book), Gift Shop, Publishing, Visitor Services, etc. 30
Shaded components perform library collections "serving" functions
A Provides services to all Collection Service Delivery Components
B Provides services to all Service Delivery, Service Support and Administrative Support Components
C Provides advice to individual components
1 Removal ("sign out") of materials from collections is controlled solely by the Loan Division and is generally limited to the Congress, LOC staff, Federal government agencies and, at times, other libraries and research institutes.
2 Domestic, International and Co-Operative Acquisitions Programs
* Amounts include CRS Library
02300001.fh5
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Report of Independent Accountants on Management's Assertion About The Effectiveness of Internal Controls Over Safeguarding Collection Assets

Comptroller General of the United States:

We have examined management's assertion that it cannot provide reasonable assurance that the Library of Congress' internal control structure over safeguarding of collection assets against unauthorized acquisition, use, or disposition was generally effective as of September 30, 1995, which is presented at page 5-4.

Our examination was made in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and with standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the internal control structure over safeguarding of collection assets, testing, and evaluating the design and operating effectiveness of the internal control structure, and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in internal controls, unauthorized acquisition, use, or disposition of collection assets may occur and not be detected. Also, projections of any evaluation of internal controls over safeguarding of collection assets to future periods are subject to the risk that internal controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This report is presented in five sections. Following this introduction is a discussion of the criteria the Library applied in preparing its assertion and that we applied in examining it; our opinion on the Library's assertion; an identification of significant weaknesses in internal controls; and our recommendations for correcting those weaknesses.

The Library's Assertion About Safeguarding Controls and Criteria Applied

The Library of Congress is not required by law or regulation to do an assessment of its controls for safeguarding the collection assets. In response to the needs of this audit, the Library has elected to prepare an assertion about the effectiveness of these controls using four criteria for assessing its controls:

- Bibliographical controls, which include cataloguing, archival processing, and arrearage reduction.

- Preservation controls, which include use of surrogates (digital, microform, service copies of audiovisual materials); collections care programs; disaster preparedness; Top Treasures security; de-acidification; conservation of individual items; preservation treatment of processed items; preservation research and testing program to define actions for deacidification, storage, audio preservation, and studies of longevity of new digital media; and Congressionally mandated preservation programs such as the National Film Preservation Board and American Television and Radio Archive.

- Inventory controls, which include the automated circulation control system; manual shelf lists; finding aids and other detailed descriptions; and registry of items lent for exhibition.

- Physical security controls, which include perimeter security (theft detection devices); stacks closed to the public; reader registration; security in reading rooms (cameras, police patrols, etc.); caging high risk collections; piece level inventory control; secured loan stations.

The criteria the Library has elected to use is narrower than such established internal control criteria as the *"Internal Control - Integrated Framework,"* issued by the Committee of Sponsoring Organizations of the Treadway Commission or Office of Management and Budget (OMB) Circular A-123, *Management Accountability and Control.*

For purposes of assessing the Library's assertion, we applied not only the Library's criteria, but also the internal control criteria established in the *Internal Control - Integrated Framework,* issued by the Committee of Sponsoring Organizations of the Treadway Commission.[1] Among the elements of internal control presented in the *Integrated Framework* is *control activities,* which encompasses the types of controls included in the Library's criteria. The *Integrated Framework* also includes the following elements of internal control, which we believe should be considered to make a comprehensive assessment of whether the Library's assertion about the effectiveness of its controls is fairly stated:

[1] In performing our work, we also considered criteria established by the American Library Association's Association of College and Research Libraries (ACRL), the American Association of Museums (AAM), and the Society of American Archivists (SAA). Though the Library has informed us that it has not adopted the standards or guidelines of these organizations, we nonetheless consider them to be useful in making the broad control concepts stated in the *Internal Control - Integrated Framework* more specific in the context of the Library's operations and as a guide for examining the criteria applied by the Library in preparing its assertion.

- Risk assessment - Assessing the risk of unauthorized acquisition, use or disposition of the collection.

- Control environment - The control environment sets the tone of an organization, influencing the control consciousness of its people.

- Information and communications - Making available to management the information it needs to carry out its responsibilities related to prevention or timely detection of such unauthorized activities.

- Monitoring - Mechanisms to enable management to monitor the continued effective operation of such controls.

In applying these criteria, we adapted the *Internal Control-Integrated Framework's* definition of internal controls over safeguarding assets to fit the Library's circumstances as follows:

> *"Internal control over the safeguarding of collections against unauthorized acquisition, use or disposition is a process, effected by the Library's management and other personnel, designed to provide reasonable assurance that the risk of unanticipated loss (theft, mutilation, destruction, or misplacement) of collection items of significant market value, cultural or historical importance, or significant information value is reduced to an acceptable level."*

Applying this definition, as well as the Library's criteria and that contained in the *Internal Control - Integrated Framework*, we determined that a weakness in safeguarding controls is significant enough that it should be included in the Library's assertion if it results in either:

- significant risk of unanticipated loss (theft, mutilation, destruction, or misplacement) of collection items of significant market value, cultural or historical importance, or significant information value or

- significant risk that senior Library management does not have sufficient information about the extent to which the Library's objectives concerning the safeguarding of the collections are being achieved.

Opinion on Management's Assertion

The Library has not completed a comprehensive risk assessment and collection security plan to identify the risks to the collection, the proposed or established control activities to address the risks, the required management information it needs to carry out its responsibilities, and the methods by which management will monitor the effectiveness of the established control

procedures. Nor does the Library have effective mechanisms in place to monitor whether staff responsible for safeguarding collections are meeting their objectives, as currently defined. Until it has performed a risk assessment, implemented a comprehensive security plan, and established mechanisms to monitor the implementation of that plan, Library management will not have reasonable assurance that the risk of unanticipated loss (theft, mutilation, destruction, or misplacement) of collection items of significant market value, cultural or historical importance, or information content is reduced to an acceptable level.

In its assertion, management describes a number of significant weaknesses in preservation controls, inventory controls, and physical security controls over collection assets as of September 30, 1995. These are presented below under "Significant Weaknesses in Internal Control." The assertion also describes initiatives the Library has undertaken since September 30, 1995, to remedy some of these weaknesses. These initiatives have not been in operation for a sufficient period of time to enable us to obtain sufficient evidence for us to assess their operating effectiveness. Further, the absence of a comprehensive risk assessment and security plan and of effective monitoring mechanisms precluded us from determining if the Library's identification of significant deficiencies in control activities is complete.

In our opinion, management's assertion that, as a result of the weaknesses in controls described in its report, it cannot provide reasonable assurance that the internal control structure over safeguarding collection assets against unauthorized acquisition, use, or disposition, was generally effective at September 30, 1995, is fairly stated based upon the criteria stated above. With its assertion, management stated its belief about the relationship between the benefits of continued reading room service to the research community and public and the potential losses of collection assets that could result from providing that service. We do not express an opinion or any other form of assurance on that statement.

Significant Weaknesses in Internal Control

- **No Comprehensive Collection Security Plan or Formal Risk Assessment**

  The Library does not have a comprehensive risk assessment which identifies the risks to the collection, the proposed or established control activities to address the risks, the required management information it needs to carry out its responsibilities, and the methods by which management will monitor the effectiveness of the established control procedures. The Library issued Library of Congress Regulation (LCR) 610-2, Security of the Collections: Use, on November 22, 1995. This LCR, which identifies that the chiefs of the custodial divisions are responsible for the security of their collections, does not provide guidance on how to secure the collection, the process by which the chiefs will be rated on effectiveness of their security measures, or a definition of how much security is acceptable (i.e., how secure the collection has to be). As a result of not

having a formal risk assessment, the Library does not have a comprehensive collection security plan to address the vulnerabilities associated with the safeguarding of the collection. However, the Library has taken a number of recent initiatives, which may provide it the basis for compiling a risk assessment and preparing a security plan. Among these are:

- The Acting Director of the Public Service Collections Directorate issued a request on November 30, 1995, to the chiefs of six custodial divisions "to assess the collections under your control for their vulnerability to theft and damage and to recommend remedies for improvement." All six division chiefs identified security concerns in their responses. Examples of these are discussed below, under "Incomplete Control Activities."

- The Library hired a contractor to perform a security assessment of the three major Library buildings (Madison, Adams, Jefferson) and the Landover annex, an assessment of police operations related to collections security, and an assessment of security awareness among Library staff. These assessments are scheduled to be completed in May 1996. The Library is not planning to implement additional security initiatives until the contractor issues its final report.

- **Weak Control Environment**

The Library's control environment has not been conducive to effective security over the collections. Securing the collections has traditionally been less important than being able to serve them to users; weaknesses in controls over storage areas offer temptations to employees who have access to valuable items; and the Library has not set minimum acceptable standards of security.

