THE LIBRARY OF CONGRESS

FINANCIAL STATEMENTS FOR FISCAL 1996

April 1997

THE LIBRARY OF CONGRESS

FINANCIAL STATEMENTS FOR FISCAL YEAR 1996

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THE LIBRARY OF CONGRESS

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THE LIBRARIAN OF CONGRESS

April 30, 1997

The President of the Senate

The Speaker of the House of Representatives

SIRS:

It is my pleasure to submit to you the Library's fiscal year 1996 financial statements and accompanying opinion of the independent accountants, KPMG Peat Marwick LLP.

Shortly after taking office in 1987, I requested the General Accounting Office (GAO) to conduct an independent assessment of the Library's financial condition, the first such assessment in the Library's history. GAO reported in 1991 that the Library's accounting systems suffered so many deficiencies that they were 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. I am pleased to report that, as a result of these improvements, the independent accountants issued an unqualified "clean" opinion on the Library's fiscal 1996 Consolidated Financial Statements.

The preparation of auditable financial statements represents the fulfillment of a basic agency responsibility to safeguard the handling of public monies, and we plan to continue the preparation and audit of annual financial statements. The Library recognizes that further improvements are needed in its financial controls and the control of the Library's collections as documented in the accountability reports. We are preparing an updated strategic plan that will establish priorities for implementing further improvements.

The Library's stewardship of its financial affairs has reached one of the goals I set when I took office, and I commend the enclosed report to your attention.

Sincerely,

James H. Billington
The Librarian of Congress

101 Independence Avenue, S.E. Washington, DC 20540-1000 Tel.: (202) 707-5205 FAX: (202) 707-1714

THE LIBRARY OF CONGRESS
FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1996

Overview of Operations and Financial Management

THE LIBRARY OF CONGRESS AND ITS MISSION

The Library of Congress, an agency in the Legislative branch of the government, is the world's largest and most comprehensive library maintaining a collection of over 111 million items -- many of them unique and irreplaceable -- in more than 450 languages. It directly serves not only the Congress but the entire nation with the most important commodity of our time: information.

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 effecting a full transition to new electronic services and more efficient operations required for the Information Age while, at the same time, continuing to sustain its basic services to the Congress and the Nation. The Library developed a statement of mission and strategic priorities at the start of fiscal 1996 which is being used to update the Library's December 1992 strategic plan. The updated plan focuses on maintaining high quality service to the Congress, on continuing our investment in technology to modernize operations and provide more information to the broader public, on improving security for our staff, collections, facilities, and the public, and on improving our human resources management. The Library's vision for the 21st century is to "lead the nation in ensuring access to knowledge and information to educate and enrich society." The United States has and must continue to have the finest national library in the world.

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. The Library's three buildings are named for Thomas Jefferson, John Adams, and James Madison. With their support, the Congress established the Library in 1800 as soon as it moved to the new capital city of Washington and established the Joint Committee on the Library as the first Joint Committee of the Congress in 1802.

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 and purchase his multi-lingual 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 wide-ranging 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 in the Library; (2) the 1886 authorization of the first separate Library building that contained openly accessible reading rooms and exhibition space for the general public; (3) the 1902 law which authorized the Library to sell its cataloging records inexpensively to the nation's libraries and thus massively help to subsidize the entire American library system; and (4) the law in 1931 that established the program in the Library to create and supply free library materials to blind and physically handicapped readers throughout the country. Congress thus established the basis both for the continued growth of the collections and for the extension of the Library's services to citizens everywhere.

Congress created in 1914 the Legislative Reference Service (LRS) as a separate entity to provide specialized services to "Congress and committees and Members thereof." In 1946, the Congress granted LRS permanent status within the Library and directed it to employ specialists to cover broad subject areas. Congress renamed the LRS the Congressional Research Service (CRS) in 1970 and enhanced its analytical capabilities by adding additional staff and emphasizing research support to the committees of Congress.

More recently, Congressional statutes have created the American Folklife Center (1976), the American Television and Radio Archives (1976), the National Center for the Book (1977), the National Film Preservation Board (1988), and the National Film Preservation Foundation (1996) -- further extending the Library of Congress' national role.

THE LIBRARY OF CONGRESS TODAY

The core of the Library is its incomparable collections -- and the specialists who interpret and share them. The Library's 111 million items cover more than 530 miles of shelf space and include almost all media through which knowledge and creativity are preserved and communicated.

The Library has more than 26 million volumes, including 5,700 volumes printed before the year 1500; 13 million prints, photographs, and posters; 4 million maps, old and new; 700,000 videotapes and reels of film, including the earliest movies and television shows; 4 million pieces of music; 48 million pages of personal papers and manuscripts, including those of Presidents Washington through Coolidge; and hundreds of thousands of scientific and government documents.

New treasures are added each year. Recent acquisitions, to name a few, include the **collection of Marian S. Carson**, the nation's most extensive private collection of Americana, which includes the earliest photographs ever taken of a human face and of an urban scene, as well as more than 10,000 manuscripts, rare books, broadsides, photographs, drawings, prints, and other original documents; the personal papers and several hundred original **drawings of cartoonist, playwright, and screenwriter Jules Feiffer**; the **collection of jazz great Ella Fitzgerald**, comprising some 10,000 music scores; and important rare books such as Antonio de Medina's **Viaggio di terra Santa** (1590), an extremely rare and richly illustrated Italian translation of a Spanish pilgrimage to the eastern Mediterranean.

Every work day the Library's staff adds approximately 10,000 new items to the collections, after organizing and cataloging them, and finds ways to share them with the Congress and the nation -- through on-line access across the nation, through in-person access in the Library's reading rooms, and through cultural programs that feature the Library's collections and reach across the country.

The Library of Congress programs and activities are funded by four salaries and expenses (S&E) appropriations, which support congressional services, national library services, copyright administration, and library services to blind and physically handicapped people. A separate appropriation funds furniture and furnishings. Major services include providing annually responses to some 500,000 congressional requests, registering more than 560,000 copyright claims, cataloging some 300,000 books and serials, and circulating more than 23 million audio and braille books and magazines to blind and physically handicapped individuals all across America. The Library also now processes some one million Internet transactions every day (which provide access to the Library's on-line information files that contain more than 40 million records).

OVERVIEW OF FINANCIAL STATEMENTS

For fiscal 1996, the Library has prepared a Statement of Financial Position and a Statement of Operations and Changes in Net Position.

Statement of Financial Position

The assets, as reported on the Statement of Financial Position, total $908.4 million. Non-entity assets (i.e., funds held and invested for future distribution to copyright owners) comprise 70.5 percent of all assets and total $640.5 million. Non-entity (custodial) assets increased by nearly $220 million during fiscal 1996 because copyright parties have not reached an agreement to a distribution settlement, and a controversy has not been declared by the Librarian of Congress/Register of Copyrights to convene a copyright arbitration royalty panel (CARP) to distribute the 1993, 1994, and 1995 royalty funds totaling $258.6 million. A partial distribution to copyright owners totaling $130.6 million was made in October 1996 (at the start of fiscal 1997). The Library is authorized to invest the royalty funds in U.S. Treasury securities until the funds are distributed.

The fund balance with the Department of the Treasury is the Library's largest entity asset ($171.4 million) and primarily represents the balance of unexpended appropriations. The Library is authorized to invest its trust funds in U.S. Treasury and non-Treasury securities which total $28.2 million. The Library has two major accounts receivable items. The intragovernmental accounts receivable amount of $6 million is primarily from unpaid bills for FEDLINK services. The pledges receivable amount of $10.3 million primarily consists of gift commitments for the National Digital Library program. The largest class of property totaling $35.7 million (net), is talking book machines on loan to blind and physically handicapped individuals.

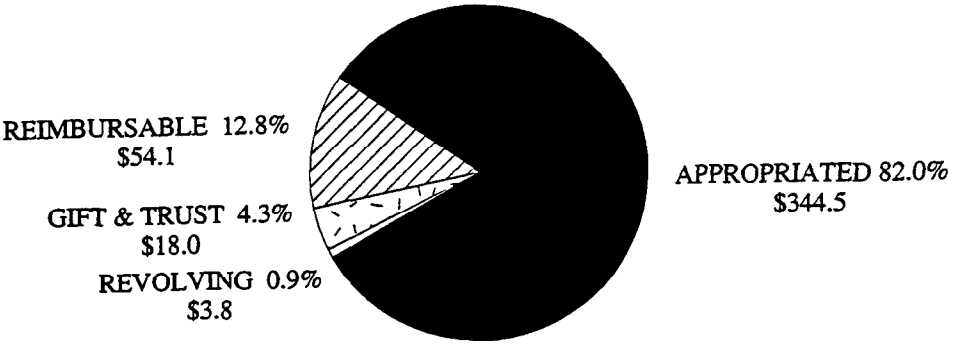
The largest liabilities relate to custodial and deposit account activities (e.g., funds held for future distribution to copyright owners). Other large liabilities include funds advanced from other governmental agencies for the FEDLINK program and accounts payable for various operating expenses. The accompanying 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.

Statement of Operations and Changes in Net Position

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 1996, excluding custodial activity, total approximately $420.4 million. Appropriations from the Congress accounted for 82 percent. The remainder came from gift, trust, and revolving funds and reimbursements for services provided to other entities.

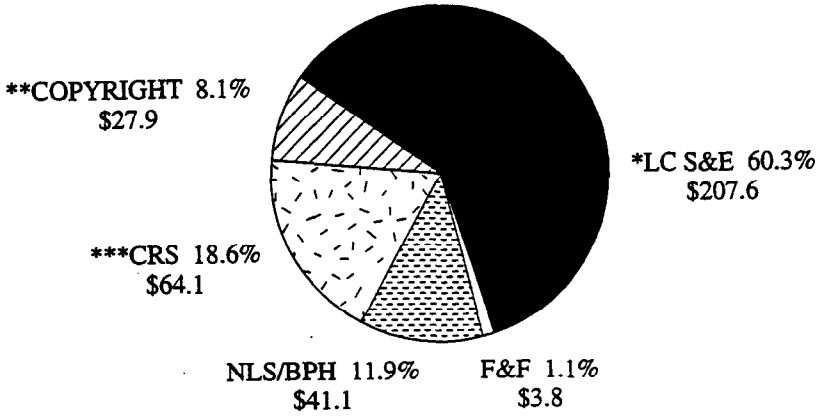
MAJOR CATEGORIES OF FUNDING:

Total All Sources - $420.4 Million



APPROPRIATED AND GENERAL FUNDS - Appropriations account for $344.5 million (82 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 - $344.5 Million



* Includes $6 million of offsetting collections
* Includes .4 million in State Dept. nonexpenditure transfers
** Includes $17.6 million of offsetting collections
*** Includes $4.0 million USAID nonexpenditure transfers

Library of Congress (LC S&E) - 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 books and other 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 *more than 750,000 readers* in the 20 reading rooms in Washington open to the public and responding to more than *1.1 million information requests* a year from all over the nation. In addition, the Library responds to *more than 45,000 free interlibrary loan requests* from every state in the nation and to more than *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. Internet-based systems include 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. These Internet-based systems now record some one million transactions daily.

- **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 U.S.

- **Preservation** - The Library manages a program that addresses the preservation needs of the diverse materials and formats in the Library's collections. The program provides a full range of prospective and retrospective preservation treatment for approximately 300,000 items a year; assures that staff are trained and equipped for appropriate care and handling of Library materials in all situations, including emergency response; participates in developing national and international preservation standards for library and archives materials, both for paper-based and non-paper-based media; administers the National Film Preservation Board; maintains the largest conservation treatment facility for paper and book materials in the country; and operates a laboratory dedicated to preservation research.

- **Legal Information** - The Law Library of Congress supplies legal research covering more than 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 *32 affiliated State Centers for the Book* and its 80 national organizational partners -- and encourages knowledge and use of its collections through other outreach programs (cable TV programs, lectures, publications, conferences and symposia, exhibitions, poetry readings, all primarily supported by private funding) and through use of the Library's home page on the WWW. The Library also gives some 54,000 surplus books and serials annually to qualified libraries through a nation-wide donation program.

Congressional Research Service (CRS S&E) - This appropriation funds the provision of nonpartisan analytical research and information to all Members and committees of the Congress. CRS works directly and exclusively for the Congress in support of its legislative, oversight, and representative functions. By maintaining a cost-effective shared pool of expertise, CRS provides timely and balanced analyses of legislative proposals, public policy issues, tailored confidential memoranda, individual consultations and briefings, and is a comprehensive source of information and analysis on almost any subject. CRS delivers to congressional clients nearly 500,000 research responses and services annually; of these, approximately 142,000 responded to requests for tailored analysis, information and research. In addition, Members and committees of the Congress request some 690,000 copies of CRS Reports, Issue Briefs and other general distribution products annually.

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 and the former Soviet Union through the use of research, information, and modern equipment. The programs, totaling $4 million in fiscal year 1996, 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. The Parliamentary Assistance Programs ended on December 31, 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 -- *annually processing more than 600,000 claims (representing more than 700,000 works) of which 550,000 claims are registered* for copyright and *responding to more than 400,000 requests* for information. The Copyright Office also convenes Copyright Arbitration Royalty Panels (CARPs) for the purpose of distributing hundreds of millions of dollars in royalties that are collected under various compulsory license provisions of the copyright law. Most of the Copyright Office is funded by registration fees and authorized deductions from royalty receipts -- $17.6 million in fiscal 1996. Copies of works received through the copyright system 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 142 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 total estimated readership of 777,000 comprised of 560,000 audio and braille readers registered individually, in addition to an estimated 217,000 eligible individuals located in 36,000 institutions.

REIMBURSABLE FUNDS - Reimbursable programs accounted for $54.1 million (12.8 percent) of Library funding in fiscal 1996. Intra-Library revenue of $2.6 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 Compliance, the John C. Stennis Center, and the Capitol Preservation Commission).

Reimbursable Funds - $54.1 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 more than 100 vendors resulting in savings to Federal agencies of an estimated $10 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 221 gift and trust funds which made up approximately 4.3 percent of the Library's funding in fiscal 1996. 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:

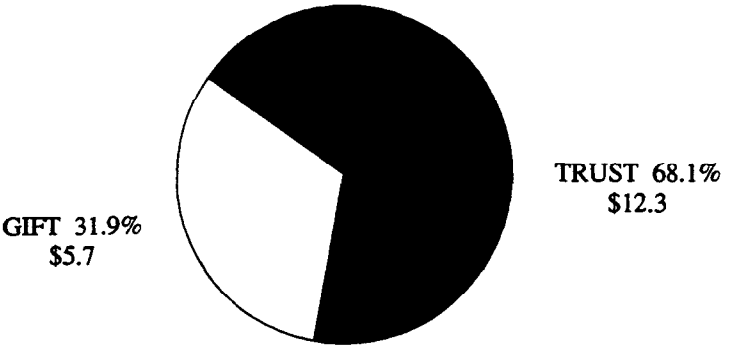
- acquisition of library materials, including obtaining hard-to-acquire research materials on behalf of participating U.S. research libraries and the maintenance and development of a Japan Documentation Center to increase knowledge of and access to current Japanese public policy information;

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

- 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 - $18 Million



Major trust funds include: the James Madison National Council Fund, the National Digital Library, the Carolyn R. Just Fund, and the Leonora J. McKim Fund. Gift and trust fund revenue for fiscal 1996 totaled $18 million which includes $5 million in new pledges.

James Madison National Council Fund - 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 1996, the value of the Fund was $3.2 million and revenue for the year, including donations and interest, was $2.4 million.

National Digital Library Fund - The National Digital Library Fund supports the Library's public-private partnership to digitize the most important and interesting historical Americana materials from the collections for viewing by American citizens, in schools, libraries and homes everywhere. The overall plan is to digitize five million items by the year 2000 -- the Library's bicentennial. Making these priceless treasures of American history accessible to all Americans in their own local communities, is central to the Library's goal of enriching education in America and widening access to the documentary record of America's knowledge and creativity. At the end of fiscal 1996, the value of the NDL Funds was $10 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, 1996, was $2.7 million.

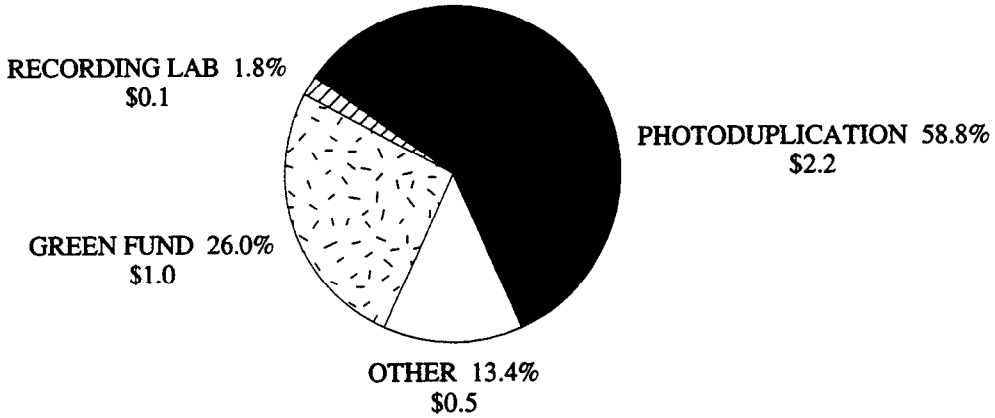
Leonora Jackson McKim Fund - The McKim Fund's purpose is for furtherance of original violin compositions with piano accompaniment, composed by American students of the violin, and to advance student studies in the United States and abroad through payment of tuition and travel. The value of the Fund was $3.4 million at September 30, 1996.

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 $3.8 million (.9 percent) of the funding in fiscal 1996. The major funds are: Photoduplication Service, Recording Laboratory, and the Constance Green Fund.

Revolving Funds - $3.8 Million



<u>Photoduplication Service</u> - 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 $5.5 million in fiscal year 1996 and intra-Library transactions of $3.4 million were eliminated during consolidation.

<u>Recording Laboratory</u> - 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 1996 was $305 thousand of which $236 thousand was for intra-Library transactions which were eliminated in the consolidated statements.

<u>Constance Green Fund</u> - The Constance Green Fund supports the Library's retail marketing sales shop activities. Revenue for fiscal year 1996 was $981 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 by copyright arbitration royalty panels. The Library of Congress held $640.5 million at September 30, 1996, for distribution to copyright owners.

KEY PERFORMANCE MEASURES

Since 1992, the Library's collections have increased from 101.4 million to 111.1 million -- an increase of 9.7 million or 9.6 percent. Over the same five-year period, the full-time equivalent (FTE) staff paid by appropriated funds has decreased from 4,549 to 4,114 -- a decrease of 435 FTE's or 9.6 percent. The annual quantity of print materials cataloged increased from 266,793 in 1992 to 289,509 in 1996 reflecting higher staff productivity, and the arrearage of unprocessed materials declined by 12.6 million items. The Library's Internet transactions have grown dramatically from zero in fiscal 1992 to 134.4 million in fiscal 1996. Internet-based systems include 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. These Internet-based systems now record some 1 million transactions daily. This rapid growth will almost certainly continue to increase because 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 the Library's unique collections as well as other institutions locally available in electronic form throughout the country by the year 2000.

Other noteworthy workload changes are:

- The number of Congressional requests annually answered by the Congressional Research Service (CRS) decreased from some 645,000 in 1992 to 487,000 in 1996, which in part reflects a shift from telephone or in-person requests for certain types of information to direct electronic access by Congressional clients. CRS has decided not to include this in the statistics because of the current lack of precision in the data collection technology.

- The annual number of registrations in the Copyright Office decreased from some 606,000 in 1992 to 550,000 in 1996, and the number of copyright inquiries answered remained relatively stable.

- The number of information requests handled by reference staff decreased from 1.3 million in 1992 to 1.1 million in 1996, which parallels the decrease in reading room hours and the increase in Internet usage.

- The number of free reading materials delivered across the country each year to the blind and physically handicapped increased from 21.3 million in 1992 to 23.1 million in 1996.

THE LIBRARY OF CONGRESS
COMPARISON OF APPROPRIATIONS, STAFF, AND WORKLOAD STATISTICS
For the Fiscal Years 1992, 1993, 1994, 1995, and 1996

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	CHANGE 1992-1996	% CHANGE
LIBRARY APPROPRIATIONS - ACTUAL	$328,170,000	$334,316,000	$330,864,000	$348,230,000	$352,399,000	+ $24,229,000	+ 7.38
FULL-TIME EQUIVALENT (FTE) POSITIONS (Appropriated)	4,549	4,492	4,163	4,180	4,114	- 435	- 9.56
SIZE OF LIBRARY COLLECTIONS	101,395,257	104,834,652	107,814,587	108,433,370	111,080,666	+ 9,685,409	+ 9.55
WORKLOAD STATISTICS:							
Unprocessed Library Arrearages	33,576,196	27,456,787	25,431,296	22,491,071	20,970,523	- 12,605,673	- 37.54
CRS - Requests & Services Provided Congress	645,000	607,000	536,000	492,000	487,000	- 158,000	- 24.50
Loans of Collections to Congress	48,790	43,876	43,465	36,368	31,026	- 17,764	- 36.41
Copyright Claims Registered	606,253	600,000	530,332	609,195	550,422	- 55,831	- 9.21
Copyright Inquires	430,773	433,700	402,163	500,746	432,397	+ 1,624	+ .38
Services to the Blind & Physically Handicapped (BPH) - Readership	761,300	767,800	777,300	772,100	777,500	- 16,200	- 2.13
BPH - Books & Magazines; Total Circulated	21,284,200	21,802,200	22,586,000	22,909,400	23,100,000	+ 1,815,800	+ 8.53
BPH - New Braille & Audio Books & Magazines Titles	2,206	2,322	2,327	2,328	2,568	+ 362	+ 16.41
Print Materials Cataloged	266,793	260,957	279,809	276,348	289,509	+ 22,716	+ 8.51
National Coordinated Cataloging Operation (NACO) - LC Contribution	122,861	118,921	114,333	124,911	115,714	- 7,147	- 5.82
National Coordinated Cataloging Operation - Outside Contribution	61,730	75,794	78,176	96,655	106,182	+ 44,452	+ 72.01
Exhibits, Displays, & Publications (Funded by Appropriations)	35	31	31	27	15	- 20	- 57.14
Regular Tours	44,440	27,954	29,952	47,300	47,847	+ 3,407	+ 7.67
Reference Service	1,326,945	1,306,264	1,198,358	1,145,757	1,129,952	- 197,188	+ 14.86
Main Reading Room & Five Other Reading Rooms Hours Per Week	78	69	65	65	65	- 13	- 16.67
Items Circulated	2,522,620	2,345,151	2,403,002	2,289,981	2,175,075	- 347,545	- 13.78
Preservation Treatment - Original Format	269,388	304,134	288,111	339,636	274,086	+ 4,698	+ 1.74
Mainframe Computer Transactions	97,372,626	112,491,847	152,095,306	197,216,679	204,297,492	+ 106,924,866	+ 109.81
Machine Readable Cataloging (MARC) Records	23,981,266	24,670,791	25,090,965	26,100,661	26,320,667	+ 2,339,401	+ 9.76
Internet Transactions (i.e., LOCS, MARVEL, WORLD-WIDE-WEB, and THOMAS public transactions) *	N/A	7,028,995	38,422,986	92,873,807	134,416,660	+ 127,387,665	+ 1,812.32

Dec. 10, 1996

* Comparison based on 1993-1996 data.

MAJOR ACCOMPLISHMENTS IN FISCAL YEAR 1996

During fiscal 1996, the Library developed a comprehensive Management Improvement Plan; provided objective, timely, nonpartisan, and confidential legislative support on a wide range of issues; improved services to the Congress and the nation through technology; reduced our uncataloged backlog by another 1.5 million items; and improved the security of our collections. Highlights of these and other major achievements are listed below:

- **Management Improvement Plan** - During fiscal 1996, the Library developed a Management Improvement Plan (MIP) to focus its efforts on implementing the Library's priorities and the many constructive recommendations contained in two reports commissioned by GAO -- a management review conducted by Booz-Allen & Hamilton and a financial audit conducted by Price Waterhouse LLP. The MIP contains nine component parts: plans and programs; security (of people, facilities, collections, and data systems); management-employee communications; training and development; accountability mechanisms; support functions' efficiency and responsiveness; streamlined management processes; financial management; and broader understanding and appreciation of the Library. The Library's statement of mission and strategic priorities guided the development of the MIP, and many of the accomplishments listed in this section reflect progress in achieving MIP objectives.

- **CRS Legislative Support to Congress** - Among the domestic issues addressed by Congress during fiscal 1996 were sweeping changes in welfare policy and immigration law, health care legislation, and revision of the 1934 Communications Act. Significant foreign policy issues included developments in relations with both traditional allies and former adversaries, events in Bosnia-Herzgovenia, U.N. reform, and the volatile political situation in the Middle East. CRS assisted congressional staff on these as well as other issues on the legislative agenda such as the minimum wage, banking and finance reform, the farm bill, juvenile crime, transportation and energy, space, and governmental issues such as the line-item veto, affirmative action, and campaign finance. In its deliberations, Congress continued to rely on the objective, timely, nonpartisan, and confidential support of CRS. Some highlights of CRS support were:

  - **Welfare Reform.** The welfare reform enacted by Congress drastically changed many social welfare programs, some of which had been in place for more than sixty years. In response to congressional requests for assistance, a CRS interdivisional team provided Congress with "on call" expertise on issues related to programs such as AFDC, food stamps, child nutrition, the Earned Income Tax Credit (EITC), and child support enforcement. The team provided Congress with institutional memory, program expertise, and quantitative analysis of alternative allocation formulas.

  - **Immigration.** CRS support on major immigration legislation included detailed briefings and seminars, side-by-side bill comparisons, and memoranda on immigration policy and its implications. CRS attorneys worked on complicated legal issues regarding alien smuggling, document fraud, deterrence of the transportation of illegal aliens, and enhancement of immigration law enforcement. CRS assisted at the end of the Congress in the reconciliation of overlapping alien benefit provisions in the immigration and welfare bills.

- **Health Insurance Reform.** Congress enacted legislation that guarantees the availability and renewability of health insurance coverage for certain individuals and limits the use of restrictions on preexisting conditions. This law allows a limited number of small businesses and self-employed individuals to establish and contribute to a medical savings account under prescribed circumstances. CRS formed an interdisciplinary team to provide analytical assistance on these and other issues, including health care fraud and restructuring of Medicare.

- **Telecommunications Law.** The Telecommunications Act of 1996, signed by the President in the Main Reading Room of the Thomas Jefferson Building, sets the nation on a course designed to realize the potential benefits of the information superhighway. CRS provided support for this milestone legislation by preparing analyses of legal questions such as how to ensure universal service. A CRS report addressed key provisions of the bill pertaining to the electro-magnetic spectrum's auction and management, and CRS attorneys assisted with interpretations of potential anti-trust problems and possible First Amendment violations.

- **Agricultural and Environmental Issues.** Congress restructured U.S. agricultural policy with the 1996 Farm Bill. CRS provided support to both House and Senate with analyses and bill comparisons of various farm bill measures, including the Market Transition Act, agricultural trade and aid, farm credit, conservation, and nutrition assistance. CRS also provided consultation and testimony on agricultural trade agreements, international food aid, and meat and poultry inspections. CRS analysts offered timely assistance on many environmental issues including safety of food from pesticides, drinking water, clean air, federal lands policy, grazing fees, and timber harvesting.

- **Foreign Policy Issues.** CRS analysts and attorneys prepared a multitude of analyses and reports addressing the complex issues pertaining to U.S. relations with major powers as well as other nations. The Service provided in-depth coverage for Congress of the legislative and presidential elections in Russia. Consideration of most-favored-nation (MFN) status for China generated requests for CRS assistance on issues including human rights, protection of intellectual property rights, arms sales, trade barriers, sanctions, and China's membership in the World Trade Organization. CRS analyzed issues relating to Japan: the continuing trade deficit, Japan's looming bank crisis and its effect on the U.S. economy, and Japan's contribution to regional and global security. Events in Bosnia-Herzgovenia and the Middle East generated congressional requests for information on the nature of peacekeeping missions, the U.N.'s capabilities to lead such operations, and the command and deployment of U.S. forces.

