

**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.**

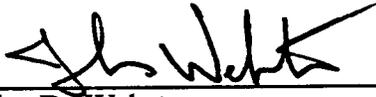
Because material internal control weaknesses existed during some part of fiscal 1996, we cannot provide reasonable assurance that the Library's internal controls over financial reporting at September 30, 1996, met the following two objectives: (1) assets are safeguarded against loss from unauthorized 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.

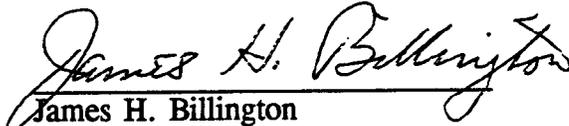
The audit of the Consolidated Financial Statements was performed by the independent accountants, KPMG Peat Marwick LLP. The independent accountants' report on the Consolidated Statement of Financial Position, Consolidated Operating Statement, internal controls, and compliance with certain laws and regulations 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