Historically, the Library's culture has been oriented more toward the acquisition and use of collection items than toward safeguarding them. In October 1995, the Library adopted a new mission statement, which articulated a shift in these priorities. This new mission statement sets collection security ("to acquire, secure, and preserve the collections") as a higher priority than serving the collection to the public. Considerable effort over a long period of time will be necessary to get the culture of the Library to change to accept this new ordering of priorities. Further, these priorities must be accepted by support services staff as well as those who work directly with the collections. Several custodial chiefs reported that support services within the Library often set their priorities and perform their work without sufficient regard for the importance of securing the collection. For example, the chief of one Library division stated that the "reconfiguration of the reference desk is a top priority" to enhance the security of the reading room. However, the effort to redesign the reference desk was

"abandoned when resources for the redesign were directed to the renovation of the cafeteria." Other custodial chiefs cited instances where custodial and maintenance staff left doors to storage areas propped open.

During its testimony before the Joint Committee on the Library on November 29, 1995, a representative of the contractor performing the Library's security assessment stated that "the greatest threat [to the collection] is an internal threat." As discussed in the *Internal Control - Integrated Framework*, weaknesses in the control environment can result in employees engaging in dishonest, illegal, or unethical acts simply because their organization gives them strong "temptations" to do so. Nonexistent or ineffective controls can offer temptations to steal. Several custodial divisions identified areas where weaknesses in the controls over storage areas exist. For example, employees may bring bags and other personal belongings into storage areas and may leave the storage area unobserved through back doors, which are not alarmed. In one storage area items of great value are kept on open shelves. A single camera is installed in this area, and it is focused on only one side of the room. Someone familiar with the layout of this room could easily avoid observation by this camera. As a result of these weaknesses, Library of Congress staff could remove valuable collection items without authorization or detection.

The Library does not have established, documented guidelines or standards for how various collection items are to be secured. LCR 610-2 states that custodial chiefs may vary security measures according to the quality, monetary value, replaceability, fragility, or other special or unusual conditions relating to the materials concerned. However, it does not define what the minimum acceptable level of security should be. Consultation with the published professional guidelines, statements, and standards issued by the ACRL, the SAA, and the AAM could help identify a framework of what the Library's own standards should be.

- **Incomplete Control Activities**

In its assertion, management describes a number of significant weaknesses in preservation controls, inventory controls, and physical security controls over collection assets as of September 30, 1995. These are presented below. Management also describes initiatives the Library has undertaken since September 30, 1995, to remedy some of these weaknesses. These initiatives have not been in operation for a sufficient period of time to enable us to obtain sufficient evidence to assess their operating effectiveness.

Preservation controls: The Library has inadequate temperature and humidity control in collections storage areas; inadequate space for appropriate storage of collections materials; insufficient space for reformatting acetate negative collections materials.

Inventory controls: The 12 million card shelf list exists in manual form only, which prevents the Library from having an easily updatable tracking system for the exact location of any given catalogued item.

Physical security controls:

- The Library does not have a permanent expert staff charged solely and specifically with responsibility for the security program.
- Perimeter security is not complete:
  - Adams Building book stacks lack physical barriers to entry.
  - Madison Building loading dock is inadequately supervised and unauthorized entry is possible.
  - Landover Center Annex has poor control over collections because of absence of accountability for items removed, inadequate procedural controls, several inoperative alarms, and inadequate police staff.
- There is inadequate control over collections removed from storage areas for use in the Library, both in-process materials and those used by Library staff.
- Not all materials bear Library of Congress ownership markings.
- Not all bound materials have theft detection targets.
- There is insufficient video camera surveillance of the reading rooms, and many reading rooms have insufficient controls over bringing personal belongings into them, poor sight lines that allow patrons to hide their activities from a librarian's view, and inadequately controlled exits.
- The Library has insufficient police staff to provide a visible effective deterrent presence in collection storage areas, book stacks, reading rooms, and throughout the Library's buildings.

- There is inadequate protection of the buildings and collections from terrorist attacks: no barriers to prevent vehicles with bombs from approaching; insufficient police patrols of the exteriors of Library buildings; video surveillance of exterior is limited; and inspections of people entering the buildings do not meet Federal guidelines.

  Custodial chiefs' responses to the Library's security survey underscore the concerns about security in reading rooms and storage areas identified in the Library's assertion:

  - "There are many inadequately secured treasures in the ... materials storage areas. Priceless treasures are now stored on open shelves. Because of the size and configuration of the area control via security cameras could likely never be adequate. The doors are locked, but the room must be accessed constantly to serve readers. We have on several occasions found a door propped open by people doing work in the area."

  - "Our limited staff alone cannot provide the desired level of security."

  - "There is insufficient oversight of patrons in the reading room...An enormous amount of valuable and fragile material is served to readers, often in the context of unacceptably high reader-to-staff ratios."

  - "Our staff of 2 librarians and a half time technician cannot adequately monitor the reading room. Add to this the fact that there are many blind spots in the room and it is evident that it would not be difficult for a determined thief to walk out with a[n item] from the collection."

  - "We need to fill current vacancies in the ... reading room to perform the following security measures: limit number of items provided to readers; examine content of ... folders before use; and check content of folders after use and before release of the reader."

In addition, we noted the following areas where effective controls were not established.

- The Library has item level control over its book collections, but many items in the special collections are not subject to item level control. Our visits to a sample of the special format collections indicated that a significant portion of these collections, including the materials in the Geography and Map Division, the Prints and Photographs Division, the Music Division, and the Manuscripts Division, are not item-level

controlled. The format of many of the collections makes the cost of item level control prohibitive.

- The Library does not conduct periodic physical inventories on a majority of its collection. While a 100% physical inventory would not be practical or cost beneficial, the Library should develop procedures to adequately segregate high value and irreplaceable items, and it should count or inspect those items periodically.

- The Library staff are not subjected to the same security procedures as the public. Staff are not precluded from bringing bags or coats into storage areas, and could use those items to conceal materials being taken. Also, staff can enter and leave storage areas from several doors, increasing the risk that unauthorized use of materials could go undetected. Although the Library has to rely on the integrity of its staff, establishing control procedures relating to Library employees acts as a deterrent to unauthorized activities.

- **Lack of Effective Management Information and Monitoring**

The Library does not have effective mechanisms in place to monitor whether staff responsible for safeguarding collections are meeting their objectives. The gathering of information about possibly missing or mutilated items has not been routine or systematic. Recent initiatives to improve the quality and completeness of that information include the establishment in August 1995 of a policy requiring the Library of Congress Police to report all suspected thefts and mutilations to the Office of Inspector General, which is to forward those reports to the U.S. Attorney, and a request in February 1996 that each custodial chief compile complete listings of all items known to be "missing" for at least thirty days. That listing is being reviewed to determine whether items should be found through special searching efforts, whether they can and should be replaced, and what additional safeguards should be implemented.

We also found that security objectives were not consistently included in the annual performance plans of the custodial chiefs and in the annual reports prepared by the custodial divisions. We reviewed performance plans for the chiefs of ten custodial divisions and found that only four included security objectives that appeared to be specific and measurable (such as, "implement mandatory use of lockers"); two had more general security goals ("secure and serve the Library's special collections"); while four made no reference to security in their performance plans. Similarly, annual reports for the custodial divisions varied in the extent to which they addressed security, if at all.

These reports were limited in their usefulness as a management tool, because they did not compare goals and results.

Recommendations

The Library should prepare a formal risk assessment and a comprehensive security plan.

A representative of the contractor performing the Library's security assessment made the following statement during testimony before the Joint Committee on the Library on November 29, 1995:

> "The Library needs to identify the full breadth and depth of its security problems. It then needs to establish realistic security objectives based on its dual missions -availability and security - and a security strategy to broadly address how much risk is acceptable."

The challenge the Library faces in safeguarding its collections is perhaps unique among federal agencies: its principal assets are items that acquire their value from being accessed and used. Thus, fulfillment of the Library's mission to provide maximum access to its collections is, to a degree, at odds with safeguarding those assets, because it exposes them to the risk of loss, mutilation, and damage. The Library's efforts to safeguard its assets must continually be balanced with its mission to make those assets available to the Congress, researchers, and the general public. The Library has recognized that safeguarding its collections enables it to continue to provide service both to current and future users, by affirming in its mission statement that securing the collections is a higher priority than making them accessible.

However, the Library faces several significant constraints which have and will continue to impact its ability to effectively secure and serve its collection. Among these constraints are:

- **The Library's facilities.** Security and preservation of the collection were not primary concerns when the Library's facilities were constructed. Thus, the layouts of the storage and reading rooms were not designed with an emphasis on security and preservation. This is best illustrated by the fact that the Library has identified the need to reconfigure several of the reading rooms to enhance security. Additionally, the layout of the storage areas within the buildings makes it difficult for the Library to obtain ideal environmental conditions.