- **Copyright Office Legislative Support to Congress** - Congress faced a number of significant copyright issues during fiscal 1996 including the effect of the National Information Infrastructure on copyright law and policy as well as the placement of the Copyright Office and copyright policy in the Library of Congress. The Office advised the Congress on the National Information Infrastructure copyright bills and answered questions posed by the Senate Committee on the Judiciary and by the House Subcommittee on Courts

and Intellectual Property. It served as technical advisor to the efforts chaired by Representative Bob Goodlatte of the House Subcommittee to craft a solution to the issues surrounding the liability of online service providers for copyrightable content carried on the Internet.

The Office also testified on a bill suggested by it to clarify certain provisions of the copyright law and to help the Office perform its duties more efficiently. With respect to the placement of the Copyright Office in the Library, the Office testified before the Senate against inclusion of the Office and copyright policy in a Federal intellectual property corporation. In addition, the Office continued to advise Congress on issues such as extending the term of copyright protection, expanding an exemption related to the performance of music in small restaurants and bars, and the operation of compulsory licenses as well as the copyright arbitration royalty panel system. It met with members of Congress and their staffs to discuss these issues as well as to discuss certain rulemakings that the Office was involved in; for example, group registration for photographs. On March 1, the Office delivered its report to Congress on the effect of the Visual Artists Moral Rights Act of 1990. Finally, the Office responded to numerous congressional inquiries about the copyright law and registration and recordation of works of authorship.

- **Providing Better Services to the Congress and the Nation through Technology:** The Library continues to improve its cataloging, copyright, research, management, and delivery systems through the development and use of technology-based systems, services, and products that improve the ability to serve Congress and the nation more efficiently and effectively. Specific achievements during fiscal 1996 include:

  - **Thomas Internet System** - Since January 5, 1995, **THOMAS**, a world-wide-web (WWW) based Internet resource, has provided searching and access to legislative information and links to other legislative Internet resources. The system was expanded in fiscal 1996 to include bill summary and status information, Major Legislation, House and Senate committee reports, Featured Items (from House committees), Congress This Week (floor actions), and the Congressional Record Index for the second session of the 103rd Congress, and both sessions of the 104th Congress. In June 1996, the THOMAS home page was redesigned to facilitate system usage and to improve links to other Internet resources such as House and Senate home pages and to the text of historical documents such as the Declaration of Independence and the Constitution. As of September 30, 1996, over 30 million transactions had been processed by the THOMAS system since its inception in January 1995.

  - **Development of a Legislative Information Retrieval System.** Working with the Committee on House Oversight, the Senate Committee on Rules and Administration, in consultation with the House and Senate Subcommittees on Legislative Branch Appropriations, the Library developed a plan for a single integrated legislative information retrieval system to serve Congress. The plan is designed to reduce duplication of effort within the legislative branch and to improve the quality and timeliness of information to Congress. The House and Senate directed CRS, with Library support, to coordinate with other legislative organizations the development of a retrieval system to support the needs of the Senate. With the goal of reducing duplication of effort, the Chairman of the Committee on House Oversight has directed

CRS to ensure that this new retrieval system also meets the needs of the House. By the end of fiscal 1996, development was under way with a first release of the retrieval system planned for the start of the 105th Congress.

- **Online Delivery of CRS Products and Services.** As part of a continuing effort to provide more products and services to Members and staff digitally and to improve the speed of delivery, CRS made all Issue Briefs available online to congressional offices. This was possible through development of the CRS Home Page, designed by a team of specialists who are in daily contact with congressional staff. Besides providing access to CRS products and information about services such as the seminar programs, the CRS Home Page organizes Internet resources by functions of staff in congressional offices and subject areas. The Service will continually expand and refine its Home Page in fiscal 1997 to remain responsive to congressional needs.

- **Internet Access** - The Library is providing more and more information to the Congress and the public via its Internet-based systems. During fiscal 1996, the Library's home page was redesigned to simplify public searching. The hours of on-line availability of LOCIS were extended beyond midnight to 24 hours per day to accommodate users in varying time zones. Access to the Library's Internet resources is growing at an exponential rate each month. For example, public LC-Web transactions have increased from 391,000 per month in October 1994 to more than 9 million per month in October 1996. In April 1996, the Library recorded over 24 million monthly transactions on all of its computer systems -- a figure which is triple the number recorded in April 1992. The Library's Internet-based systems were cited for excellence during fiscal 1996: (1) Point Communications, an Internet rating service, placed the Library among the "Top 5% of All Web Sites"; (2) The Atlantic Monthly, through its web site "Atlantic Unbound," cited the Library's exhibitions as being "the most compelling area"; and (3) the National Information Infrastructure (NII) Awards Program chose the Library as one of six finalists in the education category.

- **Global Legal Information Network (GLIN)** - 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. GLIN project software (release 1) is in production, and work is underway to enhance functionality in a second release. GLIN made its debut on the Library's home page in July 1996. While only member countries can retrieve authentic images of legal documents, non-members are able to search the database and retrieve citations. Member nations are contributing abstracts and full text at the rate of 15 entries per day and growing. There are eleven members participating via the Internet, and the Library projects that GLIN membership will soon increase to 15-20 nations. A satellite uplink/downlink prototype capability to upgrade telecommunications capabilities of GLIN members that have no direct access to Internet is being investigated with the assistance of NASA.

- **National Digital Library** - The National Digital Library Program (NDL) continues to gain momentum towards the Library's ambitious goal of producing and collaborating with other national archives to make accessible to all Americans a critical mass of five million digital items by the year 2000, the Library's bicentennial. In fiscal 1996, NDL doubled the number of collections available on the WWW. To date, more than 350,000 digital files are available on-line or in digital archives. In addition, more than 1,700,000 digital files are in production or under contract for digitization.

A new Learning Page offers organized help specifically for teachers and students in the use of the NDL American Memory collections. With input from the Center for Children and Technology, a Back to School Special was launched on the Learning Page in September, adding teacher-generated suggestions on how to use the Library's primary source materials in the classroom. Also added was a presentation featuring the history of elections as documented in the American Memory collections. More than fifty school and education publishers attended a workshop, jointly hosted by the NDL and the Association of American Publishers, to explore public-private partnership options to develop electronic products based on NDL American Memory collections, thereby enhancing distribution.

In coordination with the Copyright Office's CORDS project, the NDL program worked with the Corporation for National Research Initiatives to establish standards for the storage and retrieval of massive digital files of the kind generated by the NDL collections, including the technical metadata needed to manage the system. The Library continues to lead in the use of Standard Generalized Mark-up Language (SGML) for presentation of collections in digital form. Several text collections and sample finding aids marked up with SGML were put on-line in fiscal 1996.

Collections are chosen for digital conversion based upon their uniqueness, their intrinsic importance to an understanding of American history and culture, and their appeal to everyone from K-12 students to lifelong learners. New digital collections added in fiscal 1996 include: **African-American Pamphlets** from the Daniel A. P. Murray Collection, 1818-1907 (351 rare pamphlets issued between Reconstruction and the First World War); **Documents from the Continental Congress and the Constitutional Convention**, 1774-1789 (printed broadsides offering an account of America's struggle for nationhood); **Daguerreotypes**, 1842-1862 (600 portrait daguerreotypes by the Mathew Brady studio plus architectural views, outdoor scenes, and occupational portraits); the **National American Woman Suffrage Association Collection**, 1848-1921 (167 books, pamphlets, and other artifacts documenting the campaign for woman suffrage); and **World's Transportation Commission Photographs**, 1894-1896 (views of foreign countries and their native forms of transportation). In July 1996, the NDL team added three more collections: **The Evolution of the Conservation Movement**, 1850-1920 (a multi-format collection of photographs, printed works (including government documents) and manuscripts documenting the conservation movement in the United States); **Gottscho-Schleisner Photographs**, 1932-1960 (approximately 29,000 photographs of buildings, interiors, and gardens of renowned architects and interior designers); and **Theodore Horydczak Photographs,** 1920-1950 (over 14,000 photographs of buildings, business, news and human interest items in the Washington, D.C. metropolitan area).

Two new on-line exhibits were also added in fiscal 1996 (*Women Come to the Front: Journalists, Photographers and Broadcasters during World War II*; *Dresden: Treasures of the Saxon State Library*) bringing to twelve the total of Library exhibits now available on-line. *The Handbook of Latin American Studies* and 71 Country Studies were also added during this fiscal year.

- **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 or assistance, now operates in 14 locations at the Library and in several House and Senate locations. During fiscal 1996, an Internet model was created and is currently being tested and evaluated.

- **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). G&M continues to work closely with CRS to include maps in written reports and with the National Digital Library to digitize materials. Donated computer hardware and software, valued in excess of $700,000, was installed and put into operation during fiscal 1996. Working closely with private-sector partners, the Geographic and Map Division is developing the capability to create large format digital images and the ability to transmit and display these images through the Internet. G&M has scanned over 700 rare American maps from its collections and has successfully completed testing of a new file compression technology that will allow the Library to transmit these images worldwide.

- **Projects in Test Status**:
  (1) The Copyright Office Electronic Registration, Recordation and Deposit System (**CORDS**), a major new system for digital registration and deposit of copyrighted works over the Internet, utilizing the latest advances in networking and computer technology, is being developed by the Copyright Office in collaboration with national high-technology research and development partners (Defense Advanced Research Projects Agency and Corporation for National Research Initiatives). CORDS is a key component of the global infrastructure for digital libraries of the future. CORDS will also help the Copyright Office streamline its internal registration, recordation and deposit processes, as well as provide the Library of Congress with copies of new copyrighted works in digital form for its National Digital Library repository.

  Status: Phase 1 external testing of the registration and deposit testbed began during 1996; several additional test phases with other partners will be initiated during calendar 1997; planning and development is also continuing for the CORDS system to record documents concerning ownership and transfers of copyrighted works.

  (2) The Electronic Cataloging in Publication (**ECIP**) project will enable the Library to obtain texts of forthcoming publications from publishers via the Internet, catalog them entirely in an electronic environment, and transmit the completed catalog records via email to the publisher for inclusion on the copyright page of the printed book.

  Status: Fifty-three publishers are now participating in this project. Staff cataloged 707 titles, bringing the cumulative total since the experiment's inception to 1,082. During fiscal 1996, staff responsible for the ECIP production system completed most of the work on the basic components of the system. A fully operational system will enable participating publishers and the Library to improve the timeliness, cost, and efficiency of cataloging by greatly reducing the number of keystrokes required to create a record, by eliminating mail time and postage costs, and by enhancing the quality of cataloging.

- **Security of Staff and Collections** - During fiscal 1996, a comprehensive survey of collections security, commissioned by the Library, was completed by the Computer Sciences Corporation (CSC). CSC made hundreds of recommendations to improve

physical, electronic, and procedural security measures. In addition, the GAO commissioned a management review of the Library and an audit of the Library's fiscal 1995 financial statements, both of which included an evaluation of collections security. The Library is using the results of these three efforts, as well as previous work, to conduct a risk assessment of the collections and to put in place a centralized security program. Major security accomplishments during fiscal 1996 include the following: (1) for readers using the Thomas Jefferson Building reading rooms, implemented an automated Reader Registration System which provides an identification card with a digitized photograph of each reader and maintains the photograph and information to support administrative or investigation requirements; use of the Reader Registration System will become mandatory in the Library's remaining reading rooms in fiscal 1997; (2) made permanent the use of an anti-theft gate at the exit from the Newspaper and Current Periodical Reading Room to prevent the unauthorized removal of collections materials; plans are to install anti-theft gates in most of the Library's other reading rooms; (3) established a policy restricting the introduction of personal belongings into reading rooms to be implemented fully when cloakrooms are established in the three Capitol Hill buildings in fiscal 1997; (4) placed anti-theft targets in another one million books, bringing the number of targeted volumes to more than four million; (5) activated the electronic system controlling stack access in the Adams Building thus securing all stack areas in that building; (6) upgraded security at the Landover Center Annex with a new electronic access system and the assignment of a full-time, on-site security officer; and (7) implemented an item-level inspection program for designated vulnerable material before and after public use.

- **Arrearage Reduction/Cataloging** - The Library continued to focus on arrearage reduction during fiscal 1996, reducing the arrearage total by 1.5 million items while maintaining currency with new receipts. This represents a cumulative reduction of 47.2 percent of the amount on hand at the time of the initial arrearage census in September 1989 -- from 39.7 million to 21 million. The processing of print materials continues to increase, even as staffing levels continue to drop -- staff created cataloging records for 289,509 volumes. The Library continued to take advantage of varied approaches to processing materials to gain the greatest benefits in production and arrearage reduction: copy cataloging; testing the use of a less full, "national core" record; focusing on completely eliminating particular arrearages; and using automated services developed by the bibliographic utilities for speedier delivery of copy cataloging records. Building on the momentum generated in fiscal 1995 through the Program for Cooperative Cataloging, cooperative arrangements have flourished. Member libraries reached a high of 213 participants and contributed record-breaking totals in fiscal 1996: 14,173 bibliographic records; 97,964 name authorities; 8,074 series authorities; 2,026 subject authorities; and 780 classification numbers. By the end of the fiscal year, powerful new PC-based terminals had been installed for all cataloging staff, augmenting their ability to catalog more efficiently through enhanced automation capabilities.

  Some processing accomplishments for fiscal 1996: a group of staff volunteers completed the processing of the Altshuler Jazz Collection of 264,327 78rpm sound recordings; another group reduced a pamphlet collection of Americana by 10,630 titles; and other staff concentrated on eliminating over 1,000 Finnish arrearage titles.

- **Off-Capitol Hill Collections Storage** - Linked to the Library's arrearage reduction project is the development of a secondary storage site to house processed materials and to provide for growth of the collections through the first part of the 21st century. During fiscal 1996,

the Architect of the Capitol (AOC) contracted with an architectural firm to plan for the development of the Fort Meade, Maryland campus and to design the initial collections storage module for the Library of Congress. The Library worked closely with the AOC and with the architectural firm to ensure that the module meets the necessary environmental requirements to house and preserve safely the transferred collections and that materials handling be as efficient as possible. Plans call for the initial module, which employs cardboard boxes on wide-span shelving and which will house paper-based collections, primarily books, to be ready for occupancy in 1999.

- **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 1996 include: the **collection of Marion S. Carson**, the most extensive private collection of Americana, consisting of over 10,000 manuscripts, rare books, broadsides, photographs, drawings, prints, and other original documents; the personal papers and several hundred original **drawings of cartoonist, playwright, and screenwriter Jules Feiffer**; the **collection of jazz great Ella Fitzgerald**, comprising some 10,000 music scores; the **Morton Gould collection** of over 20,000 music scores and personal papers documenting the career of this major Pulitzer Prize-winning composer; George Gershwin's sketches for **Porgy and Bess** and other music manuscripts and letters of George and Ira Gershwin; the first installment of the **papers of Robert McNamara**, former Secretary of Defense; **papers of I.M. Pei**, the great modern architect; the **Samuel Breese collection** of manuscripts, maps, and atlases; 56 Civil War newspaper maps; and a microfilm collection of finding aids and records documenting the activities of the Soviet Communist Party and Soviet State from 1917 to 1991. Important rare books included Antonio de Medina's **Viaggio di terra Santa** (1590), an extremely rare and heavily illustrated Italian translation of a Spanish pilgrimage to the eastern Mediterranean, and **Original Manuscript Record of the Names and Hours and Locations of Work by Stone Cutters, Carpenters, and Laborers during the 1815-1834 Rebuilding of the United States Capitol in Washington following its Burning by the British in the War of 1812**, an account set out by year and month listing the names of each tradesperson employed on the reconstruction work. The Library also acquired the second major gift of 8,000 films and videotapes of past PBS programs and a collection of master film materials on significant productions done by Nathan Kroll on Pablo Casals, Carl Sandburg, Helen Hayes, Andres Segovia, and Luciano Pavarotti.

- **Preservation Improvements** - The Library took action during 1996 to improve the preservation of its vast and diverse collections by (1) completing the installation of a state-of-the-art audio system that will significantly improve capabilities for preservation reformatting and creating preservation masters of audio materials; (2) protecting the Library's Top Treasures by developing a design for cases in which they will be exhibited; (3) implementing the emergency response plan by training Library staff, enhancing emergency notification and communication systems, and replenishing response and recovery supplies; (4) completing the mass deacidification treatment of the first 25,000 books from the general collections using the Bookkeeper limited production contract; (5) training staff in the production of protective book boxes using the computer-driven, automated box-making machine; (6) contributing to the National Digital Library by refining procedures for the preparation, treatment, and scanning of collection materials; (7) contributing to the design of a new long-term offsite storage facility at Fort Meade by developing environmental specifications and proposing design criteria; (8) refurbishing and upgrading the display cases for the Gutenberg Bible and the Great Bible of Mainz.

- **Copyright Arbitration Royalty Panels (CARPs)** - The Copyright Office initiated and administered the proceeding for the distribution of the 1990, 1991, and 1992 cable royalty funds. In August 1996, the Office received the final report from the arbitrators on their determination for review by the Register of Copyrights and the Librarian of Congress. The Office reviewed the report and prepared a sixty-two page recommendation, which the Librarian accepted. The final order was published in October 1996.

  The Copyright Office also initiated the currently ongoing CARP proceeding to determine the distribution of the 1992, 1993, and 1994 DART royalties in the Musical Works Funds and administered a universal settlement among the claimants to the Sound Recordings Fund for 1995. Additionally, the Office set the schedule for four proceedings to adjust rates and terms for the compulsory licenses governing secondary transmissions by cable systems, secondary transmissions by satellite carriers, the digital performance of sound recordings, and digital phonorecord delivery.

  On December 1, 1995, the Office published an amendment to the CARP regulations that required all organizations that act as common agents for their members or affiliates in a DART proceeding to obtain written, separate, and specific authorization before representing their interest.

- **Implementation of the Copyright Restoration Provision of the GATT Uruguay Round Agreements Act** - On January 1, 1996 this act restored the copyrights of a vast amount of foreign works that were previously in the public domain in the United States. Through October 1996, the Copyright Office has processed a total of 2,162 documents containing 7,632 restored titles, following the publication of extensive regulations. Using new application forms, the Office has also processed 564 GATT registrations. Most of the filers of GATT registrations and Notices of Intention to Enforce copyrights (NIEs) used credit cards to pay the required fees.

- **National Library Service for the Blind and Physically Handicapped (NLS)** - During 1996, NLS received its most important improvement in the free national reading program since the passage of the Pratt-Smoot Act more than sixty years ago. Congress modified the U.S. Copyright Law, in Public Law 104-197, which was signed by President Clinton on September 16, 1996, to allow NLS to produce audio and braille books more quickly and at less cost. Under the bill, sponsored by U.S. Senator John Chafee of Rhode Island, groups that produce specialized formats for the blind are no longer required to gain permission from the copyright holder before beginning production.

  NLS launched nationwide machine repair training and recognition programs with the Telephone Pioneers of America, the Elfun Society, and other repair volunteers. The national "train the trainer" program was designed to reach all but the smallest groups during 1996. A national recognition program honored all Pioneers and Elfuns for their sustained support in the repair of playback machines.

  NLS also assisted in the opening of North Dakota Talking Book Services. As the fifty-seventh regional library to open since the inception of the NLS network, it is the first new regional library in nineteen years.

- **American Folklife Center (AFC)** - In fiscal 1996, the AFC received a two-year Congressional reauthorization, as well as private funding for the second year of the Montana Heritage Project and for the continuation of the Appalachian Forest Project. From the Archive of Folk Culture, the Center, in cooperation with a private-sector record company, prepared for the reissue of twenty LP's in compact disc format and prepared for the release of four compact discs for the Endangered Music Project. The rich collections of folk music are now being used in a new series on National Public Radio's "All Things Considered" by musician Stephen Wade and featuring folksong "treasures" from the Archive of Folk Culture.

- **Bringing Treasures to the People** - The Library's collections were shared with tens of thousands of Americans through exhibitions, special events and symposia, traveling exhibits, and major publications. The Library continues to lead the Nation in the presentation of on-line exhibitions which now number twelve.

  - Major exhibitions included **Dresden: Treasures from the Saxon State Library**, which opened in April 1996 and drew from over four centuries of treasures of the Sachsische Landesbibliothek (Saxon State Library), one of Dresden's outstanding cultural institutions founded in 1556; **Space and Place: Ways of World Making** traced the history of cartography, with special emphasis on a comparison of early European and Asian mapping traditions; **Drawing the Iron Curtain: Cold War Cartoons, 1946-1960**, drew on the Library's extensive collection of political cartoons, documenting through the work of 15 notable American cartoonists an important period of our nation's recent history; **Pablo Neruda: Absence and Presence** celebrated the twenty-fifth anniversary of Neruda's Nobel Prize in Literature and featured photographs from the Library's collections of the poet's homes and friends by Chilean photographer Luis Poirot.

  - The Library's traveling exhibition program sent 6 exhibitions to 21 sites in 17 states. The Library arranges tours for two different types of highly-regarded exhibits. The first are highly visible exhibitions, such as **From the Ends of the Earth: Judaic Treasures from the Library of Congress**, which display original manuscripts, scrolls, and other items. The second are smaller traveling exhibitions, such as **Women Come to the Front: Journalists, Broadcasters and Photographers during World War II**, which rely on facsimiles and are available to libraries, schools, and smaller museums.

  - The Visitor Services Office conducted 1,284 public tours for 47,847 participants; honored 11,012 reservations for 347 tours requested by 515 Congressional offices; arranged professional visits for 3,427 national and international VIPs, professionals and students; and arranged visits for 1,377 visitors from 117 foreign countries. The Office initiated a full- scale volunteer program with the recruitment, training, and assignment to duties of 73 volunteers. These volunteers provided 10,272 hours of service, conducted 696 public tours, and responded to inquiries from 69,097 visitors.

  - Co-publishing arrangements with trade publishers, in fiscal 1996, included **Witnessing America: The Library of Congress Book of Firsthand Accounts of Life in America, 1600-1900; AuthorWorks American Authors CD-ROM; The Book in America; Invention in America; Celebration of American Food**, and 15 calendars based on Library of Congress collections.

- The Library's bi-monthly Civilization magazine, commercially published under a licensing agreement, completed its second year of publication with some 218,000 paid subscribers, who are also Library of Congress Associates. It won the 1996 National Magazine Award for "general excellence" in its class.

- **Restoration and Renovation of the Thomas Jefferson and John Adams Buildings** - The Architect of the Capitol (AOC) has completed interior renovation and restoration of the buildings (except for the Coolidge Auditorium and Whittall Pavilion), and on January 2, 1996, the west front entrance was opened to the public. A Visitors' Center is currently under construction and will include two volunteer-staffed information desks and a new visitors' theater; construction will be completed by April 1997. The AOC began the restoration of the Coolidge Auditorium/Whittall Pavilion and is working toward an October 1997 completion date. In addition, the restoration of the Jefferson roof began and is currently scheduled for completion in the fall of 1997. The Library continues to execute the multi-year plan to outfit and occupy the remaining renovated spaces of the Jefferson and Adams Buildings. In addition to the previously reopened Great Hall and West front entrance, the recently refurbished Congressional Reading Room and Members' Room are now open. In the spring of 1997, the Library will reopen the African/Middle East, Asian, and European Reading Rooms and the Library's new Scholars' Colonnade, Visitors' Center, Sales' Shop, and cloakrooms. A celebration is scheduled in the Spring of 1997 to mark the 100th birthday of the Thomas Jefferson Building, to thank Congress for supporting the renovation project, to open the permanent treasures exhibit, and to showcase the beauty of the building.

- **Human Resources Improvement** - The Library enhanced its ability to track applications as they moved through the recruitment process; to respond to applicants' and service units' queries; and to meet reporting requirements of the *Cook* class action settlement agreement by implementing an automated Posting and Applicant Tracking System. The Library used the Office of Personnel Management's MicroComputer Assisted Rating System (MARS) to select approximately 100 library technicians within 90 days of the opening of the vacancy announcement. The Library also instructed its managers and supervisors in sexual harassment prevention, expanded diversity awareness training to include staff as well as managers and supervisors, and improved the central staff training and development office to meet current and emerging staff needs.

- **Financial Statement Audit** - In November 1995, the General Accounting Office contracted with Price Waterhouse LLP to conduct a financial statement audit of the Library one year earlier than originally planned. Because the audit started four months later than normal and 1995 was the first operational year of the Library's new financial management system, many operational obstacles had to be overcome in preparing the fiscal 1995 financial statements, including the fact that property and equipment records were not planned for completion until 1996. Price Waterhouse LLP gave a qualified opinion on the Library's statement of financial position, because of incomplete property records, and presented four material internal control weaknesses and seven reportable conditions. The auditors explained that the audit took the characteristics of an initial audit and that the audit results were relatively consistent with those of other initial Federal agency audits.

- **Gift and Trust Funds** - During fiscal 1996, private gifts supported a variety of new and continuing programs, including the National Digital Library (NDL), the Junior Fellows program, special retrospective acquisitions fellowships for Russian librarians, an exhibition of treasures from the Saxon State Library, the Center for Geographic Information, the Center for the Book, poetry readings, public lectures, an index of Chinese periodicals, the Montana Heritage Project, the National Film Registry Tour, and The Hispanic Yearbook. For the NDL program, $4.1 million in new pledges were made, bringing the total in pledges and gifts to $22.2 million, including $1 million in-kind gifts. Three major gifts from companies represented by members of the Madison Council were announced in 1996: $2 million from Ameritech to fund a competition among American archival institutions to digitize their historic collections, $1 million from Reuters for the digitization of the papers of George Washington and Thomas Jefferson, and $1 million from Eastman Kodak for the general support of the program.

  Through the planned giving program, the Library received a bequest of $49,384 from the estate of Marguerita Krould, the wife of a former Library of Congress employee. The gift will be used to support the performance and composition of music. The Library was also notified by a trustee of the Marguerite S. Roll Trust that Mrs. Roll made a gift of $1 million "for the improvement and expansion of the Library's Local History and Genealogy Collections." Until her death, Mrs. Roll was an active member of the James Madison Council and a member of the Trust Fund Board.

STEWARDSHIP REPORTING

The standard for stewardship reporting on selected assets classified as "Heritage Assets" developed by the Federal Accounting Standards Advisory Board (FASAB) will be mandatory for fiscal year 1998. The standard applies to entities (1) that control stewardship resources and (2) whose financial statements purport to be in accordance with federal accounting principles and standards developed by FASAB and accepted by the principals. All stewardship information will be deemed "required supplemental stewardship information."

In fiscal year 1995, the Library, in consensus with its independent accountants, determined its collections were within the stewardship resource classification and prepared its first stewardship report. By beginning in fiscal year 1995, the Library is developing a data collection and a trial reporting methodology that will lead to fulfilling the objectives of the stewardship reporting standard -- to assist in judging the long-term effectiveness of expenditures for "heritage assets," the results of inputs and outcomes, and the financial impact of sustaining current services.

Consistent with the guidelines provided by FASAB, the Library has prepared its second stewardship report on its collections that provides the suggested relevant information concerning the asset description, acquisition, preservation, security, use, estimated number of items, and expenditures. The Stewardship Report is included in Section 4 of this report.

