THE LIBRARY OF CONGRESS

FINANCIAL STATEMENTS FOR FISCAL 1997

April 1998

THE LIBRARY OF CONGRESS

FINANCIAL STATEMENTS FOR FISCAL YEAR 1997

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THE LIBRARIAN OF CONGRESS

April 27, 1998

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 1997 financial statements and accompanying opinion of the independent accountants, Clifton Gunderson L.L.C.

The preparation of auditable financial statements represents the fulfillment of a basic agency responsibility to safeguard the handling of public monies, and I am pleased to report that, for the second consecutive year, the independent accountants issued an unqualified "clean" opinion on the Library's Consolidated 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 executing corrective measures as part of our strategic planning process.

I am proud of the Library's stewardship of its financial affairs, and I commend the enclosed report to your attention.

Sincerely,

James H. Billington
The Librarian of Congress

Enclosure

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

THE LIBRARY OF CONGRESS
CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997
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 113 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's challenge, under its 1997-2004 strategic plan, is to sustain past gains while becoming a more efficient and effective operation. The Library has a proven record of making knowledge and information accessible to users everywhere -- evidenced by the exponential rate of growth in the Library's Internet transactions and the wide public acclaim of its website.

The Library's critical role as a trusted **knowledge navigator** for the Congress and the nation is made more important than ever by the growing flood of unsorted information available today. The Library's vision for the 21st century is to "lead the nation in ensuring access to knowledge and information and in promoting its creative use for the Congress and its constituents." The strategic plan maps the changes that will ensure that the Library -- the research and information arm of the national legislature and the world's foremost storehouse of knowledge -- continues its worthy tradition of collecting, preserving, sharing, and fostering creativity and learning in support of the Congress, the public and the democratic ideal. Open access is the basic principle of our public library system -- and is more important than ever in helping prevent a division between information "haves" and "have-nots" in the electronic age. The Congress, through its library, is ensuring that the tools of learning -- and of learning about America -- will be universally accessible in the next millennium.

The Library's strategic plan priorities are:

1. to make knowledge and creativity available to the United States Congress;
2. to acquire, organize, preserve, secure, and sustain for the present and future of the Congress and the nation a comprehensive record of American history and creativity and a universal collection of human knowledge;
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 113 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; 12 million photographs; 4 million maps, old and new; 2 million audio recordings; 772,000 motion pictures, including the earliest movies; 4 million pieces of music; 49 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: **Justice Harry A. Blackmun's** donation of his substantial collection of personal papers to the Library, which will enhance the Library's ability to help scholars understand the evolution of modern constitutional history; the addition of 1,200 drawings and illustrations and 15,000 items from the personal papers of cartoonist and dramatist **Jules Feiffer**; eight vintage silver gelatin prints of the end of World War II by Soviet photojournalist **Yevgeny Khaldei**; a rare poster, **Ben Shahn's** For Full Employment after the War; eight Beaux-Arts drawings and one print by **Napoleon Le Brun**, including those for two of the earliest American skyscrapers; papers and theatrical designs of **Peggy Clark**, one of the foremost lighting designers in the American theater; material additions to the **Ned Rorem Collection**, nearly 75,000 items -- manuscript and printed music, diaries, essays, etc. -- devoted to one of this generation's most celebrated musicians; and important additions to the papers of poet and biographer **Muriel Rukeyser**, a major lyric poet of her generation.

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 more than 500,000 congressional requests, registering more than 560,000 copyright claims, cataloging nearly 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 two 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 1997, 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 one billion dollars. Non-entity assets (i.e., funds held and invested for future distribution to copyright owners) comprise 73 percent of all assets and total $728.8 million. Non-entity (custodial) assets increased by $88.3 million during fiscal 1997 because copyright owners have appealed the Librarian's decision concerning the 1990, 1991, and 1992 cable distribution report of the designated Copyright Arbitration Royalty Panel's (CARPs) under section 802 (g) of the Copyright Act. Pursuant to section 111 (d)(4) (C), funds under controversy have been withheld from distribution during the pendency of the proceeding. Arbitration distribution proceedings under section 802 (c) have not yet begun for cable royalty accounts for 1993, 1994, 1995, and 1996. A partial distribution to copyright owners totaling $133.7 million was made in October 1997 (at the start of fiscal 1998). 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 ($160.7 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 $31 million. The Library has two major accounts receivable items. The intragovernmental accounts receivable amount of $5.3 million is primarily from unpaid bills for FEDLINK services. The pledges receivable amount of $11.9 million primarily consists of gift commitments for the National Digital Library program. The largest class of property totaling $37.3 million (net), is talking book machines on loan to blind and physically handicapped individuals.

The largest liabilities relate to custodial and deposit account activities (e.g., funds held for future distribution to copyright owners). Other large liabilities include funds advanced from other governmental agencies for the FEDLINK program and accounts payable for various operating expenses. The accompanying Statement of Financial Position does not include the acquisition and improvement costs of the Library's buildings and grounds. By law, these buildings and grounds are under the structural and mechanical care of the Architect of the Capitol.

Statement of Operations and Changes in Net Position

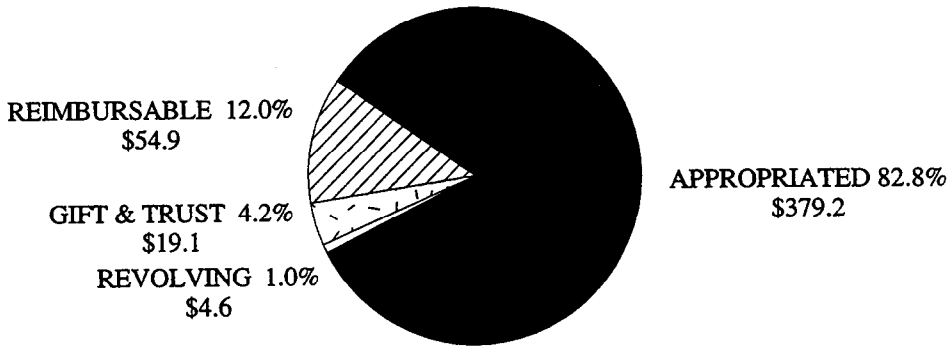
For reporting purposes, Library operations have been divided into five fund groups: Appropriated and General Funds; Reimbursable Funds; Revolving Funds; Gift and Trust Funds; and Custodial Funds.

Funding sources of Library functions for fiscal year 1997, excluding custodial activity, total $457.8 million. A new imputed financing line item amounting to $22.3 million for retirement, health insurance, and life insurance costs was added to comply with Statement of Federal Accounting Standards (SFFAS) No. 5. The personnel services and benefits line item was also increased by $22.3 million resulting in a net zero change. The Library's net position did not change as a result of implementing the new standard. The purpose of recording the equal amounts of revenue and expenses is to reflect the full costs of the benefit programs in the Library's financial statement. The remainder of the revenues are generated from gift, trust, revolving funds, and reimbursements for services provided to other entities.

Expenses total $452.7 million with personnel services and benefits accounting for the largest item -- $283.8 million or 62.7 percent. The purchase of Library materials ($61.2 million) and contractual services ($52.7 million) are the next two largest expenses. The excess of revenues over expenses is $5.1 million, but the Library's net position increased by only $1.5 million due to $3.8 million in non-operating changes (see Note 10 in section 2).

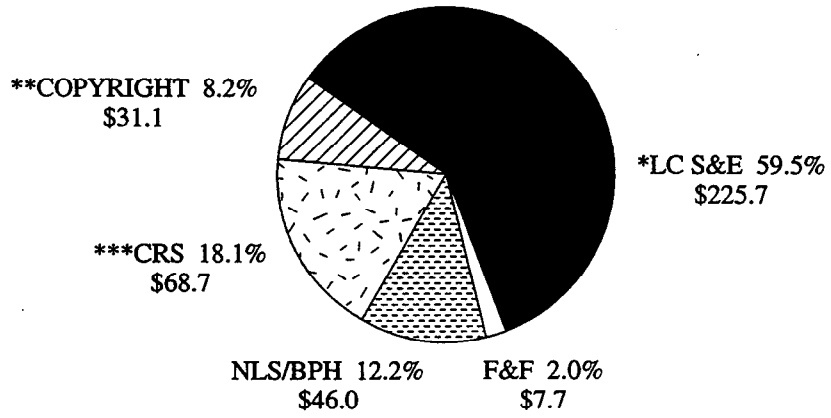
Major Categories of Funding:

Total All Sources - $457.8 Million



APPROPRIATED AND GENERAL FUNDS - Appropriations account for $379.2 million (82.8 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 and deacidification preservation projects. 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 - $379.2 Million



* Includes $5.4 million of offsetting collections and
$.5 million in State Department nonexpenditure transfers
** Includes $17.5 million of offsetting collections
*** Includes $1.8 million USAID nonexpenditure transfers

Library of Congress (LC S&E) - This appropriation ($225.7 million) funds the infrastructure support (i.e., agency management, Human Resources, Information Technology Services, Financial Services, Security, 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 500,000 readers* in the 20 reading rooms in Washington open to the public and responding to nearly *one million information requests* a year from all over the nation. In addition, the Library responds to *more than 50,000 free interlibrary loan requests* from every state in the nation and to more than *30,000 requests for book loans from the 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 two million transactions daily -- a figure which more than doubled in the course of the past year.

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

- **Preservation** - The Library develops and manages a program to preserve the diverse materials and formats in the Library's collections. The program provides a full range of *prospective and retrospective preservation treatment for approximately 400,000 items a year;* conducts research into new technologies; emphasizes prevention techniques including proper environmental storage and training for emergency situations; conserves and preserves materials; and reformats materials to more stable media. The Library plays a key role in developing national and international standards in supporting federal, state, and local agencies in preserving the nation's cultural heritage.

- **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 *34 affiliated State Centers for the Book* and more than 50 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 ($68.7 million) 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 and oversight functions. By maintaining a cost-effective, shared pool of expertise, CRS provides timely and balanced analyses of legislative proposals and public policy issues through provision of reports, tailored confidential memoranda, individual consultations and briefings -- a comprehensive source of information and analysis on almost any legislatively relevant subject.

CRS delivers more than *530,000 research responses and services annually*; of these approximately 138,000 are responses to requests for tailored analyses, information and research.

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 $1.8 million in fiscal year 1997, 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 Copyright Office of the Library of Congress administers the U.S. copyright laws and actively promotes international protection for intellectual property created by U.S. citizens -- *annually processing more than 620,000 claims (representing more than 850,000 works transferred to the Library) of which 560,000 claims are registered* for copyright and *responding to more than 420,000 requests* for information. The Office also administers the copyright law through its regulatory and litigation functions. The Office convenes and supports 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 and for the purpose of adjusting the royalty rates of these license provisions. Most of the Copyright Office is funded by registration fees and authorized deductions from royalty receipts. Copies of works received through the copyright system form the core of the Library's immense Americana collections, which in effect provide the mint record of American creativity. This appropriation totals $31.1 million including $17.5 million in authority to spend receipts.

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 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. The Federal appropriation totals $46 million.

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

3. The U.S. Postal Service receives an appropriation to support postage-free mail for magazines, books, and machines which are sent directly to readers. Reading materials (books and magazines) and playback machines are sent to a total estimated readership of 782,000 comprised of 565,000 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 $54.9 million (12 percent) of Library funding in fiscal 1997. Intra-Library revenue of $3.7 million was eliminated for consolidation purposes. Two major reimbursable programs make up the major portion of the reimbursable revenues: the Federal Library and Information Network (FEDLINK) and the Federal Research Division (FRD). The Library also provides accounting services for four Legislative agencies under cross-servicing agreements (i.e., the Congressional Budget Office, the Office of Compliance, the John C. Stennis Center, and the Capitol Preservation Commission).

Reimbursable Funds - $54.9 Million

FEDLINK - The Library coordinates services and programs on behalf of all Federal Libraries and Information Centers -- providing education and training programs and administering a cost-effective book, serial, and technical processing and database procurement program for approximately *1,300 participating Federal offices.* Under this program, the consolidated purchasing power of participating agencies permit the Library to negotiate economical contracts with more than 100 vendors resulting in savings of an estimated $9 million annually. In fiscal 1997, FEDLINK revenues of $51.5 million consist of $46.5 million for payment of member services and $5 million for administrative costs.

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 222 gift and trust funds which made up approximately 4.2 percent of the Library's funding in fiscal 1997. 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:

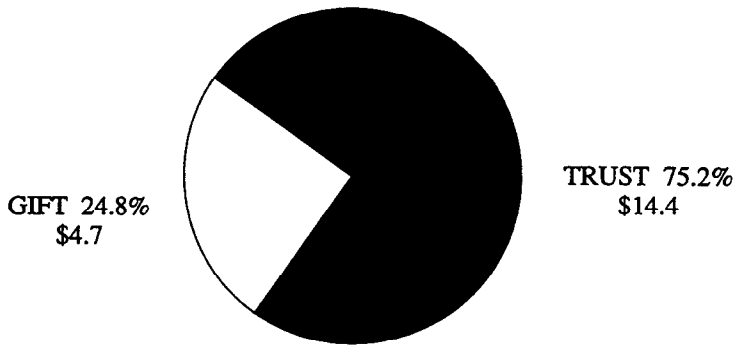
- acquisition of library materials, including obtaining hard-to-acquire research materials on behalf of participating U.S. research libraries and the maintenance and development of a Japan Documentation Center to increase knowledge of and access to current Japanese public policy information;

- 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 - $19.1 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 1997 totaled $19.1 million which includes the effect of an increase in pledges receivable of $1.5 million.

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 1997, the value of the Fund was $3.4 million and revenue for the year, including donations and interest, was $1.8 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 millions of 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 1997, the value of the NDL Funds was $19.8 million and revenue for the year, including donations and interest, was $6.2 million.

Carolyn R. Just Fund - The purpose of the Carolyn R. Just Fund is for performances or broadcasting of concerts of classical chamber music at the Library of Congress in the Coolidge Auditorium. The value of the Fund at September 30, 1997, was $2.8 million.

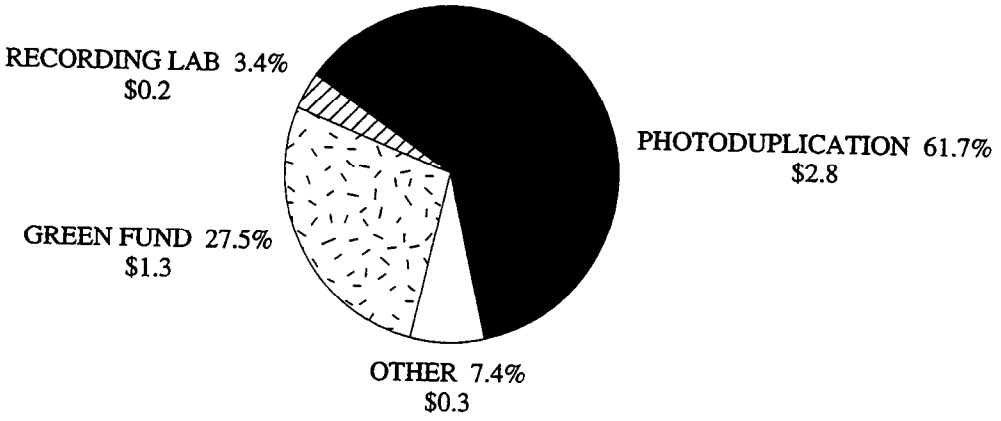
Leonora Jackson McKim Fund - The McKim Fund's purpose is for furtherance of original violin compositions with piano accompaniment, composed by American students of the violin, and to advance student studies in the United States and abroad through payment of tuition and travel. The value of the Fund was $4 million at September 30, 1997.

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 of $3.3 million, revolving fund activities accounted for $4.6 million (.9 percent) of the funding in fiscal 1997. The major funds are: Photoduplication Service, Recording Laboratory, and the Constance Green Fund.

Revolving Funds - $4.6 Million



Photoduplication Service - The Photoduplication Service provides preservation microfilming services for the Library's collections and reprographic services to other libraries, research institutions, government agencies, and individuals in the United States and abroad. Revenues were $5.8 million in fiscal year 1997 and intra-Library transactions of $3 million were eliminated during consolidation.