- **Size of the Collection.** The sheer size of the Library's collection makes storage and maintenance a difficult task. The Library acknowledges that it has made a conscious decision to run the risk that, in sustaining a comprehensive collection, its rate of accumulation of items might outstrip its ability to preserve, secure and gain bibliographical control of these items in a timely fashion.

- **Type of Collection Material.** Not only is the Library constrained by the quantity of material in its collection, it is also affected by the type of material making up the collection. The format/shape of the material (i.e. posters, photographs, maps, loose manuscript leaves) and the physical composition of the item affect the Library's ability to safeguard the collection. For instance, the Library must incur costs to deacidify acid-based paper collection items and store potentially dangerous nitrate-based films and negatives. Thus, the Library needs to purchase or develop special storage devices and preservation technologies suitable for the Library's immense quantity and variety of items.

- **Budgetary resources.** While the Library's collection continues to grow every year, its budget resources are unlikely to keep pace. Therefore, the Library will have to make decisions on the most effective and efficient manner to spend its limited funds (i.e., balance serving the materials to users while maintaining cost-beneficial security measures.)

- **Customer demands.** The Library is constrained by the service demands of Congress, researchers, and the general public because it must consider the impact of controls on service response time. Since service to the Congress and the research community are integral parts of the Library's mission, the Library must consider the effect stricter controls may have on the time it takes to process a request for material. This is illustrated by the item level pilot inspection program, which was designed to increase the security over the collection items being served to the public by requiring Library staff to count the material before and after it has been served to a patron. The Library received several comments from researchers that the program significantly delayed their research. Therefore, the Library will not implement item level inspections using the approach it tested; rather, it will develop new models for this program. The demands for service are immediate, visible, and Library staff may find that providing service to users is more rewarding professionally than is taking security measures. It is because of these demands that staff might lose sight of the balance that must be maintained between service and security. To overcome this tendency, we believe it is necessary that security responsibilities be defined in a concrete and measurable way and that the performance of those responsibilities be regularly monitored.

These constraints present the Library with a difficult challenge: provide adequate service to the Congress, researchers, and the general public while reasonably assuring that the collection is protected against unauthorized acquisition, use, or disposition. In order to achieve this balance, the Library must first determine what it considers to be reasonable assurance. A key element of reasonable assurance is a reviewed and approved risk assessment with a corresponding comprehensive security plan. Although the Library does have a security plan in place (The *Plan for Enhancing Collections Security*), Library managers we interviewed do not consider it to be a

comprehensive strategy to address all the risks to the collection. Rather, the *Plan for Enhancing Collections Security* is more of an action plan for specific problems that have arisen. Expanding on the foundation laid by this plan, we recommend that the Library prepare a comprehensive risk assessment with an accompanying strategy to reduce the risks to the collection to an acceptable level. Specifically, we recommend the following:

- The Library should establish clear lines of authority and responsibility for securing the collections, as well as mechanisms to hold individuals accountable for results. It should allocate sufficient resources to securing the collections, so that in a reasonable period of time they can be secured.

- As the Library formulates its risk assessment and security plan, it should coordinate with all parties that are essential to its success. These include the Library's Internal Support Services (ISS), its Information Technology Services (ITS), its labor unions, the Architect of the Capitol (AOC) and the Office of Inspector General (OIG). Involving ISS and ITS would help ensure that those offices will appropriately consider the importance of securing the collections in performing their services. Because changes in controls over safeguarding the Library's collections likely will affect working procedures in the Library, it would be important to have the Library's labor unions involved in establishing these controls. The unions did participate in evaluating the recent pilot project on item level counting and inspection of items served in the reading rooms. Having AOC participation would help assure that the AOC staff are sensitive to the security needs of their Library customers. Having OIG participation would help the IG effectively monitor the implementation of security plans, but, to preserve independence, the OIG should not participate in management decision making.

- The Library should identify all significant risks to its collections. This includes the risk of unauthorized acquisition or disposal of collection material as well as theft, mutilation, and deterioration (from inadequate storage or natural deterioration). It should be noted that the custodial divisions with special format collections have already documented security assessments. Although we understand that these risks are best identified by the custodial divisions and Protective Services, it is important to include support divisions in the assessment process. This will highlight that the custodial divisions alone cannot safeguard the collection without the important assistance of the support units. We believe that the risk assessments should address at least three sources of risk to the collections: the Library's employees, non-employees, and the physical environment. We also believe that the Library should use the ACRL, AAM, and SAA literature as a framework for conducting its risk assessment. The Library's Preservation Directorate has developed plans for comprehensively assessing risks of physical degradation. The Library could adapt these plans to address more broadly the risks facing the collections. As observed in the *Internal Control - Integrated Framework*, "Managements must focus

carefully on risks at all levels of the entity and take the necessary actions to manage them. It is important that risk identification be comprehensive."

- The risk assessment should include items in process in the Copyright Office. In-process copyright deposits represent potential additions to the collections. They may be selected for inclusion in the collections, or they may be offered to other libraries in exchange for items that will be added to the collections. We observed a number of weaknesses in securing in-process deposits. For example, unopened mail that may contain valuable books, compact disks, or software is not secured; and the copyright office does not measure possible losses of deposit items through its processes.

- In assessing risk associated with various items in its collection, the Library should assess the information value of the items, their potential market value, the likelihood of being able to replace the items, the threats to that item, and the base of customers likely to use those items. We do not believe it would be practicable to perform a monetary appraisal of the collection. Still, it is important to have a sense of the relative value of groups of items in the collections, so security measures appropriate to those items can be implemented.

- In preparing the assessment, the Library should leverage the relevant information that already exists within the Library, such as its own security surveys and the planning done by the Preservation Directorate. It should also use information obtained from the Library's contractor's security review, from the management review of the Library that GAO has contracted for, and from our examination. This will reduce the amount of resources required to gather information and prepare the assessment.

- Once all the risks have been identified, the Library should determine what controls are in place to mitigate these risks. This will allow the Library to identify areas which are considered vulnerable. An important aspect of this process is to quantify the costs associated with mitigating vulnerabilities. Therefore, as the Library identifies weaknesses in the control structure, the cost associated with addressing these weaknesses should also be estimated. As discussed below, those costs should include personnel costs, investments in equipment, systems, and facilities, and opportunity costs in terms of reduced service.

- The Library should prepare a comprehensive plan to address the weaknesses in the control structure. This plan should include the options available to the Library, the costs to implement specific control procedures, and the proposed initiatives. The Library should consider providing a copy of the plan to the Library's Congressional Oversight Committees to obtain Congressional support for the decisions made to safeguard the

collection. Additionally, the Library should involve the AOC in any initiative that involves or impacts the AOC.

- The Library should ensure that all aspects of the assessment and the plan are documented. This documentation is essential if the Library is to ensure proper monitoring of the plan. Specifically, the initiatives should be incorporated into the performance plans of the applicable Library personnel. This would highlight the importance of the plan and tie performance appraisals to plan execution. We also recommend that the Library establish regular reporting requirements related to the plan and to security. Examples might include monthly reports of potential thefts or mutilations; results of physical inventories performed of high risk items (such-as the "18 treasures"); and preservation statistics which highlight the number of items treated, the backlog of untreated items, and timetables for completing treatment.

- By issuing a stewardship report on its collections, together with a management assertion about internal controls over the safeguarding of its collections, the Library has become one of the first, if not the first, federal agency to provide such full accountability for its heritage assets. The Library should continue to issue these reports annually and to have its assertion on controls over the collections subject to validation by the Inspector General or an external independent auditor. Annual reporting on its controls would provide the Library a mechanism for regularly updating its risk assessment.

In establishing a comprehensive plan for safeguarding its collections, the Library must weigh the costs and potential benefits of safeguarding controls. As noted above, the Library is subject to a number of constraints on the financial, human, and infrastructure resources it can dedicate to safeguarding its collections. In determining whether it should establish a particular control, the Library should weigh the risk of failure and the potential effect that failure would have on the Library along with the cost of establishing a new control. It is appropriate that the degree of control may vary with the relative "value" of the items in the collections. Few items should warrant the extensive security the Library has provided for its 18 Treasures (such as original drafts of the Gettysburg Address). The Library should, however, define and apply specific standards of care (in terms of risks that are acceptable and costs of mitigating them) to reasonably assure itself that risks from the following sources are reduced to an acceptable level:

- *Risks from users* would be effectively controlled when the Library can tell what it served to them and what they gave back; when reading rooms are under reasonable level of surveillance and users know they are being watched; when the Library knows who its users are; when the Library limits what users bring into the reading rooms and knows what they take out.