THE LIBRARY OF CONGRESS
Consolidated Statement of Financial Position
As of September 30, 1996

ASSETS			
Entity Assets:			
Intragovernmental Assets			
Fund Balance with Treasury (Note 2)	$ 171,418,493		
Investments (Note 4)	17,801,646		
Accounts Receivable, Net	5,987,652		
Interest Receivable	238,152		
Governmental Assets			
Investments	10,407,582		
Accounts Receivable, Net	470,919		
Advances	6,429		
Pledges Receivable - Donations (Note 5)	10,344,882		
Cash and Other Monetary Assets	574,239		
Inventory	374,605		
Operating Materials and Supplies	2,097,617		
Property and Equipment, Net (Note 6)	48,135,647		
Library Collections (Note 1.M)			
Total Entity Assets		$ 267,857,863	
Non-Entity Assets:			
Fund Balance with Treasury (Note 2)	247,312		
Investments, Intragovernmental Securities (Note 4)	639,546,033		
Accounts Receivable, Net - Intragovernmental	99,484		
Accounts Receivable, Net - Public	3,181		
Interest Receivable	533,052		
Cash and Other Monetary Assets	63,965		
Total Non-Entity Assets		640,493,027	
Total Assets			$ 908,350,890
LIABILITIES			
Liabilities Covered by Budgetary Resources:			
Accounts Payable - Intragovernmental	$ 589,552		
Accounts Payable - Public	17,084,176		
Accrued Funded Payroll, Benefits	11,262,164		
Total Liabilities Covered by Budgetary Resources		$ 28,935,892	
Liabilities not Covered by Budgetary Resources:			
Accounts Payable - Public	35,745		
Advances From Others - Intragovernmental	32,861,194		
Advances From Others - Public	724,181		
Custodial and Deposit Account Liability	644,121,478		
Receipts Held for Treasury	102,665		
Accrued Unfunded Annual and Compensatory Leave	14,854,833		
Accrued Unfunded Workers' Compensation (Note 8)	11,482,475		
Capital Lease Liabilities	944,612		
Total Liabilities not Covered by Budgetary Resources		705,127,183	
Total Liabilities			$ 734,063,075
NET POSITION (Note 10)			
Balances:			
Unexpended Appropriations	91,074,632		
Invested Capital	46,942,508		
Cumulative Results of Operations	46,262,726		
Unrealized Gain on Governmental Investments	71,319		
Donations and Other - Restricted	16,273,938		
Future Funding Requirements	(26,337,308)		
Total Net Position			174,287,815
Total Liabilities and Net Position			$ 908,350,890

The accompanying notes are an integral part of these consolidated financial statements.

THE LIBRARY OF CONGRESS
Consolidated Statement of Operations And Changes In Net Position
For the Year Ended September 30, 1996

Revenues and Financing Sources			
Appropriated Capital Used	$ 344,504,290		
Revenue from Sales of Goods	1,089,517		
Revenue from Services Provided	56,457,038		
Donations	15,274,861		
Interest, Non-Federal	450,551		
Interest, Federal	1,699,951		
Other Revenues and Financing Sources	1,099,238		
Less: Receipts Transferred to Treasury	(213,242)		
Total Revenues and Financing Sources		$ 420,362,204	
Expenses			
Operating Expenses:			
Personnel Services and Benefits	253,664,577		
Travel and Transportation	2,681,352		
Rental, Communication, and Utilities	10,622,277		
Printing and Reproduction	5,468,588		
Contractual Services	50,767,132		
Supplies and Materials	7,303,095		
Library Materials	54,837,349		
Non-Capitalizable Equipment	16,598,419		
Other Operating Expenses	117,715		
Depreciation and Amortization	12,886,656		
Other Expenses	121,581		
Total Expenses		415,068,741	
Excess of Revenues and Financing Sources over Expenses			$ 5,293,463
Changes in Net Position			
Net Position, Beginning Balance, as Previously Stated	$ 179,531,861		
Adjustments (Note 11)	(7,406,138)		
Net Position, Beginning Balance, as Restated		$ 172,125,723	
Excess of Revenues and Financing Sources over Expenses		5,293,463	
Non-Operating Changes (Note 12)		(3,131,371)	
Net Position, Ending Balance (Note 10)			$ 174,287,815

The accompanying notes are an integral part of these consolidated financial statements.

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1996

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Library of Congress (Library), a legislative branch agency of the federal government, was established in 1800 primarily to provide information and policy analyses to the members and committees of the U. S. 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 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 is comprised of 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).

Entity activities are those for which the Library has the authority to use the assets. Non-entity activities consist primarily of custodial accounts which are not available for use by the Library.

B. Basis of Presentation

The accompanying consolidated statements report the financial position, operations, and changes in net position of the Library for fiscal year 1996. These consolidated financial statements include the accounts of all funds under the Library's control which have been established and maintained to account for the resources of the Library. They were prepared from the Library's financial management system 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.

All significant intra-agency balances and transactions have been eliminated in consolidation.

The statements include 5 appropriated fund accounts; 11 gift revolving funds; reimbursable funds (including four major programs); 81 trust funds; and 140 gift funds. The consolidating schedules display the funds in five groupings: appropriated, reimbursable, gift and trust, revolving, and custodial.

C. Basis of Accounting

Transactions are recorded on the accrual basis and are within budgetary limitations established to facilitate compliance with legal constraints and controls over use of federal funds. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

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 and effective date of a sufficiently comprehensive set of accounting standards, and in accordance with interim guidance agreed to by the three principals, the accompanying consolidated financial statements have 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, based upon recommendations from FASAB;

- 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.

D. Revenues and Other Financing Sources

The Library receives the majority of its funding to support its programs through five appropriations that include both annual and no-year funding. The appropriated funds may be used, within statutory limits, for operating and capital expenditures including equipment, furniture and furnishings. The five appropriations are:

- Library of Congress, Salaries and Expenses - (annual) 0360101; (no-year) 03X0101
- Copyright Office, Salaries and Expenses - (annual) 0360102
- Congressional Research Service, Salaries and Expenses - (annual) 0360127
- National Library Service for the Blind and Physically Handicapped, Salaries and Expenses - (annual) 0360141; (no-year) 03X0141
- Furniture and Furnishings - (annual) 0360146; (no-year) 03X0146

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. Reimbursable and revolving fund revenue is recognized when goods have been delivered or services rendered.

E. Gift and Trust Funds

During fiscal 1996, the Library administered 221 gift and trust funds with combined asset value of approximately $56 million. All 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 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 donors and in accordance with Library policy.

F. Fund Balance with Treasury

The amount shown as Fund Balance with 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. Cash and Other Monetary Assets

Cash and other monetary assets is defined as all cash not held by the U.S. Treasury. This category includes deposits in transit, cash on hand, imprest funds, and foreign currency.

The Library 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 were translated to U.S. dollar equivalents at the uniform government-wide Treasury reporting rates. Foreign currency balances at year-end are immaterial to the consolidated financial statements.

H. Investments (Net)

Trust Funds - The Library of Congress Trust Fund Board determines the investment policy for the Library's trust funds. The policy provides three options for investment of trust funds:

- a permanent loan with the U.S. Treasury
- a pool of U.S. Treasury market-based securities
- a private investment pool consisting of four stock funds and one money market fund. The funds recommended by the Trust Fund Board's investment committee are:

- Vanguard Money Market Prime Fund
- CGM Mutual Fund
- Mutual Beacon Fund
- Fidelity Fifty
- Fidelity Stock Selector

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 permanent loan at a floating rate of interest, adjusted monthly, but no less than four percent per annum. The permanent loan is an interest bearing investment recorded at cost which is market value.

Treasury securities are intended to be held to maturity, are valued at cost, and are adjusted for the amortization of discounts and premiums. Interest is computed using the straight-line method which approximates the effective interest method.

Stock and money market funds are stated at current market value and are considered available for sale. Unrealized gains and losses are recognized and recorded as a component of equity in the statement of financial position.

All trust fund investments are obtained and held by the trust funds under conditions set forth in the respective trust instruments.

Custodial Fund - Copyright royalties collected by the Copyright Office on behalf of copyright owners are invested in U.S. Treasury securities. Treasury securities are intended to be held to maturity, are valued at cost and are adjusted for the amortization of discounts and premiums. Interest is computed using the straight-line method which approximates the effective interest method. These investments will be held until distributions are made to copyright owners. Income accrues to the benefit of the copyright owners.

I. Accounts Receivable, Net

Accounts receivable generally 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 of $184,629 and $17,285 against intragovernmental and governmental accounts receivable, respectively, based on past collection experience.

J. Pledges Receivable

Contributions of unconditional promises to give (pledges) to the Library and the Library of Congress Trust Fund Board are recognized as revenue in the period the pledge is received. They are recorded at their estimated present value using a market-based discount rate. Accretion of the discount in subsequent years is also recorded as revenue. Substantially all of the Library's pledges are from major corporations or donors. In the past the Library has collected all pledges in full, therefore, no allowance for uncollectible pledges has been established.

K. Inventories and Operating Materials and Supplies

The Library's inventories are primarily comprised 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 method of valuation. Sales shop merchandise is valued at cost or market, whichever is lower. The recorded values of inventory and operating materials and supplies are adjusted for the results of periodic physical counts.

L. Property and Equipment, Net

The Library capitalizes furniture and equipment 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 classified as equipment on loan to the public in Note 6. The Library purchases this unique, specially designed equipment from the manufacturer in large lots with a high bulk value. For financial reporting purposes, the machines are grouped by the aggregate amount purchased and shipped to machine lending agencies during a fiscal year. Each fiscal year group is then accounted for over the estimated useful life of the assets in the aggregate. This is a change in accounting principle from the previous fiscal year, as explained in Note 11, "Prior Period Adjustments." The value of the equipment does not include any freight or postage costs. These shipping costs are included under the U.S. Postal Service's "free matter for the blind and physically handicapped." The value of this service cannot be determined.

Operating equipment is amortized over a 4 to 20 year period. ADP software is 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.

Leased equipment meeting the criteria for capitalization in accordance with Statements of Federal Accounting Standards is included in property and equipment.

The Library occasionally acquires property and equipment by direct gift or by purchase from funds donated for a specific purpose or project. Because property is generally not restricted for use to gift and trust activities, property accounts are not maintained in the gift and trust funds. Capitalized property and equipment acquired through gifts are recognized as donated revenue in the gift and trust funds and transferred to the Library's appropriated fund.

Land, buildings, and improvements are 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 1996, the Architect received an appropriation totalling $12.4 million to fund the structural and mechanical care of these buildings. This appropriation is not reflected in the accompanying consolidated financial statements.

M. Library Collections

The Library's collections are classified as heritage assets, and their value is not presented on the financial statements. Stewardship information covering the acquisition, use, preservation, and security of the collections is contained in a supplementary Stewardship Report.

N. 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, compensatory time earned and workers' compensation liabilities, it is not certain that appropriations will be enacted to fund these amounts.

Advances From Others are funds received for the reimbursable programs and the Photoduplication Service that have not yet been earned.

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

Accrued Annual and Compensatory Leave - The Library's basic leave policy is contained in Title 5, U.S.C., the Uniform Annual and Sick Leave Regulations of the Civil Service Commission, and the decisions of the Comptroller General. Generally, each employee may carry forward a maximum of 240 hours of annual leave. Accrued annual leave is accrued as it is earned and adjusted at the end of each fiscal year based on annual leave earned and taken. Annual leave earned in excess of the maximum permitted carryover is forfeited. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates.

Employees' compensatory time earned but not taken is also accrued at year-end. An employee may accumulate a maximum of 40 hours of compensatory time during the fiscal year. A maximum of 20 hours may be carried forward from one leave year to the next only when it was earned during the last pay period of the leave year. Exceptions to the accumulation and carry forward rules require the approval of the Librarian or his/her designee.

Sick leave and other types of nonvested leave are expensed as taken.

Capital Lease Liabilities are liabilities resulting from capital leases of equipment.

O. Retirement Plans

Approximately 55 percent of the Library's employees participate in the Civil Service Retirement System (CSRS), to which the Library makes matching contributions equal to 7 percent of pay. Forty-five 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 (FICA) to which the Library contributes the employer's matching share. The accrued amounts due for the contributions due at the end of the fiscal year are reported as liabilities covered by budgetary resources. Contributions for fiscal year 1996 were as follows:

CSRS	$9,365,118
FERS	8,189,117
TSP	2,778,209
FICA	4,776,540
Total	$25,108,984

The actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability of Social Security, FERS and CSRS is not allocated to individual Federal departments and agencies, and is therefore not disclosed by the Library. The reporting of such data, including the disclosure of actuarial data with respect to accumulated plan benefits or the unfunded pension liability, is the responsibility of the Office of Personnel Management.

P. Intragovernmental Activities

The financial activities of the Library interact with and depend on other federal government agencies. Thus, the Library's consolidated financial statements do not reflect all financial decisions and activities applicable to it as if it were a stand-alone entity.

1. The Library's consolidated financial statements 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 liabilities, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is currently 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, claims 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 financial statements.

5. Governmental Services:

a. The Library 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 1996, the Library paid $503,560 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 $560,844 for these support services in fiscal year 1996.

- 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.

Q. 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's name. Twelve hundred federal repository libraries and the Congress received free subscriptions in fiscal year 1996. 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. The donations received by the Library as a result of this publication and the revenue foregone as a result of the discounts given cannot be readily determined.

2. Telephone Pioneers of America - The Telephone Pioneers is a large industry-related organization that voluntarily repairs playback machines for the blind and physically handicapped program. Approximately 1,500 Telephone Pioneers (AT&T retirees) and Elfuns (General Electric retirees) repair the cassette book machines and talking book machines. Their labor is valued at $4.2 million per year.

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. 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 value of the services provided by the Library cannot be readily determined. 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. The Archer M. Huntington Charitable Trust - This charitable trust was established in 1936 and is controlled and invested by the Bank of New York. The assets of the endowment are not a part of the Library of Congress Trust Fund Board and the Board's only control over its investment activities is through the Librarian of Congress' role as trustee. The trust is defined as a split-interest agreement with a fair value of assets at September 30, 1996 of $4,276,716. The Library is entitled to one-half of the income from the trust for perpetuity, which is used to support a rotating consultantship to bring "distinguished men of letters . . ." to the Library. Currently, the income assists in the funding of a "poet laureate" position. In fiscal year 1996, the Library received $57,564 from the trust.

5. 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. Income is recorded by the Library in the period received. The balance of principal of the Charitable Trust will be distributed to the Library in 2033, fifty years after the date of death of Ira Gershwin. The Library received $1,100,000 from the trust during fiscal year 1996.

6. "Friends" Organizations - Three organizations 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. 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. In its third quarter report, dated September 30, 1996, the Foundation reported total assets on hand of $74,728. During the year, the Foundation disbursed $25,882 to the Library of Congress Children's Literature Gift Fund.

b. Friends of the Law Library - This non-profit organization encourages greater awareness and use of the Law Library collections and sponsors programs and activities not covered by federal appropriations. In fiscal year 1996, the Friends supported the Law Library participation in the annual meetings of the American Association of Law Libraries and the American Bar Association and membership in twelve professional associations. The Friends donated ten volumes to the rare book collection and sponsored a program featuring The Honorable Richard A. Posner, Chief Judge of the U.S. Court of Appeals for the Seventh Circuit.

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. In fiscal year 1996, the Friends reissued James Wilson's classic editions of ***Biography of the Blind*** in a commemorative edition. It is available in print, audio and braille formats.

Note 2. Fund Balance With Treasury

Fund balances with Treasury at September 30, 1996, are summarized as follows:

1. ENTITY	Obligated	Unobligated/Available	Unobligated/Unavailable /Restricted	Total
Appropriated Funds	$84,075,448	$27,829,004	$3,733,913	$115,638,365
Reimbursable Funds	32,739,500	830,229		33,569,729
Gift and Trust Funds	4,424,971	4,503,623	7,751,751	(1) 16,680,345
Gift Revolving Funds	1,952,950	2,853,402	723,702	5,530,054
Total Entity	$123,192,869	$36,016,258	$12,209,366	$171,418,493
2. NON-ENTITY				
Custodial Funds			247,312	247,312
Total Non-Entity			$247,312	$247,312

(1) At September 30, 1996, the gift and trust fund balance with Treasury included $9,350,000 invested in the permanent loan at an interest rate of 6.625 percent.

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 for the copyright owners, income does not accrue to the Library's benefit.

If disputes arise regarding the disposition of the royalties, the Copyright Office recommends that the Librarian convene a copyright royalty arbitration panel. 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 Federal court.

Note 4. Investments, Net

Investments at September 30, 1996 are as follows:

1. ENTITY ASSETS - Trust Funds	Cost	Unamortized Premium	Unrealized Discount	Investments, Net	Market Value
A. Intragovernmental Investments Non-Marketable, Market-Based	$17,652,000	$187,080	$37,434	$17,801,646	$17,667,511
B. Governmental Investments Private Sector	10,336,263			10,336,263	10,407,582
Total - Entity	$27,988,263	$187,080	$37,434	$28,137,909	$28,075,093
NON-ENTITY ASSETS - Custodial Copyright Royalties					
A. Intragovernmental Investments Non-Marketable, Market-based	$640,758,000	$80,229	$1,292,196	$639,546,033	$639,644,092

A. Intragovernmental Investments

Non-marketable, market-based securities are Treasury notes and bills issued to governmental accounts that are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms. Trust fund investment maturity dates range from October 3, 1996 to October 31, 1999, and interest rates range from 4.7 percent to 8.9 percent. Custodial funds investment maturity dates range from October 10, 1996 to August 31, 1997, and interest rates range from 5.9 percent to 6 percent.

B. Governmental Investments

Governmental investments are the Library's investments in private sector money market and mutual funds. Cost was derived from the investments made plus reinvested gains, dividends, and interest. Balances at September 30, 1996, are as follows:

Type of Investment	Cost Basis	Market Value
Money Market Fund	$7,313,467	$7,313,467
Equity Mutual Funds	3,022,796	3,094,115
Total	**$10,336,263**	**$10,407,582**

Note 5. Pledges Receivable

At September 30, 1996, the Library had unconditional pledges of contributions totaling $11.8 million (rounded) which were discounted through fiscal year 2001 at a market discount rate and included in the statement of financial position at their discounted value of $10.3 million (rounded). The amounts due in future years, at September 30, at their current discounted value are:

	Present Value	Discount	Future Value
FY 1997	$3,841,801	$219,299	$4,061,100
FY 1998	2,798,530	350,130	3,148,660
FY 1999	2,444,275	489,325	2,933,600
FY 2000	932,885	262,815	1,195,700
FY 2001	327,391	120,109	447,500
Totals	$10,344,882	$1,441,678	$11,786,560

Note 6. **Property and Equipment (Net)**

Property and equipment accounts are maintained in two categories of funds: Appropriated and Revolving. The appropriated fund category includes all property and equipment used by the Library for general operations. Property and equipment used by Photoduplication Services is recorded in the revolving fund.

The following table shows property and equipment which was capitalized at September 30, 1996.

Classes of Property and Equipment	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
Appropriated: Operating equipment	$29,073,601	$19,875,113	$9,198,488
ADP software	2,873,781	2,170,621	703,160
Furniture & Furnishings	589,600	70,440	519,160
Capital Leases	1,437,146	250,829	1,186,317
NLS/BPH Equipment - loan to public	70,974,165	35,315,508	35,658,657
Total Appropriated	$104,948,293	$57,682,511	$47,265,782
Revolving: Equipment	$1,359,108	$804,361	$554,747
Capital Leases	413,675	98,557	315,118
Total Revolving	$1,772,783	$902,918	$869,865
Total Property and Equipment	$106,721,076	$58,585,429	$48,135,647

Note 7. Operating 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 1996 amounted to $5,032,955. Estimated future minimum lease payments through fiscal year 2008 are as follow:

Fiscal Year Ended September 30	
1997	$3,805,348
1998	2,259,977
1999	2,140,275
2000	2,128,000
2001	2,111,472
Thereafter	13,369,683
Total Estimated Future Lease Payments	$25,814,755

Note 8. 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 $2,234,105 of unbilled or unpaid workers' compensation costs as of September 30, 1996, and established an estimated unfunded liability for future costs based on historical claims rates. The estimated future unfunded liability is $9,248,370 and is based on a ten year projection.

Note 9. Contingent Liabilities

In November 1996, the U.S. Court of Appeals for the District of Columbia Circuit entered an order stating that all appeals from the final approval of the *Cook vs. Billington* class settlement were dismissed and implementation of the settlement could proceed. The settlement calls for payout of $8.5 million in back pay to the class members under the suit and attorney costs of $1.6 million, covering fees and expenses incurred by the plaintiffs through December 31, 1993. Additional plaintiff attorney's fees in connection with matters arising from the date of agreement until its expiration are also required to be paid. These awards and fees will be paid from the Treasury's Claims, Judgments and Relief Act Fund and have not been recorded as liabilities in the consolidated financial statements.

In addition, the settlement called for the promotion of 40 class members and the lateral reassignment of ten class members under the terms and conditions of the agreement. The settlement agreement remains in effect for four years from final court approval.

Several claims relating to employment matters are outstanding against the Library. While management cannot predict the outcome of the claims and is unable to estimate the potential loss, the maximum loss under each claim may not exceed $300,000 in compensatory damages, plus any equitable relief (back pay, front pay, attorney's fees). Under law, any claims settled internally would be paid from the Library's appropriated funds and any claims defended in court would be settled by the Treasury's Claims, Judgments and Relief Act Fund.

Note 10. Net Position

The components of net position at September 30, 1996 are as follows:

Balances:	Appropriated	Reimbursable	Gift & Trust	Revolving	Consolidated
A. Unexpended Appropriations:					
Undelivered Orders	$62,843,869				$62,843,869
Unobligated	28,230,763				28,230,763
Total Unexpended Appropriations	$91,074,632				$91,074,632
B. Invested Capital	46,942,508				46,942,508
C. Cumulative Results of Operations	414,945	(176,920)	39,774,641	6,250,060	46,262,726
D. Unrealized Gains			71,319		71,319
E. Other:					
Donations and Other - Restricted	1,108,011		15,165,927		16,273,938
F. Future Funding Requirements	(25,925,134)	(412,174)			(26,337,308)
G. Total	$113,614,962	$(589,094)	$55,011,887	$6,250,060	$174,287,815

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, 1996, for goods and services which were ordered but had not been received by that date.

Unobligated balances are: 1992-96 annual, $15,672,120; No-Year, $12,558,643.

B. Invested Capital

Invested capital represents U.S. Government resources invested in certain Library assets. This balance consists of the net book value of property and equipment that is financed by appropriations. Revolving fund property and equipment are not included since they are not purchased from appropriated funds.

C. 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.

D. Unrealized Gains

Unrealized gains are gains on governmental securities during fiscal year 1996 that were recognized but not realized.

E. Donations and Other - Restricted

Donations and other - restricted represent the total trust fund balance from current and prior years that is permanently restricted (principal may not be spent). It also includes the undepreciated value of property and equipment donated to the Library which is transferred to the appropriated fund upon acquisition. These assets are available for the general use of the Library. Revolving fund property and equipment balances are not included since they are not purchased from appropriated funds.

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 and Compensatory Leave and Workers' Compensation Liability balances.

Note 11. Prior Period Adjustments

Adjustment	Appropriated	Reimbursable	Gift & Trust	Revolving	Consolidated
NLS Equipment Capitalization Adjustment	$(6,865,573)				$(6,865,573)
Other Equipment Capitalization Adjustment	(1,595,447)			$191,861	(1,403,586)
Software Capitalization Adjustment	30,048				30,048
Initial Capitalization of Software	25,604				25,604
Initial Capitalization of Leases	162,119			94,671	256,790
Reclassification of Equipment as Building Fixtures	(50,000)				(50,000)
Prior Year Accrual Adjustment, NLS Equipment	464,484				464,484
Donated Assets Depreciation Adjustment	23,480				23,480
A. Total Property and Equipment Adjustments	(7,805,285)			286,532	(7,518,753)
Prior Year Revenue Recognition Adjustment		$71,748			71,748
Conversion of FEDLINK Account Receivable Balances		(18,023)			(18,023)
Accrued Account Payable Overstated in FY95 Financial Statements			$4,620		4,620
Reversal of Prior Year Bad Debt Expense				55,368	55,368
Other	(880)	(187)	(101)	70	(1,098)
B. Total Other Adjustments	(880)	53,538	4,519	55,438	112,615
Total	**$(7,806,165)**	**$53,538**	**$4,519**	**$341,970**	**$(7,406,138)**

A. Property and Equipment Adjustments

During the fiscal year 1996, the Library conducted a physical inventory of its capitalizable equipment and a complete review of its property and equipment records. The inventory and review resulted in corrections to the property and accumulated depreciation records. In addition, the Library adjusted its records to account for capitalization of playback machines in bulk by year of purchase.

The beginning net position in the accompanying financial statements has been restated for the effect of these adjustments on the net book value of the property and equipment assets at October 1, 1995. As a result of this restatement, net position at October 1, 1995 has been decreased by $7,518,753.

B. Other

Various other adjustments, amounting to an increase of $112,615, were made to correct the net position at October 1, 1995.

Note 12. Non-Operating Changes

Change	Appropriated	Gift & Trust	Consolidated
A. Decrease in Appropriated Capital			
1) Phase out of AID Program	$(4,171,950)		$(4,171,950)
2) Difference in FY90/91 Cancellations	(2,084,692)		(2,084,692)
3) Net Decrease in Other Expenditures	(1,528,949)		(1,528,949)
Total Decrease in Appropriated Capital (See A. below)	**(7,785,591)**		**(7,785,591)**
B. Other Non-Operating Changes			
Donated Assets:			
1) Transfers-In	632,083		632,083
2) Depreciation	(79,029)		(79,029)
3) Transfers-Out		$(632,083)	(632,083)
Realized Gains on Redeemed Non-Governmental Securities (Gain Recognized in Prior Year)		(489,026)	(489,026)
Increase in Invested Capital	5,222,275		5,222,275
Total Other Non-Operating Changes	**5,775,329**	**(1,121,109)**	**4,654,220**
Total Non-Operating Changes	**$(2,010,262)**	**$(1,121,109)**	**$(3,131,371)**

A. Fiscal Year 1996 Non-Operating Decrease in Appropriated Capital

Increases:	
Transfers-In: Treasury Warrants from Appropriations	$324,700,000
Offsetting Collections from Appropriations	23,613,774
Non-Expenditure Transfers	361,595
Sub-Total	**$348,675,369**
Decreases:	
Transfers-Out: Appropriations Used from Operating Statement	($344,504,290)
Less: Revenues from Depreciation/Loss	12,818,746
Appropriations Used to Acquire Capitalized Assets*	(17,941,742)
FY96 Refund Affecting FY95 NLS Equipment Acquisition*	(127,782)
Appropriations Used to Acquire Operating Materials and Supplies	(99,279)
Canceled FY91 Authority	(6,346,310)
Non-Expenditure Transfers	(245,538)
Other Decreases	(14,765)
Sub-Total	**($356,460,960)**
Total Non-Operating Decreases in Appropriated Capital	**($7,785,591)**

* Appropriations used to acquire capitalized assets, net of FY96 refund of $127,782 for prior year NLS equipment purchases.

Note 13. Subsequent Events

A. Appropriated

Public Law 104-285 was signed into law on October 11, 1996. Title I reauthorizes the National Film Preservation Board and the National Film Registry for a seven-year period. Title II establishes the National Film Preservation Foundation.

The National Film Preservation Board was originally established in 1988 and reauthorized for 1992-1996 as part of the Library. The National Film Preservation Act of 1996 includes the following provisions:

1. reauthorizes the Board and Registry for a seven-year period;

2. authorizes up to $250,000 per year to be appropriated for the Board;

3. authorizes terms of office for Board members for both entities of four years; and

4. authorizes no funding for the Foundation until fiscal year 2000 at which time up to $250,000 is authorized annually to match private contributions until fiscal year 2003, the end of the reauthorization period.