Recording Laboratory - The Recording Laboratory provides preservation services for the Library's collections and audio and video duplication services for the general public. Audio and video products are also produced for sale to the general public. Revenue for fiscal year 1997 was $387 thousand of which $234 thousand was for intra-Library transactions which were eliminated in the consolidated statements.

Constance Green Fund - The Constance Green Fund supports the Library's retail marketing sales shop activities. Revenue for fiscal year 1997 was $1.3 million.

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 the digital performance of sound recordings (section 114);
- 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); and
- 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 $728.8 million at September 30, 1997, for distribution to copyright owners.

KEY PERFORMANCE MEASURES

Since 1993, the Library's collections have increased from 104.8 million to 113 million -- an increase of 8.2 million or 7.8 percent. Over the same five-year period, the full-time equivalent (FTE) staff paid by appropriated funds has decreased from 4,492 to 4,010 -- a decrease of 482 FTE's or 10.7 percent. The annual quantity of print materials cataloged increased from 260,957 in 1993 to 289,154 in 1997 reflecting higher staff productivity, and the arrearage of unprocessed materials declined by 7.5 million items. The Library's Internet transactions have grown dramatically from seven million in fiscal 1993 to 345.2 million in fiscal 1997. 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 2 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 millions of 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 607,000 in 1993 to 531,000 in 1997. This decrease reflects several factors. First, in 1993, a single request for multiple CRS products (e.g., Reports, Issue Briefs, and InfoPacks) was split into three requests and were answered by different organizational units. Product fulfillment is now consolidated, resulting in only one request recorded regardless of the number of type of product requested. Second, some responses in 1993 were requested and delivered in-person or on the telephone; with the introduction of CRS' Home Page, many of those requests are now made through direct electronic access by congressional requesters. Because many questions may be answered through a single electronic session, the conservative method of recording electronic access results in a lower count of requests.

▸ The annual number of registrations in the Copyright Office decreased from some 604,894 in 1993 to 569,226 in 1997, 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 1993 to 1.1 million in 1997, 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 21.8 million in 1993 to 23.1 million in 1997.

THE LIBRARY OF CONGRESS
COMPARISON OF APPROPRIATIONS, STAFF, AND WORKLOAD STATISTICS
For the Fiscal Years 1993, 1994, 1995, 1996, and 1997

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	CHANGE 1993-1997	% CHANGE
LIBRARY APPROPRIATIONS - ACTUAL	$334,316,000	$330,864,000	$348,230,000	$352,399,000	$361,896,000	+$27,580,000	+ 8.25
FULL-TIME EQUIVALENT (FTE) POSITIONS (Appropriated)	4,492	4,163	4,180	4,114	4,010	+482	- 10.7
SIZE OF LIBRARY COLLECTIONS	104,834,652	107,814,587	108,433,370	111,080,666	113,026,742	+8,192,090	+ 7.81
WORKLOAD STATISTICS:							
Unprocessed Library Arrearages	27,456,787	25,431,296	22,491,071	20,970,523	19,952,205	-7,504,582	- 27.33
CRS - Requests & Services Provided Congress	607,000	536,000	492,000	487,000	531,162	-75,838	- 12.49
Loans of Collections to Congress	43,876	43,465	36,368	31,026	30,708	-13,168	- 30.01
Copyright Claims Registered	604,894	530,332	609,195	550,422	569,226	-35,668	- 5.9
Copyright Inquires	433,700	402,163	500,746	432,397	421,150	-12,550	- 2.89
Services to the Blind & Physically Handicapped (BPH) - Readership	767,800	777,300	772,100	776,000	782,000	+14,200	+ 1.85
BPH - Books & Magazines; Total Circulated	21,802,200	22,586,000	22,909,400	22,908,900	23,150,000	+1,347,800	+ 6.18
BPH - New Braille & Audio Books & Magazines Titles	2,322	2,327	2,328	2,568	2,700	+378	+ 16.28
Print Materials Cataloged	260,957	279,809	276,348	289,509	289,154	+28,197	+ 10.81
National Coordinated Cataloging Operation (NACO) - LC Contribution	118,921	114,333	124,911	115,714	118,054	-867	- .73
National Coordinated Cataloging Operation - Outside Contribution	75,794	78,176	96,655	106,182	146,858	+71,064	+ 93.76
Exhibits, Displays, & Publications (Funded by Appropriations)	31	31	27	15	14	-17	- 54.84
Regular Tours	27,954	29,952	47,300	47,847	56,716	+28,762	+ 99.42
Reference Service	1,306,264	1,198,358	1,145,757	1,129,952	1,094,588	-211,676	- 16.20
Main Reading Room & Five Other Reading Rooms Hours Per Week	69	65	65	65	65	-4	- 5.80
Items Circulated	2,345,151	2,403,002	2,289,981	2,175,075	2,070,798	-274,353	- 11.70
Preservation Treatment - Original Format	304,134	288,111	339,636	274,086	309,597	+5,463	+ 1.80
Mainframe Computer Transactions	112,491,847	152,095,306	197,216,679	204,297,492	247,691,844	+135,199,997	+ 120.19
Machine Readable Cataloging (MARC) Records	24,670,791	25,090,965	26,100,661	26,320,667	27,519,078	+2,848,287	+ 11.55
Internet Transactions (i.e., LOCIS, MARVEL, WORLD-WIDE-WEB, and THOMAS public transactions)	7,028,995	38,422,986	92,873,807	134,416,660	345,221,229	+338,192,234	+ 4,811.39

Mar. 1998

MAJOR ACCOMPLISHMENTS IN FISCAL YEAR 1997

During fiscal 1997, the Library developed a 1997-2004 Strategic Plan; provided objective, timely, nonpartisan, and confidential legislative support to the Congress on a wide range of issues; improved services to the Congress and the nation through technology including dramatic increases in Internet usage and receiving many Internet awards; celebrated the 100th anniversary of the Thomas Jefferson Building and inaugurated the Library's Bicentennial efforts; reduced our uncataloged backlog by another million items; received an unqualified "clean" audit opinion on the Library's fiscal 1996 consolidated financial statements; and improved the security of our collections. Highlights of these and other major achievements are listed below:

- **Strategic Plan (1997 - 2004)** - During fiscal 1997, the Library developed a 1997-2004 Strategic Plan that identifies the mission, priorities, values, and objectives to take the Library into the 21st century. In phase two of the planning process, each service unit and support area will identify specific action items to accomplish agreed-upon priorities and objectives. The Congress also approved the establishment of a Planning, Management, and Evaluation Directorate (PMED) to monitor the plan's implementation and to synchronize the planning and budgeting processes. The development of the plan and the establishment of PMED fulfill two critical tasks contained in the Library's 1996 Management Improvement Plan (MIP). Many of the accomplishments listed in this section reflect progress in achieving Strategic Plan and MIP objectives.

- **CRS Legislative Support to Congress** - CRS assisted the Congress in dealing with the full range of its domestic and international concerns. Among the domestic issues addressed by the Congress in fiscal 1997 were the balanced budget agreement, Medicare and children's health, immigration, welfare reform, higher education, the line item veto, the Government Performance and Reauthorization Act, telecommunications and Year 2000 computer problems, 1996 Farm Bill implementation, reform of the Food and Drug Administration, research and development funding, campaign finance, taxation, Superfund reauthorization, nuclear waste storage, highway legislation, and NASA reauthorization and space stations. In the international sphere, the Congress dealt with U.S. trade policy, NATO enlargement, United Nations funding and reform, international terrorism and narcotics policy, relations and trade with China and Japan, and the reversion of Hong Kong to Chinese administration. Some highlights of this support follow.

  - **Balanced Budget Agreement.** The balanced budget agreement was a focus of the 105th Congress and resulted in the enactment of the Balanced Budget Act of 1997. CRS specialists provided information and analyses related to reforms of the budget process and to enforcement mechanisms, the deficit, federal debt and the debt limit, and federal credit. CRS provided support to Members and committees on the many social and economic policy issues addressed within the Act, among them the long-term Medicare and Medicare financing, Medicaid fraud and abuse, children's health

insurance, changes in Medicaid provisions for children, cash welfare, food stamps, and inclusion of the Social Security surplus in the deficit calculation.

- **China's Most-Favored-Nation Status and Return of Hong Kong to Chinese Control.** The 105th Congress addressed a wide range of issues relating to U.S.-China relations including trade, weapon sales, human rights, the certification of China's eligibility for Most Favored Nation status and alternatives to the current certification procedures and conditions, and China's bid to join the World Trade Organization. A comprehensive study was prepared by legal and foreign experts that examined Hong Kong's reversion to China and its myriad implications for U.S. interests.

- **Campaign Finance.** With more than ninety bills introduced in the fiscal year, CRS specialists provided consultation as the Congress prepared legislation and hearings on the topic, contributed expertise on foreign money in U.S. elections, examined developments in campaign finance practices, and participated with the subsequent congressional investigation into allegedly illegal and improper practices. CRS also assisted the Congress with legislation granting special investigative powers to a committee in order to proceed with its investigation.

- **Taxpayer Relief.** During congressional consideration leading to the Taxpayer Relief Act of 1997, CRS economists provided assessments and assistance on a range of issues: capital gains, Individual Retirement Accounts, per-child tax credits, aviation taxes, estate taxes, tax exempt bonds and tax benefits for education. CRS also provided the Congress with analysis on farm tax issues, the tax-exempt status of credit unions, the flat tax, and general tax reform.

- **U.S. Trade Policy.** As the Congress considered renewal of "fast track" legislation, CRS experts analyzed the impacts of these proposals on trade balances, the economy, employment, and the environment. The Service also prepared analyses of proposals to renew the Generalized System of Preferences program (GSP), which would extend the preferential tariff treatment accorded imports from Mexico under NAFTA to imports from Caribbean Basin countries.

- **Line Item Veto.** The 105th Congress continued to debate line-item veto issues, and CRS analysts produced new reports and coordinated a range of activities such as House committee staff briefings, assistance with Senate documents related to the *Byrd v. Raines* decision, a committee print on procedural questions, and a summary of provisions included in the Act.

- **Government Performance and Results Act (GPRA).** GPRA mandated that federal agencies provide to the Congress by September 1997 the strategic goals and plans to achieve improved efficiency and accountability in government. A CRS interdivisional team responded to Member and committee GPRA-related questions, conducted workshops on the issues, and produced a comprehensive handbook containing legislation applicable to management of executive branch agencies.

- **Medicare.** Extensive Medicare reform was enacted in the Balanced Budget Act of 1997. Major issues included savings needed to achieve budget objectives and reforms to address the program's long-term financing problems. CRS experts assisted with fraud and abuse provisions, private plan options for program beneficiaries, and expansion in coverage of preventative services. Analysts developed a comprehensive simulation model used by committees to determine aggregate and distributional effects of varying payment methodologies.

- **Copyright Office Legislative Support to Congress** - Many important copyright issues were considered by the Congress during fiscal 1997. Some of the issues on which the Copyright Office provided advice and support to the Congress include: the liability of online service providers for infringements taking place over the Internet; the implementation of the two new World Intellectual Property Organization copyright treaties which concluded in December 1996; the proposed new and expanded exemptions for music licensing; the extension of the term of copyright protection; the copyright status of pre-1978 musical works distributed in phonorecords; and the criminal copyright infringement on the Internet. The Copyright Office also provided technical assistance in drafting various bills and worked closely with the Congress to pass a bill which clarifies certain technical provisions of the copyright law and helps the Office perform its duties more efficiently and economically.

  From April through July 1997, the Office presented four seminars for members of Congress and their staff on current copyright issues relevant to policymakers. In August 1997, the Office submitted to the Congress two comprehensive reports, one on the subject of legal protection for databases, and the other making recommendations for the future of the cable and satellite compulsory licenses in the Copyright Act. Finally, the Office responded to numerous congressional inquiries about domestic and international 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 the Congress and the nation more efficiently and effectively. The Library has received numerous awards for providing access to the content of the collections (see attachment 4). Specific achievements during fiscal 1997 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. In January 1997, the THOMAS home page was redesigned to facilitate system usage and to improve links to other Internet resources. The search engine was upgraded for Bill Text, *Congressional Record*, *Congressional Record Index*, and Committee Reports. The Bill Digest files for the 93rd through 105th Congresses (1973-present) were added, and the capability to download the text of Committee Reports was provided. In addition to

the text version, images of the printed Bill Text and Committee Reports are available by linking to the Government Printing Office Web site. Similarly, users may obtain House Committee information such as meeting schedules and hearing transcripts by linking to the Clerk of the House Web site. A database for congressional member history is under development. Usage of the THOMAS system nearly quadrupled over the past year from 2.6 million transactions in September 1996 to 10.2 million transactions in September 1997. As of September 30, 1997, more than 110 million transactions had been processed by the THOMAS system since its inception in January 1995.

- **Development of a Legislative Information Retrieval System (LIS).** 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 and CRS developed a plan for a single integrated legislative information retrieval system to serve the Congress. The first phase of the requisite LIS was delivered to the 105th Congress on January 7, 1997. It consists of the same legislative information available on the THOMAS system, as well as restricted files such as CRS Issue Briefs, the Public Policy Literature files, and links to House and Senate information.

- **Internet Access** - The Library is providing more and more information to the Congress and the public via its Internet-based systems including three world-wide-web services (THOMAS, LC-Web, and CRS-web), gopher services (LC-MARVEL), the Library of Congress Information System (LOCIS), and various file transfer options. The Library's home page was redesigned in February 1997 to facilitate use. Access to the Library's internet resources is growing at an exponential rate as the National Digital Library adds on-line content and other features are made available. Having tripled from 1992 to 1996, the average number of monthly transactions on the Library's public computer systems doubled to 40 million during fiscal 1997. In September 1997, the Library recorded more than 49 million transactions as compared with nearly 22 million recorded in September 1996.

  "Public Access to the Internet" workstations were made available in many of the Library's reading rooms during fiscal 1997, and as a result, the Internet and the World Wide Web gained increasing importance in reference service.

- **Global Legal Information Network (GLIN)** - GLIN is a cooperative international network in which nations are contributing the full, authentic text of statutes and regulations to a database hosted by the Law Library of Congress. The Library demonstrated a new input/update system to the Fourth Annual GLIN Project Directors Meeting in August 1997 and is testing the next GLIN software release prior to the production phase. The Library also began a requirements analysis for conversion of existing abstract data into a new format required for production release of the system. There are eleven members participating via the Internet, and the Library projects that GLIN membership will soon increase to 15-20 nations.

- **National Digital Library** - The National Digital Library Program (NDL) made significant progress during fiscal 1997 toward the ambitious goal of making a critical mass of Americana freely accessible to all Americans by the year 2000, the Library's Bicentennial. At the end of fiscal 1997, more than 430,000 digital files are available on-line or in digital archives. In addition, more than 3,000,000 digital files, from both our own archives and through collaborations with other great repositories, are in various stages of production. An outside advisory board, the NDL Advisory Committee of historians, educators, and librarians was formed in 1997 to counsel the Library on content issues such as collection selection and appropriateness of materials. The Committee has offered constructive recommendations to the Library. Major fiscal 1997 accomplishments include:

  Library of Congress Collections Placed On-line. Ten new on-line collections, illustrating the breadth and depth of the Library's multimedia holdings, debuted during fiscal 1997: ***California As I Saw It:*** *First-Person Narratives of California's Early Years, 1849-1900 (Text);* ***Words & Deeds in American History:*** *Selected Documents Celebrating the Manuscript Division's First 100 Years (Text);* ***Taking the Long View:*** *Panoramic Photographs, ca. 1851-1991 (Photographs);* ***By Popular Demand: Portraits of the Presidents and First Ladies,*** *1789-Present, (Photographs);* ***By Popular Demand: Votes for Women:*** *Suffrage Pictures, 1850-1920. (Photographs);* ***Panoramic Maps,*** *1847-1921 (Maps);* ***California Gold:*** *Northern California Folk Music from the Thirties (Sound Recordings);* ***Inside an American Factory:*** *Films of the Westinghouse Works, 1904. (Early Motion Pictures);* ***The American Variety Stage:*** *Vaudeville and Popular Entertainment, 1870-1920. (Multi format);* ***The New Deal Stage:*** *Selections from the Federal Theatre Project, 1935-1939 (Multi format).*

  On-line Previews. NDL adapted the concept of previewing collections on the American Memory Web site during 1997. The previews offer glimpses and samples of the breadth and depth of collections about to come on-line in their entirety. This showcasing vehicle has proved highly popular. Previews that debuted in FY 1997: ***Built in America:*** *Historic American Buildings Survey/Historic American Engineering Record, 1933-Present*; ***Baseball Cards,*** *1887-1914;* ***Inventing Entertainment:*** *Early Motion Pictures and Sound Recordings from the Thomas A. Edison Companies;* ***Uniting a Nation:*** *Two Giants of Telecommunications, Alexander Graham Bell and Samuel F.B. Morse.*

  Today in History. April 1, 1997, saw the beginning of a popular daily Web programming feature of LC's web site, the ***Today in History*** service. Each day, a notable event that took place on that day is marked by a small essay illustrated by documents from the collections in the American Memory site. Past days are available in an easily searched archives.