- *Risks from staff* would be effectively controlled when the Library can be sure that only those with need to be there have access to the collections; when the Library has identified its most at risk collections and has secured them in a way that it knows who went in and out of its secured areas; when it has established procedures for periodic counting of key items in the collections; when staff are precluded from bringing bags and other personal items into storage areas; when it has reduced the number of non-emergency exits from collection areas; when it has regular reporting, tracking, and follow up of missing items; when it has established a coordinated approach to access by its own maintenance personnel and those of the Architect of the Capitol; and when it has sufficient surveillance cameras in areas where high value items are stored.

- *Risks from environment* would be effectively controlled when the Library has determined that high value, irreplaceable, items have been placed out of harm's way from fire and water damage in the building, and that its preservation program is targeting and treating its highest priority items in a timely fashion.

The *Internal Control - Integrated Framework* notes that cost and benefit measures for implementing controls are done with different levels of precision. All direct costs of instituting a control and indirect costs where practically measurable are usually considered. Some entities also include opportunity costs, and the Library may well want to consider reductions in service levels as an opportunity cost incurred in providing increased safeguarding controls over its collections. This was an explicit consideration in assessing the results of the recent pilot test of performing item counts and inspections before serving materials in selected reading rooms. The complexity of cost-benefit determinations is compounded by the interrelationship of controls. Many times a variety of controls may serve, individually or together, to mitigate a particular risk. The challenge is to find the right balance.

With the information developed by the contractors who have studied collections security, together with the knowledge of its own managers, the Library has information that can form the basis for preparing a comprehensive risk assessment and a security plan that addresses the risks it identifies. The preparation and execution of a formal risk assessment and a security plan are critical to the Library's ability to safeguard the collection and efficiently use its limited resources.

Price Waterhouse LLP

April 5, 1996
Arlington, VA

The following findings and recommendations were made in conjunction with GAO's Audit of the 1988 Financial Statements of the Library of Congress. The findings and recommendations were presented in the GAO report entitled Financial Audit: First Audit of the Library of Congress Discloses Significant Problems (GAO/AFMD-91-13, August 22, 1991). We determined the status of the findings or recommendations based on our audit work at the Library for fiscal year 1995 and on our discussions with Library officials.

Finding or Recommendation	Status of Finding or Recommendation
REPORT ON INTERNAL ACCOUNTING CONTROLS	
Finding #1: The Library's internal control policies and procedures governing the accounting and reporting of financial management information were not uniformly prescribed, documented, or followed.	Actions completed. The Library has prescribed and documented accounting and internal control policies and procedures relevant to the day-to-day processing of transactions. Further actions needed. The Library needs to establish policies and procedures to prepare annual proprietary financial statements and should ensure timely completion of account reconciliations. See Weaknesses 1 and 2 in our report.
Finding #2: The Library's Financial Management System is not complete or integrated.	Actions completed. The Library has implemented a new financial management system that integrates such key financial functions as general ledger, budget execution, accounts payable and disbursements, travel, and procurement and includes automated interfaces for electronic payments and payroll processing. Further actions needed. In accordance with its financial management improvement plan, the Library should obtain additional resources to implement the management accounting capabilities of its new financial system. See Conditions 1 and 2 in our report.
Finding #3: General Ledger Control Accounts were not routinely reconciled with subsidiary records.	Action in progress. We have identified instances where certain control accounts are not reconciled with the subsidiary records, on a timely basis. See weakness 2 in our report.

Finding or Recommendation	Status of Finding or Recommendation
Finding #4: FEDLINK contracts were not limited to the program's purposes.	Action completed. Since the GAO audit of 1988, FEDLINK has implemented a new Contracts and Logistics division (C&L). C&L performs the contracting function for the FEDLINK program and reviews the FEDLINK contracts; however the authorized officer who signs the Interagency Agreements (IAG) is the Budget officer in the Financial Services Directorate (FSD). C&L reviews and approves the delivery order which initiates the vendors goods and services to be rendered, as well as documents the obligation of funds to the vendors. In those instances where the procurement exceeds $25,000, C&L places a synopsis of the procurement in the Commerce Business Daily to ensure compliance with the Advertising Act. We performed tests of compliance and controls on the FEDLINK contracting division to ensure that: an authorized signature appears on the IAG, the basic ordering agreements (BOA) entered into are not outside the scope of the program, delivery orders exist for the proper amounts as they appear on the IAG, and FEDLINK procurements are in compliance with the Advertising Act. We tested 131 items out of a population of 5,723 items and found no exceptions.
Finding #5: The Library's authority to award FEDLINK ADP contracts cannot be verified.	Action completed. FEDLINK ADP contract awards are within appropriate delegations of General Services Administration (GSA) procurement authority. We reviewed the current Delegation of Procurement Authority (DPA), as received from GSA, for the period effective FY95 to FY97; the ADP contract award for the current DPA is $180 million for this period. Through review of quarterly reports prepared by C&L officials, we noted no instances of non compliance with the DPA.
Finding #6: FEDLINK services provided exceeded available amounts.	Action completed. FEDLINK services will not be rendered to members unless a current IAG and valid delivery order exist, and amounts obligated to vendors do not exceed amounts obligated to the Library. From compliance and controls testing performed in the C&L division, we did not identify any instances where the Library exceeded its obligation authority to the vendors. Through our substantive testing of disbursements and open obligation testing performed, we did not identify any instances where costs and obligations, by member, exceeded available obligational authority.

Finding or Recommendation	Status of Finding or Recommendation
Finding #7: FEDLINK funds were expended without regard to period of availability.	Action completed. Management has modified the program to run strictly from one fiscal year to the next. Each year is treated separate from the year before, and members must indicate the type of funds (one year, no year, or multi- year funds) they are using when registering for the program. This enables FEDLINK to refund unused money to agencies whose funds have expired. This also forces no year and multi- year fund members to re-register and re-obligate unused funds for the program. By running the program from year to year, this prevents members from ordering goods or services in years outside the authority of their appropriation. This also prevents the use of expired prior year appropriations to procure goods and services in subsequent years. Testing of current year controls, indicates that the program is running as structured (i.e., current IAG and related delivery order must be present for all procurements of goods and services).
Finding #8: FEDLINK obligations were not based on proper documentation.	Action completed. Since the GAO audit of 1988, FEDLINK has implemented a new C&L division. C&L performs the contracting function for the FEDLINK program and reviews the FEDLINK contracts; however the authorized officer who signs the IAGs is the Budget officer in FSD. C&L reviews and approves the delivery order which initiates the vendors goods and services to be rendered, as well as documents the obligation of funds to the vendors. In those instances where the procurement exceeds $25,000, C&L places a synopsis of the procurement in the Commerce Business Daily to ensure compliance with the Advertising Act. We performed tests of compliance and controls on the FEDLINK contracting division to ensure that: an authorized signature appears on the IAG, the BOAs entered into are not outside the scope of the program, delivery orders exist for the proper amounts as they appear on the IAG, and FEDLINK procurements are in compliance with the Advertising Act. We tested 131 items out of a population of 5,723 items and found no exceptions.

Finding or Recommendation	Status of Finding or Recommendation
Finding #9: FEDLINK contracts were not authorized by responsible official.	Action completed. Since the GAO audit of 1988, FEDLINK has implemented a new C&L division. C&L performs the contracting function for the FEDLINK program and reviews the FEDLINK contracts; however the authorized officer who signs the IAGs is the Budget officer in FSD. C&L reviews and approves the delivery order which initiates the vendors goods and services to be rendered, as well as documents the obligation of funds to the vendors. In those instances where the procurement exceeds $25,000, C&L places a synopsis of the procurement in the Commerce Business Daily to ensure compliance with the Advertising Act. We performed tests of compliance and controls on the FEDLINK contracting division to ensure that: an authorized signature appears on the IAG, the BOAs entered into are not outside the scope of the program, delivery orders exist for the proper amounts as they appear on the IAG, and FEDLINK procurements are in compliance with the Advertising Act. We tested 131 items out of a population of 5,723 items and found no exceptions.
Finding #10: The Library collection and other property and equipment are not controlled.	Action in progress. Collection: Although the Library has made significant strides in safeguarding the Collection, it is still in the process of implementing several initiatives to control the acquisition, use, and disposal of the Collection. As acknowledged by the Library in its assertion relating to the safeguarding of the Collection, the Library has noted "several conditions which could adversely affect the Library's ability to meet the internal control objectives." The main issue facing the Library is that it has not formally assessed the risks facing its Collections and established a comprehensive plan to address those risks. Property & Equipment: Library property and equipment records are not reliable or complete and portions of property and equipment are not adequately controlled. See weakness 3 in our report.