THE LIBRARY OF CONGRESS
Consolidating Schedule - Financial Position Information
As of September 30, 1996

	APPROPRIATION	REIMBURSABLE	GIFT AND TRUST	REVOLVING	CUSTODIAL	COMBINED	ELIMINATIONS	CONSOLIDATED
ASSETS								
Entity Assets:								
Intragovernmental Assets								
Fund Balance with Treasury	$ 115,638,365	$ 33,569,729	$ 16,680,345	$ 5,530,054		$ 171,418,493		$ 171,418,493
Investments			17,801,646			17,801,646		17,801,646
Accounts Receivable, Net	220,594	5,781,829	66,588	350,768		6,419,779	$ (432,127)	5,987,652
Interest Receivable			238,152			238,152		238,152
Governmental Assets								
Investments			10,407,582			10,407,582		10,407,582
Accounts Receivable, Net	157,730	32,628	984	279,577		470,919		470,919
Advances	4,014	1,056	1,359			6,429		6,429
Pledges Receivable - Donations			10,344,882			10,344,882		10,344,882
Cash and Other Monetary Assets	134,788		427,149	12,302		574,239		574,239
Inventory				374,605		374,605		374,605
Operating Materials and Supplies	1,601,690			495,927		2,097,617		2,097,617
Property and Equipment, Net	47,265,782			869,865		48,135,647		48,135,647
Library Collections								
Total Entity Assets	165,022,963	39,385,242	55,968,687	7,913,098		268,289,990	(432,127)	267,857,863
Non-Entity Assets:								
Fund Balance with Treasury					$ 247,312	247,312		247,312
Investments, Intragovernmental Securities					639,546,033	639,546,033		639,546,033
Accounts Receivable, Net - Intragovernmental	99,484					99,484		99,484
Accounts Receivable, Net - Public	3,181					3,181		3,181
Interest Receivable					533,052	533,052		533,052
Cash and Other Monetary Assets					63,965	63,965		63,965
Total Non-Entity Assets	102,665				640,390,362	640,493,027		640,493,027
Total Assets	$ 165,125,628	$ 39,385,242	$ 55,968,687	$ 7,913,098	$ 640,390,362	$ 908,783,017	$ (432,127)	$ 908,350,890

See accompanying independent auditors' report.

THE LIBRARY OF CONGRESS
Consolidating Schedule - Financial Position Information
As of September 30, 1996

	APPROPRIATION	REIMBURSABLE	GIFT AND TRUST	REVOLVING	CUSTODIAL	COMBINED	ELIMINATIONS	CONSOLIDATED
LIABILITIES								
Liabilities Covered by Budgetary Resources:								
Accounts Payable - Intragovernmental	$ 852,733	$ 126,278	$ 42,632	$ 36		$ 1,021,679	$ (432,127)	$ 589,552
Accounts Payable - Public	9,778,007	6,221,670	652,114	432,385		17,084,176		17,084,176
Accrued Funded Payroll, Benefits	10,268,312	353,020	262,054	378,778		11,262,164		11,262,164
Total Liabilities Covered by Budgetary Resources	20,899,052	6,700,968	956,800	811,199		29,368,019	(432,127)	28,935,892
Liabilities not Covered by Budgetary Resources:								
Accounts Payable - Public					$ 35,745	35,745		35,745
Advances From Others - Intragovernmental		32,861,194				32,861,194		32,861,194
Advances From Others - Public				724,181		724,181		724,181
Custodial and Deposit Account Liability	3,766,861				640,354,617	644,121,478		644,121,478
Receipts Held for Treasury	102,665					102,665		102,665
Accrued Unfunded Annual and Compensatory Leave	14,442,659	412,174				14,854,833		14,854,833
Accrued Unfunded Workers' Compensation	11,482,475					11,482,475		11,482,475
Capital Lease Liabilities	816,954			127,658		944,612		944,612
Total Liabilities not Covered by Budgetary Resources	30,611,614	33,273,368		851,839	640,390,362	705,127,183		705,127,183
Total Liabilities	51,510,666	39,974,336	956,800	1,663,038	640,390,362	734,495,202	(432,127)	734,063,075
NET POSITION								
Balances:								
Unexpended Appropriations	91,074,632					91,074,632		91,074,632
Invested Capital	46,942,508					46,942,508		46,942,508
Cumulative Results of Operations	414,945	(176,920)	39,774,641	6,250,060		46,262,726		46,262,726
Unrealized Gain on Governmental Investments			71,319			71,319		71,319
Donations and Other - Restricted	1,108,011		15,165,927			16,273,938		16,273,938
Future Funding Requirements	(25,925,134)	(412,174)				(26,337,308)		(26,337,308)
Total Net Position	113,614,962	(589,094)	55,011,887	6,250,060		174,287,815		174,287,815
Total Liabilities and Net Position	$ 165,125,628	$ 39,385,242	$ 55,968,687	$ 7,913,098	$ 640,390,362	$ 908,783,017	$ (432,127)	$ 908,350,890

See accompanying independent auditors' report.

THE LIBRARY OF CONGRESS

Consolidating Schedule - Operations and Changes in Net Position

For the Year Ended September 30, 1996

	APPROPRIATION	REIMBURSABLE	GIFT AND TRUST	REVOLVING	CUSTODIAL	COMBINED	ELIMINATIONS	CONSOLIDATED
Revenues and Financing Sources								
Appropriated Capital Used	$ 344,504,290					$ 344,504,290		$ 344,504,290
Revenue from Sales of Goods			$ 772	$ 1,097,482		1,098,254	$ (8,737)	1,089,517
Revenue from Services Provided	1,308,984	$ 56,626,302	(153)	6,020,491		63,955,624	(7,498,586)	56,457,038
Donations			15,009,468	265,393		15,274,861		15,274,861
Interest, Non-Federal			450,551			450,551		450,551
Interest, Federal			1,699,951			1,699,951		1,699,951
Other Revenues and Financing Sources	213,242		932,493			1,145,735	(46,497)	1,099,238
Less: Receipts Transferred to Treasury	(213,242)					(213,242)		(213,242)
Total Revenues and Financing Sources	345,813,274	56,626,302	18,093,082	7,383,366		427,916,024	(7,553,820)	420,362,204
Expenses								
Operating Expenses:								
Personnel Services and Benefits	238,893,111	7,390,673	3,293,957	4,093,641		253,671,382	(6,805)	253,664,577
Travel and Transportation	1,925,573	148,910	540,734	67,800		2,683,017	(1,665)	2,681,352
Rental, Communication, and Utilities	9,041,408	1,102,788	228,880	249,201		10,622,277		10,622,277
Printing and Reproduction	6,558,655	163,294	298,851	87,720		7,108,520	(1,639,932)	5,468,588
Contractual Services	27,694,766	19,848,710	4,888,987	986,773		53,419,236	(2,652,104)	50,767,132
Supplies and Materials	6,963,316	61,808	186,932	1,303,675		8,515,731	(1,212,636)	7,303,095
Library Materials	28,193,694	27,665,163	1,018,689	481		56,878,027	(2,040,678)	54,837,349
Non-Capitalizable Equipment	13,374,215	282,037	2,899,284	42,883		16,598,419		16,598,419
Other Operating Expenses	189		117,526			117,715		117,715
Depreciation and Amortization	12,736,710			149,946		12,886,656		12,886,656
Other Expenses	114,020	(37,753)	30,589	14,725		121,581		121,581
Total Expenses	345,495,657	56,625,630	13,504,429	6,996,845		422,622,561	(7,553,820)	415,068,741
Excess of Revenues and Financing Sources over Expenses	$ 317,617	$ 672	$ 4,588,653	$ 386,521		$ 5,293,463		$ 5,293,463
Changes in Net Position								
Net Position, Beginning Balance, as Previously Stated	$ 123,113,772	$ (643,304)	$ 51,539,824	$ 5,521,569		$ 179,531,861		$ 179,531,861
Adjustments	(7,806,165)	53,538	4,519	341,970		(7,406,138)		(7,406,138)
Net Position, Beginning Balance, as Restated	115,307,607	(589,766)	51,544,343	5,863,539		172,125,723		172,125,723
Excess of Revenues and Financing Sources over Expenses	317,617	672	4,588,653	386,521		5,293,463		5,293,463
Non-Operating Changes	(2,010,262)		(1,121,109)			(3,131,371)		(3,131,371)
Net Position, Ending Balance	$ 113,614,962	$ (589,094)	$ 55,011,887	$ 6,250,060		$ 174,287,815		$ 174,287,815

See accompanying independent auditors' report.

THE LIBRARY OF CONGRESS

Stewardship Report

HERITAGE ASSETS

September 30, 1996

Library Collections

The Library of Congress has the world's largest library collection comprising over 111 million items including research materials in over 450 languages and various media. The collections include approximately 26 million books and other printed materials, 48 million manuscripts, 13 million photographs, 4 million maps, 4 million pieces of music, 2 million audio recordings, and 700 thousand motion pictures. The collection of incunabula (books printed before 1501) 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. Every work day the Library takes in 10,000 new items for its collections and organizes and prepares them for use by the Congress and the nation.

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. Also, new treasures are added each year. A fiscal year 1996 acquisition is Antonio de Medina's ***Viaggio di terra Santa (1590)***, an extremely rare and richly illustrated Italian translation of a Spanish pilgrimage to the eastern Mediterranean.

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 accession 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.

THE LIBRARY OF CONGRESS

Stewardship Report

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. 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 responsibilities 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 ideal of a universal collection has been aided greatly by 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 in the Library.

A 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. 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 pre-publication 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 1996, the Library obtained 49,083 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 11,000 exchange agreements, the Library of Congress maintains fewer than 100 "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 1996, the Exchange and Gift Division (E&G) received 137,000 items, or 42 percent of its exchange receipts, from these official central sources.

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Stewardship Report

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 1996, the Library received more than 914 thousand 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	1996
Annual Appropriations Authorized	$ 7,636,000	$ 7,669,000	$ 8,127,000	$ 8,458,000	$ 8,458,000
Estimated Value of Copyright Deposits Transferred to the Library	$12,134,000	$13,547,000	$15,711,000	$20,158,594	$20,157,816
Government Printing Office Appropriation (part of Superintendent of Documents) for International Exchange	$ 750,000	$ 637,000	$ 712,000	$ 462,000	$ 509,000

Acquisitions by source:

Source	Pieces 1992	Pieces 1993	Pieces 1994	Pieces 1995	Pieces 1996
Purchases:					
Appropriated - GENPAC/LAW	930,747	914,742	799,110	714,127	707,695
Appropriated Other	230,213	202,853	197,970	146,828	145,418
Special Foreign Currency	101,304	78,108	66,081	65,827	54,888
Gift and Trust Funds	5,774	20,318	5,541	3,712	4,830
Total Purchases	1,268,038	1,216,021	1,068,702	930,494	912,831
Non-Purchases:					
Exchange	473,394	529,125	558,327	453,857	321,446
Government Transfers	992,694	720,925	727,874	732,087	443,599
Gifts	1,439,056	650,282	1,246,809	744,860	2,608,494
Cataloging in Publication	53,016	46,048	56,345	49,201	49,083
Copyright Deposits	827,173	833,929	757,082	855,022	739,582
Total Non-Purchases	3,785,333	2,780,309	3,346,437	2,835,027	4,162,204
Total All Acquisitions	5,053,371	3,996,330	4,415,139	3,765,521	5,075,035

THE LIBRARY OF CONGRESS

Stewardship Report

Preservation and Conservation

The Library's collections are preserved and protected through an extensive and diverse preservation program. The budget element for preservation of materials totaled $10.3 million in fiscal year 1996. Preservation projects in process or under study are:

- 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 1996 are as follow:

Treatment:		
Volumes treated		4,213
Unbound items treated, paper-based		6,168
Non-paper-based items treated		88
Commercial library binding, volumes		199,834
Mass Deacidification Volumes (1st year - new category		25,000
Housing/Rehousing:		
Protective boxes constructed, for paper-based materials		8,769
Items rehoused, paper-based		12,180
Discs, film (reels), magnetic tape (reels/cassettes) cleaned, packaged	(discs, 12,500; reels, 2,634; reels/cassettes, 2,700)	17,834
Copying/Reformatting:		
Paper-based materials converted to microfilm, items	(2,656,596 exposures)	25,937
Audio materials converted to magnetic tape, titles		2,125
Video materials converted to magnetic tape, titles		1,360
Motion picture films converted, reels	(482,000 feet)	567
General Preservation of the Collections		
Items surveyed, paper-based		6,099

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).

THE LIBRARY OF CONGRESS

Stewardship Report

The acidic books problem 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 September 30, 1996, $4.7 million remained in the appropriated no-year fund.

In 1995, the Library awarded a two-year contract to Preservation Technologies, Inc. (PTI) that uses the Bookkeeper III deacidification process. In fiscal year 1996, for the first time since the Library began its search for a mass deacidification process, it moved beyond testing and began to deacidify books from the Library's collections. Under the limited contract, the Library committed to deacidify 72,000 books over the next two years. In fiscal year 1996, 25,000 non-rare materials from the General Collections, Asian Division, Law Library, and Rare Book and Special Collections Divisions were deacidified. The Library expects to deacidify an additional 45,000 items in fiscal year 1997.

Recognizing the limited resources and technical capacity to deacidify all of the books, the selection process encompasses several criteria. By lengthening the life span of a book, deacidification enables the Library to avoid costly reformatting (such as microfilming) in the future. Also, some collections are selected to ensure continued access to information that is not a high priority for digitization. Other criteria used individually or in combination to identify collections for deacidification include: 1) potential future use of the materials; 2) value of materials, both intrinsic and other; 3) physical condition; and 4) the cost of assuring access. For example, the older retrospective American fiction collections are a priority because they are highly acidic and contain both color illustrations and Victorian decorated covers, neither of which can be readily preserved through reformatting.

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 - 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 40 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 films to the National Film Registry, and counseling the Librarian on development and implementation of the national film preservation plan.

In October 1996, President Clinton signed into law "The National Film Preservation Act of 1996" (Public Law 104-285). This landmark legislation 1) reauthorizes the National Film Preservation Board for seven years, and 2) creates the independent, private sector National Film Preservation Foundation to serve as a public-private partnership for film preservation. The Foundation will raise private funds (both cash and in-kind contributions), match these with a limited amount of federal funds, and provide grants to motion picture archives, historical societies, and other non-profit institutions with film collections throughout the nation. Grants will focus primarily on "orphan" films--works not controlled by Hollywood studios, such as independent and silent films, newsreels and documentaries, films directed by or about minorities, and films of regional or historical importance. Such films have great cultural and education value, but possess little commercial viability and will not survive without public intervention.

Nitrate Film Preservation - 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 OF CONGRESS

Stewardship Report

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 1996, the Library served over 2 million items in the Library. It also circulated over 31,000 items to Congressional borrowers and nearly 45,000 items to other agencies and libraries. At the end of fiscal year 1996, 17,643 external loans were outstanding.

Collections Security

In fiscal year 1995, the Library contracted with Computer Sciences Corporation (CSC) to conduct a comprehensive survey of collections security. Also, at the beginning of fiscal year 1996, the Congress requested the General Accounting Office (GAO) to conduct a management audit of the Library's operations including collections security. Both organizations reported varying security needs in many parts of the Library.

In response to GAO and CSC recommendations, the Library developed a Management Improvement Plan (MIP) which calls for a protection philosophy and policy including researching options and alternatives for efficient, cost-effective solutions to improve the overall security of the collections.

The Library's response to the basic recommendations -- to establish an "individual or organization with overall responsibility for security of the Library with associated authority to develop and execute a security policy," and to develop a security management plan with a comprehensive risk assessment and a framework to address potential threats -- began immediately in fiscal 1996. The Library created the office of Director of Security and hired a director. Plans call for the office to be operational by mid-summer 1997 to enable the Library to conduct a centralized management approach to security consistent with its mission and priorities.

On a more functional level, as a first response to the reports, the Library is enforcing the requirement that two responsible staff members certify contents and destination of outgoing mail packages and freight and that the mail room enforce Library policy not to accept and forward outgoing personal mail. The Library has updated instructions and procedures for administration of stack passes and key cards.

Among other collections security steps proposed by GAO and CSC, both new and as enhancements to security procedures already in place, the Library has completed the following:

- Enhanced key control within the Library by completing an inventory of 5,000 keys and documenting procedures for key control.
- Detailed a vulnerability and risk assessment for the collections which is scheduled for completion in 1997.
- Conducted a condition check of 5,000 volumes to establish a benchmark for measuring future loss and damage.
- Improved and modernized cages and vaults holding high value collections and increased locking of workspaces in selected areas.
- Placed X-ray machines in operation at the Madison loading dock to check incoming parcels and mail.
- Installed concrete barriers at selected areas to prevent vehicle entry.
- Enhanced security of classified national security information by conducting an inventory of sensitive holdings, appointing top secret control officers, and documenting security procedures.

Additional security actions planned for fiscal 1997 include:

- Continue establishment of the Office of the Director of Security and finalize the Security Management Plan.
- Continue detailed risk assessments for the Library and its collections and plan and implement security actions accordingly.
- Continue implementation of security awareness, security training, security performance and security evaluation programs.
- Enhance badge, pass, and credential control procedures.
- Reassess resource requirements.
- Implement other critical actions in accordance with the Security Management Plan.

While detailed security procedures vary by type of format, the following basic controls are now in place:

- Inspections are performed at building entrances.
- Personal belongings in selected reading rooms are restricted -- patrons must use cloak rooms and lockers for personal belongings.
- Book storage areas in the Thomas Jefferson and John Adams buildings are electronically controlled by an electronic access system.

- Police patrol book stacks.
- Access to collections storage is closed to the public and all Library staff except those whose assigned duties require access to perform their work.
- A large number of selected books contain anti-theft targets.
- An automated collections control facility provides item-level inventory control for a large number of books.
- Patron photo identification cards are issued to identify users and a database of patron information is maintained.
- Library staff are required to wear visible ID cards within the Library.
- Locked vaults and cages are located in stack areas for valuable collections.
- Video surveillance cameras are located in many reading rooms and stacks.
- Electronic anti-theft detection gates are located at active pedestrian exits.
- Exit inspections are performed.

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 six 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 1996, the arrearage, mostly in non-book formats, comprised 22.5 million items. This figure was reduced by 1.5 million items during the fiscal year. Arrearage statistics for fiscal 1996 are as follow:

Items in Arrearage	1995	1996	Change	Percent Change
Print Materials	599,375	649,076	49,701	8.3
Special Materials	21,891,696	20,321,447	(1,570,249)	(7.2)
Total	22,491,071	20,970,523	(1,520,548)	(6.8)

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.

THE LIBRARY OF CONGRESS

Stewardship Report

Financial Reporting

The Library's collections are classified as "Stewardship Property" and are defined as "Heritage Assets" for financial reporting purposes. The Federal Accounting Standards Advisory Board (FASAB) defined heritage assets 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.

In accordance with the FASAB recommended standard on stewardship reporting, heritage assets 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 has 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, and will be effective for all executive branch agencies in fiscal 1998. The Library has adopted the FASAB standards to the extent appropriate for a legislative agency and has chosen to prepare the Stewardship Report for fiscal years 1995 and 1996.

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. 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.

THE LIBRARY OF CONGRESS

Stewardship Report

Estimated Quantity of Each Category of Collection Materials at September 30, 1996

Category of Collection	Beginning of Year Balance	Added During Year	Withdrawn During Year	End-of Year Total	Method of Acquisition and Withdrawal
Print Collections - Classified Books	16,764,805	317,497	3,164	17,079,138	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.	9,169,903	97,355	11,516	9,255,742	Acquisitions: Copyright deposits, purchase, exchange and gift Withdrawals: exchange & gift; depreciation or depletion through use; or disposals through GSA
Total Print Collections	25,934,708	414,852	14,680	26,334,880	
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	82,498,662	2,189,551	56,298	84,631,915	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.)
Correction for over-adjustment made in Prints and Photographs in FY 1995 for double count in arrearage census in FY 1989	113,871			113,871	
Total Collections	108,547,241	2,604,403	70,978	111,080,666	

ADDITIONS TO THE COLLECTIONS-ITEMS

Print Collections	Added	Withdrawn	Total
Classified Book Collections			
Class A (General Works)	3,864	22	411,883
Class B-BJ (Philosophy)	6,323	172	282,460
Class BL-BX (Religion)	13,455	261	625,247
Class C (History, Auxiliary Sciences)	5,545	1	238,041
Class D (History, Except American)	22,430	6	1,143,050
Class E (American History)	5,229	33	255,205
Class F (American History)	9,384	19	407,805
Class G (Geography, Anthropolgy)	11,108	725	391,516
Class H (Social Sciences)	47,937	680	2,636,245
Class J (Political Science)	10,463	101	761,400
Class K and LAW (Law)	40,290	2	2,087,042
Class L (Education)	8,171	102	489,216
Class M (Music)	7,610	45	607,108
Class N (Fine Arts)	12,920	42	460,189
Class P (Language and Literature)	45,260	124	2,276,213
Class Q (Science)	19,838	4	1,059,026
Class R (Medicine)	9,899	42	446,828
Class S (Agriculture)	5,889	133	403,729
Class T (Technology)	20,321	640	1,212,298
Class U (Military Science)	2,085	2	193,350
Class V (Naval Science)	1,252	0	100,503
Class Z (Bibliography)	8,224	8	590,784
Total Classified Book Collections	317,497	3,164	17,079,138
Other Print Materials or Products			
Books in large type	0	0	8,668
Books in raised characters	1,127	2	69,549
Incunabula	0	0	5,693
Minimal-level cataloging (monographs and serials)	42,704	0	497,246
Newspapers (bound)	0	18	35,759
Pamphlets	2,828	714	262,990
Technical reports	12,590	7,142	1,402,929
Other	38,106	3,640	6,972,908
Total Other Print Materials	97,355	11,516	9,255,742
TOTAL PRINT COLLECTIONS	414,852	14,680	26,334,880

Other Collections	Added	Withdrawn	Total
Audio materials	83,838	9,915	2,249,268
Talking books	1,999	6	49,714
Manuscripts	1,287,642	1	47,911,077
Maps	102,586	40,459	4,408,464
Microforms	497,757	688	11,339,461
Music	51,135	0	3,825,735
Visual material			
Moving images	27,767	831	742,699
Photographs (negatives, prints, and slides)*	112,680	2,733	12,475,164
Posters	476	0	81,758
Prints and drawings	16,491	1,555	377,411
Other (broadsides, photocopies, nonpictorial material, etc.)	449	55	1,254,532
Machine-readable material	6,731	55	30,503
TOTAL OTHER COLLECTIONS	2,189,551	56,298	84,745,786
TOTAL (items)	2,604,403	70,978	111,080,666

* Total adjusted to correct FY 1995 transcription error

THE LIBRARY OF CONGRESS
MANAGEMENT REPORT ON INTERNAL CONTROLS
OVER FINANCIAL REPORTING

Fiscal Year Ended September 30, 1996

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, 140 gift funds, 81 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 and by independent auditors to determine the extent of compliance with the following internal control objectives over financial reporting.

- 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 laws and regulations that could have a direct and material effect on the consolidated financial statements
- Transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and to maintain accountability for assets.

This report on financial controls does not address safeguarding of the Library's collection (heritage) assets. A separate management report on the collections is presented at 5-5.

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.

In fiscal year 1996, the Library implemented many improvements to address control weaknesses identified in the 1995 Consolidated Financial Statement audit report. Major improvements included (1) preparing and issuing seven new directives covering the payment and receipt of funds, accounting standards, internal control reviews, property and depreciation, and reconciliations; (2) training Library financial managers and staff on the conduct of internal control reviews; (3) developing a detailed task list and schedule for preparing proprietary financial statements; (4) preparing an accrual for accounts payable at year end and documentation supporting that accrual; and (5) completing a detailed review of the Library's property records and a physical inventory of all capitalized equipment. While not addressed completely, the Library also improved automated systems controls by reviewing and limiting access to automated data and installing a new data vaulting system to enhance data security.

The Library evaluated its internal controls at September 30, 1996, and in operation during the year then ended, on the basis of criteria for efficient internal controls in the federal government described above, and identified the following deficiencies:

- **Security practices over information systems are inadequate.** As noted above, the Library implemented several automation security improvements at the end of fiscal year 1996. However, the following weaknesses were present during fiscal year 1996 and some still require further actions to correct fully: Physical and logical access controls do not adequately reduce the risk of unauthorized access, use, or damage to the Library's information systems. The Library has inadequate physical access controls to its data center and has not implemented a formal data security program. Programmers have access to critical "system" datasets, system engineers have unlimited access to system data and files and terminated employees are not removed from access to the Library system in a timely manner.

- **Weaknesses exist in the controls over the financial reporting process.** The Library completed many of the tasks designed to meet financial reporting objectives in 1996. However, some important tasks were not fully performed or fully completed, including (1) performing satisfactorily all major program and subsystem reconciliations at September 30, 1996, (2) enhancing and monitoring the self-assessment review and review of internal controls and accounting systems, (3) filling vacant financial management positions, (4) reviewing all accounts for reasonableness on a timely basis, (5) reviewing and reconciling property accounts, and (6) identifying and applying all relevant accounting policies and principles.

- **Library records for capitalized nonbulk property and equipment are not complete and accurate.** The subsidiary property and equipment records contain numerous errors in disposals, cost, acquisition dates, and completeness. Other weaknesses include inadequate supporting documentation for some assets, inconsistent capitalization policies for software, incorrect application of the method for capitalizing leased equipment, and improper estimations of depreciable lives of property and equipment.

- **Safeguarding controls for property and equipment are inadequate.** The Library has two systems for accounting for property and equipment, depending on the nature of the item. However, policies and procedures in place in either system are not sufficient to ensure adequate safeguarding of property and equipment.

- **Weaknesses exist in the controls over the financial reporting system application controls.** The Library's financial reporting system override report is not adequately reviewed by end-user management. Override data reporting is infrequent and is not distributed to management on a timely basis. Management is not required to approve override transactions that have occurred.

- **The Library lacks a business continuity plan.** Backup tapes and copies of system critical catalogs for the Library's systems are not stored in a secure location and the Library has not developed a continuity plan that addresses disaster recovery.

- **Year 2000 compliant software for financial systems has not been implemented.** The Library has not upgraded its general ledger package and some supporting subsystems to the latest software releases to implement necessary changes for the year 2000.

- **Current limitations on the Library's Office of Inspector General have the appearance of weakening its effectiveness as an oversight function.**

Because material internal control weaknesses existed during some part of fiscal 1996, we cannot provide reasonable assurance that the Library's internal controls over financial reporting at September 30, 1996, met the following two objectives: (1) assets are safeguarded against loss from unauthorized acquisition, use or disposition; and (2) transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and to maintain accountability for assets.

We believe internal controls over financial reporting were effective at September 30, 1996, in providing reasonable assurance that transactions were executed in accordance with laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the consolidated financial statements.

THE LIBRARY OF CONGRESS CONSOLIDATED FINANCIAL STATEMENTS

The accompanying Consolidated Statements summarize the Library's assets, liabilities, and net position as of September 30, 1996. The accompanying Consolidated Operating Statement and Changes in Net Position presents the Library's revenues, expenses, and changes in net position for the year ended September 30, 1996. The basis of accounting used for these statements is described in the notes to the statements. 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 Financial Statements was performed by the independent accountants, KPMG Peat Marwick LLP. The independent accountants' report on the Consolidated Statement of Financial Position, Consolidated Operating Statement, internal controls, and compliance with certain laws and regulations is included in Section 6 of this report.

John D. Webster
Director, Financial Services

Donald L. Scott
Deputy Librarian of Congress

James H. Billington
Librarian of Congress

THE LIBRARY OF CONGRESS

MANAGEMENT ASSERTION ON CONTROLS FOR THE COLLECTIONS

Fiscal Year Ended September 30, 1996

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

A major 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 111 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, other branches of government, 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 demands of the users, the development of technological and other means for accessing, 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; and the theft, mutilation, or accidental loss of the items in the collection. 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 -- for example, the introduction of wood pulp (ie, highly acidic) paper in the mid-nineteenth century and a variety of unstable media in the twentieth (nitrate film stock, wax cylinders, audio tape, etc.) has presented the Library in 1996 with a number of preservation challenges. In addition, as the Library has striven to serve a wider audience and as the collections have grown, the risk of theft, mutilation, and accidental damage through handling has become more serious. Though this problem has always been widely recognized and conscientiously addressed with special format materials such as manuscripts and rare books, it was only recently that the Library recognized the extent to which the same problem afflicted the general collections (ie, books and serials published after 1800).

And while the Library has, within the past one hundred years, built three special library buildings on Capitol Hill for storage and service of the collections and 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 and 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, when that accumulation of items for the collections might outstrip the Library's ability to preserve, secure, and gain bibliographical control of the collection in as timely fashion as the Library would have liked. While this has been a conscious decision on the part of management -- without acquiring appropriate collections as they become available, the Library has no chance of fulfilling its most fundamental mission to Congress and the nation -- the result has led to a cataloging backlog, inadequate storage, and insufficient security in some areas.

