

## Independent Auditor's Report

To the Inspector General,  
Library of Congress, and  
Cooperative Acquisitions Program Revolving Fund

We have audited the accompanying balance sheet of the Cooperative Acquisitions Program Revolving Fund (CAPRF) as of September 30, 1999, and the related statements of net cost, changes in net position, and budgetary resources for the year then ended. These financial statements are the responsibility of CAPRF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin 98-08, "*Audit Requirements for Federal Financial Statements*," as amended. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CAPRF at September 30, 1999, and its net costs, changes in net position, and budgetary resources for the year then ended, in accordance with generally accepted accounting principles.

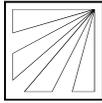
In accordance with *Government Auditing Standards* we have also issued reports dated March 31, 2000 on our consideration of CAPRF's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in *Management's Discussion and Analysis* (MD&A) of CAPRF is not a required part of the

basic financial statements. We assessed whether this information (supplemental schedule and MD&A) is materially consistent with the information, and the manner of its presentation, in CAPRF's financial statements. However, we did not audit any of the aforementioned information and express no opinion on it.

*Clifton Sunderson L.L.C.*

Greenbelt, Maryland  
March 31, 2000



## Independent Auditor’s Report on Compliance with Laws and Regulations

To the Inspector General,  
The Library of Congress, and  
The Cooperative Acquisitions Program Revolving Fund

We have audited the financial statements of the Cooperative Acquisitions Program Revolving Fund (CAPRF) as of and for the year ended September 30, 1999, and have issued our report thereon dated March 31, 2000. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 98-08, “*Audit Requirements for Federal Financial Statements*,” as amended.

The management of CAPRF is responsible for complying with laws and regulations applicable to CAPRF. As part of obtaining reasonable assurance about whether CAPRF’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin 98-08, as amended. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to CAPRF.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed the following instance of noncompliance with the laws and regulations described in the preceding paragraph that are required to be reported under *Government Auditing Standards* and OMB Bulletin 98-08, as amended.

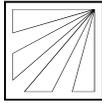
- The audited financial statements and related reports for CAPRF were not prepared and submitted to Congress by March 31, 2000. Title 2, Section 182 requires an annual audit report of CAPRF to be submitted to Congress not later than March 31 of each year for the preceding fiscal year.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the management of CAPRF, the Library of Congress Office of the Inspector General, the management of the Library of Congress, and Congress, and is not intended to be, and should not be, used by anyone other than these specified parties. We caution that noncompliance may occur and not be detected by the tests performed and that such testing may not be sufficient for other purposes.

*Clifton Sunderson L.L.C.*

Greenbelt, Maryland  
March 31, 2000



## Independent Auditor’s Report on Internal Controls

To the Inspector General  
Library of Congress, and  
The Cooperative Acquisitions Program Revolving Fund

We have audited the financial statements of the Cooperative Acquisitions Program Revolving Fund (CAPRF) as of and for the year ended September 30, 1999, and have issued our report thereon dated March 31, 2000. We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 98-08, “*Audit Requirements for Federal Financial Statements*,” as amended.

In planning and performing our audit, we considered CAPRF’s internal control over financial reporting by obtaining an understanding of CAPRF’s internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives in OMB 98-08, as amended. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers’ Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect CAPRF’s ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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. Because of inherent limitations in internal controls, misstatements, losses, or non-compliance may nevertheless occur and not be detected. However, we noted certain matters, discussed in the following paragraphs, involving the internal control and its operation that we consider to be reportable conditions. However, none of the reportable conditions is believed to be a material weakness.

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## REPORTABLE CONDITIONS

### 1. PARTICIPANT LIABILITY BALANCE RECONCILIATION AND RECORD KEEPING

Issues surrounding the participant balances which impacted management's ability to reconcile and report the liability due participants on a timely basis are as follows:

**Completing Timely and Accurate Reconciliations at September 30, 1999** - Reconciliations of program participants' balances were not submitted and accurately reconciled within the time frames as required by Financial Statement Directive (FSD) 97-6. The final adjustments and reconciliations of ending participant balances were not completed until February 2000.

Financial Statement Directive (FSD) 97-6 "Guidelines for Financial System Reconciliations", was issued and effective on September 1, 1997. This directive required that the reconciliation report be due by the 15<sup>th</sup> day of the third month following each accounting period (e.g., the September 30<sup>th</sup> report due on December 15<sup>th</sup>). Timely preparation of financial statements depends upon timely and accurate completion of the required reconciliations.