Finding or Recommendation	Status of Finding or Recommendation
Finding #11: Accounts receivable and advances from government agencies were not determinable.	Actions completed. Through inquiry, observation, and testing of year end receivable balances, we determined that the Library's new financial management system can track accounts receivable for individual members of the FEDLINK program. The Library can also derive advances from government agencies from general ledger information about accounts payable, accounts receivable, and cash. Although advances were determinable, as discussed in Weakness 1 in our report, the advances from government agencies are not under general ledger control during the year, reducing the Library's control over FEDLINK activity.
Finding #12: The payment process was not controlled.	Action completed. Our detailed testing of a sample of 96 disbursement transactions identified no deviations from established control procedures.
Recommendation No. 1. Designate a chief financial officer to act as the focal point for the Library's accounting and financial management functions.	Action completed. A CFO was hired in 1989. The CFO is responsible for central financial functions and for recommending financial policy throughout the agency.
Recommendation No. 2. Establish accounting and internal control policies and procedures to ensure compliance with Title 2 requirements. These policies and procedures should include provisions to address the specific weaknesses noted in this report, including provisions to (1) account for and control assets and liabilities, (2) establish a complete, integrated financial management system, (3) ensure that required reconciliations are performed routinely, and (4) ensure that FEDLINK program obligations are properly authorized.	Actions completed. The Library has prescribed and documented accounting and internal control policies and procedures relevant to the day-to-day processing of transactions. Further actions needed. The Library needs to establish policies and procedures to prepare annual proprietary financial statements and should ensure timely completion of account reconciliations. See Weaknesses 1, 2 and 3 in our report.

Finding or Recommendation	Status of Finding or Recommendation
Recommendation No. 3. Develop an overall financial management improvement plan to (1) carry out a physical inventory of the Library's national treasure, (2) assist in setting priorities and fixing accountability and responsibility, and (3) specify corrective actions and milestones which will lead to the production of an effective set of internal controls, an integrated financial management system established in accordance with Title 2, and an annual report that includes financial statements. The plan should provide for periodic reviews of the Library's financial management operations by financial managers (such as those conducted by executive agencies under the Federal Managers' Financial Integrity Act) and for periodic independent financial audits to ensure the continued integrity and reliability of data produced by financial systems.	Action in progress. With respect to: (1) Based on discussions with Library Services management, there is no overall plan to conduct a complete physical inventory of the Library's entire collection. Although the arrearage project and the inventory of the general Collection are in progress, the Library has not determined which special format collections will be counted on a periodic basis. As noted in the *Report on Internal Controls* (on the Library's Collection), we recommended that the Library prepare a formal risk assessment with an accompanying strategy to reduce the risks to the Collection to an acceptable level. This risk assessment plan should address the issue of what items in the Library's Collection should be counted and how often they should be counted. While we recognize that a complete inventory is neither practical nor cost effective, the Library should identify items which should be counted on a periodic basis (i.e. items of significant market value, cultural or historical importance, or informational content should be considered for a periodic physical inventory). (2) & (3) Certain reportable conditions identified, specifically weakness 1, precluded the Library from ensuring its compliance with Title 2 requirements or ensuring that accountability was fixed and responsibility assigned within the Library. See weaknesses and conditions in our report.

Finding or Recommendation	Status of Finding or Recommendation
REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	
Finding #1: Funds transferred to the FEDLINK program were improperly used in subsequent years.	Action completed. Management has modified the program to run strictly from one fiscal year to the next. Each year is treated separate from the year before, and members must indicate the type of funds (one year, no year, or multi- year funds) they are using when registering for the program. This enables FEDLINK to refund unused money to agencies whose funds have expired. This also forces no year and multi- year fund members to re-register and re-obligate unused funds for the program. By running the program from year to year, this prevents members from ordering goods or services in years outside the authority of their appropriation. This also prevents the use of expired prior year appropriations to procure goods and services in subsequent years. Testing of current year controls, indicates that the program is running as structured (i.e., current IAG and related deliver order must be present for all procurements of goods and services).
Finding #2: The Library's revolving fund operations exceeded its statutory authority.	Action in progress. The Library has continued in its efforts to obtain appropriate statutory authority. However, to date the Library has not received the necessary authority. Accordingly, this condition was included in the Reportable Noncompliance with Selected Provisions of Laws and Regulations section of our our report.
Finding #3: The Library improperly accepted non-appropriated fund reimbursements as gifts.	Action completed. The Library has discontinued this practice. Our review of FEDLINK IAGs and of gift fund activity disclosed no instances where ineligible entities participated in the FEDLINK program or where FEDLINK reimbursements were recorded as gifts.

Finding or Recommendation	Status of Finding or Recommendation
Finding #4: Some FEDLINK contract awards violated the Advertising Act.	Action completed. Since the GAO audit of 1988, FEDLINK has implemented a new C&L division. C&L performs the contracting function for the FEDLINK program and reviews the FEDLINK contracts; however the authorized officer who signs the IAGs is the Budget officer in FSD. C&L reviews and approves the delivery order which initiates the vendors goods and services to be rendered, as well as documents the obligation of funds to the vendors. In those instances where the procurement exceeds $25,000, C&L places a synopsis of the procurement in the Commerce Business Daily to ensure compliance with the Advertising Act. We performed tests of compliance and controls on the FEDLINK contracting division to ensure that: an authorized signature appears on the IAG, the BOAs entered into are not outside the scope of the program, delivery orders exist for the proper amounts as they appear on the IAG, and FEDLINK procurements are in compliance with the Advertising Act. We tested 131 items out of a population of 5,723 items and found no exceptions.
Finding #5: The Library's records are inadequate to assess compliance with cost controls in the Economy Act.	Unable to determine. The Library initiates an evaluation of its overhead costs every two years, by an outside contractor, to help ensure that prices charged to members reflects the costs of the program. FEDLINK also initiates a cost assessment plan each year to determine member fees. We did review the FY 1995 cost assessment plan and determined that it incorporated the results of the overhead study and that its assumptions are consistent with limitations on Economy Act reimbursements established in the 1995 Legislative Branch Appropriations Act. However, we did not perform an audit of the Library's operating statement for fiscal 1995, so we are unable to conclude whether the actual costs incurred were consistent with the assumptions in the plan.
Finding #6: The Library's records are inadequate to assess compliance with the 1988 Legislative Branch Appropriations Act.	Action completed. The Library's management asserts that the FEDLINK positions financed from Economy Act reimbursements comply within the limitation imposed by the law. We have reviewed the Library's calculation of FTE's noting that they appear to be in compliance with restriction of utilizing 65 employees for the purpose of the FEDLINK program.

Finding or Recommendation	Status of Finding or Recommendation
Finding #7: The Library's procedures could not be relied upon to ensure compliance with limitations on ADP service procurements.	Action completed. FEDLINK ADP contract awards are within appropriate delegations of GSA procurement authority. We reviewed the current DPA, as received from GSA, for the period effective FY95 to FY97; the ADP contract award for the current DPA is $180 million for this period. Through review of quarterly reports prepared by C&L officials and negative assurance received by GSA, we noted no instances of non compliance with the DPA.
Recommendation No. 1. Ensure that appropriations transferred to the Library from other federal agencies are expended only for services provided during the fiscal year for which the appropriations are available.	Action completed. Management has modified the program to run strictly from one fiscal year to the next. Each year is treated separate from the year before, and members must indicate the type of funds (one year, no year, or multi- year funds) they are using when registering for the program. This enables FEDLINK to refund unused money to agencies whose funds have expired. This also forces no year and multi- year fund members to re-register and re-obligate unused funds for the program. By running the program from year to year, this prevents members from ordering goods or services in years outside the authority of their appropriation. This also prevents the use of expired prior year appropriations to procure goods and services in subsequent years. Testing of current year controls indicates that the program is running as structured (i.e., current IAG and related deliver order must be present for all procurements of goods and services).
Recommendation No. 2. Seek statutory authority to use gifts for self-sustaining activities as revolving funds.	Action in progress. The Library has continued in its efforts to obtain appropriate statutory authority. However, to date the Library has not received the necessary authority. Accordingly, this condition was included in the Reportable Noncompliance with Selected Provisions of Laws and Regulations section of our 1995 report.
Recommendation No. 3. Stop accepting nonappropriated funds as reimbursements for FEDLINK services.	Action completed. The Library has discontinued this practice. Our review of FEDLINK IAGs and of gift fund activity disclosed no instances where ineligible entities participated in the FEDLINK program or where FEDLINK reimbursements were recorded as gifts.