The Library of Congress recognizes these problems and has taken substantial steps to address them. It established the Preservation Directorate in 1967. It began 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 the Library has sought additional space and resources for secondary storage and film and audio preservation facilities. However, much remains to be done. A new balance among preservation, security, and access becomes increasingly important, 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, compliance with law and regulations, and financial reporting based upon control criteria established. Those control criteria include: bibliographical controls, inventory controls, preservation 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 but are not limited to: cataloging, archival processing, and arrearage reduction.

Inventory controls include but are not limited to: the automated circulation control system; manual shelflist; finding aids and other detailed descriptions; and registry of items lent for exhibition.

Preservation controls include but are not limited to: 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.

Physical security controls include but are not limited to: perimeter security (eg, theft detection devices); secured receiving and holding areas for materials not yet accessioned into the research collections, including the Copyright Office; secured in-process working and holding areas; storage areas 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 high risk collections; and secured loan stations.

3) Providing access to our collections inevitably puts them at risk and could impair the Library's ability to serve Congress and other users in the future. **However, the collections exist to be used, and management accepts the responsibility of mitigating risk to the collections at the same time that it fulfills its mission of service to Congress and the nation.** While we have aggressively addressed deficiencies in bibliographical, inventory, preservation and security controls in the past fiscal year, our assessment of internal controls identified the following material weaknesses 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 the Heritage Assets against unauthorized acquisition, use, or disposition, was completely effective as of September 30, 1996. Moreover, while the Library has an extensive series of controls in all four areas of risk, we have not yet conducted a systematic assessment of risks to the Heritage Assets, and therefore cannot assert without qualification that the controls in place are adequate and appropriate to mitigate the risks. That assessment will take a number of years to conduct comprehensively, but planning for it has begun.

Bibliographical controls: As of September 30, 1996, the Library had reduced the arrearage count by 20,970,523 items from the 1989 benchmark number of 39.7 million -- a decrease of 47.2 percent, at the same time that we have kept current with new acquisitions. However, arrearage reduction staff has suffered severe attrition due to budget cutbacks, so that our projected goal of 80 percent reduction of backlog by 2000 will not be met before 2005.

Inventory controls: The 12 million card shelflist of printed books exists in manual form only, which hampers the Library's ability to track the exact location of any given cataloged item. Plans for an automated shelflist are completed and have been integrated into a Library-wide plan for an Integrated Library System (ILS) which will also include inventory control over in-process (i.e., not fully cataloged or processed) items; work will begin when funds, requested for Fiscal Year 1998, are obtained.

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 the acetate negative collection; insufficient funds for reformatting. These conditions cannot be fully addressed with current funds and physical plant. The development of a collections storage facility at Ft. Meade is expected to remedy many of these difficulties beginning in Fiscal Year 1999. 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.

Physical security controls: In September 1996, many physical security risks remain, although the Library has taken extensive measures to limit the risks. The Library has taken steps by the end of the fiscal year to improve security by: fully working through the results of the FY96 security audit performed by Computer Sciences Corporation; developing a plan to implement accepted recommendations; and by hiring a full-time Director of Security. Significant security improvements of the year include: beginning to develop a Library-wide security plan, with the aid of a qualified consultant; appointment of a full-time Copyright Office Security manager; on the Madison loading dock, increased police presence, electronic access control system and implementation of x-ray machines and metal detectors; and continued, measurable progress in reader registration, insertion of theft detection targets, expansion of security in reading rooms, and research into marking library materials.

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 and identified those we believe to be material weaknesses.

Donald L. Scott
Deputy Librarian of Congress

KPMG Peat Marwick LLP

2001 M. Street, N.W.
Washington, DC 20036

INDEPENDENT AUDITORS' REPORT

The Inspector General,
Library of Congress:

We have audited the 1996 consolidated financial statements of the Library of Congress (Library). We also have examined management's assertion, included in the accompanying management's report on internal controls over financial reporting, regarding the effectiveness of the Library's internal controls over financial reporting that were in place as of September 30, 1996. The objective of our audit was to express an opinion on the fair presentation of the Library's consolidated financial statements. The objective of our examination of management's assertion regarding internal controls over financial reporting was to express an opinion on the fair presentation of management's assertion. In connection with our audit, we also tested the Library's compliance with certain provisions of applicable laws and regulations.

In our opinion:

- The Library's 1996 consolidated financial statements are presented fairly, in all material respects, in conformity with the comprehensive basis of accounting described in note 1 to the consolidated financial statements, and
- Management fairly stated its assertion that it cannot provide reasonable assurance that internal controls in place at September 30, 1996, 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 applicable laws and regulations.

We noted:

- A material weakness in the internal controls related to the adequacy of security practices over information technology systems

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- Reportable conditions related to:

  - Weaknesses in the controls over the financial reporting process
  - The completeness and accuracy of the capitalized nonbulk property and equipment records
  - The adequacy of safeguarding controls for property and equipment
  - Weaknesses in the controls over the financial reporting system application
  - The lack of a business continuity plan
  - The implementation of a Year 2000 compliant accounting system upgrade
  - The limitations on the Library's Inspector General (IG) oversight function

- Noncompliance with laws and regulations related to:

  - Use of certain revolving gift funds that exceeded the Library's scope of authority to accepts gifts and use them to fulfill the donor's intent
  - Improper retention of certain money related to operation of the Cooperative Acquisitions Program

Our conclusions and the scope of our work are discussed in more detail below.

OPINION ON CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated statement of financial position of the Library as of September 30, 1996, and the related consolidated statement of operations and changes in net position for the year then ended. These consolidated financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

In our opinion, the accompanying 1996 consolidated financial statements present fairly, in all material respects, the financial position of the Library of Congress as of September 30, 1996, and the results of its operations for the year then ended, in conformity with the comprehensive basis of accounting described in note 1 to the consolidated financial statements.

Our audit was conducted for the purpose of forming an opinion on the 1996 consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual funds. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

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 internal controls over financial reporting (see Section 5), regarding internal controls designed by management to provide reasonable, but not absolute, assurance that the following objectives are 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 other laws and regulations that have a direct and material effect on the consolidated financial statements
- Transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and maintain accountability for assets

Management stated that because of the weaknesses described in its report, it cannot provide reasonable assurance that internal controls in place at September 30, 1996, 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 applicable laws and regulations.

In our opinion, management's assertion that because of the weaknesses described in its report, it cannot provide reasonable assurance that internal controls in place at September 30, 1996, 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 applicable 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 General Accounting Office's (GAO) *Policy and Procedures Manual for Guidance of Federal Agencies*. We do not express an opinion or any other form of assurance on management's cost benefit statement.

As discussed in management's assertion, the following weaknesses exist in the design or operation of the internal control of the Library in effect at September 30, 1996.

- ***Security practices over information systems are inadequate.*** Physical and logical access controls do not adequately reduce the risk of unauthorized access, use, or damage to the Library's information systems. The Library has inadequate physical access controls to its data center and has not implemented a formal data security program. Programmers have access to critical "system" datasets, system engineers

have unlimited access to system data and files, and terminated employees are not removed from access to the Library systems in a timely manner.

- ***Weaknesses exist in the controls over the financial reporting process.*** The Library completed many of the tasks designed to meet financial reporting objectives in 1996. However, some important tasks were not fully performed or fully completed, including (1) performing satisfactorily all major subsystem reconciliations at September 30, 1996, (2) enhancing and monitoring the self-assessment and review of internal controls and accounting systems, (3) filling vacant financial management positions, (4) reviewing all accounts for reasonableness on a timely basis, (5) reviewing and reconciling property accounts, and (6) identifying and applying all relevant accounting policies and principles.

- ***Library records for capitalized nonbulk property and equipment are not complete and accurate.*** The subsidiary property and equipment records contain numerous errors in disposals, cost, acquisition dates, and completeness. Other weaknesses include inadequate supporting documentation for some assets, inconsistent capitalization policies for software, incorrect application of the method for capitalizing leased equipment, and improper estimations of depreciable lives of property and equipment.

- ***Safeguarding controls for property and equipment are inadequate.*** The Library has two systems for accounting for property and equipment, depending on the nature of the item. However, policies and procedures in place in either system are not sufficient to ensure adequate safeguarding of property and equipment.

- ***Weaknesses exist in the financial reporting system application controls.*** The Library's financial reporting system override report is not adequately reviewed by end-user management. Override data reporting is infrequent and is not distributed to management on a timely basis. Management is not required to approve override transactions that have occurred.

- ***The Library lacks a business continuity plan.*** Backup tapes and copies of system critical catalogs for the Library's systems are not stored in a secure location, and the Library has not developed a continuity plan that addresses disaster recovery.

- ***Year 2000 compliant software for financial systems has not been implemented.*** The Library has not upgraded its general ledger package and some supporting subsystems to the latest software releases to implement necessary changes for the year 2000. If the subsystems are not upgraded soon, the Library could lose functionality as the year 2000 problems begin.

- ***The Library's IG oversight function is limited.*** Current limitations on the IG's office reduce the effectiveness of its oversight function. These include (1) limitations on referring criminal complaints to the U.S. Attorney without prior approval from the Librarian, (2) limitations on management studies and inspections of Library operations, and (3) a dependency on the Librarian for funding resources.

A material weakness is a condition that precludes the entity's internal controls from providing reasonable assurance that material misstatements in the consolidated financial statements will be prevented or detected on a timely basis. We believe the first weakness described above is a material weakness in the Library's internal controls.

We consider the remaining weaknesses, described above, to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls 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 consolidated financial statements. We also noted other matters involving the internal controls and its operation that we do not consider to be reportable conditions that we are reporting to the Library's management in a separate letter.

Appendices A and B further discuss the material weakness and other reportable conditions, respectively. Other than the Year 2000 and the IG oversight function issues, these matters were also identified in the Library's 1995 audit report. Appendix D presents the current status of all prior year findings.

These conditions were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 1996 consolidated financial statements and this report does not affect our opinion on these consolidated financial statements. Through substantive audit procedures, which are detailed tests and analytical procedures performed to detect material misstatements in the classification of transactions, account balances, and disclosures in the consolidated financial statements, we were able to satisfy ourselves that the weaknesses described in Appendices A and B did not have a material effect on the September 30, 1996, financial statements.

COMPLIANCE WITH LAWS AND REGULATIONS

The results of our tests, as part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatements, disclosed the following instances of noncompliance that are required to be reported herein under *Government Auditing Standards* and the Office of Management and Budget (OMB) Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements.*

The Library operates gift revolving funds beyond the scope of its authority. In a 1991 report, GAO found that the Library's use of certain revolving gift funds exceeded its scope of authority under 2 U.S.C. 160 to accept gifts and use them to fulfill the donor's intent. Section 160 does not authorize the Library, without specific statutory authority, to set charges for goods and services provided through self-sustaining gift funds that (1) enlarge the funds beyond the scope of the donor's gift, (2) produce revenues for other activities, or (3) create a substantial surplus. During our 1996 audit work, we identified 11 revolving funds, none with specific congressional authorization, and all with fund balances in excess of the original gift. One fund had revenues of $5.5 million.

The Library retains certain money from its Cooperative Acquisitions Program in violation of 31 U.S.C. § 3302(b). As reported in 1995, the Library retains certain money relating to its operation of the Cooperative Acquisitions Program. For this service, the Library charges the participant for the direct costs of purchasing collection materials and for administrative expenses, which are based on a percentage of direct costs. In a January 30, 1997, opinion, GAO concluded that the Library may not retain money received from participants in the Cooperative Acquisitions Program to pay indirect costs or future contingencies. Because Congress has not authorized the Library to retain these funds, the Library must remit the funds to the U.S. Treasury as miscellaneous receipts in accordance with 31 U.S.C. § 3302(b).

These matters are discussed further in Appendix C.

We considered these instances of noncompliance in forming our opinion on whether the Library's 1996 consolidated financial statements are presented fairly, in all material respects, in conformity with the comprehensive basis of accounting described in note 1 to the consolidated financial statements.

RESPONSIBILITIES

Management's Responsibility. Management is responsible for:

- Preparing the consolidated financial statements in conformity with the comprehensive basis of accounting described in note 1 to the consolidated financial statements
- Maintaining adequate internal control designed to fulfill control objectives
- Complying with applicable laws and regulations

Auditors' Responsibility. Our responsibility is to express an opinion on the 1996 consolidated financial statements based on our audit. Standards, identified below, require that we plan and perform the audit to obtain reasonable assurance about whether the 1996 consolidated financial statements are free of material misstatement.

We are also responsible for expressing an opinion, based on our examination, on management's assertion that it cannot provide reasonable assurance that internal controls in place as of September 30, 1996, 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 maintain accountability for assets), but that internal controls were effective in assuring material compliance with laws and regulations, based on 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.*

As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of the Library's compliance with certain provisions of laws and regulations. However, the objective of our audit of the consolidated financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

To fulfill these responsibilities, we:

- Examined, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements
- Assessed the accounting principles used and significant estimates made by management
- Evaluated the overall financial statement presentation
- Assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements
- Obtained an understanding of the internal controls over financial reporting
- Obtained an understanding of the internal controls 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 certain provisions of the following laws and regulations that may materially affect the consolidated financial statements:
  - Library's authorizing legislation
  - Copyright law
  - Anti-deficiency Act
  - 1995 Legislative Branch Appropriations Act

- Economy Act
- Fair Labor Standards Act
- Civil Service Retirement Act
- Civil Service Reform Act
- Federal Employees' Health Benefits Act of 1959
- Federal Employees' Group Life Insurance Act of 1980
- Legislation concerning recording obligations and balances available for obligation
- Advertising Act

- Performed such other procedures as we considered necessary in the circumstances

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projections of any evaluation of internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

We conducted our audit of the 1996 consolidated financial statements in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 93-06. We conducted our examination of management's assertion regarding the effectiveness of the Library's internal control over financial reporting in place as of September 30, 1996, in accordance with standards established by the American Institute of Certified Public Accountants. We believe that our audit and examination provide a reasonable basis for our opinions.

Consistency of Other Information. The Overview of the Library of Congress and the Stewardship Report in Sections 1 and 4, respectively, in the Library's Annual Financial report contain a wide range of data, some of which are not directly related to the consolidated financial statements. 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 financial statements. If based on such reading the auditor concludes that there is a material inconsistency, the auditor should determine whether the consolidated financial statements, the report, or both 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 financial statements, and, accordingly, we express no opinion on it.

Distribution. This report is intended solely for the information and use of the Library's Office of the Inspector General, management of the Library, others within the organization, and Congress. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

March 28, 1997
Washington, D.C.

APPENDIX A
MATERIAL WEAKNESS

SECURITY PRACTICES OVER INFORMATION TECHNOLOGY SYSTEMS ARE INADEQUATE

Physical and logical access controls and physical security measures are inadequate to protect information systems resources from unauthorized access, unauthorized use, or damage. Additionally, the Library has not implemented security policies and procedures to ensure that critical data are protected and that Library resources are restricted to authorized individuals. These weaknesses increase the risk that the Library's data and equipment are not properly safeguarded.

Physical access controls do not restrict the data center to necessary personnel

There are inadequate controls over physical access to the Library's Data Center. The doors to the Data Center are locked but the keys are issued by the Buildings Services staff rather than by the Information Technology Services (ITS) staff. As a result, individuals who are not involved in the operation of the Library's computer systems can gain access to the Data Center. Additionally, visitor logs documenting authorization for access are not maintained and visitors are not escorted while performing tasks in the Data Center. Without adequate security, the Data Center could be subject to unauthorized use or accidental or intentional destruction. Furthermore, the potential exists for unauthorized changes to be entered into the system.

The Library has not implemented a formal data security program

The Library does not have a comprehensive end-user data security program. While the Library issued Library of Congress Regulation 1620, *Computer Security Policy of the Library of Congress,* in November 1995, there is no ongoing program to promote data security and end-user awareness. Information system resources need to be protected from misuse. Security is the responsibility of all employees, and the commitment by Library management is critical to the success of the security program. Without a comprehensive end user security and awareness program, the Library could encounter problems such as the introduction of computer viruses, exposure of sensitive information, and misuse of government computer resources. Furthermore, when sensitive data and files are not adequately secure, the potential exists for inadvertent errors or unauthorized manipulation of data.

Programmers have access to critical "system" datasets

Programmers and end users have access to production datasets and programs for the Federal Financial System (FFS) and the Access Control Facility (ACF2). In some instances, this

access includes the ability to write and allocate to production files and provides individuals with the ability to change and delete key data or programs, or make unauthorized modifications to security files. Currently, end users and programmers have direct access to the production system to conduct payroll processing, initiate check disbursements, and maintain the security software; this access compromises system and data integrity.

Individuals have access to ACF2 "Special Privileges"

Systems engineers have unlimited use of ACF2 privileges, which are not subject to access or generalized resource rules. Certain privileges (i.e., non-cancel, audit) should be strictly monitored and only used when authorized. While access to ACF2 privileges has been restricted, we believe access should be further limited. With unlimited use and inadequate monitoring of sensitive ACF2 privileges, management has inadvertently allowed unrestricted access to the entire network. Uncontrolled access to systems-wide data and files raises questions relative to data integrity and the reliance that can be placed on the system.

Former employees are not removed from Library systems in a timely manner

The Library does not have policies and procedures to ensure that terminated employees' access to systems are removed in a timely manner. There is currently a two-week delay between the date of actual termination and the date that Data Security personnel are notified of the termination. Data Security personnel recognize this problem and report that Human Resources has not been responsive to ITS management's request to provide more timely termination notices. The Library has also not established policies and procedures to identify internally relocated employees, vendors, and interns so that their access can be modified or terminated based on changes in job status.

Furthermore, the Library does not distribute access reports by office. These reports would allow management to verify and evaluate department employee access on a routine basis. Without cooperation and commitment between the various offices within the Library, logical access controls cannot be adequately restricted, increasing the potential for unauthorized access to data by current and former employees.

Recommendations

We recommend that:

- the Library implement Data Center access controls that restrict Data Center access to authorized staff. Visitors logs should be used to document all other authorized access, including time and purpose of the visit.

- the Library implement an end-user security awareness program, which should include annual user affirmation of their responsibilities relative to data security and ongoing data security education. The Library should develop, document, and implement data security policies, procedures, and standards for each processing platform (i.e., mainframe, minicomputer, microcomputer, local area network, and data communications).

- the Library implement policies and procedures to properly restrict access to production data. This should include procedures to ensure that any changes made to production data have been authorized by management.

- the Library develop, document, and implement policies and procedures for use of ACF2 privileges to ensure that privilege use is warranted, monitored, and reviewed by appropriate management.

- the Library develop, document, and implement comprehensive policies and procedures requiring Human Resources to inform Data Security personnel of all terminated employees before their termination date. We also recommend that information concerning vendors and internally relocated employees be forwarded to Data Security personnel before the termination or relocation date.

- ITS establish policies and procedures to prepare and distribute, by office, current access configurations for Library employees. These reports should be issued on a routine basis and should include, at a minimum, a user's identification, his or her access to all systems, applications, transactions, etc., and the type of access assigned (e.g., read, write, execute). These reports should be reviewed and signed by appropriate management and returned to ITS Data Security personnel.

APPENDIX B
REPORTABLE CONDITIONS

WEAKNESSES EXIST IN CONTROLS OVER THE FINANCIAL REPORTING PROCESS

This is the second year that the Library has prepared proprietary financial statements in accordance with the CFO Act and Executive Branch directives for financial statement reporting, as further described in note 1 to the consolidated financial statements. In considering the improvements the Library has made since fiscal year 1995, we believe the Library has made significant progress toward its goal of providing timely and accurate proprietary financial statements.

During 1996, the Library's Financial Services Directorate (Financial Services) updated its Financial Management Improvement Plan for the Fiscal Years 1997-2004. The Plan established four main objectives to be accomplished in the next seven years. The Plan incorporates the prior material weaknesses in its objectives and provides a list of tasks necessary to accomplish those objectives. The main objectives include improving the financial systems, improving proprietary accounting and support for the annual audit, and improving financial staff capabilities.

Financial Services successfully completed many of the tasks designed to meet financial reporting objectives, including:

- Establishing a timetable for closing entries and preparing a preclosing trial balance
- Establishing format and documentation necessary to complete cash reconciliations
- Completing and reviewing reconciliations of all Treasury accounts
- Establishing a process for closing the general ledger proprietary accounts
- Configuring the reporting system to generate trial balances supporting asset and liability accounts
- Coordinating with the Development Office to properly recognize pledges receivable
- Conducting planning meetings with auditors before close of the fiscal year
- Updating the Trust Fund Manual to include information on acceptance of the Funds and restrictions of the Funds
- Implementing most of the IG and cash management review recommendations
- Preparing a detailed listing of all leases outstanding and future lease payment commitments and analyzing leases for capitalization

- Preparing an accrual for accounts payable at year end and the documentation supporting that accrual
- Updating directives on disbursements, deposits, reconciliations and property
- Performing a review of outstanding obligations from prior years to determine if they remain valid

However, some important tasks were not performed; a description of these tasks follows.

Satisfactorily performing all major subsystem reconciliations at September 30, 1996

Several year-end reconciliations of detailed account balances were not completed, accurate, or fully documented at September 30, 1996. These included the Copyright Division customer deposit account balance, the Copyright Division licensing cash account balance and custodial investments, the Cataloging Distribution Service customer deposit account balances, the capitalized property account balances, the FEDLINK customer account balances, and the obligated and unobligated balances in the Order Divisions subsystem (ACQUIRE).

Financial Statement Directive (FSD) 96-8, *Guidelines for Financial System Reconciliations*, was issued and effective on September 30, 1996, the last day of the fiscal year. This directive requires regular reconciliation of subledger accounts and balances in a timely manner. Although the directive was not effective until September 30, 1996, all year-end accounts should have been fully reconciled to the general ledger. Reasons for unreconciled balances included having problems with obtaining useful and meaningful general ledger reports for reconciliation purposes and having untrained personnel attempting reconciliations for the first time. In the case of capitalized property, the Library intended to rely on a physical inventory to uncover errors and omissions in property detail, so no attempt at reconciliation was planned until periods beyond year end.

Fully enhancing the self-assessment and review of internal controls and accounting systems through training of the program and subsidiary system financial managers and monitoring the performance of the self-assessments

Per FSD 96-10, *Guidelines for Limited Financial Management System (FMS) Reviews and Reports*, three elements comprise the reviews: (1) an evaluation of the financial system using the prepared questionnaire as a guideline, (2) transaction testing where necessary to make a reasonable decision as to the adequacy of the controls, and (3) a documentation of the review, testing, results, and conclusions. FSD 96-10 states that the documentation will be reviewed selectively by Financial Services and the Office of Inspector General (IG). The IG's office plans to conduct audits of selected Limited Control Reviews in 1997.

We read the responses of the limited control reviews completed by several Library financial managers and found instances in which the respondents failed to provide enough information for the reader to assess whether the review was fully completed or properly conducted. Some of the managers expressed positive responses to control adequacy in areas in which our conclusions were different. Some reviews did not address the resolution of findings identified in the prior year. We questioned the completeness and validity of several of the reviews and received a more complete response for some. Our review was conducted after Financial Services had forwarded the limited control reviews to the IG's office, which indicated that Financial Services considered the reviews complete and accurate.

We attended one of the training classes conducted for program and subsidiary financial managers. These classes were aimed at enhancing financial managers' understanding of the internal control self-review process and of the documentation necessary to support the testwork for the review. We do not believe the training class provided enough useful information to help financial managers understand how to identify, test, and document relevant internal controls. The classes were not tailored to accounting cycles, although an attempt was made to cover areas of interest for those managers in attendance. The length and depth of the classes did not address the "how tos" of the process, which is what the managers need to know to be able to satisfactorily perform the reviews.

Filling vacant positions and hiring additional professional staff

As of the first week in March 1997, four key accounting positions remained unfilled and one position, the Cash Management Analyst, was filled that week. The unfilled positions include the Budget Officer, the Operations Officer, the Reports and Controls Officer, and a Systems Accountant. Two of these open positions were identified in the prior year as a reportable condition. The Library's current hiring process precludes timely staffing of essential positions which affects Financial Services' ability to respond quickly to financial inquiries, review proprietary statement accounts for accuracy, produce adequate supporting documentation, and produce timely trial balances or other financial information needed for management decisionmaking.

Insufficient staffing in key accounting positions continues to be an area of concern, particularly now that the Library has committed to preparing annual audited proprietary financial statements. Insufficient staffing in systems accounting and supervisory accounting has placed significant burdens on existing personnel, particularly with regard to audit preparation responsibilities, including reconciliation reviews and identification and implementation of new and emerging accounting policies and principles. Because the Library has elected to adopt most of the reporting requirements to which Executive Branch agencies are subject, the Library has accepted the responsibility for keeping informed on the latest developments and applying them to its financial statements.

Library management is keenly aware that adequate staffing over the next decade remains a challenge and a priority as a significant portion of its workforce nears retirement age. It is common knowledge that the Library's hiring process, which requires months to fill a position, has caused several tasks to fall behind in the accounting department. All managers, including those in Financial Services, must consider these factors when developing their department's future budgets. Without proper overlap of trained personnel teaching new personnel, normal workload suffers and significant progress cannot be made.

The Library is planning to implement activity based costing in the near future; however, we are concerned about the Library's ability to do so given the vacancies in these key positions.

Reviewing all accounts for reasonableness on a timely basis

Financial Services conducted account balance reviews from the date the fiscal year 1996 ledger was closed in mid-December through early March. These review procedures identified many adjustments to the balances. While the review was comprehensive, the process spanned several months, hampering the Library's ability to efficiently and effectively close out the 1996 fiscal year.

Reviewing and reconciling property accounts and correcting accounting procedures to have transactions affecting those balances recorded regularly throughout the period

As described earlier, the property account balance was not properly reviewed for completeness and accuracy. A property acquisition reconciliation was not completed for the fiscal year 1996, and the process was not begun until the quarter ended December 31, 1996. The December reconciliation, however, was not completed as of March 1997. The unexpected retirement of the accountant responsible for these reconciliations contributed to Financial Services' inability to complete them; however, there was sufficient time before December 31, the accountant's retirement date, to have completed the fiscal 1996 year-end reconciliation.

Identifying and applying relevant accounting policies and principles

Several accounting policies and principles were not applied or were incorrectly applied to the financial statements as of September 30, 1996. Those policies and principles include the proper treatment of the unrealized gain on investments in mutual funds, which are classified as available-for-sale securities (FASB No. 115); the proper recognition of interest expense and reduction of liabilities on capitalized leases (Title 2 or SFFAS 5); the proper treatment of donated assets transferred to and recorded in the appropriated fund (OMB 94-01); and weaknesses in the proper and complete disclosures for several balance sheet items, notably the aging of pledges receivable (FASB No. 116), the method of estimating equipment purchased before a specified date for which no supporting documentation can be found (SFFAS 2), and inclusion of the net book value of donated assets in "Net position - Other" rather than "Invested Capital" in the Net Position section of the financial statements (OMB 94-01).

Recommendations

We recommend that Financial Services:

- Remain diligent on requiring reconciliations of major accounts and subsystems to the general ledger according to the schedule outlined in FSD 96-8, *Guidelines for Financial Systems Reconciliations*. We recommend Financial Services assign follow-up of these reconciliations to qualified personnel within the department. Financial Services is assigning accountants to help those financial managers in program offices who were unable to successfully reconcile their accounts at year end. We understand Financial Services is also working with the FEDLINK financial director to design an enhanced report to aid them in their reconciliation processes. Regular and timely review of reconciliations and immediate attention to program office problems are key to ensuring that the general ledger detail is accurate and complete throughout the year. This must be a regular and ongoing process to be effective. We further recommend Financial Services and Contracts & Logistics (C&L) resume their reconciliation procedures of property and equipment acquisitions. We noted this area as the weakest in sufficiently complying with FSD 96-8, even subsequent to year end.

- Continue to provide financial managers with Limited Control Review training that is tailored to their specific needs and provides a more "how-to" approach rather than a theoretical one. For example, the financial managers could be surveyed to determine what benefits they obtained from the classes and what they felt may have been lacking. Grouping attendees by the type of transactions they process (i.e., deposits or receipts, procurement, payroll, and property and equipment) would allow classes to be more tailored to the audience, and attendees would then receive information most relevant to their duties.