  LC/Ameritech Collections Underway. In the first year of the three-year competition, made possible by a two million-dollar gift from the Ameritech

Foundation, awards totaling more than $500,000 were made to ten institutions from across the United States for digitizing historically significant American collections and making them available via the World Wide Web. The award-winning projects were selected from seventy-six eligible proposals through a process of rigorous evaluation by scholars, educators, technical specialists, and administrators in panels convened by the National Endowment for the Humanities and by the Council on Library and Information Resources. The LC/Ameritech collections include 19th century sheet music, photographs documenting the settlement of the Great Plains and first-person narratives of Southern life in the 1800's.

Wavelet Image Compression Technology. NDL successfully integrated Multi-Resolution Seamless Image Database (MrSID) technology, donated by LizardTech, to provide enhanced Internet-based delivery of large-scale detailed maps in its collection. A user accessing maps from the **Panoramic Maps** collection, for example, can now download compressed files from the digital map archives, and using the MrSID selective decompression feature, gain access to any portion of the map image at various levels of detail by specifying a "zoom level."

The Learning Page. The Learning Page added new features. New sample teaching materials developed by educational consultants demonstrate how to use electronic primary sources in teaching. Two examples are ***In Congress Assembled***, which draws on documents from the Continental Congress and from THOMAS, the Library's on-line legislative database, to teach the history of the Congress and ***Port of Entry: Immigration***, which was developed for distribution on a diskette to demonstrate alternative off-line methods for using electronic primary sources. The Learning Page also was enhanced to include more activities for students such as **The Big Picture**, a monthly series of jigsaw puzzles and accompanying research questions.

American Memory 1997 Fellows Program. A pilot program, funded by the Kellogg Foundation gift, was implemented to help schools make powerful educational use of the American Memory collections. Twenty-five teams of K-12 humanities teachers and school media specialists from across the country were selected as American Memory Fellows to learn about electronic primary sources and to create exemplary teaching units that can be shared with other educators. The program featured a week-long Educators Institute in Washington in July, preceded by a 4-week on-line web-based orientation session. The program continues through the 1997-98 academic year with on-line shared testing of teaching units, and culminates in evaluation reports and the dissemination of results in the spring of 1998.

- **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 16 locations at the Library and in several

House and Senate locations. The web version of the ACCESS system was made accessible to Internet users in February 1997. In May 1997, additional touchscreen workstations were installed in the new Thomas Jefferson building Visitors' Center to provide basic information about the Library. Several of these workstations are equipped with a keyboard and mouse to enable visitors to search the Library's databases.

- **Geographic Information System** - The Geography and Map (G&M) Division is a leader in the cartographic and geographic information 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. Working closely with private-sector partners, the Geographic and Map Division put into production the capability to create large format digital images and the ability to transmit and display these images through the Internet. On June 9, a virtual map collection of 26 historic panoramic maps of nineteenth century American cities was released worldwide, inaugurating a new chapter in the Library's efforts to make its collections available to a broader audience. Subsequently, 426 additional panoramic maps (1,356 images) were scanned and added to the web site that averages about 30,000 computer transactions each month.

- **Projects in Development and Test Status:**
(1) The **C**opyright **O**ffice Electronic **R**egistration, **R**ecordation and **D**eposit **S**ystem (**CORDS**), a major new system for digital registration and deposit of copyrighted works over the Internet, uses the latest advances in networking and computer technology. It 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:** The Copyright Office successfully opened two new external test sites in 1997 at Stanford University and MIT Press and continued developing, testing, and enhancing the basic CORDS production system. The Copyright Office is systematically building toward national implementation in the year 2000 for electronic registration and deposit of copyrighted works over the Internet. As many as 100,000 works in digital form could be received through CORDS annually by the year 2004.

(2) The **E**lectronic **C**ataloging in **P**ublication (**ECIP**) project is enabling 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: Sixty-four publishers are now participating in this project. Staff cataloged 1,076 titles, bringing the cumulative total since the experiment's inception to 2,158.

During fiscal 1997, the basic components of the ECIP production system were completed.

(3) During fiscal 1997 (fiscal 1998 budget), the Congress approved an Integrated Library System (**ILS**) project to improve automation support for bibliographic control and inventory management activities at the Library. The ILS project will implement a single system that uses a shared bibliographic database to integrate all major Library Services functional areas, such as acquisitions, cataloging, serials management, circulation, inventory control, and reference.
Status: A dedicated Project Team has been assembled and is proceeding with the procurement of the system and implementation planning. A formal Source Selection Process is being followed for the procurement and, following congressional review, the selection of a commercially available system is scheduled for the spring of 1998.

- **Year 2000 Century Change** - The impending century change will affect Library systems that are date-dependent. Hardware and software systems that require specific dates to execute must be modified or replaced with systems capable of functioning with four digit dates in order to distinguish between the year "1900" and "2000." To prepare for the transition to the Year 2000, the Library has developed a detailed Year 2000 plan using GAO guidance. The Library has assigned leadership responsibilities, managerial and technical, for planning and program implementation and is participating in the GAO Year 2000 Legislative Branch progress review. Each of the Library's mainframe, UNIX, server and workstation-based systems is being inventoried and analyzed and work to repair or replace non-compliant systems is underway.

- **Security of Facilities, Staff, and Collections** - During fiscal 1997, a centralized security organization was established and the Library's first Director of Security was appointed. Additionally, several hundred of the recommendations of the comprehensive physical security survey of the Library and its collections, conducted by Computer Sciences Corporation (CSC), were implemented. Many of these involved key and lock control, installation of closed-circuit surveillance and intrusion detection systems, and access control measures for areas housing collections. The first two of the planned, multi-year, series of comprehensive risk assessments were completed, covering the Geography and Map Division and compact disc security in the Copyright Office. In addition to the completion of the Library's security plan (discussed below), major security accomplishments during fiscal 1997 include: (1) completion of access control and internal security measures for the re-opened and renovated Thomas Jefferson building; (2) installation of extensive high-technology physical and electronic security measures for the Top Treasures display; (3) completion of a vulnerability assessment of the Library buildings exterior and parking facilities; (4) reduction of police overtime hours through curtailment and modification of security post hours; (5) installation of surveillance cameras in ten reading rooms; (6) modifying the Library's interim inventory control database, the Collections Control Facility (CCF) to include retention of information on mutilated collections items; (7) continuing to provide increased physical security of collections storage areas by installing electronic access control systems to the main

control room in the Thomas Jefferson building; and (8) inventorying collections in the custody of the Rare Book and Special Collections Division such as the Carson, Yudin, and Ellison collections.

- **Security Planning** - A highlight of fiscal 1997 was the completion of a comprehensive Library Security Plan. The plan provides a framework for the physical security of the Library's collections, facilities, staff, visitors and other assets. Collections security is the centerpiece. The plan was developed by a team of security professionals, curators, and senior librarians. The plan articulates a collections prioritization scheme that establishes five different levels of risk, providing the strongest protection for the Library's *Treasures* and rare items, and lesser degrees of security controls for other collections. The process of assessing the status of collections security within custodial divisions has been initiated. Finally, the plan includes a schedule of 34 actions, of which 22 address collections security and 12 focus on the protection of facilities, staff and other assets.

  During fiscal 1997, the Library also took several measures to safeguard its valuable computer resources, including taking additional measures to safeguard the computer center facilities, issuing new password guidelines for mainframe and server-based systems, forming a Library-wide Computer Security Coordination Group, and issuing an operational "Computer Security Plan." The Computer Security plan outlines the highest priority safeguards which must be implemented in order to mitigate existing vulnerabilities.

- **Arrearage Reduction/Cataloging** - The Library continued to focus on arrearage reduction during fiscal 1997, reducing the arrearage total by more than one million items while maintaining currency with new receipts. This represents a cumulative reduction of 49.7 percent of the amount on hand at the time of the initial arrearage census in September 1989 -- from 39.7 million to 19.9 million. The processing of print materials continues to remain at record levels, even as staffing levels continue to drop -- staff created cataloging records for 289,154 volumes and inventory records for an additional 70,014 items. 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 1996 through the Program for Cooperative Cataloging, cooperative arrangements have continued to flourish. Member libraries reached a high of 239 participants and contributed record-breaking totals in fiscal 1997: 57,446 bibliographic records (29,907 for monographs and 27,539 for serials); 137,494 name authorities; 9,364 series authorities; 2,088 subject authorities; and 685 classification numbers. Powerful new PC-based terminals, installed for all cataloging staff by the end of fiscal 1996, helped staff to augment their ability to catalog more efficiently through enhanced automation capabilities.

Some processing accomplishments for fiscal 1997: a group reduced the arrearage of Japanese serials by 13,051 titles; other groups eliminated the arrearages of Sanskrit and Thai; a small group processed the remaining Italian art books housed in the John Adams building -- one year ahead of schedule; production of catalog records for juvenile materials increased by 29.1%; a group completely processed 22,785 nineteenth-century pamphlets, mostly on religious topics; another group cataloged 1,109 historic sound recordings; and a group provided inventory control and preliminary cataloging for 1,000 printed items in the Marian S. Carson Collection.

To support better organizing and making the Library's collections maximally accessible, the Program for Cooperative Cataloging (PCC) and the Cooperative On-line Serials Program (CONSER), the Library's cooperative cataloging programs, moved toward consolidation into one program. This will increase efficiency and enhance the Library's ability to obtain high-quality cataloging records from participating institutions with minimal additional processing, allowing the Library's catalogers to focus on processing materials in more esoteric languages and to focus on arrearage reduction efforts.

- **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 1997, the Library worked closely with the Architect of the Capitol (AOC) and with their contract architectural firm to ensure that the first storage module at the Fort Meade, Maryland campus meets the necessary environmental requirements to house and preserve the transferred collections and that materials handling will be as efficient as possible. Plans call for the initial module, which employs cardboard boxes on wide-span shelving and houses paper-based collections, primarily books, to be ready for occupancy by the end of fiscal 1999.

- **Preservation Improvements** - The Library took action during 1997 to improve the preservation of its vast and diverse collections by (1) developing a strategy for unified preservation of audio and video collections in digital as well as analog formats; (2) completing the mass deacidification treatment of 67,000 additional books from the general and special collections using the Bookkeeper limited production contract and obtaining congressional approval of a plan that will make deacidification a permanent preservation activity and enable the Library to deacidify many more books in the next four years; (3) implementing the emergency response plan by planning for advance contracting in the event of a disaster, initiating risk assessments in collections storage areas, training Library staff, refining emergency notification and communication systems, and replenishing response and recovery supplies; (4) producing protective enclosures using the computer-driven, automated box-making machine; (5) increasing labeling output by using an improved automation program and transferring labeling duties to the technicians in the Cataloging Directorate; (6) completing the microfilming of telephone directories from as early as 1884 through 1987; and (7) contributing to the National Digital Library by training staff and contractors in the proper handling of materials

during preparation and scanning and treating collection items in conjunction with scanning.

- **Copyright Arbitration Royalty Panels (CARPs)** - In fiscal year 1997, the Copyright Office began proceedings to adjust the rates of five compulsory licenses: (1) the satellite compulsory license, 17 U.S.C. 119; (2) the noncommercial broadcasting license, 17 U.S.C. 118; (3) the mechanical license, 17 U.S.C. 115; (4) the digital phonorecord delivery license, 17 U.S.C. 115; and (5) the license covering digital subscription transmissions of sound recordings, 17 U.S.C. 114. For the mechanical license, the parties interested in adjusting the rates successfully concluded negotiations. The adjustment of the rates for the three remaining licenses, however, have required or will require a hearing before an arbitration panel. On October 28, 1997, the final determination setting new royalty rates for the satellite compulsory license was published in the Federal Register. The final determinations setting the rates for the noncommercial broadcasting license and the section 114 license will be issued in 1998.

  At the request of Senator Orrin Hatch, Chairman of the United States Senate Committee on the Judiciary, the Copyright Office conducted a study in 1997 concerning the copyright licensing regimes governing the retransmission of over-the-air broadcast signals by cable systems, satellite carriers, and other multichannel video providers. The Copyright Office made numerous recommendations for amending the cable and satellite compulsory licenses in its report to the Congress and will continue to work with congressional staffs on these issues in 1998.

- **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. From January 1996 through September 1997, the Copyright Office processed a total of 4,638 documents containing 20,436 restored titles. Using new application forms, the Copyright Office has also processed 1,511 GATT registrations and 289 GATT Group Registrations.

- **National Library Service for the Blind and Physically Handicapped (NLS)** - During 1997, several significant achievements were realized: (1) The digital talking book, the next generation library access medium for blind and physically handicapped individuals, took a step closer to reality when NLS initiated the development of a technical standard through the National Information Standards Organization (NISO), (2) The Volunteer Repair Project (VRP), a national NLS machine-repair training program for volunteers, completed its initial series of regional training sessions. The VRP is a joint effort of NLS, the Telephone Pioneers of America, the Elfuns, and other repair volunteers geared toward helping the leaders of repair facilities standardize and improve machine-repair operations throughout the United States, (3) Starting in January 1998, new titles will make up almost one-third of the eighty-two braille and audio magazines offered to NLS patrons. Some titles will be available on cassette for the first time. These improvements to the magazine program are the result of two studies recently

conducted by NLS, one on magazine format and the other on magazine content, to determine the extent to which magazine offerings meet patron needs, (4) A cooperative venture between the Recording Industry Association of America (RIAA) and NLS has resulted in high-speed duplicating machines once used to make counterfeit music tapes being donated to NLS regional libraries. Such machines, which are seized by local law enforcement agencies, were once routinely destroyed to prevent their falling back into the hands of tape pirates, and (5) More than 500 additional records from the Jewish Braille Institute were added to the Union Catalog, bringing the catalog to a total of 235,244 catalog records representing a collection of nearly 16,000,000 copies of audio and braille books after purging of more than 20,000 records of weeded books from the collection of Recording for the Blind and Dyslexic, Inc.

- **American Folklife Center (AFC)** - In fiscal 1997, the AFC made available online the WPA Northern California Folk Music Collection, the first collection from its Archive of Folk Culture to become part of the National Digital Library. During the first two months it was available, the collection, dubbed "California Gold" in the on-line version, received 50,000 hits per month. In cooperation with the Center, private-sector record companies have released (1) two new compact discs featuring Brazilian music for the Endangered Music Project; (2) the first three in a series of twenty-some reissues, in compact-disc form, of the legendary recordings from the Archive of Folk Culture; and (3), one compact disc produced by folklorist Stephen Wade featuring a selection of great performances from the Center's published field recordings.

- **Bringing Treasures to the People** - The Library's collections were shared with hundreds 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 15.