Finding or Recommendation	Status of Finding or Recommendation
Recommendation No. 4. Ensure that prices charged customers under the FEDLINK program reflect the Library's actual costs.	Unable to determine. The Library initiates an evaluation of its overhead costs every two years, by an outside contractor, to help ensure that prices charged to members reflects the costs of the program. FEDLINK also initiates a cost assessment plan each year to determine member fees. We did review the FY 1995 cost assessment plan and determined that it incorporated the results of the overhead study and that its assumptions are consistent with limitations on Economy Act reimbursements established in the 1995 Legislative Branch Appropriations Act. However, we did not perform an audit of the Library's operating statement for fiscal 1995, so we are unable to conclude whether the actual costs incurred were consistent with the assumptions in the plan.
Recommendation No. 5. Ensure that the number of staff positions financed from Economy Act reimbursements complies with the limitation imposed by law.	Action completed. The Library's management asserts that the FEDLINK positions financed from Economy Act reimbursements comply within the limitation imposed by the law. We have reviewed the Library's calculation of FTE's noting that they appear to be in compliance with restriction of utilizing 65 employees for the purpose of the FEDLINK program.

THE DEPUTY LIBRARIAN OF CONGRESS

WASHINGTON, D.C. 20540

April 26, 1996

Dear Mr. Dodaro:

Thank you for the opportunity to review and comment on the draft report entitled Financial Statement Audit for the Library of Congress for Fiscal Year 1995 prepared for the General Accounting Office (GAO) by Price Waterhouse LLP. In general, the report sets forth good recommendations that, once implemented, will improve the Library's financial management. The enclosure presents a detailed response to the recommendations in the draft.

As you are aware, when GAO performed the first audit of the Library's financial statements in 1988 (at the Librarian's request), the Library's accounting systems suffered so many deficiencies that GAO was unable in its 1991 report to render any opinion on the financial statements produced from those systems. Since then, the Library has made a number of improvements in its systems, most importantly installing a new financial management system in fiscal 1995. As a result of these improvements, I am pleased to find that the independent external auditors were able to express a qualified opinion on the Library's Consolidated Statement of Financial Position as of September 30, 1995. I am also pleased that the auditors found the Library's controls over budget authority provided reasonable assurance that noncompliance with selected provisions of laws would be detected on a timely basis.

The auditors noted in their report that "the fiscal year 1995 audit took on characteristics of an initial audit, despite GAO performing an audit of the 1988 financial statements" because of the Library's implementation of a new financial system in fiscal year 1995 and other issues. Weaknesses included an inadequate proprietary accounting reporting process and incomplete property records. The Library had planned to perform the audit one year later and had planned to address many of these issues during fiscal year 1996. We will now integrate the audit recommendations into the Library's financial management improvement plan and establish priorities for implementation.

We agree with the auditors' finding that the Library needs additional professional accountants to address many of the recommendations made and that implementing improved proprietary and managerial accounting will provide more useful information to the Congress and Library management for making resource allocation decisions. I know that the Library is not alone in the government-wide struggle to move from an emphasis on strictly budgetary accounting to the more sophisticated and resource-intensive proprietary and managerial accounting models. The Library's fiscal 1997 budget request includes $769,828 to hire four additional professional accountants and an external audit firm. The accountants will improve the Library's proprietary and managerial accounting and help implement audit recommendations; the external audit firm will perform the financial statement audit.

The audit report also raises an old, but very important, compliance issue -- the need for better statutory authority for operating fee service activities. The Library has transmitted draft legislation to the appropriate authorizing committees on a yearly basis since 1991 to address this issue. This compliance issue has been the subject of GAO audit reports since 1980, and I again ask for GAO's support for enactment of legislation to resolve this recurring audit finding.

A major issue raised in the 1991 GAO audit report was placing a financial value on the collections. At that time, the Library stated that the priority for its limited resources was to improve the control of the collections rather than to place a value on the collections. Since 1991, the Federal Accounting Standards Advisory Board (FASAB) has issued a draft accounting standard which does not require the valuation of the Library's collections. Instead, the Library has issued a stewardship report on its collections and a management assertion statement about internal controls over the safeguarding of its collections. The auditors stated in their report that "the Library has become one of the first, if not the first, federal agency to provide such full accountability for its heritage assets." While the auditors could not yet provide a statement of reasonable assurance regarding the effectiveness of internal controls over safeguarding the collections, we believe that proper steps are being taken to improve the control of the Library's collections as documented in the accountability reports.

Finally, the report documents that we have made progress in improving the Library's financial management but that a number of steps still remain, including the complete implementation of proprietary and managerial accounting. We look forward to continuing to work with GAO as we update our financial management improvement plan, using the audit recommendations and other information, and establish priorities for implementing improvements. I am confident that, with the support of Congress, we can continue to make progress and put in place a system that fully meets Federal standards.

Sincerely,

Thomas P. Carney
Acting Deputy Librarian of Congress

Enclosure

Mr. Gene L. Dodaro
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United States General Accounting Office
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Washington, DC 20548

LIBRARY OF CONGRESS
Financial Statement Audit
For the Fiscal Year 1995
Response to Price Waterhouse Draft Report

INTERNAL CONTROL WEAKNESSES

Weakness 1:

Financial Reporting Preparation Process is Inadequate to Meet Proprietary Reporting Requirements

Recommendations:

Since the benefits of long-term efforts to improve agency systems often require years to realize, the Library needs to make its existing systems work better in the interim. An important aspect of this is to ensure the validity of existing data and vigilantly maintain the routine controls needed to keep these data reliable, such as reconciliations to identify and resolve discrepancies. Such efforts will improve data reliability and help ensure that information reported in the new systems is accurate.

Procedures must be developed to ensure the orderly and effective closing of books monthly, quarterly, or at fiscal year end, and for the day to day accumulation of financial data, supported by appropriate documentation, that is easily accessible. The procedures must be adequate to ensure that financial records are supported by either underlying accounting records or other documentation, as adequate audit trails are critical to providing support for transactions and balances maintained by the general ledger. Additionally, key accounting policies should be formally determined and documented in policy statements by management.

A strategic plan for the approach to the fiscal year 1996 year end close and report preparation should be developed and formally documented, with an achievable timeline. The Library should develop a methodology and plan specifying corrective actions and milestones which will lead to the production of an effective set of internal controls, an integrated financial management system, and an annual report that includes financial statements generated directly from the new financial management system. The plan should provide for periodic reviews of internal reports of the Library's financial operations by financial or fund managers to ensure the integrity and reliability of data produced by the financial system. Further, as the culmination of the financial reporting process, we recommend the Library obtain an annual audit of its financial statement.

We recommend that Library management enforce proper revenue source coding of transactions to ensure consistency in reporting of Library transactions between service units. To the extent necessary, additional revenue source codes should be defined and created within the new financial management system to ensure that the source coding adequately reflects the current operations and sources of either cash receipts or revenues within the Library.

Management should consider enhancing the types of reports currently available on the new financial management system and ensure the system is configured to prepare any reports/trial balances necessary for the audit.

Library Response:

As noted in the report, the Library developed a financial management improvement plan in 1990 which called for improved policies and procedures, improved professional staffing, and an integrated financial management system that conforms to Federal standards. The plan has been updated three times, and the Library will update the plan in 1996 to reflect the recommendations contained in the financial statement audit report and other tasks identified by Inspector General reports and internal control review reports. The updated plan will include tasks required to correct material weaknesses and reportable conditions found by the auditors and to improve the periodic reviews of internal controls by financial systems managers. The fiscal 1995 audit process provided the Library with valuable insights into establishing a financial reporting process and supporting an audit, and the steps outlined in the auditors' report will give the Library a good start for planning the fiscal 1996 audit.

Weakness 2:

Reconciliations of Cash with Treasury and of Various General Ledger Balances with Subsidiary Systems are not Routinely Performed

Recommendations:

Accounting system standards in Title 2 require that reconciliations between summary and detailed records be performed periodically and documented and that adjustments, if necessary, be made promptly to bring these records into agreement. If it is determined that two sets of independently derived records are not in agreement, management is alerted to a potential problem.

In the short term, Library management should implement and monitor basic procedures, such as reconciliations and appropriate supervisory approval, to ensure that cash and other assets are properly managed and accounted for. Reconciliations must be performed routinely and on a timely basis. The reconciliations must be performed between each subsidiary system and the new financial management system records, as well as between general ledger and entities external to the Library, such as Treasury.

Management should adequately research all differences between the general ledger account balances and Treasury, before posting adjustments to the Library's records to bring them into agreement with Treasury. Adjustments should be made only if the Library's records are determined to be incorrect.

Certain Copyright Office reconciliations, specifically over collection of royalty remittances, resulted from the apparent duplicative recording of detailed information in both FSD and Copyright Office records. We recommend that the Copyright Office continue to record the detail level activity, rather than FSD. At least monthly, the Copyright Office receipts should be posted, in summary, to the new financial management system by FSD. At such time, a reconciliation should be performed to ensure the new financial management system account balances agree with the Copyright Office records.