- Tailor the Limited Control Review internal control questionnaires to the specific transactions or areas processed by the managers, excluding those areas that are irrelevant. We noted several instances where managers answered questions because they were asked, even though the areas were not their responsibility.

- Coordinate with the IG's office as to the timing and extent of their planned audits of selected Limited Control Reviews in 1997. If the IG's work plan will not cover a substantial number of program subsystems, Financial Services must make plans to review them so management can assert that reviews are properly completed and controls are effective.

- Revise the timing for conducting some of the annual Limited Control Reviews. Assigning different reviews every quarter of the fiscal year will provide assurance that controls are functioning during the year and not just at year end, and will allow Financial Services and

the IG's office to schedule their evaluations more evenly over the year to ensure timely follow-up of the review process.

- Delay implementing their planned activity-based costing project until full staffing of key positions is achieved.

LIBRARY RECORDS FOR CAPITALIZED NONBULK PROPERTY AND EQUIPMENT ARE NOT ACCURATE AND COMPLETE

Current internal controls in the Library are inadequate to ensure accurate and complete recording of nonbulk capitalized property and equipment in the financial statements. The Library's Financial Services Directorate revised its property and equipment directive, FSD 96-7, *Guidelines for Accounting for Capitalized Property and Depreciation*, in response to weaknesses found during the Library's first financial statement audit conducted in 1995. FSD 96-7 calls for a quarterly reconciliation of subsidiary to general ledger records for purchased equipment costing $10,000 or more (the capitalization threshold); a quarterly recording of depreciation and reconciliation of accumulated depreciation; a requirement to capitalize qualifying leases; an annual physical inventory of all items costing $10,000 or more; a strengthened requirement for other service units to notify C&L when furniture and equipment is received by them; and a requirement to maintain supporting documentation for all capitalized property and leased equipment. This directive became effective September 30, 1996, the last day of the fiscal year. Consequently, many requirements designed to strengthen the controls over capitalized property and equipment were not in place and fully functioning during 1996.

The detail schedules comprising the net book value of fixed assets maintained by C&L at September 30, 1996, and the related depreciation expense for the year then ended contained numerous errors, including the following:

- Disposal errors - Items that had been identified as surplus or disposed of during the year-end physical inventory were not removed from the year-end depreciation schedule.

- Valuation errors - These included the erroneous capitalization of supplies accompanying equipment purchases, failure to capitalize shipping costs as part of the cost of an asset, and failure to deduct vendor discounts from the capitalized cost of an asset.

- Acquisition date errors - These resulted from an inability to locate supporting documentation; instead, the physical inventory date was erroneously used to calculate current and accumulated depreciation.

- Lack of supporting documentation for assets located in overseas offices and for furniture acquired in previous fiscal years that were added to the records this year.

- An inconsistent capitalization policy for software installation costs.

- Donated equipment not identified and recorded until audit procedures identified the associated donated revenue recorded in a gift fund.

We also noted that the IBCFACS system, used for the Library's depreciation schedule, does not separately display current year depreciation expense, only the net book value at the balance sheet date. C&L staff manually recalculated current year depreciation for each asset and recorded these amounts on the property and equipment detail schedules; several errors occurred in their manual recalculations.

The Library uses depreciable lives ranging from 4 to 20 years for equipment and furniture. We questioned whether the useful lives assigned to several assets represented a reasonable estimate, since many pieces of equipment we selected were items with no more than five-year capital lease terms, were replaced within a few years, or were subject to high volume use. For instance, copiers are depreciated over ten years, although many are replaced before the end of the lease term, which never exceeded five years. Accounting principles require that capital lease assets be depreciated over the shorter of the length of the lease or the estimated life of the asset.

Finally, the Library restated its property and equipment balances and net position as of October 1, 1995, to reflect those assets not previously identified and recorded in last year's financial statements. This restatement included capitalization of qualifying equipment leases. Errors were noted in the accounting method used to expense interest and reduce the related lease liability. For leases, the Library used the estimated fair market value to value the capital lease asset, even though FSD 96-7 states that "the cost under a capital lease shall be equal to the lesser of the net present value of the lease payments calculated or the fair market value of the asset." Net present value was not calculated and compared with the fair market value for any of the Library's capital leases.

Recommendations

To provide proper internal controls over capitalized property and equipment transactions, we recommend that:

- C&L strengthen its procedures for reviewing information entered into the IBCFACS database. C&L must establish integrity of the data currently recorded in its property and equipment database by reviewing all input for errors and making the necessary corrections.

- C&L assign an employee who does not have data entry responsibility to review the subsidiary system detail on a regular basis to avoid future errors, which can be minimized with a routine review process. Errors can also be minimized if the source documents from which entries are made are clear and accurate. For example, procurement often uses acronyms and names that are specific to one vendor instead of using generic terms that clearly describe the asset being purchased.

- C&L provide frequent communication to other service units, reminding them of their responsibility to report any acquisitions that come directly to their unit. FSD 96-7 states that service units must notify C&L but is not specific as to *how* or *when* the other units should provide notification. Until compliance with FSD 96-7 becomes commonplace within the Library, we recommend C&L send a quarterly request to those offices that directly receive property acquisitions or information regarding donated assets, like the Congressional Research Service (CRS) and the Development Office, to report any acquisitions or donations received.

- C&L be given the responsibility to review and approve all procurement request transactions initiated by other service units, so knowledgeable staff can compare offers and make sound procurement decisions.

- The Library expand the scope of its next physical inventory of capitalized assets and visit all areas of the Library that may potentially house fixed assets to ensure completeness of existing property records. The unrecorded donated assets we identified during our audit were not discovered by C&L during the year end physical inventory because only areas recorded as having existing capitalized assets were visited, and the donated assets were not located in any of those areas.

- The Library reevaluate its useful life policies for capitalized property and equipment and determine whether the current lives are reasonable. Any change in policy should be documented and applied consistently to all new and existing assets in that category. Because this is only the second year the Library has prepared financial statements, we recommend the Library correct all existing assets and revise its policies retroactively for consistency.

- The Library gain an understanding of the proper accounting treatment for capital leases. Personnel involved in capital lease valuation and recording should understand how to determine the net present value of future lease payments for comparison to the asset's fair market value when recording cost and how to properly amortize interest expense and reduce the associated lease liability annually. Personnel should refer to Title 2 or SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, for guidance.

- The Library consider using the current general ledger depreciation module for valuing and recording depreciation on assets that require capitalization or obtaining another package that will provide an interface with the general ledger and will calculate current period depreciation reports. The IBCFACS system is a bar code system meant to control the safeguarding of the assets and was not designed as a depreciation package. Although the general ledger's depreciation package provides no property location control as the IBCFACS system does, the general ledger system would capture all expenditures for property and equipment over the capitalization threshold without requiring a manual entry and would provide accurate depreciation information that would be recorded directly into the general ledger. The IBCFACS system could still function as a property control system for all assets over the safeguard control threshold, which is currently $300.

SAFEGUARDING CONTROLS FOR PROPERTY AND EQUIPMENT ARE NOT ADEQUATE

The Library has two systems for accounting for property and equipment, depending on the nature of the item. However, policies and procedures in place at the Library are not sufficient to ensure adequate safeguarding of property and equipment.

Contracts & Logistics

C&L is responsible for the tracking and safeguarding of nonbulk property and equipment costing $300 or more. Their system includes placing a bar code on each property item and recording the bar code number, Library location, acquisition date, and cost in the IBCFACS database. The Library conducted a physical inventory of all items over $10,000 in October 1996. While the Library has reasonable assurance that this method accounts for substantially all its property, the system will only work effectively if policies and procedures are conducted consistently on a Library-wide basis. We noted several instances where equipment was not recorded in the tracking system, including unrecorded fiscal year 1996 additions of donated property that were not communicated as received by the department in which they reside. For example, property acquired and housed at Wright-Patterson Air Force Base was not received from the vendor at C&L and was not communicated as received by Wright-Patterson; no complete acquisition reconciliation was performed by C&L and Financial Services during the year. In another case, property was received by the Congressional Research Service (CRS) and CRS did not inform C&L of the receipt in a timely manner.

In addition, C&L management represented to us that, as a result of their physical inventories, they often found the location of property or equipment was different than that reported in the Library's asset tracking database. This occurred when service units traded pieces of property or equipment for another piece in their service unit without notifying C&L. This practice caused the C&L staff to spend many labor hours tracking the item's new location and updating the database accordingly.

National Library Service

The second system is used by the National Library Service (NLS) of the Library to track bulk-purchased playback machines for the blind and physically handicapped. This system consists of two separate databases that track the machines for different purposes. NLS uses a database called Blind and Physically Handicapped Inventory Control System (BPHICS) to track machines as they are acquired. BPHICS is maintained by an independent contractor who receives data from the machine-lending agencies that retain custody of the machines until they are lent to patrons. The independent contractor maintains another system, which creates a monthly machine report (MMR), this is sent to the independent contractor monthly by the machine-lending agencies and indicates the status of machines in the lending agencies' custody. These reports classify machines as either "on hand, lent to patrons, in repair, or location unknown." Each system contains machine models not included in the other system. The weaknesses in internal control are caused primarily by the decentralized system that works across state and federal lines. Currently, the independent contractor and the lending agencies can make changes to the system without informing NLS.

Recommendations

Contracts & Logistics

FSD 96-7, *Guidelines for Accounting for Capitalized Property and Depreciation,* was not completed until the last quarter of fiscal year 1996 and was not officially effective until September 30, 1996. This directive reiterates the need for those Library service units receiving either purchased or donated property to report that information in a timely manner to C&L. Until this practice is routine, communication remains a major weakness in the Library's ability to safeguard its property and equipment. To help strengthen the communication process, we recommend appointing a staff person at the directorate level to be held accountable for instituting Section 3.3.1 of FSD 96-7 so that all acquisitions, dispositions, and transfers of property are managed at the local level. This person would be responsible for:

- Communicating with C&L (on a monthly, bimonthly, or quarterly basis, as deemed appropriate) any movement of property or equipment
- Maintaining a copy of the equipment tracking detail (IBCFACs printout) of items in their area and noting any changes to it
- ensuring that every item qualifying for control is properly bar coded; any item without a bar code should be reported to C&L at the time of discovery

We recommend raising the threshold for bar coding and tracking assets from $300 to $500 or $1,000 per individual item to further ease the burden of tracking low dollar value property and equipment items. Other government agencies use these thresholds and we believe labor hours

could be better used in strengthening existing control weaknesses instead of tracking items with a low dollar value.

National Library Service

We recommend NLS consider merging the reporting performed by the two different playback machine tracking systems (BPHICS and MMR) and begin to capture all data within the BPHICS system. NLS would need to ensure that BPHICS and the MMR contain data for the same time period, since the MMR database has more historical information than BPHICS. The BPHICS system would need to be modified to capture the collective status by MLA of all machines in the custody of machine-lending agencies, as well as acquisition information by serial number, which is its current function. The result should generate an output report of the collective status of machines by machine type.

This would improve the accuracy of reporting from the lending agencies. We also recommend establishing an acceptable range of "lost machines" for each lending agency, based on historical figures of patrons they serve and the current age and number of machines in their custody. In addition, we recommend requiring the independent contractor to compare totals for each machine model reported by each lending agency. No system updates would be accepted from lending-agency reports if the reported figures fall outside the established acceptable range. When the independent contractor receives the monthly reports from the lending agencies, it should compare the totals for each machine category with the acceptable ranges. If the reported figures fall outside the ranges, the machine-lending agencies should be required to investigate the discrepancies and justify or correct them.

Finally, we recommend NLS review and monitor both the input from the lending agencies and the output from the independent contractor on a regular basis, and document a plan for visiting lending agencies to perform regular equipment audits.

WEAKNESSES EXIST IN THE FINANCIAL REPORTING SYSTEM APPLICATION CONTROLS

The Library's financial reporting system override report, which is distributed by the Library's financial reporting Systems Administrator, is not adequately reviewed by end-user management. Based on review of override report distribution dates, override occurrence data and reporting are infrequent and are not distributed to end-user management on a timely basis. Furthermore, policies and procedures have not been established to require review and monitoring; end-user management is not required to verify authentication of override transactions by providing notification to the financial reporting Systems Administrator. Without adequate review by end-user management of system override activities, the Library is susceptible to unauthorized transactions being processed. This increases the potential for inadvertent errors or unauthorized manipulation of data.

Recommendation

We recommend that the Library distribute the override security report on a routine basis and implement policies and procedures requiring end-user management to review and monitor override transactions.

THE LIBRARY LACKS A BUSINESS CONTINUITY PLAN

The Library does not have a current business continuity plan. Backup tapes are stored at the Library's warehouse in Landover, Maryland, but the tapes are not kept in a secured location; there has been at least one instance when the tapes have been misplaced. System critical catalogs are printed weekly, but the printouts are maintained in a distribution bin in the data center. There is no copy of the catalogs or operating procedures stored with the backup tapes. The master catalog is password protected, but all the systems programmers know the password.

The Library has taken steps to assess the business impact of various disasters and a contractor has been hired to conduct the business impact analysis. Questionnaires will be distributed to users and critical applications will be identified over the next several months. These are the first steps in developing a business continuity plan. Without a current, tested business continuity plan, the Library is exposed to the potential loss of computer resources for an extended period.

Recommendations

We recommend that the Library develop a business continuity plan that includes current disaster recovery plans for mission critical information technology resources. The plan should be developed based on a business impact analysis and should identify information technology systems that are critical for the support of mission critical areas. After the impact analysis has been completed, a business continuity plan should be developed for those areas deemed mission critical to the Library. We also recommend that the Library evaluate the feasibility of contracting for an alternate data center processing hot site.

This effort should not be a one-time event. It is a process that requires periodic testing, review, and adjustments as the business continuity requirements of the Library are reassessed. The plan should include the mainframe, UNIX systems, and all other computer-based processing.

YEAR 2000 COMPLIANT SOFTWARE FOR FINANCIAL SYSTEMS HAVE NOT BEEN IMPLEMENTED

The Library has not upgraded their general ledger package and some supporting subsystems to their latest releases to implement necessary changes for the year 2000. The software vendor for the general ledger package has made the new release available to correct software deficiencies. The changes included in the new version are necessary for the financial system to continue operating in the year 2000 and beyond. Without implementing the new releases in a timely manner, the Library could lose functionality as the year 2000 begins to impact transactions; budgeting and multi-year contracts could be impacted before October 1, 1999. Since implementations do not always occur as planned, allowances should be made for potential delays. Additionally, as the year 2000 approaches, programmers are becoming more scarce and the cost of implementing Year 2000 compliant software could increase.

Recommendation

We recommend that the Library evaluate each of its financial systems and subsystems and allocate the resources necessary to update the software to Year 2000 compliant versions as soon as possible.

THE LIBRARY'S INSPECTOR GENERAL OVERSIGHT FUNCTION IS LIMITED

In our review of the Library's internal audit function, and draft legislation and related documents submitted by the Library in relation to this function, we found the following conditions that impair the Inspector General's oversight ability:

- ***Limitations on investigations***. The investigative branch of the Inspector General (IG) does not have the authority to refer criminal complaints to the U.S. Attorney without prior approval from the Office of the Librarian. This requirement could be considered as causing unnecessary delays in the referral process, but none have been noted by the IG in fiscal year 1996. Even though there have been no documented instances where the IG has been prohibited from referring a criminal complaint, there should not be an *appearance* of influence by the Librarian, particularly on matters involving individuals within the Library of Congress.

- ***Scope limitations.*** In preparing new regulations for one operation of the IG function, the IG requested authority to conduct studies and issue reports related to management reviews and inspections of Library operations. The Office of the Librarian did not grant the IG's request for authority to conduct these types of reviews. The previous regulation did not carry this responsibility, nor does it exist in statute for the IG. However, it is not uncommon for an IG to perform this type of review which is intended to improve the economy and efficiency of operations. In addition, the IG does not have the authority to

review all areas of the Congressional Research Service, which is a major component of the Library and service provider to the Congress.

- ***Funding issues.*** The Office of Inspector General does not have a separate budget authority and is dependent on the funding and resources available at the discretion of the Librarian of Congress. In addition, the Office of the Librarian approves all IG expenses related to travel. Even though the IG reports directly to the Office of the Librarian for budget purposes, budget formulation and execution is under the responsibility of the Financial Services Directorate.

The Librarian of Congress created the Office of Inspector General in April 1988 without the prerequisite authority to carry-out IG's functions. Appointed by the Librarian, the IG now reports to the Librarian and may be removed from office by him. The IG has no subpoena power and Library of Congress regulations set the responsibilities of the office. The Librarian of Congress wrote to the Library's oversight and appropriation committees in 1996 to reiterate the Library's support of enactment of legislation but, noting that legislation had not been introduced, offered additional criteria for an IG in the Legislative Branch.

In 1995, the Library submitted draft legislation for a statutory Inspector General's Office, modeled after the statutory office established for the Government Printing Office in 1988. This legislation is also similar to the IG offices established for over 30 non-Cabinet agencies as part of the 1988 amendments to the Inspector General Act of 1978. The draft legislation would provide a separate appropriation to the IG and require the IG to report semi-annually to Congress. Current authority and regulations for the Library of Congress Office of Inspector General are contained in Library of Congress Regulation 1519-1, *Audits and Investigations by the Office of the Inspector General, Office of the Librarian.* This regulation requires that all audits conducted by the IG shall conform to the standards established by the Comptroller General of the United States for audits of federal establishments, organizations, programs, and functions. These standards require that the auditor be independent in fact and appearance.

Recommendation

The Librarian of Congress should consider actions to follow-up and resubmit draft legislation to establish statutory authority for the Office of Inspector General at the Library of Congress. These actions should be taken in coordination with the testimony given by the Library of Congress to the Senate Committee on Rules and Administration in March 1997, reaffirming the Library's commitment to seek statutory authority for the IG. Title I of the proposed legislation granting statutory authority to the Library's IG would enhance the authority, status, and independence of the IG to detect and prevent waste, fraud, and abuse in the Library's administration and operations and would eliminate any perception that the Library's IG is not fully empowered to act independently.

APPENDIX C
MATTERS OF NONCOMPLIANCE WITH LAWS AND REGULATIONS

THE LIBRARY OPERATES GIFT REVOLVING FUNDS BEYOND THE SCOPE OF ITS AUTHORITY

GAO found that the Library's use of certain revolving gift funds exceeded its scope of authority under 2 U.S.C. 160 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 with revenue ranging from $940 to almost $3.7 million per fund, to finance a number of activities. Gifts designated to be used for self-sustaining activities created these funds, which have grown to many times larger than their original size. The independent accountant's report on the 1995 financial statements noted that the condition continued to exist.

During our fiscal year 1996 audit work, we also noted the existence of this condition. We identified 11 revolving funds, none with specific congressional authorization and all with fund balances in excess of the original gift. One fund had revenues of $5.5 million.

According to 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 report concluded, section 160 does not authorize the Library, without specific statutory authority, to set charges for goods or services provided through self-sustaining gift funds, that (1) enlarge the funds beyond the scope of the donor's gift, (2) produce revenues for other activities, or (3) create a substantial surplus.

Since issuance of the GAO reports, the Library has sought, but not received, specific statutory authority to operate these gift revolving funds. As a result, the Library continues to operate the funds beyond the scope of its authority.

Recommendation

In order to comply with 2 U.S.C. 160, we recommend the Library continue to seek specific statutory authority to operate gift revolving funds.

THE LIBRARY RETAINS CERTAIN MONEY FROM ITS COOPERATIVE ACQUISITIONS PROGRAM IN VIOLATION OF 31 U.S.C. SECTION 3302(b)

The independent accountant's report on the fiscal year 1995 financial statements noted that the Library retained certain moneys relating to its operation of the Cooperative Acquisitions Program, which is conducted through six overseas field offices that purchase collection materials for participants, usually a university or a library. For this service, the Library charges the participant for the direct costs of materials and for administrative expenses based on a percentage of direct costs. The Library deposits money received in connection with this program into a Treasury account and retains funds that it does not spend. During fiscal year 1995, it was not clear if the Library had the authority to retain unspent funds.

We noted that this condition continued to exist in fiscal year 1996. According to Library officials, accounts for this program have an approximate balance of $2.3 million at September 30, 1996. Officials estimate that of this amount approximately $1.2 million is a liability representing the refund that would be due if all participants canceled their requests at fiscal year end and $0.6 million represents unliquidated obligations for items on order as of September 30, 1996.

In a January 1997 opinion, GAO concluded that the Library may not retain money received from participants in the Cooperative Acquisitions Program to pay indirect costs or future contingencies. Because Congress has not authorized the Library to retain these funds, it must remit the funds to the U.S. Treasury as miscellaneous receipts in accordance with 31 U.S.C. § 3302(b). The Library has responded by requesting legislation to exempt the Cooperative Acquisitions Program from this section of the law.

Recommendations

To comply with the General Accounting Office's decision on this matter, and in the absence of specific legislation authorizing the avoidance of applying 31 U.S.C. § 3302(b), we recommend that the Library:

- Cease retaining money received from participants in the Cooperative Acquisitions Program to pay indirect costs or future contingencies
- Remit money to the U.S. Treasury that would have been used to pay indirect costs or future contingencies that is included in the balance of $2.3 million at September 30, 1996; the Library should remit these fees as the liability is reduced

APPENDIX D
STATUS OF PRIOR YEAR FINDINGS

1. MATERIAL WEAKNESS

The financial reporting preparation process is inadequate to meet proprietary reporting requirements.

Prior Year Recommendations

- Maintain routine controls, such as reconciliations, to keep data reliable.
- Develop procedures to ensure orderly and effective closing of books at the end of a period.
- Develop a strategic plan for fiscal year 1996 year end close and report preparation, and document an achievable timeline for related tasks.
- Enforce proper revenue source coding of transactions.
- Enhance the types of reports currently available on FMS and ensure system will prepare any reports/trial balances necessary for the audit.

Library of Congress Comments

The Library incorporated recommendations from financial statement audit, IG reports, and internal control review reports into the Library's financial management improvement plan.

KPMG's Assessment of the Library's Corrective Action Plan

Many actions were undertaken, although some were not implemented until year end or subsequent to year end.

Recommendations were partially implemented. See the reportable condition, "Weaknesses Exist in Controls Over the Financial Reporting Process," in our report.

2. MATERIAL WEAKNESS

Reconciliations of cash with Treasury and of various general ledger balances with subsidiary systems are not routinely performed.

Prior Year Recommendations

- The Librarian should periodically perform and document reconciliations between summary and detailed records, and resulting adjustments should be made to the records, if necessary.

- Library management should implement and monitor basic procedures to properly manage and account for cash and other assets.

- The Copyright Office should continue to maintain the detail listing of royalty receipts and post, in summary, to FFS.

Library of Congress Comments

- The Library adopted Title 2 standards and is working to implement them. The primary Treasury reconciliation was in fact up-to-date as of September 30, 1995, and two other secondary Treasury reconciliations were completed in March 1996.

- The Library will develop and implement procedures for internal control techniques in accordance with strategic plan priorities.

- Financial Services will maintain the Copyright Licensing Division control account and Copyright Licensing will maintain the detail listing. The two systems will be reconciled regularly.

KPMG's Assessment of Library's Corrective Action Plan

Recommendations were partially implemented. See the reportable condition, "Weaknesses Exist in Controls Over the Financial Reporting Process," in our report.

3. MATERIAL WEAKNESS

Library property and equipment records are not reliable or complete and portions of property and equipment are not adequately controlled.

Prior Year Recommendations

- The Library should establish two budget object class codes: one for assets capitalized and one for assets expensed. Management should post an entry to capitalize equipment at each month's end and reconcile the additions to capitalized assets with the assets expensed.

- The Library should perform a review of entire IBCFACS ledger for completeness and accuracy and complete a physical inventory of assets. This process should include obtaining supporting documentation for the cost basis and acquisition dates.

- For bulk-purchase playback machines, an asset listing should be maintained that identifies, by agency location, the total number of units by acquisition date and bulk purchase amount. The listing should be periodically updated for additions and deletions. Further, the listing should be reconciled monthly to the agency machine reports.

- The Library should maintain a listing of all leases, both capital and operating. All existing leases with total payments over $10,000 should be analyzed to determine if they should be capitalized.

Library of Congress Comments

- The Library partially completed adding an estimated 75,000 furniture items to its property database by year end 1995. Also, in 1995, the Library completed its first physical inventory of serialized equipment and is using the information to correct and validate the database.

- The Library is prioritizing improvements to the property management system, which includes review for accuracy and adequate documentation, revision of playback machine equipment records, completion of furniture inventory, development of a system to capture data for the system, and development of a system to track and control leases.

KPMG's Assessment of the Library's Corrective Action Plan

The Library performed a review of its IBCFACS ledger for completeness and accuracy, capitalized its qualifying equipment leases, accumulated supporting documentation for its capitalized assets, compiled a depreciation schedule for its playback machine bulk purchases,

and performed a year-end physical inventory of all capital assets. However, some weaknesses still exist. See reportable conditions, "Library Records for Capitalized Nonbulk Property and Equipment are not Accurate and Complete" and Safeguarding Controls for Property and Equipment are not Adequate," in this report.

4. MATERIAL WEAKNESS

Current Information Technology Services (ITS) 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.

The following weaknesses were identified:

- An excessive number of programmers can make changes to production data.
- An excessive number of individuals have access to ACF2 "special privileges."
- Programmers have access to critical "systems" datasets.
- Some ACF2 security software parameters are not used effectively.
- User profiles exist in the security tables for individuals who are no longer employed by the Library.
- No formal security plan exists that documents guidelines for administrative security.
- Various individuals have multiple logon IDs for the system.
- Physical security over the computer operations room, which is within the larger ITS area, does not prevent unauthorized personnel from gaining access.

Prior Year Recommendations

- Prohibit system personnel from accessing Write and Allocate for production data.
- Grant read-only access to production data to application end users who require knowledge of FFS.
- Conduct ongoing reviews to ensure only appropriate personnel have access.

- Grant access to datasets on a "need-to-know" basis only. The Quick logon function should be disabled and passwords should be expanded to between five and eight characters.

- Human Resources should in a timely manner report employee terminations to strengthen security procedures.

- Review various user IDs to determine appropriate authority of each ID.

- Restrict access to the computer room and facilities to authorized personnel.

Library of Congress Response

- The Library is working to eliminate the need for staff to have Write and Allocate access to production data sets. ITS has reduced the number of staff with these capabilities.

- ITS will meet with other agencies who use FFS to evaluate their ACF2 security profiles and procedures.

- ITS plans to eliminate the Quick logon feature and expand the password length to at least five characters.

- ITS plans to work with Human Resources to obtain timely information.

- The Library plans to remove the development staff from the computer room and will continue to seek authorization for Architect of the Capitol (AOC) to equip doors with badge readers.

KPMG's Assessment of Library's Corrective Action Plan

The Library has eliminated the need for staff to have Write and Allocate access to production data sets, however, other findings remain. See material weakness, "Security Practices Over Information Technology Systems are Inadeqate," in our report.

5. REPORTABLE CONDITION

The internal financial reporting process should be enhanced to provide management with more meaningful information.

- Match budget and actual accounting to the mission of the Library.
- Match performance statistics to the service components. Improve budget versus actual reporting for appropriated expenditures. Implement cost allocations where significant.
- Implement commitment accounting for significant planned/budget expenditures.

Prior Year Recommendations

- The Library is phasing in the financial management system over several years. Additional automated interfaces were implemented in 1995 (FEDLINK and IMS) and the Order Division was implemented in 1996.
- Inventory management, activity-based costing, and performance measurement phases are scheduled for later years.
- Commitment accounting was implemented in fiscal year 1996.

KPMG's Assessment of Library's Corrective Action Plan

- Automation of planned subsystem interfaces and implementation of commitment accounting were completed in 1996.
- Implementation of other phases of budget to actual analysis, cost allocations and integrating performance measures into the budget process have not been undertaken.

See the reportable condition, "Weaknesses Exist in Controls Over the Financial Reporting Process," in our report.

6. REPORTABLE CONDITION

The Financial Services Directorate needs to receive authorization for and fill its positions to provide more useful information to management.