  - Major exhibitions included **American Treasures of the Library of Congress** which opened in May 1997 as a permanent installation of Library treasures relating to America's past including a rotating display of "Top Treasures"; **Frank Lloyd Wright: Designs for an American Landscape, 1922 - 1932**, organized jointly by the Library of Congress, the Canadian Centre for Architecture, and the Frank Lloyd Wright Foundation, which featured five unbuilt Wright projects and reflected Wright's concept of the integration of architecture, terrain, and the automobile; **Jules Feiffer: Cartoons and Manuscripts**, cartoon drawings, manuscripts, posters, and illustrations which chronicled Feiffer's early development as a cartoonist; **Hong Kong: From Fishing Village to Financial Center**, which marked the return of Hong Kong from British to Chinese rule and depicted the history, economy, culture, society and art of the city; **Let There Be Light: William Tyndale and the Making of the English Bible**, which told the history of the English-language bibles and recounted the life and work of the English priest William Tyndale, who translated the New Testament from the original Greek to English and had it printed in 1526 at a time when church and civil authorities were wary of any printed translations of the authorized Latin version of the Bible; **The Work of Charles and Ray Eames: A**

Legacy of Invention, done in collaboration between the Library and the Vitra Design Museum, Weil Am Rhein, Germany, which displayed the unparalleled Eames collections of the two institutions and opened at the Vitra Design Museum, its first European venue. The Eames exhibit will open at the Library of Congress, its first U.S. venue, in May 1999.

- The Library's traveling exhibition program sent eight exhibitions to 23 sites in 16 states. The Library arranges tours for two different types of exhibits. The first are well regarded and highly visible exhibitions, such as **From the Ends of the Earth: Judaic Treasures from the Library of Congress** and **The Work of Charles and Ray Eames**, which display original manuscripts, scrolls, and other items, and are available to large, major museums and institutions. The second are smaller traveling exhibitions, such as **Women Come to the Front: Journalists, Photographers, and Broadcasters during World War II** and **The Cultural Landscape of the Plantation**, which rely on facsimiles and are available to libraries, schools, and smaller museums.

- The Visitor Services Office conducted 2,114 tours for 65,717 visitors; honored 12,669 reservations for congressional constituents, including 9,001 participants on 416 tours; arranged for 639 professional appointments for 3,920 VIPs, professionals, and students representing 99 different countries. The Office initiated a full-scale volunteer program with the training and assignment to duty of 99 volunteers. These volunteers provided 18,086 hours of service, conducted 1,330 public tours, and responded to inquiries from 184,473 visitors.

- Co-publishing arrangements with trade publishers, in fiscal 1997, included **American Treasures in the Library of Congress** (Abrams); **The Work of Charles and Ray Eames: A Legacy of Invention**; and **Heart of the Circle: Photographs by Edward S. Curtis of Native American Women**.

- The Library's bi-monthly Civilization magazine, commercially published under a licensing agreement, completed its third year of publication with some 250,000 paid subscribers, who are also Library of Congress Associates.

- **Restoration and Renovation of the Thomas Jefferson and John Adams Buildings** - The Architect of the Capitol (AOC) completed construction of the Thomas Jefferson Building Visitors' Center in April 1997. The Center includes two volunteer staffed information desks and a new visitors' theater. The Library officially opened the Thomas Jefferson building to the public on May 4, 1997. A public celebration on that day, which was billed the **Festival of Cultures**, was held to open the permanent treasures exhibition and to feature the beauty of the building. On that date, the Library opened the African/Middle East, Asian, and European Reading Rooms, the Library's Scholars' Colonnade, Sales Shop, and the Thomas Jefferson building public cloakroom. The AOC continues to work on the restoration of the Coolidge Auditorium, the Whittall Pavilion, and the Thomas Jefferson building roof replacement project, all expected to be

completed by March 1998. Also, the Library continues to execute its multi-year plan to outfit and occupy the remaining renovated spaces of the Thomas Jefferson and John Adams buildings.

- **Human Resources Improvement** - The Library enhanced the efficiency of its merit selection system by reducing the average time required to fill positions by 35 percent -- from 168 days to 110 workdays over comparable ten-month periods in calendar years 1996 and 1997. The Library also implemented key provisions of the *Cook* class action settlement agreement, including back-pay awards, promotions, and reassignments. A three-day facilitative leadership training program strengthened the management skills and abilities of all Library managers and supervisors, and the Library established an Internal University office, reporting directly to the Office of the Librarian, to coordinate and enrich Library-wide training and development efforts and activities. The Library also continued to provide diversity awareness training to staff.

- **Financial Statement Audit Opinion** - In March 1997, the Library's independent accountants, KPMG, Peat Marwick LLP, issued an unqualified "clean" audit opinion on the Library's fiscal 1996 Consolidated Financial Statements. The "clean" audit opinion is the first in the Library's history. The Librarian requested in 1988 the first audit in the Library's history, and the final report by the General Accounting Office (GAO) in 1991 indicated 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. The Library made thereafter a large number of improvements in its financial systems, most importantly installing a new central financial management system in fiscal 1995. The preparation of auditable financial statements represents the fulfillment of a basic agency responsibility to safeguard the handling of public monies, and the Library plans to continue the preparation and audit of annual financial statements. The audit report also recommends further improvements in the Library's financial controls and in the control of the Library's collections. The Library's updated strategic plan contains objectives to address the auditor's recommendations.

- **Gift and Trust Funds** - During fiscal 1997, private gifts supported a variety of new and continuing programs, including: the National Digital Library (NDL); the Junior Fellows Program; the opening of the *American Treasures in the Library of Congress* exhibition, the Library's first permanent exhibition, and three major exhibitions scheduled to open in 1998 (*African-American Odyssey*, *Religion and the Founding of the American Republic*, and *Sigmund Freud: Conflict and Culture*); the Bicentennial Gala, the first benefit in the 197-year history of the Library; the National Film Registry Tour; the Center for the Book; and many other Library activities (e.g., retrospective acquisitions, purchases for the general collections, outreach programs for the blind and physically handicapped, poetry readings, public lectures, concerts, Congressional retreat and seminar programs, Congressional Research Service Visiting Scholar Programs, the Children's Literature Center, the Indian publications microfilming project, the Montana Heritage Project, the Geography and Map Division, a Central and Eastern Europe Library Fellows Program). For the NDL program, $5.1 million in new pledges were made, bringing the total in

pledges and gifts from the private sector to over $28 million. In addition, Madison Council member Alexander Papamarkou pledged $2 million to establish *The Harissios Papamarkou Chair in Education at the Library of Congress.*

Through the planned giving program, the Library received $1.2 million in various types of gifts. These included bequests from the estates of Rudolph M. Lessing, Lillian G. Edeliant, Dwight E. Gray, and Marguerite S. Roll (a former Madison Council member) totaling more that $792,000. These bequests benefitted the Library's Local History and Genealogy Collections and the National Library Service for the Blind and Physically Handicapped. A five-year charitable remainder trust of $100,000 was created by Edward and Joyce Miller to benefit the Library's general collections. Income of more than $278,000 received by the Library from various Charitable Trusts and planned gift vehicles benefitted programs of the Music Division, Library curatorial projects, and maintenance of the Hispanic Reading Room.

- **Bicentennial Commemoration** - Planning for the Bicentennial commemoration in 2000 began in 1997 with the appointment of a steering committee of senior Library managers under the leadership of the Librarian of Congress. The Bicentennial goal is "To inspire creativity in the century ahead by stimulating greater use of the Library of Congress and libraries everywhere." The Library's 200th anniversary is a unique opportunity to revalidate the historical role of libraries as centers of learning and to reinvigorate the nation through greater use of libraries and wider access to knowledge. The Bicentennial theme of "Libraries--Creativity--Liberty" reflects the essential role that libraries play in a democracy.

  The concept of "Gifts to the Nation" is central to the Bicentennial effort. The Congress has, over the years, made its Library itself into a "Gift to the Nation." Sharing the Library's collections and information about the Congress with Americans in their localities through an expanded National Digital Library Program is the Library's major gift to the nation, and gathering in new acquisitions for the Library's collections from individuals and institutions in every congressional district in the nation will further dramatize the Library's role as America's memory. Other Bicentennial projects will strengthen the Library's relationships with Congress, the federal government, the creative community, libraries, the public, and the private sector. A commemorative coin and a commemorative U.S. postal stamp series are planned, along with local history projects, television programming, grass-roots reading promotion efforts, exhibitions, symposia, publications, and projects that promote appreciation of the Library and the history of its buildings, collections, staff, and services.

  A Bicentennial home page (http://www.loc.gov/bicentennial) provides up-to-date information about the Bicentennial and its programs. The commemoration is being supported primarily thorough private contributions, with the Library's Madison Council providing substantial funding.

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.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The Library's financial statements are the culmination of a systematic accounting process. The statements have been prepared to report the financial position and results of operations of the Library of Congress, pursuant to the hierarchy of accounting principles and standards set forth in Note 1 to the Consolidated Financial Statements. While the statements have been prepared from the books and records of the Library, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sorvereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

THE LIBRARY OF CONGRESS
Consolidated Statement of Financial Position
As of September 30, 1997

ASSETS			
Entity Assets:			
Intragovernmental Assets			
Fund Balance with Treasury (Note 2)	$ 160,695,865		
Investments (Note 4)	19,045,045		
Accounts Receivable, Net	5,304,320		
Interest Receivable	201,005		
Governmental Assets			
Investments	11,949,516		
Accounts Receivable, Net	301,758		
Advances and Prepayments	32,436		
Pledges Receivable - Donations (Note 5)	11,851,685		
Cash and Other Monetary Assets	708,398		
Inventory	795,092		
Operating Materials and Supplies	1,307,247		
Property and Equipment, Net (Note 6)	59,765,358		
Library Collections (Note 1.M)			
Total Entity Assets		$ 271,957,725	
Non-Entity Assets:			
Fund Balance with Treasury (Note 2)	148,062		
Investments, Intragovernmental Securities (Note 4)	728,085,884		
Accounts Receivable, Net - Intragovernmental	88,539		
Accounts Receivable, Net - Public	4,232		
Interest Receivable	427,142		
Cash and Other Monetary Assets	22,759		
Total Non-Entity Assets		728,776,618	
Total Assets			$ 1,000,734,343
LIABILITIES			
Liabilities Covered by Budgetary Resources:			
Accounts Payable - Intragovernmental	$ 563,918		
Accounts Payable - Public	17,658,405		
Accrued Funded Payroll, Benefits	12,459,280		
Total Liabilities Covered by Budgetary Resources		$ 30,681,604	
Liabilities not Covered by Budgetary Resources:			
Accounts Payable - Public	73,494		
Advances From Others - Intragovernmental	33,582,972		
Advances From Others - Public	796,170		
Custodial and Deposit Account Liability	732,237,971		
Receipts Held for Treasury	92,323		
Accrued Unfunded Annual and Compensatory Leave	15,307,563		
Accrued Unfunded Workers' Compensation (Note 8)	11,982,622		
Capital Lease Liabilities	401,221		
Total Liabilities not Covered by Budgetary Resources		794,474,336	
Total Liabilities			$ 825,155,940
NET POSITION (Note 10)			
Balances:			
Unexpended Appropriations	74,420,165		
Invested Capital	57,727,290		
Cumulative Results of Operations	52,955,022		
Unrealized Gain on Governmental Investments	847,337		
Donations and Other - Restricted	16,918,774		
Future Funding Requirements	(27,290,185)		
Total Net Position			175,578,403
Total Liabilities and Net Position			$ 1,000,734,343

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, 1997

Revenues and Financing Sources

Appropriated Capital Used	$ 357,859,020		
Revenue from Sales of Goods	1,285,075		
Revenue from Services Provided	57,056,275		
Donations	16,650,523		
Interest, Non-Federal	457,934		
Interest, Federal	1,623,468		
Imputed Financing (Note 1.O.)	22,266,542		
Other Revenues and Financing Sources	948,081		
Less: Receipts Transferred to Treasury	(312,684)		
Total Revenues and Financing Sources		$ 457,834,234	

Expenses

Operating Expenses:			
Personnel Services and Benefits	283,752,276		
Travel and Transportation	2,393,962		
Rental, Communication, and Utilities	10,928,408		
Printing and Reproduction	5,149,426		
Contractual Services	52,655,271		
Supplies and Materials	8,430,778		
Library Materials	61,213,485		
Non-Capitalizable Equipment	11,231,397		
Other Operating Expenses	656,350		
Depreciation and Amortization	16,141,936		
Other Expenses	178,757		
Total Expenses		452,732,046	
Excess of Revenues and Financing Sources over Expenses			$ 5,102,188

Changes in Net Position

Net Position, Beginning Balance, as Previously Stated	$ 174,287,815	
Excess of Revenues and Financing Sources over Expenses	5,102,188	
Non-Operating Changes (Note 11)	(3,811,600)	
Net Position, Ending Balance (Note 10)		$ 175,578,403

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

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 1997. 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); 85 trust funds; and 137 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) 0370101; (no-year) 03X0101
- Copyright Office, Salaries and Expenses - (annual) 0370102
- Congressional Research Service, Salaries and Expenses - (annual) 0370127
- National Library Service for the Blind and Physically Handicapped, Salaries and Expenses - (annual) 0370141; (no-year) 03X0141
- Furniture and Furnishings - (annual) 0370146; (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 1997, the Library administered 222 gift and trust funds with combined asset value of approximately $62 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 remeasured 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 five stock funds and one money market fund.

The five stock funds recommended by the Trust Fund Board's investment committee are:

- Vanguard Index Trust - Small Capitalization Stock Portfolio
- 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, net of service fees, 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 $22,891 against governmental accounts receivable based on past collection experience. In fiscal year 1997, any allowance

for doubtful accounts pertaining to intra governmental accounts receivable was eliminated based on the FASAB's Statement of Federal Financial Accounting Standards (SFFAS) No. 1, "Accounting for Selected Assets and Liabilities", which cites that "losses on receivables should be recognized when it is more likely than not that the receivable will not be totally collected". Intra governmental receivables are likely to be totally collected.

J. Pledges Receivable

Contributions of unconditional promises to give (pledges) to the Library and the Library of Congress Trust Fund Board are recognized as donated 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 donated 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. 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. The Library records the donated property and equipment at its fair market value at the time of the gift.

Land and buildings 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 1997, the Architect received an appropriation totaling $9.8 million to fund the structural and mechanical care of these buildings. This appropriation is not reflected in the accompanying consolidated financial statements. The Library does capitalize and depreciate leasehold improvements to all of its facilities as long as the improvement was made using the Library's funding sources.

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 Office of Personnel Management, and the decisions of the Comptroller General. Generally, each employee may carry forward a maximum of 240 hours of annual leave per calendar year. 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 1997 were as follows:

CSRS	$9,416,829
FERS	8,627,592
TSP	3,073,737
FICA	5,067,991
Total	$26,186,149

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. However, in accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government", a current year expense of $22.3 million was recorded for the service cost of the Library's employee retirement, health and life insurance benefits and was offset by an imputed financing source, which represents the amount being financed directly by OPM.

P. Intra governmental 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, and 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 (OPM).

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. In accordance with the FASAB's Statement of Federal Financial Accounting Standards (SFFAS) No. 5, "Accounting for Liabilities of the Federal Government", the Library is required to record an expense and liability for legal claims that are probable to end in a loss against the Federal entity and the loss is estimable.

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 - Intra governmental) and the amount to be received for services provided (Accounts Receivable - Intra governmental).

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 1997, the Library paid $511,110 for these services.

- The Library utilizes the services of the Department of State as documented by

the International Cooperative Administrative Support Services (ICASS) system to support the Library's six overseas field offices. The ICASS system replaced the previous system, the Foreign Affairs Administrative Support (FAAS) system on October 1, 1996. The Library paid $632,706 for these support services in fiscal year 1997.

- 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 Civilization, L.L.C., a limited liability company based in Delaware, was launched in November, 1994. The original publisher was L.O.C. Associates, L.P., which sold their interest to Civilization, L.L.C., in January, 1997. The cooperative agreement 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 depository libraries and all members of Congress received free subscriptions in fiscal 1997. In connection with the magazine, the Library formed the Library of Congress Associates Program. By subscribing to *Civilization*, a person becomes a Library of Congress Associate entitled to special tours of the Library as well as discounts on food and gift shop merchandise sold at the Library. Two individuals, who are paid by *Civilization*, greet Library of Congress Associates in the Library's Visitor's Center in the Thomas Jefferson Building. The donations received by the Library as a result of this publication and the revenue foregone as a result of the discounts given cannot readily be 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 federal and non-federal employees. Its operations, management, and employees are the responsibility of the association 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, 1997 of $5,383,967. 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 1997, the Library received $61,710 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 $194,100 from the trust during fiscal year 1997.