Library Response:

The Library has adopted Title 2 standards and is working to implement them as applicable in the Library's system. As previously stated, the Treasury reconciliations have been given priority and are now up-to-date. The primary Treasury reconciliation (i.e., the Library's fund balances per the general ledger with Treasury's undisbursed appropriation account ledger) was in fact up-to-date as of September 30, 1995, and the two other secondary Treasury reconciliations were completed in March 1996. Other non-Treasury reconciliations have also been resumed by program systems following the conversion to the new financial management system.

Procedures for reconciliations, supervisory approvals and other internal control techniques will be developed and implemented as resources permit in accordance with priorities assigned in the strategic plan. The Library now accounts for differences between the general ledger account balances and Treasury as required by the Treasury Financial Manual (TFM). Accounting for the differences as required for financial reporting will be done as recommended by the auditors.

Financial Services will maintain the control account in the financial management system and the Copyright Licensing Division will maintain the subsidiary records. Reconciliations between the two systems will be performed periodically (monthly or quarterly) by the Copyright Licensing Division.

Weakness 3:

Library Property and Equipment Records are Not Reliable or Complete and Portions of Property and Equipment are not Adequately Controlled

Recommendations:

We recommend that the Library establish two budget object class codes: one for assets capitalized and one for assets expensed. We further recommend that management post the entry to capitalize equipment at each month end, at which time a reconciliation between the monthly amount disbursed, per the capitalization budget object class, and the property and equipment monthly acquisitions per the IBCFACS ledger and NLS/BPH asset listing should be performed. As these amounts should agree, any discrepancies should be resolved by management on a timely basis.

The Library should perform a detailed review of the IBCFACS ledger for propriety and accuracy, in conjunction with completing the physical inventory of assets currently in process. This review should include:

- obtaining or verifying documentation supporting the cost basis and acquisition data for selected assets in excess of the capitalization threshold within the property and equipment records for assets acquired within the last three to five years;

- put procedures in place for monitoring and reporting acquisitions and disposals of property and equipment in order to maintain reliable property and equipment records; and

- put procedures in place requiring all property to go directly through Contracts and Logistics, rather than through the department that ordered the equipment.

Regarding NLS/BPH assets, we recommend that, at minimum, an asset listing be maintained which identifies, by agency location, the total number of units by acquisition date and bulk purchase amount, rather than attempting to maintain a listing by individual unit/machine.This listing should be updated periodically for additional machines shipped to lending agencies and for machines returned to NLS/BPH for repair or disposition. The listing should also be reconciled monthly to the machine reports remitted by each agency. NLS/BPH management should investigate any "missing" machines identified in the reconciliation process.

We recommend that the Library maintain a listing of all leases, both capital and operating, that includes the date of lease inception, asset description, Library identification number (if applicable), lease terms, and amount of lease payments. All leases with total payments over $10,000 should be analyzed by FSD to determine proper categorization as an operating or capital lease and to determine if it would, in the long run, be cheaper to buy the asset, i.e., evaluate the implicit interest rate on a Treasury borrowing rate. If it is determined that the lease is a capital lease, the present value of the equipment should be capitalized upon acquisition, if it exceeds the capitalization threshold of $10,000, and future lease payments be immediately recognized as a liability.

Library Response:

In response to recommendations in the 1988 GAO audit, the Library purchased and implemented a property management system (International Bar Code Fixed Assets Control System (IBCFACS)) and identified, with bar codes, the Library's serialized equipment items. Subsequently, the Library began identifying the Library's estimated 75,000 furniture assets. At the end of fiscal year 1995, the database for furniture assets was approximately two-thirds completed. Also, in fiscal year 1995, the Library completed its first physical inventory of the serialized equipment and is now using this information to correct and validate the database. The Library planned for the IBCSFAC database to eventually include other asset information such as leases and serve as a basic building block to establish accountability for Library

property and communicate asset information to the Library's central financial management system.

The Library is developing a task list to prioritize the work necessary to continue improvements to the property management system. The list includes (1) review of IBCFACS ledger and capitalized items to ensure accuracy and adequate documentation; (2) evaluation and revision of NLS/BPH equipment records as necessary; (3) completion of furniture inventory; (4) evaluation and development of a system and procedures to capture data for the property management system; and (5) evaluation and development of a system to track and control leases.

Weakness 4:

Current Information Technology Services (ITS) Security Practices Expose The Library to Risk of Unauthorized Transactions, Theft and/or Misuse of Data Processing Assets, and Loss of Data and Programs For All Library Computer Center and Network Activities

Recommendations:

System personnel should be prohibited from Write and Allocate access to production data files, application end users who require knowledge of the new financial management system data should be granted Read access only to the applicable production data.
A review of these privileges should be conducted on all user profiles to ensure that only appropriate personnel have these powerful attributes. Following this review, ongoing periodic reviews should be conducted to recertify users for correct usage of these attributes

Access to system datasets and resources should be granted on a "need-to-know" basis only. Current access rules should be reviewed, and excessive access to Library information system data and resources should be identified and revoked.

The Quick Logon function should be disabled so that passwords must be input on a separate line from the Logon ID where they will be masked. In addition, passwords with lengths between five and eight characters should be required to increase the effectiveness of unique passwords.

The current security procedures should be enhanced to include the timely reporting of employee terminations from the Human Resources organization and of employee transfers within the Library of Congress from the affected organization management. All Logon ID removal or modification requests made by Human Resources or other organizations should be processed by the ITS security administration personnel on a timely basis.

A review of the various user IDs should be conducted to determine the appropriateness of authority for each ID. As a result, those IDs with access that is

deemed excessive for the individual's job responsibilities should be removed.

We recommend that access to the computer room and computer facilities be adequately restricted to only authorized personnel. This may include updating computer room doors and moving development staff to other areas of the Library.

Library Response:

The Library is working to eliminate the need for staff who have Write and Allocate access to production data sets. ITS has significantly reduced the number of ITS staff who have Write and Allocate access to production data sets. ITS plans to meet with other Federal agencies who use the same financial management system as the Library to evaluate their ACF2 security profiles and procedures. ITS plans to eliminate the Quick Logon feature and expand the password length to at least 5 characters. ITS plans to work with Human Resources on improving timely information regarding employee terminations.

The Library agrees that access to the computer room needs to be adequately restricted. The Library sought to implement a solution to restrict access to only authorized personnel by requesting the Architect of the Capitol to equip all data center doors with badge readers. This request is still pending, and the Library will resubmit the request citing the findings of this audit report. The Library is currently planning for the removal of development staff from the computer room area.

REPORTABLE CONDITIONS

Condition 1:

The Internal Financial Reporting Process Should Be Enhanced to Provide Management with More Meaningful Information

Recommendations:

Match the budget and actual accounting to the missions of the Library. Correlating planned and actual cost with the missions of the Library will improve the resource allocation decision process and will communicate more effectively the costs of providing services to the Library's diverse user group.

Match the Library's performance statistics to the service components, discard inappropriate statistics/measures, and add missing statistics/measures. This includes obtaining more information about the demographics of the users, including frequency, location, purpose of inquiry, e.g., personal research, government agency research, and private entity research, etc.; and other information that can be used to better serve the customers and prioritize resources. With the advent of the "reader registration system," the Library has the tool to better serve the users and to allocate resources, if necessary, among the various Library collections.

Improve budget vs actual reporting for the expenditures portions of the appropriated funds by budgeting them at the cost center (fund) level rather than at a group level. This could improve the accumulation of cost history over time, and thus could improve cost management and resource allocation decisions.

Implement cost attributions and cost allocations between units where beneficial and significant. Charging out these services could improve resource allocation decisions, because the users have a greater vested interest in efficient service. Implement commitment accounting for significant planned/budget expenditures.

Library Response:

The Library's financial management system implementation plan called for a phased implementation over several years. The initial phase included upgrading or replacing the following systems: central general ledger, budget execution, reporting, accounts receivable and collections, accounts payable and disbursements, travel, and procurement. The initial phase also included establishing automated interfaces with the Federal Reserve for electronic payments and with several subsidiary systems (i.e., payroll, reports management, procurement). This initial phase was completed in fiscal year 1995. Functionality planned for later phases included commitment accounting (implemented in fiscal 1996), additional automated interfaces (e.g., FEDLINK and the Investment Management System were implemented during fiscal 1995 and the Order Division is scheduled for fiscal 1996), inventory management, activity based accounting, and performance measurement.

As stated, the Library's financial management system implementation plan includes managerial accounting applications to provide the type of information recommended by the auditors. The financial system was implemented with this plan in mind, and the Library's account code structure provides for required program and project codes to implement this recommendation. However, as stated by the auditors, this recommendation will require many changes and a commitment of resources to implement.