**Issuance of a Status of Participant Account Balance** - CAPRF did not provide its participants with a status of their balances on a timely basis. Sound internal controls dictate that participant balances be maintained, as well as distributed to the participants, in an effort to resolve any disagreements on ending balances or other activity during the year.

**Access by Field Offices to Information for Required Reconciliations** - All field offices did not have direct access to reports available from the general ledger. These field offices had difficulty reconciling because they had to rely on e-mails and faxes of general ledger reports. All offices with telecommunications "behind the firewall" are taking advantage of access to FFS, assuming time differences allow.

Providing all field offices access to the general ledger reporting system, would allow the field offices to generate numerous reports, aiding the reconciliation process.

**Negative Participant Balances** - At September 30, 1999, twenty participants in CAPRF had negative balances totaling \$24,550. Amounts were collected subsequent to year-end. However, as of March 28, 2000, \$3,843 in negative balances were outstanding. Deposits should be received from participants in advance of obligating funds.

The participant balances for direct costs were monitored by the field offices using spreadsheets and IODA, a PC-based data base system. These systems did not prevent the obligations of funds in excess of the participants' existing balances. There is an increased risk for uncollectible funds from participants when direct costs are incurred prior to receiving payments of deposits from the participants.

***Recommendations:***

We recommend the following:

- Develop procedures to insure timely performance of required quarterly reconciliations of program participants' accounts.
- Prepare and send a Status of Participant Account on a quarterly basis to each participant. The Status of Participant Account should include the beginning balance, payments processed, costs incurred, unliquidated obligations, and the ending balance for materials, binding, shipping and air mail.
- We recommend that African/Asian Acquisitions & Overseas Operations Division (AFA-OVOP) continue to seek alternative secure telecommunication connections for the other offices.
- Establish an internal control system of reviewing the participants' balances on a regular basis to determine if the balances are sufficient to cover expected orders of materials and other direct costs.

**2. TIMELY SUBMISSION OF FINANCIAL STATEMENTS**

The financial statements for CAPRF were not prepared and submitted to Congress by March 31. Title 2, section 182 that establishes CAPRF requires an audited annual report to be submitted not later than March 31 of each year for the preceding fiscal year. Fiscal year ending September 30, 1999, was the second year the revolving fund was established. Additional time was required in order to prepare the financial statements, in part due to the conditions noted above.

***Recommendation:***

- We recommend that CAPRF establish internal control procedures, including those recommended above to assist in the timely preparation and submission of financial statements.

### 3. REVIEW ADEQUACY OF COST RECOVERY MODEL AND RESERVE

CAPRF lacked a system to look at the results of the procedures over a period of time to determine their adequacy in recovering the full costs of the program.

CAPRF used several systems to set the fees, record revenue and analyze annual activity. The indirect and overhead cost recovery was based on a percentage of materials as determined by the Overseas Operations Participant Cost Recovery Model which was prepared annually. The indirect cost activity was compared to the indirect revenue fees annually, but this data was not incorporated into the Overseas Operations Participant Cost Recovery Model.

For the first year of operation, 1998, all funds collected for indirect costs in prior years of operation in the gift funds, in the amount of \$1,384,163, were considered start-up capital authorized in Public Law 105-55. As of September 30, 1999, there was a cumulative net loss of \$261,828. Included in this cumulative net loss are one-time charges pertaining to the start-up of CAPRF of \$129,728.

#### *Recommendation:*

- We recommend that AFA-OVOP develop a methodology for incorporating the recoverable portion of the cumulative net losses of CAPRF, which amount to \$132,100 at September 30, 1999. In addition, AFA-OVOP should also develop a methodology for analyzing the adequacy of the reserve.

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In addition to the reportable conditions described above, we noted certain matters involving internal control and its operations that we reported to the management of CAPRF in a separate letter dated March 31, 2000.

The conditions discussed above were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 1999 financial statements, and this report does not affect our report dated March 31, 2000, on these financial statements.

Relevant comments from CAPRF's management responsible for addressing these internal control matters are provided as an attachment to this report.

This report is intended for the information of the management of CAPRF, the Library of Congress Office of the Inspector General, the management of the Library of Congress, and Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Clifton Sunderson L.L.C.*

Greenbelt, Maryland  
March 31, 2000