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, 1997, the Foundation reported total assets on hand of $81,854.

b. Friends of the Law Library - This national non-profit organization supports research, the acquisition of rare materials, educational programs, and other activities of the Law Library not covered by federal appropriations. In fiscal 1997, the Friends established a grants-in-aid program for legal research. The Friends provided support for the Law Library's participation in the annual meeting of the American Association of Law Libraries and for several staff programs.

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

Note 2. Fund Balance With Treasury

Fund balances with Treasury at September 30, 1997, are summarized as follows:

1. ENTITY	Obligated	Unobligated /Available	Unobligated/ Unavailable/ Restricted	Total
Appropriated Funds	$76,900,303	$9,193,582	$16,081,209	$102,175,094
Reimbursable Funds	33,598,818	0	323,592	33,922,410
Gift and Trust Funds	2,858,807	15,781,039	21,984	18,661,830
Gift Revolving Funds	2,346,777	2,793,584	796,170	5,936,531
Total Entity	$115,704,705	$27,969,054	17,022,106	160,695,865
2. NON-ENTITY				
Custodial Funds			148,062	148,062
Total Non-Entity			$148,062	$148,062

(1) At September 30, 1997, the gift and trust fund balance with Treasury Included $10,000,000 invested in the permanent loan at an interest rate of 6.25 percent.

(2) The fund balance on the financial statement is $587,150.20 less than the year-end Treasury balances due to posting of OPAC activity, which was accomplished by September, 1997 but was not posted in time to report to Treasury (Treasury reflects amount on year-end TFS-6652 Statement of Differences). Rather than report this amount as an accounts payable, the fund balance was reduced since cash was transferred from our Treasury General Account as of September 30, 1997.

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 Librarian convene a copyright royalty arbitration panel. The panel consists of three arbitrators selected from a list of professional arbitrators nominated by professional arbitration associations. The Librarian, upon the recommendation of the Register of Copyrights, selects two of the three arbitrators who, in turn, select the third arbitrator. This individual serves as the chairperson of the panel. The Librarian 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, 1997 are as follows:

1. ENTITY ASSETS - Trust Funds	Face Value	Cost	Unamortized Premium	Unrealized Discount	Investments, Net	Market Value
A. Intra governmental Investments Non-Marketable, Market-Based	$19,013,000		$165,040	$133,000	$19,045,040	$19,122,993
B. Governmental Investments Private Sector		$11,102,179			11,102,179	11,949,516
Total - Entity	19,013,000	$11,102,179	$165,040	133,000	30,147,219	31,072,509
NON-ENTITY ASSETS - Custodial: Copyright Royalties						
A. Intra governmental Investments Non-Marketable, Market-based	$731,122,000			$3,036,115	$728,085,885	$728,195,003

A. Intra governmental 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 2, 1997 to May 15, 2000, and interest rates range from 4.4 percent to 8.9 percent. Custodial funds investment maturity dates range from October 16, 1997 to August 31, 1998, and interest rates range from 4.8 percent to 5.3 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, 1997, are as follows:

Type of Investment	Cost Basis	Market Value
Money Market Fund	$6,702,519	$6,702,519
Equity Mutual Funds	4,399,660	5,246,997
Total	**$11,102,179**	**$11,949,516**

Note 5. Pledges Receivable

At September 30, 1997, the Library had unconditional pledges of contributions totaling $13.1 million (rounded) which were discounted through fiscal year 2002 at a market discount rate and included in the statement of financial position at their discounted value of $11.9 million (rounded). The amounts due in future years, at September 30, at their current discounted value are:

	Present Value	Discount	Future Value
FY 1998	$5,394,257	$302,498	$5,696,755
FY 1999	3,785,806	450,298	4,236,104
FY 2000	1,788,799	334,405	2,123,204
FY 2001	860,394	224,592	1,084,986
FY 2002	22,428	7,572	30,000
Totals	$11,851,684	$1,319,365	$13,171,049

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, 1997.

Classes of Property and Equipment	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
Appropriated: Operating equipment	$35,274,308	$20,579,793	$14,694,515
ADP software	3,573,897	2,618,866	955,031
Furniture & Furnishings	959,808	127,082	832,726
Capital Leases	439,978	196,865	243,113
Leasehold Improvements	9,632,837	4,474,833	5,158,004
NLS/BPH Equipment - loan to public	75,071,805	37,744,109	37,327,696
Total Appropriated	124,952,633	65,741,548	59,211,085
Revolving: Equipment	1,412,659	965,659	447,000
Capital Leases	309,516	202,243	107,273
Total Revolving	1,722,175	1,167,902	554,273
Total Property and Equipment	$126,674,808	$66,909,450	$59,765,358

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 1997 amounted to $4,819,689. Estimated future minimum lease payments through fiscal year 2006 are as follow:

Fiscal Year Ended September 30	
1998	$4,272,793
1999	4,008,826
2000	4,007,888
2001	2,800,822
2002	2,183,142
Thereafter	7,226,911
Total Estimated Future Lease Payments	$24,500,382

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 $2,462,582 of unbilled or unpaid workers' compensation costs as of September 30, 1997, and established an estimated unfunded liability for future costs based on historical claims rates. The estimated future unfunded liability is $9,520,040 and is based on a ten year projection.

Note 9. Contingent Liabilities

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 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, 1997 are as follows:

Balances:	Appropriated	Reimbursable	Gift & Trust	Revolving	Consolidated
A. Unexpended Appropriations:					
Undelivered Orders	$53,219,178				$53,219,178
Unobligated	22,953,737				22,953,737
Adjusted (Net)	(1,752,750)				(1,752,750)
Total Unexpended Appropriations	74,420,165				74,420,165
B. Invested Capital	57,727,290				57,727,290
C. Cumulative Results of Operations	2,187,291	11,304	44,450,752	6,305,675	52,955,022
D. Unrealized Gains			847,337		847,337
E. Other:					
Donations and Other - Restricted	1,157,177		15,761,597		16,918,774
F. Future Funding Requirements	(26,880,041)	(410,144)			(27,290,185)
G. Total	$108,611,882	$(398,840)	$61,059,686	$6,305,675	$175,578,403

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, 1997, for goods and services which were ordered but had not been received by that date.

Unobligated balances are: 1993-97 annual (unavailable), $13,180,379
No-Year (Available), $9,773,358

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 1997 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 Adjustment

The Library has recorded a prior period adjustment to capitalize leasehold improvements that were paid out of the Library's funding sources and to depreciate the improvements over the applicable useful life. As a result, the Library has recognized a net increase of $5.1 million of property and equipment on the Consolidated Statement of Financial Position ($9.6 million increase in leasehold improvements less $4.5 million of accumulated amortization of leasehold improvements) . Total revenues and total expenses on the Consolidated Statement of Operations and Changes In Net Position decrease equally by $0.1 million. In addition, prior period revenues and prior period expenses decrease equally by $5.0 million which does not require an "Adjustments" line on the Consolidated Statement of Operations and Changes In Net Position. Finally the posting of these leasehold improvements results in a Non-Operating Change of $5.1 million on the Consolidated Statement of Operations and Changes In Net Position.

THE LIBRARY OF CONGRESS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year Ended September 30, 1997

Note 12. Non-Operating Changes

	Appropriated	Gift & Trust	Consolidated
A. Increases:			
(1) Transfers-In:			
(a) Treasury Warrants from Appropriations	$331,758,000		$331,758,000
(b) Offsetting Collections from Appropriations	23,817,522		23,817,522
(c) Non-Expenditure Transfers	908,084		908,084
(d) Donated Assets	227,685		227,685
(e) Capitalized Assets	51,060		51,060
(2) Increase in Invested Capital	12,386,472		12,386,472
(3) Unrealized Gain on Governmental Assets		$776,018	776,018
(5) Total Increases	369,148,823	776,018	369,924,841
B. Decreases:			
(1) Transfers Out:			
(a) Appropriations Used	365,659,162		365,659,162
(b) Canceled BFY 92 Authority	6,763,823		6,763,823
(c) Non-Expenditure Transfers	642,760		642,760
(d) Donated Assets		227,685	227,685
(e) Capitalized Assets		51,060	51,060
(2) Depreciation on Transferred Assets	184,708		184,708
(3) Correction of prior year capitalization of supplies	99,279		99,279
(4) Other Decreases	72,292	35,671	35,671
(6) Total Decreases	373,422,025	314,416	373,736,441
Total Non-Operating Changes	**($4,273,202)**	**$461,602**	**($3,811,600)**

Note 13. Subsequent Events

A. Legislative

1. Public Law 105-55, approved October 7, 1997, authorized the establishment of the Cooperative Acquisitions Program Revolving Fund. The Cooperative Acquisition Program, which previously was funded with gift funds, provides library materials obtained by the Library's overseas offices to participating libraries and other institutions. This legislation also grants the transfer of available funds previously received by the Library for this activity to the new revolving fund.

2. Public Law 105-144, approved December 15, 1997, authorized the Architect of the Capital to acquire a facility in Culpepper, Virgina which will be used by the Library of Congress. This facility, which is owned by the Federal Reserve Bank of Richmond, will be used by the Library as a national audiovisual conservation center. This law also authorized the transfer of gift or trust funds that were given to the Library or the Library of Congress Trust Fund Board for structural and mechanical work and refurbishment of Library buildings and grounds to the Architect of the Capitol to be used for the same purposes as originally received. The development of a master plan for the facility is underway and the transfer of the property from the donor to the Architect of the Capitol is planned for 1999.

3. Public Law 105-80, approved November 13, 1997, authorized the Register of Copyrights to increase copyright fees to be paid to the Copyright Office to cover the reasonable costs of its basic services. In addition, this law allows the investment of deposit account funds in interest-bearing U.S. Government securities and the interest income derived from the invested funds may be retained by the Copyright Office.

B. Non-Legislative

1. On August 24, 1997, the Copyright Arbitration Royalty Panel (CARP) approved a rate increase, effective July 1, 1997, on satellite carriers to retransmit broadcast station that would result in an increase of approximately $27 million in non-entity assets for the Library. On October 23, 1997, the Librarian of Congress endorsed and adopted the recommendation of the Register of Copyrights, which approved the amount of the increase recommended by the CARP but delayed the effective date of implementation of the new rates until January 31, 1998. The Satellite Broadcasting & Communications Association (SBCA) has petitioned the United States Court of Appeals for the District of Columbia to stay the effective date of the Librarian's decision and to review the Librarian's decision. The stay had been denied and the appeal is pending at this time.

2. At the James Madison National Council Business Meeting on February 20, 1998, Chairman John W. Kluge announced that he will pledge up to $5 million for the National Digital Library Program in the form of a 2:1 matching gift, which will enable the Library to reach its goal of $45 million for the National Digital Library Program.

THE LIBRARY OF CONGRESS
Consolidating Schedule - Financial Position Information
As of September 30, 1997

	APPROPRIATION	REIMBURSABLE	GIFT AND TRUST	REVOLVING	CUSTODIAL	COMBINED	ELIMINATIONS	CONSOLIDATED
ASSETS								
Entity Assets:								
Intragovernmental Assets								
Fund Balance with Treasury	$ 102,175,094	$ 33,922,410	$ 18,661,830	$ 5,936,531		$ 160,695,865		$ 160,695,865
Investments			19,045,045			19,045,045		19,045,045
Accounts Receivable, Net	1,056,448	4,540,911	28,882	311,650		5,937,891	$ (633,571)	5,304,320
Interest Receivable			201,005			201,005		201,005
Governmental Assets								
Investments			11,949,516			11,949,516		11,949,516
Accounts Receivable, Net	77,578	26,321	5,804	192,055		301,758		301,758
Advances and Prepayments	26,820	527	5,089			32,436		32,436
Pledges Receivable - Donations			11,851,685			11,851,685		11,851,685
Cash and Other Monetary Assets	269,837	196,432	181,878	60,251		708,398		708,398
Inventory				795,092		795,092		795,092
Operating Materials and Supplies	1,218,728			88,519		1,307,247		1,307,247
Property and Equipment, Net	59,211,085			554,273		59,765,358		59,765,358
Library Collections								
Total Entity Assets	164,035,590	38,686,601	61,930,734	7,938,371		272,591,296	(633,571)	271,957,725
Non-Entity Assets:								
Fund Balance with Treasury					$ 148,062	148,062		148,062
Investments, Intragovernmental Securities					728,085,884	728,085,884		728,085,884
Accounts Receivable, Net - Intragovernmental	88,539					88,539		88,539
Accounts Receivable, Net - Public	4,232					4,232		4,232
Interest Receivable					427,142	427,142		427,142
Cash and Other Monetary Assets					22,759	22,759		22,759
Total Non-Entity Assets	92,771				728,683,847	728,776,618		728,776,618
Total Assets	$ 164,128,361	$ 38,686,601	$ 61,930,734	$ 7,938,371	$ 728,683,847	$ 1,001,367,914	$ (633,571)	$ 1,000,734,343

THE LIBRARY OF CONGRESS
Consolidating Schedule - Financial Position Information
As of September 30, 1997

	APPROPRIATION	REIMBURSABLE	GIFT AND TRUST	REVOLVING	CUSTODIAL	COMBINED	ELIMINATIONS	CONSOLIDATED
LIABILITIES								
Liabilities Covered by Budgetary Resources:								
Accounts Payable - Intragovernmental	$ 1,081,309	$ 22,168	$ 92,326	$ 1,688		$ 1,197,490	$ (633,571)	$ 563,918
Accounts Payable - Public	12,035,016	4,743,741	565,257	314,391		17,658,405		17,658,405
Accrued Funded Payroll, Benefits	11,535,624	326,416	213,465	383,775		12,459,280		12,459,280
Total Liabilities Covered by Budgetary Resources	24,651,949	5,092,325	871,048	699,853		31,315,175	(633,571)	30,681,604
Liabilities not Covered by Budgetary Resources:								
Accounts Payable - Public					$ 73,494	73,494		73,494
Advances From Others - Intragovernmental		33,582,972				33,582,972		33,582,972
Advances From Others - Public				796,170		796,170		796,170
Custodial and Deposit Account Liability	3,627,618				728,610,353	732,237,971		732,237,971
Receipts Held for Treasury	92,323					92,323		92,323
Accrued Unfunded Annual and Compensatory Leave	14,897,419	410,144				15,307,563		15,307,563
Accrued Unfunded Workers' Compensation	11,982,622					11,982,622		11,982,622
Capital Lease Liabilities	264,548			136,673		401,221		401,221
Total Liabilities not Covered by Budgetary Resources	30,864,530	33,993,116		932,843	728,683,847	794,474,336		794,474,336
Total Liabilities	55,516,479	39,085,441	871,048	1,632,696	728,683,847	825,789,511	(633,571)	825,155,940
NET POSITION								
Balances:								
Unexpended Appropriations	74,420,165					74,420,165		74,420,165
Invested Capital	57,727,290					57,727,290		57,727,290
Cumulative Results of Operations	2,187,291	11,304	44,450,752	6,305,675		52,955,022		52,955,022
Unrealized Gain on Governmental Investments			847,337			847,337		847,337
Donations and Other - Restricted	1,157,177		15,761,597			16,918,774		16,918,774
Future Funding Requirements	(26,880,041)	(410,144)				(27,290,185)		(27,290,185)
Total Net Position	108,611,882	(398,840)	61,059,686	6,305,675		175,578,403		175,578,403
Total Liabilities and Net Position	$ 164,128,361	$ 38,686,601	$ 61,930,734	$ 7,938,371	$ 728,683,847	$ 1,001,367,914	$ (633,571)	$ 1,000,734,343

See accompanying independent auditors' report.