Condition 2:

The Financial Services Directorate Needs to Receive Authorization For and Fill Its Positions in Order to Provide More Useful Information to Management

Recommendations:

Given the Library's difficulty in its process to fill important positions, we believe that it is critical that the Library approve and begin filling the additional positions. We also believe that several of these positions require activity based cost, CFO Act/GAAP and financial statement accounting experience that is not present in any depth in the Library's current Financial Service Directorate workforce. Furthermore, existing knowledge of Library operations can be lost unexpectedly due to the demographics of the current key positions. Failure to identify fiscal year 1996 and fiscal year 1997

resources for these positions will significantly delay the improvements that the Library needs to make in order to meet proprietary reporting requirements and to implement certain of the recommendations made in this report.

Library Response:

The Library's fiscal 1997 budget request includes $269,828 to hire four additional professional accountants to support the financial statement audit process and to help implement audit recommendations. Therefore, we agree with the auditors that additional resources are needed to move from an emphasis on budgetary accounting to the more sophisticated and resource intensive proprietary and managerial accounting models.

Condition 3:

Deficiencies in Certain Controls Over the Library's New Financial Management System Application Security Expose The Library to Risk of Unauthorized Transactions, Incorrect Data, and Misuse or Loss of Data

Recommendations:

Review current access authority for all individuals to determine appropriateness of security levels granted. Supervisory-level personnel should be restricted from PASS 1 access (except for manual checks); however, should have access to PASS 2 capabilities (excluding edit/correct functions within PASS 2).

Perform an analysis regarding the types and frequency of overrides currently being performed to determine the importance of the edit identifying the error. Based on this review, management should either remove the edit or generate a log of all overrides. This log should then be reviewed by appropriate management personnel to ensure each override is properly authorized.

Library Response:

The Library has changed the security profile for the Senior Operating Accountants and the Accounting Division's supervisory-level personnel. These individuals can no longer enter or correct their transactions. They can only approve transactions. The Disbursing Officer and the Assistant Disbursing Officer can no longer enter or correct cash receipt or imprest fund transactions. The Library will also review access authority for other individuals processing FFS transactions.

The Library has implemented a procedure where supervisors are notified of override actions. The supervisor is responsible for ensuring that overrides are appropriate. The Library prefers this option because changing FFS edits would require changing the FFS baseline software. The Library does not want to deviate from the FFS baseline because it requires funding for coding changes, increases maintenance costs, and impacts the installation of new releases.

Condition 4:

The Library's Self-Assessment and Review of Its Internal Control and Accounting Systems Is Inconsistent with Audit and Other Findings.

Recommendations:

We recommend that Library FSD management reassess which managers should complete the internal control and accounting system questionnaires. Once those persons have been identified, the Library should conduct formal training of personnel regarding the purpose of the reviews, the types of testing to perform, and how to analyze the results. This training should be conducted by persons knowledgeable regarding the evaluation of internal controls within accounting systems and should be given just prior to performance of the reviews.

To facilitate management review and reporting of the internal control structure, the CFO should establish a method to:

- monitor its systems and controls to regularly identify problems as they occur by establishing clear lines of responsibility and communication from top management to the lowest staff levels,
- develop action plans that are agreed upon by all affected groups and individuals to correct problems identified, and
- continuously monitor corrective actions to ensure that progress is achieved.

We recommend that Library management involve the Inspector General office in testing and reviewing the questionnaires annually, as this will help validate the process and provide an independent assessment of the control environment within the Library.

Library Response:

In 1990, in its Financial Management Improvement Plan, the Library first introduced an internal control review process for its program and subsidiary financial systems. In 1991, the Library contracted with the Department of the Treasury, Financial Management Services, to train the Library's financial managers in internal control review processes. Subsequently, two reviews were performed; one in fiscal year 1992 and another in fiscal year 1993. The review was postponed in fiscal year 1994 to prepare for the new financial management system which would require new review procedures. Upon learning that the fiscal 1995 financial statements would be audited, the Library called for limited reviews to be performed to obtain assurance that material internal control deficiencies were not present in the program and subsidiary systems.

The Limited Reviews of the internal control structure reviewed by the auditors were prepared on short notice because the fiscal year 1995 audit was not planned. There was insufficient time for training and follow-up reviews. Although the managers

were not adequately prepared, we believe that the reviews were conscientiously performed. During the fiscal 1996 audit cycle, the Library intends to provide training for the financial managers and perform follow-up procedures on the reviews. The review findings will be incorporated into the overall financial management improvement strategic plan and internal control structure.

Condition 5:

Lack of a Formal Business Continuity Plan Exposes the Library to Loss of Data and Resources

Recommendations:

We recommend the development of a comprehensive business recovery plan that will assist with continuation and rapid recovery of business operations after an emergency or disaster. The realization of this objective depends on the accomplishment of the following four project goals:

- Development of business recovery requirements that define the business risks and recovery time frames.

- Formulation and selection of cost-effective (commensurate with business risks) recovery strategies to address short- and long-term interruptions.

- Development of a detailed business recovery plan addressing personnel, recovery resources, and recovery actions. Specifically, this objective covers the identification of individuals responsible for managing and performing the recovery process, definition and assignment of team members' responsibilities, identification of key technical and non-technical resources, and development of detailed restoration procedures.

- Testing of the business recovery plan to evaluate different components of the plan, identify problems, and implement solutions.

Library Response:

In January 1996, the Library formed a Disaster Recovery Management Team to develop a plan to address this issue. The team will review the recommendations. The Library has successfully executed the financial management system data base recovery procedures.

Condition 6:

Procedures and Controls Over Cash Handling, Check Processing and Certain Disbursing Office Responsibilities Need Improvement

Recommendations:

We recommend that the Library of Congress take immediate corrective action for the findings identified during our review of cash receipts, as well as any additional findings identified by the other accounting firm. The Library should develop a systematic plan to address the control weaknesses, with an emphasis on the more significant findings (i.e., reconciliations, documented procedures, locked storage), including a time frame for expected completion.

We recommend that certain responsibilities, over processing of cash receipts, preparing reconciliations, and making disbursements, be appropriately segregated within the Disbursing Office in order to adequately safeguard assets of the Library.

Library Response:

The Library is evaluating the many good recommendations received from the Price Waterhouse auditors, as well as from the Inspector General and the recent Cash Management Review. The results of our evaluations will be incorporated into the overall strategic plan for prioritized implementation.

Condition 7:

Trust Fund Accounting and Investing are not Subject to Sufficient Review and Oversight to Prevent Misclassification of Funds and to Ensure That Investments Comply with Legal Requirements

Recommendations:

The coding in the general ledger should be enhanced so it can track earnings which may be available to be spent in the future separately from gains that increase restricted fund balances.

Establish procedures requiring documentation evidencing legal counsel's determination regarding the classification of all significant trust donations as restricted or unrestricted.

We recommend that legal counsel review all trust funds currently held by the Library for propriety and accuracy of fund categorization as either restricted or unrestricted. That review should also include a formal redetermination of whether or not the trust instruments and applicable laws permit the spending of capital gains earned on the investment of those funds. The results of these reviews should be documented and retained by general counsel, FSD, and the fund managers of each trust fund to ensure that they conduct their activities consistent with the intent of each trust.

Accounting for future gifts to the Library's trust funds should be supported by clear, written communication from the Library's legal counsel concerning whether acceptance of the gift has been approved by both the Trust Fund Board and the Joint

Committee on the Library and whether the principal of the gift is restricted or unrestricted.

FSD should prepare financial statements, including a balance sheet and operating statement, for each significant fund at least quarterly.

Library Response:

In 1992, the Library developed a Trust Fund Manual which contains descriptions of each trust fund and copies of all the legal documents for each fund. This was the first time that all of the information concerning the trust funds had been compiled and made available in one source. The Manuals were distributed to all members of the Trust Fund Board, trust fund managers, and pertinent Financial Services staff. The Cash Management Analyst prepares updates to the Manual which are approved by the CFO.

The Library will revise its procedures to require a formal document review of all trust funds by the Office of General Counsel and the Chief Financial Officer. This review will confirm that all documents have been received; the fund has been approved and accepted by the appropriate entities; the fund has been classified as either restricted or unrestricted; and, if restricted, whether or not capital gains can be spent. This formal review will also be documented and evidenced with signatures on the description (introduction) page of each trust fund section in the Trust Fund Manual. The current 84 trust funds will each be reviewed in order to make this determination and revision to the Manual. The financial management system coding will be enhanced to properly identify the funds as restricted or unrestricted.

The financial management system currently produces "Status of Funds" reports and trial balances which are readily available and are used by the trust fund managers. Annual financial statements are prepared for the Trust Fund Board. Other reports are also available, on line, when specific data are required. While formal monthly or quarterly proprietary financial statements would be the ideal, we believe they would not be used by the fund managers to the point where it would be cost beneficial. The Library will continue to work with the fund managers to ensure that they are adequately trained and aware of the financial data available to them on the system to manage their funds.