Prior Year Recommendations

The Library needs to identify 1996 and 1997 resources to fill important accounting positions, several of which require knowledge of activity-based costing, the CFO Act and generally accepted accounting principles.

Library of Congress Comments

The fiscal year 1997 budget request includes $269,828 to hire four additional professional accountants to support the financial statement audit process and help implement audit recommendations.

KPMG's Assessment of Corrective Action Plan

Several key positions remain unfilled. See the reportable condition, "Weaknesses Exist in Controls Over the Financial Reporting Process," in our report.

7. REPORTABLE CONDITION

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.

Prior Year Recommendations

- Review current access authority for all employees to determine appropriateness of security levels granted.

- Perform an analysis regarding the types and frequency of overrides currently being performed. Appropriate management personnel should review the log to ensure each override is properly authorized.

Library of Congress Comments

- The senior operating accountants, accounting division supervisory level employees, disbursing officer, and assistant's security profiles were changed to remove their ability to enter or correct transactions. Other positions will be reviewed.

- The Library has implemented a procedure in which supervisors are notified of override actions and are responsible for reviewing them for appropriateness.

KPMG's Assessment of the Library's Corrective Action Plan

The Library has reviewed and appropriately corrected access authority for the financial management system application. Our finding regarding override action still exists. See reportable condition, "Weaknesses Exist in the Financial Reporting System Application Controls," in our report.

8. REPORTABLE CONDITION

The Library's self-assessment and review of its internal control and accounting systems are inconsistent with audit and other findings.

Prior Year Findings

- Financial Systems managers should receive formal training on conducting internal control reviews.

- The Chief Financial Officer should establish a method to monitor subsystems and controls, develop action plans to correct identified problems, and continuously monitor corrective actions. The IG's office should be involved in testing and reviewing the questionnaires annually.

Library of Congress Comments

- Limited control reviews were not planned for fiscal year 1995 because implementation of the new financial system would require new review processes. Upon learning that a financial audit would be conducted in 1995, the reviews were prepared in short notice, which allowed for insufficient time for training and follow-up.

- The fiscal year 1996 reviews will include training for financial managers and will include follow-up procedures on the reviews. Findings will be incorporated into the financial management improvement strategic plan.

KPMG's Assessment of Corrective Action Plan

Implementation and monitoring of Limited Control Reviews could be strengthened. See the reportable condition, "Weaknesses Exist in Controls Over the Financial Reporting Process," in our report.

9. REPORTABLE CONDITION

Lack of a formal business continuity plan exposes the Library to loss of data and resources.

Prior Year Recommendation

The Library should develop a comprehensive business recovery plan with established goals.

Library of Congress Response

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

KPMG's Assessment of the Library's Corrective Action Plan

A lack of policies and procedures still exist. See reportable condition, "The Library Lacks a Business Continuity Plan," in this report.

10. REPORTABLE CONDITION

Procedures and control over cash handling, check processing, and certain disbursing office responsibilities need improvement.

Prior Year Recommendations

- The Library should take immediate corrective action on cash receipt findings and develop a systematic plan to address the control weaknesses.
- The segregation of duties should be strengthened in disbursing.

Library of Congress Response

The Library is evaluating all cash receipt findings from the financial audit and the cash receipt audit and will incorporate the results into the overall strategic plan.

KPMG's Assessment of Corrective Action Plan

These problems have been satisfactorily resolved.

11. REPORTABLE CONDITION

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.

Prior Year Recommendations

- Enhance general ledger coding to track spendable earnings separate from restricted gains.
- Establish procedures requiring documentation evidencing legal counsel's review of all significant trust donations as restricted or unrestricted and evidencing acceptance of gifts by the Trust Fund Board.
- Review all of the Library's trust funds by legal counsel for accuracy of restricted and unrestricted balances.
- Prepare monthly or quarterly financial statements, including balance sheets, for each significant fund.

Library of Congress Response

- The Library will review its procedures to require a formal document review of all trust funds by general counsel and the Chief Financial Officer. The review will be documented.

- The Library believes the "Status of Funds" reports currently produced are sufficient and producing additional statements would not be cost beneficial.

KPMG's Assessment of Corrective Action Plan

- The review of trust fund documents by legal counsel is currently in process.

- A separate monthly or quarterly financial statement for each significant trust fund would not be cost-effective to produce.

12. CONTROLS OVER SAFEGUARDING OF COLLECTIONS

Prior year findings

- The Library should prepare a formal risk assessment and a comprehensive security plan.
  - The plan should include all parties essential to its success (ISS, ITS, labor unions, AOC, Office of IG).
  - The Library should identify all significant risks to its collections.
  - In assessing risk associated with various items in its collection, the Library should assess the information value, the likelihood of being able to replace the items, the threats to those items, and the base of customers likely to use those items.
  - 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.
- The Library should establish clear lines of authority and responsibility for securing the collections, as well as mechanisms to hold individuals accountable for results.

- Once all of the risks have been identified, the Library should determine what controls are in place to mitigate these risks. As the Library identifies weaknesses in the control structure, the cost associated with addressing these weaknesses should also be estimated. The Library must weigh the costs and potential benefits of safeguarding controls.

- The Library should prepare a comprehensive plan to address the weaknesses in its control structure.

- The Library should ensure that all aspects of the assessment and plan are documented. The initiatives should be incorporated into the performance plans of the applicable Library personnel.

- The Library should define and apply specific standards of care (in terms of risks that are acceptable and the costs of mitigating them) to reasonably assure itself that risks are reduced to an acceptable level.

KPMG's Assessment of the Library's Action Plan

The Library has begun to draft a comprehensive security plan and is in the development stages of performing its first Library-wide risk assessment for the Collections. The current status of the Library's internal controls over safeguarding of Collection assets and our recommendations are addressed in our report entitled, "Report of Independent Accountants on Management's Assertion About the Effectiveness of Internal Controls Over Safeguarding Collection Assets," found on page 6-41 of this report.

KPMG Peat Marwick LLP

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Washington, DC 20036

Report of Independent Accountants on Management's Assertion About the Effectiveness of Internal Controls Over Safeguarding Collection Assets

The Inspector General,
Library of Congress:

We have examined management's assertion, which is presented in Section 5, 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, 1996.

Our examination was made in accordance with *Government Auditing Standards*, issued by the Comptroller 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 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.

In its assertion letter, the Library of Congress has defined the following control criteria for safeguarding collection assets against unauthorized acquisition, use, or disposition:

- Bibliographic controls, which include but are not limited to: cataloguing, archival processing, and arrearage reduction.

- Preservation controls, which include but are not limited to: 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, etc.; and Congressionally-mandated preservation programs such as the National Film Preservation Board and American Television and Radio Archive.

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- Inventory controls, which include but are not limited to: 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 but are not limited to: perimeter security (e.g., theft detection devices); secured receiving and holding areas for materials not yet accessioned into the research collections, including the Copyright Office; storage areas 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 high risk collections; and secured loan stations.

The Library asserts that specific controls over items in the collection assets depend upon the item's format, demand for and condition of use, and the value and risk assessment for that item.

The *Integrated Control-Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission would classify the aforementioned Library criteria as "control activities." The Integrated Framework also includes the following elements of internal control reporting.

- Risk assessment and collection security plan - The Library must assess the risk of unauthorized acquisition, use or disposition of the collection.

- Control environment - The Library must influence the control consciousness of its personnel by instituting an environment that makes internal control a priority.

- Information and communication - The Library must determine what information is needed by management to prevent or timely detect control failures, and make that information readily available to management at all times.

- Monitoring - The Library must establish policies and procedures for monitoring compliance with internal controls by personnel assigned those tasks.

Adapting these elements to the *Internal Control-Integrated Framework's* definition of internal controls over safeguarding assets to fit the Library's circumstances can be summarized 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 using the Library's control criteria, a weakness in safeguarding controls is significant enough that is 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 is in the early design stages of establishing a comprehensive risk assessment and collection security plan to identify the risks to the collection, the planned or established controls that must be in place to mitigate the risks, the policies and procedures required to enforce the controls and the information management needs to monitor the effectiveness of the controls. Until these tasks are completed, 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 significant weaknesses in preservation controls, inventory controls, bibliographic controls and physical security controls over collection assets as of September 30, 1996. Our recommendations for these and other significant weaknesses identified by us during our audit are outlined in the following section, *Internal Control Weaknesses in Safeguarding of Collection Assets and Recommendations for Improvement.* Our current year recommendations and assessment of the Library's initiatives are intended to build on the findings and recommendations made in fiscal year 1995.

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 as of September 30, 1996, is fairly stated based upon the criteria described above.

KPMG Peat Marwick LLP

March 28, 1997
Washington, D.C.

INTERNAL CONTROL WEAKNESSES IN SAFEGUARDING OF COLLECTION ASSETS AND RECOMMENDATIONS FOR IMPROVEMENT

THE LIBRARY LACKS A COMPREHENSIVE COLLECTION SECURITY PLAN OR FORMAL RISK ASSESSMENT FOR THE SAFEGUARDING OF COLLECTION ASSETS

Two major studies were conducted for the Library in 1996 by outside consulting firms. Consultants conducted a physical security survey to identify weaknesses in the Library's physical security controls. The survey's conclusions described a lack of effort by management in identifying major security threats by collection area and by value of items, of protecting collection items as they move between buildings, of clearly distinguishing security responsibilities of the Library and those of the Architect of the Capitol (AOC), and of providing for a Director of Security to develop and execute security-related policies and procedures.

The second study was conducted by consultants who addressed security issues as part of an overall management study. Major findings on security also addressed the lack of a Director of Security to assume responsibility for all security issues, including the security of the Library's heritage assets, a budget structure which does not provide information on security costs, insufficient security training for Library personnel, the lack of a single, comprehensive set of security requirements for the Library's collections programs, and the lack of a risk management program that assesses all Library risks associated with current operations.

The Library is in the early development stages of establishing a comprehensive risk assessment which will identify the significant risks to the collection, the proposed or established control activities to mitigate these risks, the policies and procedures necessary to implement the necessary controls, and the information and methods by which management will monitor the effectiveness of the established controls.

The Library's Integrated Support Services is in the process of drafting a physical security plan to ensure and improve physical security at the Library. The plan seeks to develop, staff, and manage a centralized physical security organization that will encompass all major threats to the Library's physical security, whether they originate outside or inside the Library. The Plan calls for the creation of a new position, Director of Security, who will report directly to the Deputy Librarian. (This position was created in 1996 and filled in February 1997.) The Plan lists collections and cultural assets among the primary Library of Congress security interests.

The Library has not defined what it considers an acceptable level of risk and what constitutes "reasonable assurance" in determining that the internal control structure over safeguarding of collection assets against unauthorized acquisition, use, or disposition, is in place and operating.

With regard to acceptable risk, the Library must carefully consider the costs versus the benefits of implementing new controls, as the institution faces restraints from budgetary, personnel, infrastructure, and space limitations.

Recommendations

After carefully reviewing data gathered this fall for the Library's annual Limited Control Reviews required under Financial Services Directive FSD 96-10, Library Services Directorate and other service unit heads have concluded a complete risk assessment of the heritage assets, including internal control documentation and implementation, is necessary but will take several years to complete. We recommend the Library begin developing a strategy for conducting the assessment. The strategy should address short and long term objectives or milestones, projected budget and personnel costs necessary to achieve each milestone, and timeframes under which each milestone is expected to be accomplished. Library Services Directorate plans to develop risk assessment and internal control implementation models in several service units during fiscal year 1997. These models will be used as the framework for other service units and custodial divisions to complete similar assessments in fiscal years 1998 and thereafter, until all units are complete.

We recommend the Library Services Directorate organize and manage the formation and implementation of the Library-wide risk assessment. The risk assessment should identify risks inherent not only in the custodial divisions of the Library, but also those Library service units that maintain temporary custody of collection assets. The managing committee should include representatives from Copyright, the Law Library, and Integrated Support Services, as well as those units within the Library Services Directorate who will play a significant role in risks shared by other units, such as Cataloging and Preservation. We recommend the Senior Executive Committee act as an oversight body for the Library-wide risk assessment.

The risk assessment should prioritize control measures by identifying those risks that would cause the greatest loss to the largest number or the most invaluable assets of the Library. The assessment should consider the likelihood of the occurrence of the identified risks and the cost versus benefit of reducing or eliminating those risks with effective control measures. For instance, is the Library likely to suffer the greatest loss of collection assets from a physical security weakness, such as exposure to a terrorist attack, or is the greatest loss likely to result from preservation weaknesses, such as inadequate space or substandard storage facilities for housing current and future acquisitions?

The risk assessment should address all service and custodial units separately, since each unit is unique and each has varying degrees of risks related to the four categories of control criteria. The risk assessment should include: the Copyright Division, since a vast majority of collection assets are obtained through copyright deposits; Integrated Support Services, since many collection assets enter the Library through the loading dock and move within the Library's

hallways and tunnels; and the Law Library, which has processing and custodial responsibility for the Library's holdings on legal subjects.

The risk assessment for each unit should segregate risks by collection asset format (monograph, video, audio cassette, compact disc, print, photograph, manuscript, map, globe, etc.) and by location (reading room, processing area, stacks).

The risk assessment should seek to rank and categorize risks as described above and document the priority of controls needed based on the level of risk. Each service unit and custodial division should document their existing controls and compare them to the prioritized list of controls in the risk assessment. Once it has been determined which priority controls exist and which need to be established, policies and procedures to implement these controls should be developed on a service unit and custodial division basis with the responsibility for implementing and maintaining these controls assigned to the appropriate Library personnel in each unit or division.

The risk assessment should establish common reporting procedures for communicating control effectiveness to management on a regular basis. The procedures should be standardized so that results by division or unit can be compared and compiled to provide useful information on a Library-wide basis.

In developing the risk assessment overall and by service unit, the Library should leverage existing information gathered from internal assessments and reviews and those of outside contractors, such as the physical security assessment performed by the Library's Protective Services in November 1996, and the contractor security review conducted from October 1995 through June 1996. The Library should utilize the knowledge of the Inspector General's office in identifying known security weaknesses. Existing information regarding weaknesses in preservation should consider the Preservation Directorate's current plans as well as the Strategic Facilities Plan developed by Facility Services. To identify existing inventory and bibliographic control risks, the Library should review needs identified by the Catalog and Support Office during their recent development of a Request for Proposal for an Integrated Library System.

The physical security controls of the risk assessment should correspond with Integrated Support Service's physical security plan currently under development. The responsibilities for physical security should be clearly established between the service and custodial units and Integrated Support Services. The risk assessment should also consider the role of the AOC and what limitations the Library may have with regard to physical security in areas where AOC has responsibility.

A WEAK CONTROL ENVIRONMENT AND INCOMPLETE CONTROL ACTIVITIES EXIST FOR THE SAFEGUARDING OF THE COLLECTION ASSETS

The Library has made isolated improvements to safeguard collection assets during fiscal year 1996. These are identified in management's assertion letter in Section 5 of this report. We have assessed the effectiveness of some of these controls during our audit. However, management has identified a number of significant weaknesses in physical security, preservation, bibliographic and inventory controls that still exist as of September 30, 1996. We have identified additional weaknesses as a result of our audit. These weaknesses are not all-inclusive, rather, they are weaknesses identified by us and confirmed through inquiry with Library management. These weaknesses and our recommendations are presented below.

Physical Security

Consistent security measures. Management's assertion of controls over the collections outlines many initiatives the Library has undertaken to mitigate physical security risks. Those we have observed include the completion of a study of the CSC security audit conducted in fiscal year 1996, hiring a full-time Director of Security, drafting of a Library-wide security plan, the acquisition and installation of electronic access control systems and x-ray machines and metal detectors at key entrances and exits, insertion of theft detection targets, expansion of security measures in reading rooms, and research into marking of library materials.

Our observations identified inconsistencies in levels of security in reading rooms, in work areas where collections are handled, among collection items in transit both inside and outside the Library's Capitol Hill facilities, and in item level controls on collection pieces stored in custodial divisions.

We observed that some reading rooms are fully equipped with security guards, Knogo gates, security cameras, clear sight lines, and written policies for patrons desiring access to collection materials. Other reading rooms lacked security personnel, secure exits, written policies, or some other security measure that would discourage theft or mutilation of items while in use by patrons. The degree of security measures a reading room maintains appeared to be dependent on how much of a priority these measures were to the particular division chief, and not necessarily the result of a comprehensive study or evaluation by the Library's security division as to where the greatest risks reside.

We observed that many work areas where collections are accessioned do not limit physical access to only those staff that perform the work. Other work areas contained poor sight lines and unlimited access, increasing the risks to collection items even further. (Work areas we observed with these weaknesses include the Copyright Receiving and Processing Areas, the Law Library research and processing areas, Exchange & Gift's basement work areas in the Madison Building, Prints & Photographs work areas and the Motion Picture division receiving area. Areas we observed with limited access by card reader control include the Exchange &

Gift Division work areas on the sixth floor, decks of the general collections, rare books and special collections in the Jefferson Building, preservation areas, the general collection book arrival and departure area, and the Music Division stacks.)

We noted many areas where collection items and copyright deposit materials were left unattended during transport or while awaiting processing. These areas include the Copyright mailroom, the entryways to the Copyright Data Preparation areas for both 407 and 408 type deposits, the fifth floor cataloging hallways and areas inside the cataloging departments, the Recorded Sound division offices, the Motion Picture receiving area, the Law Library processing area, and any areas where uncovered book trucks are used to transport items and are left in unsecured areas where the general public and Library staff have unlimited access.

Tracking Collection Items. We noted a general lack of tracking procedures for collections that leave a service unit, division or facility within the Library bound for another Library location. We noted the Landover facility had no tracking procedures for materials bound for the Capitol Library buildings. There are no consistent accountability procedures to log in items leaving or returning to the facility. Collections from this facility are requested via telephone, fax or the Automated Book Paging System (ABPS). For those items requested via ABPS, copies of request slips are retained for a certain period of time. Items that enter the Library through the loading dock are sent to the appropriate division without tracking slips or some type of content description. It is unclear how the division or the Loading Dock could track a missing item when a record of what was originally received by the dock and delivered to the division is not maintained.

Item Level Security. Item level security is inconsistently applied to collections within the Library. While it may be practical from a resource standpoint to equip general collection books with tattlestrips only when they reach the circulation desk for check out, new acquisitions generally receive tattlestripping only after they are cataloged. This procedure exposes new collection items to risk when they enter the Library, because new acquisitions are not stamped with any Library of Congress marking or tattlestripping, are not recorded anywhere in the inventory, and are generally transported in unprotected carts. Nontraditional formats (CD's, cassettes) cannot be subject to tattlestripping without damaging the format.

Recommendations

Consistent security measures. We recommend integration of the Library's overall physical security plan, currently under draft, with the Library's planned risk assessment. Weaknesses uncovered by the collection divisions as a result of their risk assessments should be brought to the Security Director for consideration and resolution. Until both the security plan and risk assessment can be fully completed, the extent of weaknesses in physical security controls will not be fully known.

Tracking Collection Items. We recommend transfer documentation be implemented as part of the Library's policies and procedures that will be adopted as a result of the risk assessment of the Library's collections. Proper transfer documentation ensures that materials transferred from one location to another within the Library are completely and accurately recorded. Transfer documents should be signed by both the transferring party and the party accepting the transfer or delivery. Both employees must verify the completeness and accuracy of the transfer.

Item Level Security. We recommend that polices be formulated documenting what item level security will be implemented for different categories of assets. The Collection Management Division informed us that the Library has embarked on a program to tag high-risk material first, and all items sent for commercial binding are tagged as part of the binding process. However, Library management does not see the need to tag every item in the collection, nor do they believe it would be cost effective to do so as security can be achieved in alternative manners. One solution proposed by the Collection Management Division is to tag certain categories of material comprehensively and other areas randomly.

Bibliographic and Inventory Control

The most important initiative the Library has undertaken is the proposal for a new computer system designed to help the Library improve physical and bibliographic control over its collections. The Integrated Library System (ILS) is expected to integrate information on various library functions, such as collections development, acquisitions, inventory control, serials management, cataloging, binding, preservation and circulation, into one system and would replace the two existing manual shelf lists, the Serials Visible File, and the Manual Shelflist. Our tour of the Library included viewing the shelf lists that house millions of cards where important bibliographic and inventory data is maintained. These systems, along with many other databases and finding aids maintained by the Library, are not currently integrated and require significant man-hours to maintain.

Bibliographic controls are weak in areas where severe arrearages exist and in existing collections that were acquired before the procedure to catalog items upon acquisition began. It is common among divisions that arrearages, or uncataloged materials that have been accessioned into the Library's collections, are not identified by an inventory list. Only the approximate number of items and type of format can be generally identified until cataloging. Therefore, no one knows exactly "what" is in the arrearage, by item.

The Music Division has approximately 1.7 million pieces of uncataloged music scores in the Landover facility and many of the 10 million total holdings in the Madison Building are uncataloged as well. Some of these pieces are included in the Library's arrearage reduction plan, but many are not. The Division's processing unit does not have adequate space and staffing to achieve reduction of uncataloged musical materials.

Most single maps received by the Geography & Map Division prior to 1969 are not cataloged, but are arranged geographically by date and subject (referred to as their "titled collection"). One and a half million of the titled collection has not been cataloged because these items did not meet the arrearage criteria outlined in the arrearage reduction plan (they were not recently acquired).

The Library does not have a standard method of counting items in arrearage. This causes inconsistencies in reporting arrearage reduction numbers, arrearage backlog numbers and in comparing arrearage reduction goals and progress from one division to another. Manuscripts asserted that a recent effort has been undertaken to standardize the consistency in counting arrearage items, which should achieve as satisfactory a consistency as can be achieved given the variety of formats and professional standards that exist today. We were not able to address the effect of this initiative on the Library's bibliographic controls during our field work.

Recommendations

We support the need for the Library to acquire an Integrated Library System (ILS), which will integrate many systems, provide more current and accessible bibliographic and inventory information, and provide the Library with available technology to keep pace with current and future demands.

It is clear from our observations that complete item level control is not easily achievable or perhaps even desirable. The most cost beneficial approach appears to be that of item level control for the most valuable or most irreplaceable items, and folder level or collection level control for other items. For instance, the Manuscripts Division can only bibiliograph collections at the collection in the bibliographic database level (many items, such as letters, make up a "collection") and folder level in the finding aids (again, folders contain many items). There are approximately 56,000,000 items in the Manuscripts Division and staff limitations prevent the division from providing item level inventory for everything. Some collections, such as the Presidential Papers, for instance, receive item level control, although the funds to complete the task came from special appropriations or gifts. The management of the Prints & Photographs Division shared the same view, stating to us that "it is dubious that we will ever have the opportunity to re-catalog collections already cataloged or convert paper based records to machine readable forms, given the size of our current arrearages and the continuing staff attrition."

In assessing the need for item level cataloging, we believe the Library's collections safeguarding risk assessment should include documentation outlining what parts of the collection held by each division are item level catalogued, which are collection level catalogued, and which have neither. This information would help determine the nature and amount of uncataloged

materials in each division and would help assess where additional cataloging may be needed to reduce risk of loss to the collections.

Preservation Control

Physical storage space is inadequate in amount and type of temperature and humidity controls. Management has identified these inadequacies in its assertion letter. The Library completed a Strategic Facilities Plan, spanning fiscal years 1997-2004, to document each service unit's facility requirements. The Plan describes several initiatives Library Services have identified to expand or enhance existing storage space.

The Library has taken several steps to mitigate the risks to its collections from environmental damage and damage from handling as the items are served to patrons. The Library creates duplicates of many of its rare collection pieces (films, recordings, prints and photographs) to serve to patrons so the originals can be preserved. The extent of surrogates Library-wide has not been quantified or assessed for cost versus benefit when compared to other security measures.

Our observations noted weaknesses in proper preservation control in the following collection areas.

- The Law Library rare books are stored with the general collection items in the subbasement of the Madison Building. The rare books should be stored in a separate protected area with limited access. The division has devised temporary measure (hasps and locks) in the stacks, but additional and more permanent provisions are needed.
- Photoduplication Services states that Landover does not have an adequate environment for storing master negative microforms, even though they are currently being stored there.
- The Music Division asserts that environmental damage has occurred in many stack areas of the Madison Building, where roof leakage is a potential threat to collection items.
- The Motion Picture Broadcast and Recorded Sound Division (MBRS) has overcrowded facilities and other inappropriate conditions that limit this division from properly following standardized guidelines for storage and handling of all types of formats, particularly when those formats are not the standard format collected by that division (i.e., manuscripts housed by MBRS). MBRS states that the less than perfect atmosphere in the Madison building, however, is better than the Landover facility for storing items. Moreover, not all film collections in Landover are in cold storage as they should be to prevent deterioration.
- The Exchange & Gift Division noted that their space for processing incoming materials was reduced a year ago when they moved part of their division from the sixth floor to the basement of the Madison Building. The space in the basement is not always adequate to house all materials that go through Routing and Receiving. Integrated Support Services does plan to take action to secure the corridor.

- The Prints & Photograph Division stated that flooding is chronic at the Landover facility and filth and sewage back-up have also been problems there. The Suitland vaults lack humidity control and contribute to the accelerated deterioration of the nitrate negatives, which is much worse than merely avoiding accelerated deterioration.
- We noted that very old print media (19th century) from the Motion Picture Division is not stored in a temperature/humidity controlled environment. They are housed on standard shelving in the Madison building's Motion Picture Division stack area.

Recommendation

We recommend the facility requirements be considered in the overall collections risk assessment when considering preservation risk. Each division should include in their assessment any effects the acquisition of new facilities will have on their short term and longer term preservation risks.

We recommend that the Library consider the use of surrogates in its risk assessment and compare the cost and benefits of this deterrent against others on a division by division and format by format basis.

THE LIBRARY LACKS EFFECTIVE MANAGEMENT INFORMATION FOR AND MONITORING OF THE COLLECTION ASSETS' INTERNAL CONTROLS

A lack of collection security objectives in annual performance plans of custodial chiefs results in a collections security weakness. Meaningful and regular management information about whether security goals are being established and met are essential to a strong control environment. The performance plans of security officials and custodial division chiefs, as well as those in other service units who are responsible for collections security, should include measurable objectives for assuring all collections controls are implemented and functioning.

Recommendation

We recommend integration of the performance plan process with the Library's collections risk assessment. Once the major controls over safeguarding of collection assets have been identified from the risk assessment, each division should develop measurable tasks that personnel should be performing to assure those controls are functioning. Division management should be held accountable for monitoring personnel assigned to these tasks. Reporting these results should be integrated into the Library's annual performance plans in order that management receives the information needed to assess the effectiveness of the internal controls over the collection assets.

THE DEPUTY LIBRARIAN OF CONGRESS

April 30, 1997

Dear Ms. Dudley:

Thank you for the opportunity to review and comment on your draft audit report of the Library of Congress' consolidated financial statements for fiscal year 1996. The audit report sets forth good recommendations that, once implemented, will improve the Library's financial management. The report makes 43 recommendations, and the Library concurs with 38 and partially concurs with 5. The enclosure presents a detailed response to the recommendations in the draft.

As you know, Price Waterhouse LLP performed an audit on the Library's fiscal year 1995 consolidated financial statement of financial position. This audit was performed the first year following implementation of the new financial management system and was a year earlier than planned in the financial management improvement plan. Price Waterhouse issued a qualified opinion on the consolidated statement of financial position. They chose not to issue an opinion on the statement of operations due in part to the large number of adjustments brought about by the system conversion. The report contained four material weaknesses and seven reportable conditions.

Your firm, KPMG Peat Marwick LLP, one year later, has issued an unqualified opinion on the Library's consolidated financial statements, a credit to the entire staff of the Library of Congress. However, your firm also found that one material weakness and seven reportable conditions still exist. The report recognizes the progress made since the previous year's audit but emphasizes that additional efforts are required to address effectively the remaining control deficiencies and continued corrective actions are necessary on the long-term issues.

The report also recommends that the Library take steps to end noncompliance with laws and regulations concerning the operation of gift revolving funds and the Cooperative Acquisitions Program. These are long-standing conditions, and the Library is continuing its efforts to resolve them by seeking appropriate legislation.