THE LIBRARY OF CONGRESS

Consolidating Schedule - Operations and Changes in Net Position

For the Year Ended September 30, 1997

	APPROPRIATION	REIMBURSABLE	GIFT AND TRUST	REVOLVING	CUSTODIAL	COMBINED	ELIMINATIONS	CONSOLIDATED
Revenues and Financing Sources								
Appropriated Capital Used	$ 357,859,020					$ 357,859,020		$ 357,859,020
Revenue from Sales of Goods			$ 148	$ 1,324,923		1,325,071	$ (39,996)	1,285,075
Revenue from Services Provided	2,635,456	$ 58,111,749	-	5,933,358		66,680,563	(9,624,288)	57,056,275
Donations			16,558,319	92,204		16,650,523		16,650,523
Interest, Non-Federal			457,934			457,934		457,934
Interest, Federal			1,623,468			1,623,468		1,623,468
Imputed Financing	21,208,399	539,814	124,910	393,419		22,266,542		22,266,542
Other Revenues and Financing Sources	493,074		344,676	110,331		948,081		948,081
Less: Receipts Transferred to Treasury	(312,684)					(312,684)		(312,684)
Total Revenues and Financing Sources	381,883,265	58,651,563	19,109,455	7,854,235		467,498,518	(9,664,284)	457,834,234
Expenses								
Operating Expenses:								
Personnel Services and Benefits	266,762,193	7,588,975	4,512,062	4,380,773		283,244,003	508,273	283,752,276
Travel and Transportation	1,582,777	203,002	515,156	79,897		2,380,832	13,130	2,393,962
Rental, Communication, and Utilities	9,467,401	777,090	290,525	393,392		10,928,408		10,928,408
Printing and Reproduction	6,830,792	148,832	412,861	38,863		7,431,348	(2,281,922)	5,149,426
Contractual Services	31,578,737	19,213,792	4,950,874	1,019,708		56,763,111	(4,107,840)	52,655,271
Supplies and Materials	8,002,452	105,876	217,644	1,527,122		9,853,094	(1,422,316)	8,430,778
Library Materials	31,698,071	30,249,142	1,639,723	158		63,587,094	(2,373,609)	61,213,485
Non-Capitalizable Equipment	10,572,194	318,348	316,755	24,100		11,231,397		11,231,397
Other Operating Expenses	22		655,728	600		656,350		656,350
Depreciation and Amortization	15,824,930		11,756	305,250		16,141,936		16,141,936
Other Expenses	293,574	(143,748)	174	28,757		178,757		178,757
Total Expenses	382,613,143	58,461,309	13,523,258	7,798,620		462,396,330	(9,664,284)	452,732,046
Excess of Revenues and Financing Sources over Expenses	$ (729,878)	$ 190,254	$ 5,586,197	$ 55,615		$ 5,102,188		$ 5,102,188
Changes in Net Position								
Net Position, Beginning Balance, as Previously Stated	$ 113,614,962	$ (589,094)	$ 55,011,887	$ 6,250,060		$ 174,287,815		$ 174,287,815
Excess of Revenues and Financing Sources over Expenses	(729,878)	190,254	5,586,197	55,615		5,102,188		5,102,188
Non-Operating Changes	(4,273,202)		461,602			(3,811,600)		(3,811,600)
Net Position, Ending Balance	$ 108,611,882	$ (398,840)	$ 61,059,686	$ 6,305,675		$ 175,578,403		$ 175,578,403

See accompanying independent auditors' report.

THE LIBRARY OF CONGRESS

Stewardship Report

HERITAGE ASSETS

September 30, 1997

Library Collections

The Library of Congress has the world's largest library collection comprising over 113 million items including research materials in over 450 languages and various media. The collections include approximately 26 million books and other printed materials, 49 million manuscripts, 12 million photographs, 4 million maps, 4 million pieces of music, 2 million audio recordings, and 772 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 more than 10,000 new items for its collections, 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.

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 and comprehensive in scope which is adopted by Thomas Jefferson's concept; however, the Library does not collect everything or accession everything it receives. The collections development policy has evolved over the years. In

1814, Jefferson offered to sell his personal library to the Library Committee of Congress in order to "recommence" the Congressional library after the British burned the U. S. Capitol destroying the Library of Congress. Jefferson stated: " I do not know that it contains any branch of science which Congress would wish to exclude from their collection; there is, in fact, no subject to which a Member of Congress may not have occasion to refer." In 1815, President James Madison approved an Act of Congress appropriating $23,950 for the acquisition of Jefferson's library of 6,487 volumes.

As set forth in the Library's Collections Policy Statements, the Library's collections development policies are directed towards its responsibilities to serve (1) the Congress and United States Government as a whole, (2) the scholarly and library community, and (3) the general public. 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-five 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 1997, the Library obtained 59,180 books through the CIP program. The Library also acquires U.S. publications through the Preassigned Card Number (PCN) Program. In fiscal 1997, the Library received 23,121 items for which the CIP division had provided a card number. The CIP and PCN 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 1997, the Exchange and Gift Division (E&G) received 148,000 items, or 47 percent of its exchange receipts, from these official central sources.

Pursuant to 36 C.F.R. 701.33, Federal libraries send their surplus materials to the Exchange and Gift Division for addition to the Library's own acquisitions to use in the exchange and surplus books program. In fiscal 1997, the Library received more than one million items from Federal agencies, and, although only a 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 LIBRARY OF CONGRESS

Stewardship Report

The primary resources for recent acquisitions are as follow:

	1993	1994	1995	1996	1997
Annual Appropriations Authorized	$ 7,669,000	$ 8,127,000	$ 8,458,000	$ 8,458,000	$ 8,458,000
Estimated Value of Copyright Deposits Transferred to the Library	$13,547,000	$15,711,000	$20,158,594	$20,157,816	$25,183,884
Government Printing Office Appropriation (part of Superintendent of Documents) for International Exchange	$ 637,000	$ 712,000	$ 462,000	$ 509,000	$ 537,000

Acquisitions by source:

Source	Pieces 1993	Pieces 1994	Pieces 1995	Pieces 1996	Pieces 1997
Purchases:					
Appropriated - GENPAC/LAW	914,742	799,110	714,127	707,695	522,040
Appropriated Other	202,853	197,970	146,828	145,418	38,267
Special Foreign Currency	78,108	66,081	65,827	54,888	55,090
Gift and Trust Funds	20,318	5,541	3,712	4,830	3,499
Total Purchases	1,216,021	1,068,702	930,494	912,831	618,896
Non-Purchases:					
Exchange	529,125	558,327	453,857	321,446	310,849
Government Transfers	720,925	727,874	732,087	443,599	486,280
Gifts	650,282	1,246,809	744,860	2,608,494	1,116,626
Cataloging in Publication/PCN	46,048	56,345	49,201	49,083	82,301
Copyright Deposits	833,929	757,082	855,022	739,582	862,207
Total Non-Purchases	2,780,309	3,346,437	2,835,027	4,162,204	2,858,263
Total All Acquisitions	3,996,330	4,415,139	3,765,521	5,075,035	3,477,159

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 $10.4 million in fiscal 1997. Preservation projects in process or under study are:

- the use of a mass book deacidification technology to ensure uniform, effective deacidification of 92,000 books over the past two years; a goal is to deacidify 80,000 additional books in fiscal 1998;
- 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;
- an extensive study of a broad range of scanning schemes for conversion of visual images or documents to a digital format for preservation recording;
- the cleaning, relabeling, and rehousing of documents (see preservation statistics); and
- the 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.

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Preservation statistics for fiscal 1997 are as follow:

Treatment:		
Volumes treated		5,285
Unbound items treated, paper-based		2,502
Commercial library binding, volumes		199,087
Mass Deacidification, Volumes (2nd contract year)		67,000
Housing/Rehousing:		
Protective boxes constructed		6,102
Items rehoused, paper-based		12,091
Discs, film (reels), magnetic tape (reels/cassettes) cleaned, packaged		17,530
Copying/Reformatting:		
Paper-based materials converted to microfilm, items	(1,987,596 exposures)	19,486
Audio materials converted to magnetic tape, titles		2,484
Video materials converted to magnetic tape, titles		1,043
Motion picture films converted, reels	(1,137,904 feet)	1,796
General Preservation of the Collections		
Items surveyed, paper-based		59,200
Pieces labeled		172,452

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 are printed on acidic paper that may eventually require deacidification treatment at an estimated cost of $15.25 per book (1997 estimate).

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 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.

THE LIBRARY OF CONGRESS

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In 1995, the Library awarded a two-year contract to Preservation Technologies, Inc. (PTI) that uses the Bookkeeper III deacidification process. In fiscal 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 deacidified 92,000 books in one and one-half years. These included 67,000 non-rare materials from the General Collections, Asian Division, Law Library, Rare Book and Special Collections Division, and Humanities and Social Sciences Division that were deacidified in fiscal 1997. The Library expects to deacidify an additional 80,000 items in fiscal 1998.

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 more than 725,000 tapes, 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 in which it was created. 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. A study entitled, "A Unified Strategy for the Preservation of Audio and Video" was completed in August 1997.

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, filmmakers 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, counseling the Librarian on development and implementation of the national film preservation plan, and the national television and video preservation plan which was completed in 1997.

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 educational value, but possess little commercial viability and will not survive without public intervention. The nine-person Board consisting of Celeste Bartos, Chair, Museum of Modern Art Trustee Committee on Film and Video; John Cooke, Executive Vice President, Corporate Affairs, The Walt Disney Company; Laurence Fishburne, Actor/Producer; Ann Dibble Jordan, Consultant, Member/Director of Various Corporate Boards; Roger Mayer, President and Chief Operating Officer, Turner Entertainment Company; David W. Packard, Stanford Theater Foundation; John Ptak, Creative Artists Agency; Martin Scorsese, Filmmaker and President of The Film Foundation, "Filmmakers for Film Preservation"; and Alan K. Simpson, former United States Senator (Republican-Wyoming) held its first meeting at the Library on June 9, 1997. The Foundation is now incorporated and can receive donations.

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 date of manufacture can last for a long time, but poorly stored material deteriorates very quickly.

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 onto

Stewardship Report

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 establishment of a National Audio-Visual Conservation Center was authorized on December 15, 1997 (Public Law 105-144). The law authorizes the Architect of the Capitol (AOC) to acquire, on behalf of the Library, 41 acres located in Culpeper, Virginia. The property has a 140,000 square foot building that will be renovated and has expansion space for additional buildings to provide proper storage and preservation facilities for the Library's extensive motion picture, television, video, radio, and sound recording collections. The new center is planned for formal acquisition by the AOC in 1999 with a limited number of collections being stored at the site prior to 1999.

Service

The Library of Congress is a public institution 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," meaning that certain materials may be distributed through interlibrary loan only 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. To request items, readers first register with photo-identification, and then may submit 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 1997, the Library served over two million items in the Library. It also circulated over 30,000 items to Congressional borrowers and nearly 51,000 items to other agencies and libraries.

THE LIBRARY OF CONGRESS

Stewardship Report

Collections Security

In fiscal 1997, the Library made major advances in collections security, highlighted by the Library's appointment of a permanent Director of Security (DS) in February and the establishment of a centralized security office. The Director revitalized the Collections Security Oversight Committee (CSOC), which is composed of senior librarians and managers representing the Library's diverse curatorial, processing and support services divisions. On September 26, 1997, the Librarian approved the Library of Congress Security plan containing therein a definition of the threat to the collections, a comprehensive planning framework, minimum security standards and an integrated schedule of actions. The plan, developed by the DS in collaboration with the CSOC, also addressed requirements for improving the security of staff, visitors, facilities and other Library assets.

By hiring a DS, establishing a centralized security structure, developing a security plan, defining the threat to the collections, and creating a priority order for protecting the collections, the Library responded fully to five major recommendations made by consultants including the Computer Sciences Corporation in its comprehensive survey of the Library's security. KPMG Peat Marwick LLP completed two collection risk assessments in fiscal 1997. They examined the controls and processes in place to protect collections within the Geography and Map Division and the Copyright Office. Additionally, the Rare Book and Special Collections Division tightened security controls and a complete inventory of the collection commenced.

Threat Profile - In coordination with the Library's Inspector General, the DS and the CSOC has profiled the threat of theft and mutilation to the collections. Recognizing that access to the collection shapes the scope and degree of that threat posed by staff and users, the Library's plan identifies the levels of sophistication to the threat of theft and mutilation that persons may pose to the collections.

Planning Framework - In developing a comprehensive planning framework for the Library's Security Plan, the DS and CSOC collaborated in creating Library-wide physical security standards. In doing so, they tackled the challenge of prioritizing the collections in the context of a risk continuum. The collections prioritization matrix depicts five tiers within the risk continuum ranging from the Library's Treasures (*platinum*), to rare items with prohibitively high replacement costs (*gold*), to collections at special risk because of their popularity or format (*silver*), to the general collections (*bronze*), and to those items which may be used for the exchange and gift program (*copper*).

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In order to build a matrix of cost effective security standards applicable to the collections throughout the Library, the DS and the CSOC integrated the five tiers of the collections with the four cycles that collections items go through in the Library: in process; in storage; in use; and in transit. By integrating these variables in a multidimensional matrix the Library has thus created a grid illustrating application of physical security minimal standards. Using this grid allows the Library to achieve the following:

- Differentiated and cost effective levels of physical protection standards
- Reasonable assurance that controls will succeed
- A low risk environment for the collections
- Zero tolerance of theft and mutilation

Library of Congress Security Plan - The Librarian approved the security plan on September 26, 1997. Curatorial and processing divisions are applying the minimal standards to their respective collections, identifying unfulfilled requirements, and new initiatives. The physical security standards include: inner ring (or internal) collections controls such as reader registration; middle ring measures include intrusion detection systems, closed circuit television and physical security mechanisms such as locks, keys and various types of secure storage space; and outer ring controls include a number of police-related activities such as entrance and exit inspections, monitoring of loading dock operations, and presence of uniformed guards and plain clothes detectives in the Library's reading rooms. Initial application of the plan's grid has yielded data finding that participating divisions meet approximately two-thirds of the minimal standards for physical security. Also, the data reveals that the "in process" cycle is the most vulnerable for the Library as new items are accessioned and catalogued into permanent storage. These items are most at risk before they are marked and tagged.

The Library's Security Plan sets an aggressive schedule of twenty-two actions related to collections security. Accountable persons chairing three subcommittees are responsible for the implementation of the actions. The schedule includes actions integrating the plan's standards with the Library's Planning, Programming, Budgeting, Execution and Evaluation System (PPBEES). Others identify surveys of various physical security needs and initiatives that will enhance security education, communication, and awareness. Senior librarians working with the DS will assess the feasibility of integrating preservation, bibliographic, and inventory controls within the planning framework presented in the Library's physical security plan.

Other initiatives in fiscal 1997 included the following:

- The completion of access control and internal security measures for the reopened and renovated Thomas Jefferson Building.

- Installation of extensive physical and electronic security measures for the American Treasures exhibition.

- Installation or upgrading of surveillance cameras in nine reading rooms and installation of egress motion detectors on all access control electronic readers in the Thomas Jefferson and the John Adams buildings.

- Installation of X-ray screening machines, video surveillance, and access control card readers at the Landover Center Annex.

Detailed security procedures vary by type of format, but the following basic controls are in place:

- Property inspections are performed at building exits.
- Personal belongings in selected reading rooms are restricted -- readers must use cloak rooms and lockers for personal belongings.
- Book storage areas in the Thomas Jefferson and John Adams buildings are controlled by an electronic access control system.
- Access to collections storage (stacks) is closed to the public and to all Library staff except those whose assigned duties require access to perform their work, consisting of about 10 percent of the staff.
- A large number of selected books contain anti-theft devices.
- An automated collections control facility provides item-level inventory control for a large number of books.
- Reader photo identification cards are issued to verify users and a database of reader information is maintained.
- Library staff are required to wear visible photo identification 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.

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 eight years, the Library has put forth an extensive effort to reduce the cataloging arrearage and bring all the collections under bibliographic control. At the beginning of fiscal 1997, the

arrearage, mostly in non-book formats, comprised 21 million items. This figure was reduced by more than one million items during the fiscal year. Arrearage statistics for fiscal 1997 are as follow:

Items in Arrearage	1996	1997	Change	Percent Change
Print Materials	649,076	543,247	(105,829)	(16.3)
Special Materials	20,321,447	19,408,958	(912,489)	(4.5)
Total	20,970,523	19,952,205	(1,018,318)	(4.9)

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) standard on stewardship reporting requires that heritage assets be reported as required supplementary 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 the years 1995 through 1997.

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 that follows 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, 1997

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	17,079,138	343,965	21,003	17,402,100	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.	9,255,742	84,534	32,175	9,308,101	Acquisitions: Copyright deposits, purchase, exchange and gift Withdrawals: exchange & gift; depreciation or depletion through use; or disposals through GSA
Total Print Collections	26,334,880	428,499	53,178	26,710,201	
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	84,745,786	2,198,456	41,321	86,902,921	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.)
Adjustments to correct previous transcription error in photography	-586,380			-586,380	
Total Collections	110,494,286	2,626,955	94,499	113,026,742	

ADDITIONS TO THE COLLECTIONS-ITEMS

Print Collections	Beginning	Added	Withdrawn	Total
Classified Book Collections				
Class A (General Works)	411,883	5,549	2	417,430
Class B-BJ (Philosophy)	282,460	8,762	37	291,185
Class BL-BX (Religion)	625,247	16,614	82	641,779
Class C (History, Auxiliary Sciences)	238,041	5,681	0	243,722
Class D (History, Except American)	1,143,050	23,634	23	1,166,661
Class E (American History)	255,205	7,297	7	262,495
Class F (American History)	407,805	10,429	3	418,231
Class G (Geography, Anthropology)	391,516	11,383	366	402,533
Class H (Social Sciences)	2,636,245	53,360	32	2,689,573
Class J (Political Science)	761,400	11,465	35	772,830
Class K and LAW (LAW)	2,087,042	41,252	20,320	2,107,974
Class L (Education)	489,216	8,770	0	497,986
Class M (Music)	607,108	6,130	12	613,226
Class N (Fine Arts)	460,189	10,618	0	470,807
Class P (Language and Literature)	2,276,213	45,609	33	2,321,789
Class Q (Science)	1,059,026	22,181	0	1,081,207
Class R (Medicine)	446,828	9,737	1	456,564
Class S (Agriculture)	403,729	6,376	3	410,102
Class T (Technology)	1,212,298	23,921	45	1,236,174
Class U (Military Science)	193,350	4,155	0	197,505
Class V (Naval Science)	100,503	2,710	0	103,213
Class Z (Bibliography)	590,784	8,332	2	599,114
Total Classified Book Collections	17,079,138	343,965	21,003	17,402,100
Other Print Materials or Products				
Books in large type	8,668	13	0	8,681
Books in raised characters	69,549	1,201	0	70,750
Incunabula	5,693	1	0	5,694
Minimal-level cataloging (monographs and serials)	497,246	35,612	0	532,858
Newspapers (bound)	35,759	0	967	34,792
Pamphlets	262,990	2,615	2,229	263,376
Technical reports	1,402,929	21,136	14,631	1,409,434
Other	6,972,908	23,956	14,348	6,982,516
Total Other Print Material	9,255,742	84,534	32,175	9,308,101
TOTAL PRINT COLLECTIONS	26,334,880	428,499	53,178	26,710,201

Other Collections	Beginning	Added	Withdrawn	Total
Audio materials	2,249,268	91,889	2,804	2,338,353
Talking books	49,714	2,100	0	51,814
Manuscripts	47,911,077	1,236,778	0	49,147,855
Maps	4,408,464	76,936	33,610	4,451,790
Microforms	11,339,461	432,291	4,271	11,767,481
Music	3,825,735	284,290	0	4,110,025
Visual material				
Moving images	742,699	29,405	0	772,104
Photographs (negatives, prints, and slides)*	11,888,784	20,294	141	11,908,937
Posters	81,758	870	0	82,628
Prints and drawings	377,411	16,055	422	393,044
Other (broadsides, photocopies, nonpictorial material, etc.)	1,254,532	1,781	0	1,256,313
Machine-readable material	30,503	5,767	73	36,197
TOTAL OTHER COLLECTIONS	84,159,406	2,198,456	41,321	86,316,541
TOTAL (items)	110,494,286	2,626,955	94,499	113,026,742

*Total adjusted by 586,380 to correct previous transcription error

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

Fiscal Year Ended September 30, 1997

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, 137 gift funds, 85 trust funds, and 11 gift revolving funds. Although the Library of Congress, a legislative agency, is not required to comply with the Federal Managers' Financial 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.

For fiscal year 1997, the Library implemented a new internal control limited review process, as recommended by the fiscal 1996 independent accountants. The new process staggers the completion of internal control limited reviews throughout the year (in contrast to all reviews being completed at the same time) and provides training and questionnaires that are tailored to the specific needs of financial managers. Because fiscal 1997 represents a transition year for the new process, the Library requested that each financial system manager prepare a fiscal 1997 internal control report based on their knowledge of day-to-day work and the steps they are taking to correct internal control deficiencies found in prior reviews. The financial system managers were also asked to identify any changes that have occurred since the last internal control limited review, which in many cases took place within the last year.

The Library updated it's Management Improvement Plan (MIP) two times in 1997 to reflect progress made in addressing internal control audit recommendations. In addition to the MIP, the Library's Inspector General issues regular status reports of management actions taken to implement audit recommendations.

During fiscal year 1997, the Library implemented many improvements to address control weaknesses identified by prior audits and/or internal control reviews. Major improvements included: (1) preparing and issuing four new directives covering the accounting for capitalized property and depreciation, guidelines for financial system reconciliations, guidelines for limited internal control reviews, and updated standard general ledger codes and transactions; (2) updating the Library's Strategic Plan and Financial Management Improvement Plan; (3) preparing a Computer Security Plan and a Disaster Recovery Plan; (4) completing all Treasury reconciliations on a timely basis and major subsidiary and program reconciliations; (5) conducting a physical inventory of all capitalized equipment to verify accounting records; (6) establishing a property liaison person within each organization; (7) implementing improved procedures for capitalized leases; (8) hiring additional professional accounting staff; (9) conducting regular reviews of override transactions; (10) improving cash management procedures and controls; (11) implementing enhanced automated financial reports; (12) improving physical access controls to the Library's data center; (13) limiting special access privileges to automated systems and data; (14) instituting new procedures for terminating access to automated systems; and (15) securing Congressional approval of a new revolving fund for the overseas participant program.

The Library evaluated its internal controls for fiscal 1997 on the basis described above and identified the following deficiencies:

- **Library records for property and equipment are not complete and accurate, and safeguarding controls related to equipment monitored by the National Library Service for the Blind and Physically Handicapped require improvement.** The subsidiary property and equipment records contain errors in cost, acquisition dates, disposals, and completeness.

- **Security practices and certain other controls over information systems are inadequate.** The following weaknesses were present during fiscal year 1997 and require further action to correct: Logical access controls do not sufficiently restrict access. Security awareness seminars lack a training component. Segregation of duties is not adequately addressed in all areas, and software development and change controls need improvement.

- **Weaknesses exist in the controls over the financial reporting process.** The Library completed many of the tasks designed to meet financial reporting objectives in 1997. However, some important tasks were not fully performed or completed, including: (1) fully implementing the enhanced self-assessment review and review of internal controls and accounting systems process; (2) reviewing all accounts for reasonableness on a timely basis; (3) reviewing and documenting the reconciliation of property accounts; (4) performing satisfactorily all major subsystem reconciliations at September 30, 1997; and (5) identifying and applying all relevant accounting policies and principles.

- **The Library lacks a business continuity plan.** The Library has initiated business continuity planning, but key elements are not completed.

- **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. The Library has developed a detailed Year 2000 plan using GAO guidance, and work to repair or replace non-compliant systems is underway.

- **The Library's Office of Inspector General (IG) oversight function is limited.** The independence of IG's office appears to be limited.

Because internal control weaknesses existed during some part of fiscal 1997, we cannot provide reasonable assurance that the Library's internal controls over financial reporting at September 30, 1997, 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, 1997, 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, 1997. 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, 1997. 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, Clifton Gunderson L.L.C. 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, 1997

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 113 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 1997 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 shelf list; 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, 1997. Moreover, while the Library has an extensive series of controls in all four areas of risk and while we began in 1997 to conduct a systematic assessment of risks to the Heritage Assets, we cannot assert without qualification that the controls in place are adequate and appropriate to mitigate the risks until we have completed the risk assessment. That assessment will take a number of years to conduct comprehensively. It has begun with the creation and adoption of a security plan which provides the framework for assessing the physical security and with the formal risk assessments conducted in 1997.

Bibliographical controls: As of September 30, 1997, the Library had reduced the arrearage count to 19,952,205 items from the 1989 benchmark number of 39.7 million -- a decrease of 49.7 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.

Preservation controls: the Library has inadequate temperature and humidity control in some 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 Fort Meade, Maryland 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 will improve preservation.

Physical security controls: In September 1997, many physical security risks remain, but the Library has fulfilled a major commitment by completing a comprehensive Security Plan. Work on the plan was coordinated by the Director of Security; with the assistance and participation of the Collections Security Oversight

Committee made up of senior librarians from throughout the Library, the plan focuses on collections security and presents a continuum of risk matrix along with a threat profile. The Librarian of Congress transmitted the plan to the Congress on October 15, 1997. With the reopening of the Thomas Jefferson Building and the move into the building of multiple reference and research offices, work was done to ensure the security of the collections in these newly renovated spaces. A major undertaking was begun to inventory the rare book collections of the Library and that project will continue for several years. Additionally 600,000 items from the rare book collections were stamped with permanent ownership marks. This represents a change from the previous policy of tipping in bookplates for the collection. Work continued in expanding the reader registration system, insertion of theft detection targets, expansion of security in reading rooms and other collection storage areas, in research into marking library materials, especially compact disks and CD-ROMS. With the assistance of a private auditing firm, the Library completed two risk assessments focused on particular parts of the collection.

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

Clifton Gunderson L.L.C.
Certified Public Accountants & Consultants

Independent Auditor's Report

The Inspector General,
Library of Congress

We have audited the accompanying consolidated statement of financial position of the Library of Congress (Library) as of September 30, 1997 and the related consolidated statement of operations and changes in net position for the year then ended. 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, safeguarding of assets and compliance with applicable laws and regulations that were in place as of September 30, 1997.

In our opinion:

- The Library's 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, 1997 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:

- Reportable conditions related to:

  - weaknesses in the internal controls related to accounting for property and equipment;
  - weaknesses in the controls over information technology systems;
  - weaknesses in the controls over the financial reporting process;
  - the lack of a business continuity plan;
  - the implementation of a Year 2000 compliant accounting system upgrade and other operational subsystems;
  - the limitations on the Library's Inspector General (IG) oversight function.

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- Noncompliance with laws and regulations related to:

  - use of certain revolving gift funds that exceeded the Library's scope of authority to accept gifts and use them to fulfill the donor's intent;

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 of Congress as of September 30, 1997, 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 consolidated financial statements present fairly, in all material respects, the financial position of the Library of Congress as of September 30, 1997, 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 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 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 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 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, 1997, 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.

Management made this assertion based upon criteria established under internal control standards and financial systems standards presented in Appendices II and III of Title 2 of the General Accounting Office's *Policy and Procedures Manual for Guidance of Federal Agencies.*

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, 1997, 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 *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, 1997.

- ***Library records for property and equipment are not complete and accurate and safeguarding controls related to equipment monitored by the National Library Service for the Blind and Handicapped require improvement.*** The subsidiary property and equipment records contain errors in cost, acquisition dates, disposals, and completeness. Other weaknesses include inadequate supporting documentation for some assets, inconsistent capitalization policies for leasehold improvements, and improper estimations of depreciable lives of certain property and equipment.

- ***Security practices and certain other controls over information systems are inadequate.*** Logical access controls do not sufficiently restrict access. Security awareness seminars lack a training component. Segregation of duties is not adequately addressed in all areas, and software development and change controls need improvement.

- ***Weaknesses exist in the controls over the financial reporting process.*** The Library completed many of the tasks designed to meet financial reporting objectives in 1997. However, some important tasks were not fully performed or fully completed, including (1) performing satisfactorily all major subsystem reconciliations at September 30, 1997, (2) fully implementing the self-assessment and review of internal controls and accounting systems including incorporating the results of the financial systems' reviews to be completed by the Inspector General's office every five years, (3) reviewing all accounts for reasonableness on a timely basis, (4) reviewing and reconciling property accounts, and (5) identifying and applying all relevant accounting policies and principles.

- ***The Library lacks a business continuity plan.*** The Library has not implemented a continuity plan that addresses disaster recovery.

- ***Year 2000 compliant software.*** 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 nor has it formally documented key polices and procedures for managing the implementing Year 2000 compliant software in daily operations.

- ***The Library's IG oversight function is limited.*** Current limitations on the IG's office reduce the effectiveness of its oversight function. These include limitations on management studies and inspections of Library operations, and a dependency on the Librarian for funding resources. This condition impacts the Library's control environment as currently designed and its ability to have segregation of duties over testing and monitoring of internal controls and compliance with applicable laws and regulations.

We consider the 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 control over financial reporting 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.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the consolidated financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving internal control over financial reporting that we have reported to management in a separate letter dated March 27, 1998.

Appendix A further discusses the reportable conditions. These matters were also identified in the Library's 1996 audit report. Appendix C presents the current status of all prior year findings.

COMPLIANCE WITH LAWS AND REGULATIONS

As part of obtaining reasonable assurance about whether the Library's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance that is required to be reported under *Government Auditing Standards*, as issued by the Comptroller General of the United States 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 1997 audit work, we identified eleven revolving funds, none with specific congressional authorization, and ten with fund balances in excess of the original gift. One fund had revenues of approximately $5.8 million.

This matter is discussed further in Appendix B.

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;
- establishing and maintaining an effective internal control structure designed to fulfill control objectives;
- complying with applicable laws and regulations.

In fulfilling these responsibilities, estimates and judgments by management are required to assess the expected benefits and related costs of internal control. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that:

- 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 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 maintain accountability for assets.

Auditor's Responsibility. Our responsibility is to express an opinion on the consolidated financial statements based on our audit. Accordingly, we planned and performed the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are presented in accordance with the comprehensive basis of accounting as described in Note 1 to the financial statements. We believe that our audit provides a reasonable basis for our opinion.

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, 1997 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 applicable 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*.

We are also responsible for testing compliance with selected provisions of applicable laws and regulations that may materially affect the consolidated financial statements.

In order 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 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 control structure over financial reporting, safeguarding of assets and compliance with applicable laws and regulations;

- 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 selected provisions of the following laws and regulations that may materially affect the consolidated financial statements:

  - Library's authorizing legislation;
  - Copyright law;
  - Antideficiency Act;
  - Legislative Branch Appropriations Act;
  - Economy Act;
  - Fair Labor Standards Act;
  - Civil Service Retirement Act;
  - Civil Service Reform Act;
  - Federal Employees' Compensation 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; and

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

We did not evaluate the internal controls relevant to operating objectives, but limited our work to accounting and other controls necessary to achieve the objectives identified in our opinion on management's assertion on the internal control structure over financial reporting. Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projections of any evaluation of internal control over financial reporting, safeguarding of assets and compliance with applicable laws and regulations 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.

Our audit was conducted in accordance with generally accepted auditing standards; *Government Auditing Standards*, as issued by the Comptroller General of the United States; and OMB Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Our examination of management's assertion on internal controls over financial reporting, included in the accompanying management report on internal controls, that it cannot provide reasonable assurance that internal controls in place as of September 30, 1997, 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 as of September 30, 1997 was conducted in accordance with standards

established by the American Institute of Certified Public Accountants and *Government Auditing Standards* as issued by the Comptroller General of the United States; and OMB Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements.* 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 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.

Clifton Gunderson L.L.C.

Greenbelt, Maryland
March 27, 1998

APPENDIX A
REPORTABLE CONDITIONS

1. LIBRARY RECORDS FOR CAPITALIZED PROPERTY AND EQUIPMENT ARE NOT ACCURATE OR COMPLETE AND SAFEGUARDING CONTROLS FOR NATIONAL LIBRARY SERVICE FOR THE BLIND AND PHYSICALLY HANDICAPPED ARE NOT ADEQUATE.