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Although the Library has made substantial progress in identifying and resolving its financial management issues, there is still much work to be done. We look forward to implementing the audit recommendations, proceeding with our financial management improvement plan, and responding to new government initiatives to improve the accountability of government to the people it serves. We look forward to the challenge and anticipate working with the Congress to accomplish these major important tasks.

Finally, please accept my appreciation and thanks for a professional and thorough audit report.

Sincerely,

Donald L. Scott
Deputy Librarian of Congress

Enclosure

Ms. Diane L. Dudley, Partner
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APPENDIX A
MATERIAL WEAKNESS

COMPUTER SECURITY:

SECURITY PRACTICES OVER INFORMATION TECHNOLOGY SYSTEMS ARE INADEQUATE.

Recommendations - We recommend that:	*LC Response	LC Action	LC Plans
1. The Library implement Data Center access controls that restrict Data Center access to authorized staff. Visitors logs should be used to document all other authorized access, including time and purpose of the visit.	Concur	Recommended actions were underway at the time of the audit and have since been completed.	Information Technology Service (ITS) plans to continue evaluation of physical security measures and implement additional measures as needed.
2. The Library implement an end-user security awareness program, which should include annual user affirmation of their responsibilities relative to data security and ongoing data security education. The Library should develop, document, and implement data security policies, procedures, and standards for each processing platform (i.e., mainframe, minicomputer, microcomputer, local area network, and data communications).	Concur	ITS security staff do provide Data Security orientation training to new Library staff when requested by the Human Resources Directorate (HR). As you noted in the Notice of Finding and Recommendation (NFR), the Library did issue a Computer Security Policy statement in fiscal year 1996.	The Library's Staff Training and Development Office, in cooperation with ITS, will implement an end user security awareness program. The Library will build on its Computer Security Policy as resources permit.
3. The Library implement policies and procedures to properly restrict access to production data. This should include procedures to ensure that any changes made to production data have been authorized by management.	Partially Concur	We know of two instances where end-users have access to production data: one in Disbursing where this access is required to print checks, and one in Accounting to post payroll transmissions from NFC. In both, we are satisfied that the risk is limited and that we have mitigating controls (e.g., back-ups, report reviews, and reconciliations).	To eliminate the two instances, we plan to evaluate adding the jobs in question to the new job scheduling system when it has been implemented later this year. Also, access controls will be evaluated as part of the Library's scheduled conversion of the financial management system from DB2 to VSAM.

*Library Response: (1) Concur; (2) Partially Concur; (3) Non-Concur

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Recommendations - We recommend that:	*LC Response	LC Action	LC Plans
4. The Library develop, document, and implement policies and procedures for the use of ACF2 privileges to ensure that privilege use is warranted, monitored, and reviewed by appropriate management.	Partially Concur	In the past year, the Library has reduced the use of special ACF2 privileges by over 60%, and no non-systems engineering staff (i.e., application programmers) have special privileges. We believe that the mitigating controls in place (e.g., logging and monitoring all NON-CNCL access against production datasets) is adequate to reduce risk and ensure security. We visited several other government agencies and believe that our assignment of special privileges is reasonable in that context.	Work is underway to further limit the use of NON-CNCL access by stated tasks.
5. The Library develop, document, and implement comprehensive policies and procedures requiring Human Resources to inform Data Security personnel of all terminated employees before their termination date. We also recommend that information concerning vendors and internally relocated employees be forwarded to Data Security personnel before the termination or relocation date.	Concur	Since the date of the audit, the Library has instituted a new procedure that requires that the Computer Security Officer sign off on the separation clearance form assuring that the automated systems access accounts have been closed.	Given that there are very few terminations at the Library, we believe that the existing procedure is an adequate control.
6. ITS establish policies and procedures to prepare and distribute, by office, current access configurations for Library employees. These reports should be issued on a routine basis and should include, at a minimum, a user's identification, his or her access to all systems, applications, transactions, etc., and the type of access assigned (e.g., read, write, execute). These reports should be reviewed and signed by appropriate management and returned to ITS Data Security personnel.	Concur	None to date.	The Library will evaluate the need for, and optimum frequency of, the reports and procedures recommended as part of recommendation #3, as resources permit.

*Library Response: (1) Concur; (2) Partially Concur; (3) Non-Concur

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APPENDIX B
REPORTABLE CONDITIONS

FINANCIAL

WEAKNESSES IN CONTROLS OVER THE FINANCIAL REPORTING PROCESS

Recommendations - We Recommend that Financial Services:	***LC Response**	**LC Action**	**LC Plans**
1. Remain diligent on requiring reconciliations of major accounts and subsystems to the general ledger according to the schedule outlined in FSD 96-8, *Guidelines for Financial Systems Reconciliations*. We recommend Financial Services assign follow-up of these reconciliations to qualified personnel within the department. Financial Services is assigning accountants to help those financial managers in program offices who were unable to successfully reconcile their accounts at year end. We understand Financial Services is also working with the FEDLINK financial director to design an enhanced report to aid them in their reconciliation processes. Regular and timely review of reconciliations and immediate attention to program office problems are key to ensuring that the general ledger detail is accurate and complete throughout the year. This must be a regular and ongoing process to be effective. We further recommend Financial Services and Contracts & Logistics (C&L) resume their reconciliation procedures of property and equipment acquisitions. We noted this area as the weakest in sufficiently complying with FSD 96-8, even subsequent to year end.	Concur	Financial Services has assigned operating accountants to assist the program systems with their initial reconciliations and is working with FEDLINK to simplify the reconciliation process between the SYMIN system and FFS. FSD is also coordinating with C&L to resume the quarterly reconciliations of the property acquisitions.	FSD plans to follow-up on the reconciliations once the initial process has been institutionalized. FSD is now revising the Directive 96-8 on procedures for reconciliations to incorporate the changes necessary as a result of the fiscal 1996 audit.
2. Continue to provide financial managers with Limited Control Review training that is tailored to their specific needs and provides a more "how-to" approach rather than a theoretical one. For example, the financial managers could be surveyed to determine what benefits they obtained from the classes and what they felt may have been lacking. Grouping attendees by the type of transactions they process (i.e., deposits or receipts, procurement, payroll, and property and equipment) would allow classes to be more tailored to the audience, and attendees would then receive information most relevant to their duties.	Concur	FSD has discussed additional training with the contractor ABACUS Technology and tentatively arranged for a class to be given to FSD Operating Accountants in June. This class will be a pilot for additional training of the Program and subsidiary financial managers.	FSD is revising the Limited Review methodology, including the questionnaires directing them to the specific types of transaction for each activity. Training will be more of a "how-to" approach.

*Library Response: (1) Concur; (2) Partially Concur; (3) Non-Concur

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Recommendations - We Recommend that Financial Services:	*LC Response	LC Action	LC Plans
3. Tailor the Limited Control Review internal control questionnaires to the specific transactions or areas processed by the managers, excluding those areas that are irrelevant. We noted several instances where managers answered questions because they were asked, even though the areas were not their responsibility.	Concur	Action planned.	Internal Control review questionnaires will be directed to specific transactions for specific activities.
4. Coordinate with the IG's office as to the timing and extent of their planned audits of selected Limited Control Reviews in 1997. If the IG's work plan will not cover a substantial number of program subsystems, Financial Services must make plans to review them so management can assert that reviews are properly completed and controls are effective.	Concur	None.	FSD will coordinate with the IG Office to improve the internal control review process.
5. Revise the timing for conducting some of the annual Limited Control Reviews. Assigning different reviews every quarter of the fiscal year will provide assurance that controls are functioning during the year and not just at year-end, and will allow Financial Services and the IG's office to schedule their evaluations more evenly over the year to ensure timely follow-up of the review process.	Concur	FSD plans to begin the review of FFS following the training in June.	FSD will coordinate with the program and subsidiary systems to arrange training and review schedules throughout the year.
6. Delay implementing the planned activity-based costing project until full staffing of key positions is achieved.	Concur	FSD is hiring additional professional staff in preparation of implementing managerial accounting.	The FSD financial management improvement plan calls for implementation in 3-5 years. FSD will evaluate delaying financial statement implementation until all resources are available and appropriate systems are in place.

*Library Response: (1) Concur; (2) Partially Concur; (3) Non-Concur

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LIBRARY RECORDS FOR CAPITALIZED NONBULK PROPERTY AND EQUIPMENT ARE NOT ACCURATE AND COMPLETE

To provide proper internal controls over capitalized property and equipment transactions, we recommend that:	***LC Response**	**LC Action**	**LC Plans**
1. C&L strengthen its procedures for reviewing information entered into the IBCFACS database. C&L must establish integrity of the data currently recorded in its property and equipment database by reviewing all input for errors and making the necessary corrections.	Concur	C&L has reviewed the IBCFACS database for errors and made corrections as required.	C&L will review all available capitalized asset records prior to 10/1/91 against the purchase orders and invoice documents.
2. C&L assign an employee who does not have data entry responsibility to review the subsidiary system detail on a regular basis to avoid future errors, which can be minimized with a routine review process. Errors can also be minimized if the source documents from which entries are made are clear and accurate. For example, procurement often uses acronyms and names that are specific to one vendor instead of using generic terms that clearly describe the asset being purchased.	Concur	C&L has set up basic procedures for making reviews of data input.	C&L will assign a staff member who does not have data entry responsibility to review data entered using established procedures.
3. C&L provide frequent communication to other service units, reminding them of their responsibility to report any acquisitions that come directly to their unit. FSD 96-7 states that service units must notify C&L but is not specific as to how or when the other units should provide notification. Until compliance with FSD 96-7 becomes commonplace within the Library, we recommend C&L send a quarterly request to those offices that directly receive property acquisitions or information regarding donated assets, like the Congressional Research Service (CRS) and the Development Office, to report any acquisitions or donations received.	Concur	C&L is to send quarterly requests to those offices likely to receive property directly.	Appointment of "Property Liaisons" in service units, as well as a new inventory approach (room by room) will be the basis for long term solution of this issue.
4. C&L be given the responsibility to review and approve all procurement request transactions initiated by other service units, so knowledgeable staff can compare offers and make sound procurement decisions.	Concur	Issue concerns lease vs. buy. C&L is already in the loop. Contracting Officers will start analyzing requests.	The Chief, C&L, will issue guidance to Contracting Officers and advise customers of new procedures.

*Library Response: (1) Concur; (2) Partially Concur; (3) Non-Concur

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To provide proper internal controls over capitalized property and equipment transactions, we recommend that:	***LC Response**	**LC Action**	**LC Plans**
5. The Library expand the scope of its next physical inventory of capitalized assets and visit all areas of the Library that may potentially house fixed assets to ensure completeness of existing property records. The unrecorded donated assets we identified during our audit were not discovered by C&L during the year end physical inventory because only areas recorded as having existing capitalized assets were visited, and the donated assets wee not located in any of those areas.	Concur	A comprehensive physical inventory will be conducted and reconciled with the IBCFACS database by fiscal year 1997 closure.	Comprehensive (room-room) (bldg.-bldg.) physical inventories will be conducted each year on all capitalized assets over $10,000.
6. The Library reevaluate its useful life policies for capitalized property and equipment and determine whether the current lives are reasonable. Any change in policy should be documented and applied consistently to all new and existing assets in that category. Because this is only the second year the Library has prepared financial statements, we recommend the Library correct all existing assets and revise its policies retroactively for consistency.	Concur	A study of useful lives for certain classes of property will be conducted in June.	Useful life figures will be adjusted for assets when the study warrants change. Changes will be incorporated for fiscal year 1998 financial statements.
7. The Library gain an understanding of the proper accounting treatment for capital leases. Personnel involved in capital lease valuation and recording should understand how to determine the net present value of future lease payments for comparison to the asset's fair market value when recording cost and how to properly amortize interest expense and reduce the associated lease liability annually. Personnel should refer to Title 2 or SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, for guidance.	Concur	C&L/FSD will meet to discuss use of the GAO Title 2 procedures on capitalized leases.	Capitalized leases will be updated using the prescribed procedures (GAO Title 2) by the end of fiscal year 1997.

*Library Response: (1) Concur; (2) Partially Concur; (3) Non-Concur

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To provide proper internal controls over capitalized property and equipment transactions, we recommend that:	*LC Response	LC Action	LC Plans
8. The Library consider using the current general ledger depreciation module for valuing and recording depreciation on assets that require capitalization or obtaining another package that will provide an interface with the general ledger and will calculate current period depreciation reports. The IBCFACS system is a bar code system meant to control the safeguarding of the assets and was not designed as a depreciation package. Although the general ledger's depreciation package provides no property location control as the IBCFACS system does, the general ledger system would capture all expenditures for property and equipment over the capitalization threshold without requiring a manual entry and would provide accurate depreciation information that would be recorded directly into the general ledger. The IBCFACS system could still function as a property control system for all assets over the safeguard control threshold, which is currently $300.	Concur	C&L/FSD will meet to discuss use of the FFS depreciation module for capitalized assets and for determining exact information needed to provide accurate calculations.	C&L will convert the capitalized assets to the FFS depreciation module if practicable. C&L will also investigate modifications to the IBCFACS program which will yield yearly depreciation figures.

*Library Response: (1) Concur; (2) Partially Concur; (3) Non-Concur

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SAFEGUARDING CONTROLS FOR PROPERTY AND EQUIPMENT ARE NOT ADEQUATE

Recommendations for C&L:	*LC Response	LC Action	LC Plans
1. FSD 96-7, *Guidelines for Accounting for Capitalized Property and Depreciation*, was not completed until the last quarter of fiscal year 1996 and was not officially effective until September 30, 1996. This directive reiterates the need for those Library service units receiving either purchased or donated property to report that information in a timely manner to C&L. Until this practice is routine, communication remains a major weakness in the Library's ability to safeguard its property and equipment. To help strengthen the communication process, we recommend appointing a staff person at the directorate level to be held accountable for instituting Section 3.3.1. of FSD 96-7 so that all acquisitions, dispositions, and transfers of property are managed at the local level. This person would be responsible for: • Communicating with C&L (on a monthly, bimonthly, or quarterly basis, as deemed appropriate) any movement of property or equipment • Maintaining a copy of the equipment tracking detail (IBCFACS printout) of items in their area and noting any changes to it • ensuring that every item qualifying for control is property bar coded; any item without a bar code should be reported to C&L at the time of discovery.	Concur	C&L will issue memoranda to all Library service units and offices requesting that personnel be assigned to act as "Property Liaisons" to C&L.	Once liaisons have been identified, C&L will work with these individuals to establish regular communication channels to handle all property actions in their offices and for obtaining their assistance during physical inventories.
2. We recommend raising the threshold for bar coding and tracking assets from $300 to $500 or $1,000 per individual item to further ease the burden of tracking low dollar value property and equipment items. Other government agencies use these thresholds and we believe labor hours could be better used in strengthening existing control weaknesses instead of tracking items with a low dollar value.	Concur	C&L will raise the threshold to $500 on a majority of items.	Effective June 1, 1997, incoming property valued at less than $500 will no longer be added to the IBCFACS property records.

*Library Response: (1) Concur; (2) Partially Concur; (3) Non-Concur

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Recommendations for National Library Service for The Blind and Physically Handicapped:	*LC Response	LC Action	LC Plans
1. We recommend that NLS consider merging the reporting performed by the two different playback machine tracking systems (BPHICS and MMR) and begin to capture all data within the BPHICS system. NLS would need to ensure that BPHICS and the MMR contain data for the same time period, since the MMR database has more historical information than BPHICS. The BPHICS system would need to be modified to capture the collective status by machine-lending agency (MLA) of all machines in the custody of machine-lending agencies, as well as acquisition information by serial number, which is its current function. The result should generate an output report of the collective status of machines by machine type. This would improve the accuracy of reporting from the lending agencies.	Concur	Action planned.	Implementation will be initiated in fiscal year 1998.
2. We also recommend establishing an acceptable range of "lost machines" for each lending agency, based on historical figures of patrons they serve and the current age and number of machines in their custody. In addition, we recommend requiring the independent contractor to compare totals for each machine model reported by each lending agency. No system updates would be accepted from lending-agency reports if the reported figures fall outside the established acceptable range. When the independent contractor receives the monthly reports from the lending agencies, it should compare the totals for each machine category with the acceptable ranges. If the reported figures fall outside the ranges, the machine-lending agencies should be required to perform a self audit to investigate the discrepancies.	Concur	Action planned.	Implementation will be in fiscal year 1998.
3. Finally, we recommend NLS review and monitor both the input from the lending agencies and the output from the independent contractor on a regular basis, and document a plan for visiting lending agencies to perform regular equipment audits.	Concur	Action planned.	Implementation will be initiated in fiscal year 1998.

*Library Response: (1) Concur; (2) Partially Concur; (3) Non-Concur

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WEAKNESSES EXIST IN THE FINANCIAL REPORTING SYSTEM APPLICATION CONTROLS

Recommendation for FSD:	*LC Response	LC Action	LC Plans
1. The Library's financial reporting system override report, which is distributed by the Library's financial reporting System Administrator, is not adequately reviewed by end-user management. We recommend that the Library distribute the override security report on a routine basis and implement policies and procedures requiring end-user management to review and monitor override transactions.	Concur	The procedures for review of the override security report were changed in February to require documentation that supports management review of a sample of the override transactions.	FSD will continue to distribute the override security report on a routine basis and monitor the review process.

THE LIBRARY LACKS A BUSINESS CONTINUITY PLAN

Recommendations for ITS:	*LC Response	LC Action	LC Plans
1. We recommend that the Library develop a business continuity plan that includes current disaster recovery plans for mission critical information technology resources. The plan should be developed based on a business impact analysis and should identify information technology systems that are critical for the support of mission critical areas. After the impact analysis has been completed, a business continuity plan should be developed for those areas deemed mission critical to the Library. We also recommend that the Library evaluate the feasibility of contracting for an alternate data center processing hot site.	Concur	Problems related to backup tapes stored in the Landover Warehouse have been corrected through implementation of a remote robotic tape storage silo (data vault) at the House Information Resources Computer Center.	The Library will also take steps necessary to comply fully with the auditors' recommendations in the business continuity/disaster recovery area. However, issues of resources, both staff and fiscal, to support a business continuity planning initiative, including a hot site, will need to be resolved before further progress can be made.

*Library Response: (1) Concur; (2) Partially Concur; (3) Non-Concur

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YEAR 2000 COMPLIANT SOFTWARE FOR FINANCIAL SYSTEMS HAVE NOT BEEN IMPLEMENTED

Recommendation for FSD and ITS and Program System Managers:	*LC Response	LC Action	LC Plans
1. We recommend that the Library evaluate each of its financial systems and subsystems and allocate the resources necessary to update the software to Year 2000 compliant versions as soon as possible.	Concur	Management plans and analysis of the overall Year 2000 problems are being developed.	The Library concurs with the finding regarding the Year 2000 compliant version of the financial software, but must wait until the fiscal resources are available for contracting for installation services. We project that the compliant version will be installed in early fiscal year 1998. Progress on the overall Year 2000 system effort will likely span several years, with progress being made as resources permit.

*Library Response: (1) Concur; (2) Partially Concur; (3) Non-Concur

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THE LIBRARY'S INSPECTOR GENERAL OVERSIGHT FUNCTION IS LIMITED

Recommendation for the Librarian of Congress:	*LC Response	LC Action	LC Plans
1. The Librarian of Congress should consider actions to follow-up and resubmit draft legislation to establish statutory authority for the Office of Inspector General (IG) at the Library of Congress. These actions should be taken in coordination with the testimony given by the Library of Congress at the Senate Committee on Rules and Administration in March 1997, reaffirming the Library's commitment to seek statutory authority for the IG. Title I of the proposed legislation granting statutory authority to the Library's IG would enhance the authority, status, and independence of the IG to detect and prevent waste, fraud, and abuse in the Library's administration and operations and would eliminate any perception that the Library's IG is not fully empowered to act independently.	Concur	On April 10, 1997, the Librarian sent a letter to the Library's oversight committee chairmen reaffirming the Library's request for IG legislation and seeking Congressional guidance on specific issues. These same issues were raised in a letter sent during the previous Congress, but unresolved before the session ended.	The Congressional Relations Office (CRO) continues to work with oversight staff to resolve open issues so that legislation can be finalized for introduction in the 105th Congress.

*Library Response: (1) Concur; (2) Partially Concur; (3) Non-Concur

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APPENDIX C
MATTERS OF NONCOMPLIANCE WITH LAWS AND REGULATIONS

THE LIBRARY OPERATES GIFT REVOLVING FUNDS BEYOND THE SCOPE OF ITS AUTHORITY

Recommendation:	*LC Response	LC Action	LC Plans
1. In order to comply with 2 U.S.C. 160, we recommend that the Library continue to seek specific statutory authority to operate gift revolving funds.	Concur	The Library has transmitted revolving fund legislation to Congress each year since 1990. In preparation for introduction of the legislation in the 105th Congress, LC consulted extensively with GAO to determine whether redrafting is necessary.	The LC CRO has notified committees with oversight jurisdiction that LC plans to offer revolving fund legislation again in the 105th Congress, and is working to meet any concerns of oversight members, GAO, Treasury, and other interested groups.

THE LIBRARY RETAINS CERTAIN MONEY FROM ITS COOPERATIVE ACQUISITIONS PROGRAM IN VIOLATION OF 31 U.S.C. SECTION 3302(b)

Recommendation:	*LC Response	LC Action	LC Plans
To comply with the General Accounting Office's decision on this matter, and in the absence of specific legislation authorizing the avoidance of applying 31 U.S.C. 3302(b), we recommend that the Library:			
1. Cease retaining money received from participants in the Cooperative Acquisitions Program to pay indirect costs or future contingencies	Partially Concur	Since January 30, the Library is not using the indirect cost money. The Library has requested legislative authority to retain receipts for indirect costs.	The Library plans to operate the program as a revolving fund when authorization is received. Fallback position: terminate program.
2. Remit money to the U.S. Treasury that would have been used to pay indirect costs or future contingencies that is included in the balance of $2.3 million at September 30, 1996; the Library should remit these fees as the liability is reduced.	Partially Concur	The Library has requested legislative authority to retain receipts.	The Library plans to defer action until Congress authorizes or denies retention of receipts.

*Library Response: (1) Concur; (2) Partially Concur; (3) Non-Concur

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APPENDIX D
INTERNAL CONTROL WEAKNESSES IN SAFEGUARDING OF COLLECTION ASSETS AND RECOMMENDATIONS FOR IMPROVEMENT

NO COMPREHENSIVE COLLECTION SECURITY PLAN OR FORMAL RISK ASSESSMENT

Recommendations for Library Services and the Senior Executive Committee:	*LC Response	LC Action	LC Plans
1. We recommend the Library begin developing a strategy for conducting the complete risk assessment. The strategy should address short and long term objectives or milestones, projected budget and personnel costs necessary to achieve each milestone, and timeframes under which each milestone is expected to be accomplished.	Concur	Library Services (LS) developed and submitted to the Executive Committee (EC) for approval, strategy for short-term and long-term implementation.	LS will continue to take the lead in refining and implementing multi-year risk assessment, with aid from Security and other service units.
2. We recommend the Library Services Directorate organize and manage the formation and implementation of the Library-wide risk assessment. The managing committee should include representatives from Copyright, the Law Library, and Integrated Support Services as well as those units within the Library Services Directorate who will play a significant role in risks shared by other units, such as Cataloging and Preservation. We recommend the Senior Executive Committee act as an oversight body for the Library-wide risk assessment.	Concur	LS has organized and convened an internal control review task force with full representation.	LS will continue to chair the task force and simultaneously perform assessments for the divisions in LS.

*Library Response: (1) Concur; (2) Partially Concur; (3) Non-Concur

Recommendations for Library Services and the Senior Executive Committee:	*LC Response	LC Action	LC Plans
3. The risk assessment should: • prioritize control measures by identifying those risks that would cause the greatest loss to the largest number or the most invaluable assets of the Library. The assessment should consider the likelihood of the occurrence and the cost versus benefit of reducing or eliminating those risks with effective control measures • address all service and custodial units separately, since each unit is unique and each has varying degrees of risks related to the four categories of control criteria • segregate risks by collection asset format and by location • seek to rank and categorize risks as described above and document the priority of controls needed based on the level of risk • establish common reporting standardized procedures for communicating control effectiveness to management on a regular basis • have physical security controls that correspond with Integrated Support Service's physical security plan currently under development. The responsibilities for physical security should be clearly established between the service and custodial units and Integrated Support Service. • consider the role of the AOC and what limitations the Library may have with regard to physical security in areas where AOC has responsibility.	Concur	See above	See above
4. In developing the risk assessment overall and by service unit, the Library should: • leverage existing information gathered from internal assessments and reviews and those of outside contractors • utilize the knowledge of the Inspector General's office in identifying known security weaknesses • consider the Preservation Directorate's current plans as well as the Strategic Facilities Plan developed by Facility Services • review needs identified by the Catalog and Support Office during their recent development of a Request for Proposal for an Integrated Library System.	Concur	See above	See above

*Library Response: (1) Concur; (2) Partially Concur; (3) Non-Concur

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WEAK CONTROL ENVIRONMENT AND INCOMPLETE CONTROL ACTIVITIES

Recommendations:	*LC Response	LC Action	LC Plans
1. **Consistent Security Measures** - We recommend integration of the Library's overall physical security plan, currently under draft, with the Library's planned risk assessment. Weaknesses uncovered by the collection division as a result of their risk assessments should be brought to the Security Director for consideration and resolution. Until both the security plan and risk assessment can be fully completed, the extent of weaknesses in physical security controls will not be fully knows.	Concur	The Security Director is ex-officio member of the Internal Control Review Task Force.	LS will continue coordinating the risk assessments of heritage assets with the Security Director.
2. **Tracking Collection Items** - We recommend transfer documentation be implemented as part of the Library's policies and procedures that will be adopted as a result of the risk assessment of the Library's collections. Transfer documents should be signed by both the receiving party and the party accepting the transfer or delivery.	Concur	LC is performing a risk assessment to identify weaknesses in documentation.	The Internal Control Review Task Force will recommend where such documentation is to originate.
3. **Item Level Security** - We recommend that policies be formulated documenting what item level security will be implemented for different categories of assets.	Partially Concur	Such policies already exist for the most part, although they are not always in written form.	LC will complete the risk assessment and make a decision about how much documentation is necessary.
4. **Bibliographic and Inventory Control** - We support the need for the Library to acquire an Integrated Library System (ILS) which will integrate many systems, provide more current and accessible bibliographic and inventory information, and provide the Library with available technology to keep pace with current and future demands.	Concur	An alternative analysis, business plan, RFP, and fiscal year 1998 budget request have been completed.	LC will publish the RFP in June 1997, and acquire the ILS upon Congressional approval.
5. **Preservation Control** - We recommend the facility requirements be considered in the overall collections risk assessment when considering preservation risk. Each division should include in their assessment any effects the acquisition of new facilities will have on their short term and longer term preservation risks.	Concur	Action initiated.	Preservation requirements will be included in all risk assessments.

*Library Response: (1) Concur; (2) Partially Concur; (3) Non-Concur

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Recommendations:	*LC Response	LC Action	LC Plans
6. We recommend that the Library consider the use of surrogates in its risk assessment and compare the cost and benefits of this deterrent against others on a division by division and format by format basis.	Concur	Action initiated.	Use of surrogates will be considered in all risk assessments.

LACK OF EFFECTIVE MANAGEMENT INFORMATION AND MONITORING

Recommendation:	*LC Response	LC Action	LC Plans
1. We recommend integration of the performance plan process with the Library's collections risk assessment. Once the major controls over safeguarding of collection assets have been identified from the risk assessment, each division should develop measurable tasks that personnel should be performing to assure those controls are functioning. Division management should be held accountable for monitoring personnel assigned to these tasks. Reporting these results should be integrated into the Library's annual performance plans in order that management receives the information needed to assess the effectiveness of the internal controls over the collection assets.	Concur	Security responsibilities have been incorporated in performance plans of all managers.	After completion of risk assessments, all effected divisions in LC will develop security performance standards and incorporate specifics in managers' performance plans.

*Library Response: (1) Concur; (2) Partially Concur; (3) Non-Concur