Current internal controls at the Library are inadequate to ensure that the recording of property and equipment is accurate and complete.

The Library's current accounting practice is to expense all amounts disbursed for property and equipment during the fiscal year. Management determines the Contract and Logistics (C&L) property balance and the related accumulated depreciation based on amounts in the IBCFACS ledger. Financial Services Directive 96-7, *Guidelines for Accounting for Capitalized Property and Depreciation* provides for quarterly property reconciliations but none were not performed during fiscal 1997. The reversal of amounts expended during the year to reflect the total capitalization amount and net change in accumulated depreciation was not done until year end. As a result, the Library cannot ensure that acquisitions, disposals and donations of property and equipment are properly accounted for in its property and equipment systems and that items are not misappropriated or misplaced. In our work related to capitalized non-bulk property and equipment we noted the following matters:

- Leasehold Improvements have not been recognized as capital assets in the current or prior years. This is not in accordance with FSD 96-7, *Guidelines for Financial System Reconciliations*, and Statement of Federal Financial Accounting Standard No. 6, *Accounting for Property, Plant, and Equipment*, which both require the capitalization of leasehold improvements. The Library was able to quantify such improvements as of September 30, 1997 and adjustments were made to the financial statements to reflect corrected amounts.

- Two computer component purchases totaling $416,131 were not capitalized because the purchase orders did not clearly establish the items. These items were not recorded in the IBCFACS data base because of a lack of communication between the receiving department and C&L.

- Certain instances were identified where estimated cost per the purchase order, rather than actual invoices were used as the cost basis of the assets in the IBCFACS ledger because a reconciliation was not performed between the purchase order and the invoices.

- The exchange of assets were improperly recorded. The net book value of the old asset traded-in was charged to a loss on disposal of equipment, when it should have been charged to the acquisition cost of the new asset.

- The Library's policy on depreciable life is not based on an established method of depreciation that represents the true depreciable lives of the Library's assets. The Library's policy on depreciable life of equipment and furniture ranges from 4 to 20 years, and is questionable because capital leases for many items are not more than 5 years. Additionally, the Library does not have an integrated fixed asset system which would both track the cost of capitalized fixed assets and calculate related depreciation.

Safeguarding Controls for National Library Services for the Blind and Physically Handicapped are not adequate.

The National Library Service for the Blind and Physically Handicapped (NLS/BPH) maintains the playback machines that are used in the program which distributes reading materials and playback machines to eligible borrowers. NLS/BPH does not maintain a single centralized listing of all NLS/BPH playback machines. NLS/BPH makes equipment shipments to lending agencies periodically throughout the year, after which the agencies have the responsibility for tracking the machines, rather than NLS/BPH having tracking authority. Two separate databases track the playback machines for different purposes and capture different data as well. Each system contains machine models not included in the other system. NLS/BPH 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) used to track the playback machine inventory status of the machine lending agencies. The MMR's classify machines as either "on hand, lent to patrons, in repair, or location unknown." We noted the following issues while performing our audit:

- NLS/BPH has not established an acceptable range of "location unknown" machines or require the independent contractor to explain variances in reporting for various categories of playback machines. The MMR systems do not compare totals for each machine model reported by each lending agency. The independent contractor updates the MMR system without comparing reported totals to established acceptable range. NLS does not have a policy or procedure in place to review and monitor, on a regular basis, the input from the machine lending agencies or the output from the independent contractor.

- The lack of a unified inventory of playback machines and policies and procedures for monitoring the independent contractor and the machine lending agencies increases the risk of loss and misappropriation of machines. This in turn increases the risk of inaccurate inventory reporting for financial statement purposes.

Recommendations:

The accuracy and maintenance of the Library's asset listing is critical for reliable financial reporting and maintaining accountability for property and equipment of which the majority is comprised of the playback machines accounted for by NLS/BPH. In order to facilitate maintaining accurate property and equipment listings, we recommend that the Library take the following actions:

- Contracts and Logistics perform quarterly property reconciliations as required by FSD 96-7 in order to allow C&L to post the capitalized property sub-ledger to the general ledger. It is noted that FSD 97-7 has superseded FSD 96-7 but the quarterly reporting requirement has not changed.

- C&L strengthen it's policies and procedures for reviewing information entered into the IBCFACS subledger, including the review of data by a non data entry employee.

- Develop a formal policy or procedure to be put in place that enables the posting employee at C&L to contact the technical representatives from the service unit should a question arise about the capitalization or expense of items purchased. Also that training be provided to those individuals that post these transactions so that they may better identify what should be capitalized or expenses.

- C&L establish procedures for following up on invoices of assets that have not been received for a considerable period of time, to ensure that all costs related to the assets have been recorded on the subsidiary ledger properly.

- The Library appoint a staff person at the directorate level to be held accountable for the implementing of Section 3.31 of FSD 96-7 so that all acquisitions, dispositions, and transfers of property are managed at the local level.

- All assets acquired through the use of a trade-in be reviewed and approved by a qualified personnel within C&L.

- NLS/BPH consider merging the reporting performed by the two separate playback machine tracking systems and begin to capture all data within the BPHICS system. NLS would need to ensure that BPHICS and MME contain data from the same time period since MMR has more historical information. The BPHICS system would need to be modified to capture the collective status by machine lending agency of all machines within their custody, as well as, acquisition information by serial number.

- NLS/BPH establish an acceptable range for the independent contractor to compare totals for each machine model reported by each lending agency. If a MMR is submitted outside of that range there should be a formal policy or procedure established to ensure that these discrepancies are investigated and resolved.

- NLS/BPH implement policies and procedures to monitor both the input from the lending agencies and the output from the independent contractor on a regular basis, and document a plan for performing machine lending agency audits. These audits should be scheduled on a five year basis due to the fact that these machines comprise over 70% of the Library's property and equipment.

- The Library re-evaluate its useful life policies for the capitalization of property and equipment and that they correct all existing assets retroactively.

- The Library adhere to FSD - 96-7 and SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, in recording leasehold improvements to multi-use Heritage assets and non Heritage assets. The Library should monitor current developments in accounting for property, plant and equipment as issued by the FASAB throughout the year.

2. SECURITY PRACTICES OVER INFORMATION TECHNOLOGY SYSTEMS NEED TO BE IMPROVED

The Library lacks certain controls within logical access and system security. The controls that are currently in place are inadequate to fully protect information systems' resources from unauthorized access, unauthorized use, or damage. The Library has failed to implement security policies and procedures to ensure that Library resources are restricted to authorized individuals and that critical data is protected. The presence of these weaknesses increase the risk that the Library's data and equipment are not properly safeguarded.

Logical access controls do not sufficiently restrict access.

Current logical access controls are inadequate to ensure the safekeeping of sensitive utilities and data sets. A number of logical access controls settings were not in place. The following are configurations that should be modified:

- The "notify" setting within the ACF2 security configuration is not active.
- Super ZAP utility is not restricted.
- Too many systems programmers have access to sensitive LINKLIB.
- All systems engineers can update and allocate access to CICS* Data-sets.
- Un-logged write and allocate access to FFS Data-sets are excessive.

Without these modifications the system is vulnerable to unnoticed and/or un-logged activities which could impact accurate financial reporting. The current security configuration leaves open the possibility of unauthorized access to certain sensitive utilities and data-sets without being detected. This also decreases management's ability to notice trends in unauthorized or anomalous activities within these sensitive areas.

Currently, the Library does not formally document its dial-in access authorization. With the absence of formal documentation for dial-up access authorizations, dial-in authentication, and periodic number changes the Library has a much weaker control environment due to the fact that

users with dial-up capability can by-pass normal system safeguards. This increases the risk of unauthorized access through a remote login process.

Security awareness seminars lack a training component.

The Library conducts quarterly computer security awareness seminars, but it lacks a training component. Polices and procedures are not in place for an ongoing computer security awareness and training program to ensure computer security awareness throughout the Library. It was also noted that employees and contractors were not required to sign a confidentiality agreement and/or non-disclosure form when needed. Without an on-going computer security awareness program employees might become desensitized to their computer security responsibilities.

Segregation of duties is not adequately addressed.

The ITS does not maintain a formal policies or procedures manual to address segregation of duties. We noted the following cases where a lack of segregation existed:

- Back up assignments sometimes result in the performance of incompatible functions where the Director of ITS is also in charge of Resources Management, and Systems Engineering.
- The UNIX platform Systems Engineering Group also performs the Security function within the group.
- There is not a separate group, independent of programmers and users, which is responsible for moving programs and data libraries on the UNIX platform.

With an inadequately segregated staff there is an increase in the risk that erroneous and/or fraudulent transactions could be processed, and that improper program changes could be implemented. It also provides for the possibility that computer resources could be damaged or destroyed.

Application software, system software and change controls are inadequate.

Policies or procedures do not exist within ITS to restrict the use of personal and public domain software. The Library lacks an entity wide policy on the use of such software, thus increasing the risk for infecting the system with unknown viruses as well as copyright violations. The use of non-approved software also contributes to a reduction of system resources. This may cause system failure and decrease the effectiveness of ITS if problems arise in relation to the software.

Within the MVS and UNIX platforms, there are no written standards to control programs as they progress through testing to final approval. The extent to which the program is tested is dependent on the program leader and other technical staff. Without proper controls over the progression through testing to final approval there is a risk that ITS may provide an inconsistent amount of testing. The lack of these procedures may result in inefficient or inadequate testing or introducing production programs that do not meet management's criteria.

There are no written policies or procedures for restricting access to system software on the MVS and UNIX platforms. The use and monitoring of system software also lacks a formal plan of policies and procedures. ITS relies heavily on the informal control activities in place for these sensitive functions. Without these formal guidelines it may be unclear what management's criteria is for restricting access to system software.

ITS does not maintain written policies or procedures on how an emergency change is to be controlled. Currently management utilizes a software which helps establish accountability for changes by reporting them after the fact for review and approval. Emergency changes often require broader authority for information technology staff than is normally required to perform their ongoing responsibilities. The use of the broader authority may cause changes that management has not authorized.

ITS does not maintain written policies or procedures on how an emergency change to system software is to be controlled. Currently, there is a reliance placed upon the skills of the present staff to use their experience and expertise to determine the ways to deal with emergencies. Over time, this leads to risks of key personnel dependency in the absence of formally documented procedures. Documentation of the emergency change may be inadequate as well as the reporting to management for analysis.

Currently, the Library does not have any documentation regarding its policies and procedures related to the management of the software utilized throughout the Library. Without established procedures, there is a risk that sensitive libraries may have software entered into them which does not meet management's criteria. There may not be an adequate audit trail of changes to establish accountability and to maintain previous software versions, if there is a need to retain the previous version.

A written System Development Life Cycle Methodology (SDLC) for ITS has not been implemented for the development groups. Currently, the Library follows informal practices which have evolved through experience. In addition, employees have not been formally trained in the use of SDLC. Without an SDLC, there are risks that projects may produce inconsistent quality of results, lack of user benefits, excessive development costs, inadequate documentation, and missed milestones. The quality of projects developed without a SDLC may vary greatly depending upon the experiences of the individual project leaders.

Recommendations:

We recommend that:

- the Library develop and implement policies and procedures that set standards by which certain sensitive utilities and data-sets will be protected and that security configurations are set to meet those policies and procedures.

- the Library develop and implement policies and procedures addressing remote access. Additionally, remote access authorization should be documented, dial-in authentication should be added, and dial-up telephone numbers should be changed periodically.

- the Library implement a comprehensive computer security awareness program that allows for periodic data security education and user declaration of their responsibilities with relation to data security.

- the Library coordinate with the Internal University which is primarily responsible for conducting Security Awareness and Training with ITS who has the expertise, and document what roles each department will serve and what resources are needed to meet the Library's guidelines and the Computer Security Act of 1987. Once this issue is resolved the responsible party should develop a training program that performs a comprehensive entity wide security training that meets the criteria of the Act and the mission of the Library.

- the Library redistribute responsibilities and adhere to the principles of segregation of duties. Management should reallocate responsibilities within ITS to remove this condition, while at the same time making efforts to acquire the staff needed to fill the number of vacant positions.

- management initiate the development of policies and procedures as a part of an ITS-wide initiative to provide guidance, standards and efficiency for new staff in the performance of their functions and responsibilities.

- the Library develop policies, procedures, and standards regarding the use of software. These policies should restrict the use of public domain and personal software and encompass all of the computer resources and employees at the Library to minimize the risks related to this issue.

- the Library and ITS management develop policies and procedures to control programs as they progress through testing to final approval. The policies and procedures should include the test plan standards, preparation and approval of system specifications, documentation of software changes, documentation and approval of test plans, review, documentation, and approval of test results, and criteria for moving changed programs into production.

- the Library and ITS management develop policies and procedures to control emergency changes on the MVS and UNIX platforms. The procedures should include after the fact approval from operations, programming, and user management.

- the Library and ITS management develop policies and procedures which provide for the use of library management software to label and inventory programs on the MVS and UNIX platforms.

- the Library and ITS management develop a written System Development Life Cycle methodology.

- the Library and ITS management develop policies and procedures for controlling emergency systems software changes.

- the Library and ITS management develop policies and procedures for restricting access to systems software. These policies should be clearly communicated to the appropriate resources.

- the Library and ITS management develop policies and procedures for controlling and testing changes to system software.

3. WEAKNESSES EXIST IN CONTROLS OVER THE FINANCIAL REPORTING PROCESS

The Library completed many of the tasks designed to meet financial reporting objectives cited in the prior year during 1997 such as:

- Revising the policy regarding limited control reviews to stagger the reviews throughout the year rather than year end;
- Conducting certain training as to the performance of limited control reviews;
- Tailoring the limited control reviews by area;
- Performing certain reconciliation of major accounts on a timely basis.

However, some important tasks were not completed or fully implemented as follows:

- The Library did not perform limited control reviews for the fiscal year 1997. During 1997, the Library implemented a new internal control limited control review process as recommended by the prior independent auditors. The new process staggers the completion of internal control limited reviews throughout the year (in contrast to all reviews completed at the same time) and provides training and questionnaires that are tailored to the specific needs of financial managers. As indicated, no actual reviews took place for 1997. Also, the Inspector General has not performed detailed financial management system evaluations to identify weaknesses and develop corrective action plans.

- Certain accounts were not reviewed or reconciled on a timely basis. Some key areas where enhanced reconciliation procedures are necessary are FEDLINK, property and equipment and net position related accounts. Financial Statement Directive (FSD) 96-8 requires regular reconciliation of subledger accounts and balances in a timely manner.

Recommendations:

We recommend the following:

- the Library fully implement procedures for performance of limited control reviews as currently documented as soon as possible. This is a critical procedure in the design of the control environment of the Library that assists management in evaluating whether internal controls are designed to work efficiently and effectively to accomplish control objectives.

- Financial Services continue to work on fully implementing timely reconciliations of all accounts, review for reasonableness and work with and train financial managers in other areas on the need for timely reconciliations to promote accurate financial reporting and provide for adequate internal controls.

4. THE LIBRARY LACKS A BUSINESS CONTINUITY PLAN

The Library does not have a current business continuity plan. There are no policies and procedures in place to identify and prioritize critical data and/or operations in the event a recovery or interruption occurs. The Library does not have a formalized disaster recovery plan. Without a plan detailing all aspects of the procedures utilized during and after a disaster the Library places itself at risk of extensive down time. Currently, the Library does not have an alternative data processing facility, neither a hot or cold processing site. It is also noted that the staff within the Data Center has not had any formal training on emergency procedures and that there are no hand-held fire extinguishers installed within the Data Center.

The Library may lose the capability to process, retrieve, and protect information maintained electronically. This could have a significant impact on their ability to accomplish their mission.

Recommendations:

- We recommend that various departments within the Library develop contingency plans, test them annually, and establish the administrative and operational procedures for supporting them. These plans should set forth the procedures and facilities to be used when data center failures, natural disasters, or major equipment malfunctions occur sufficient to disrupt the normal use of the Library's PC's, LANs, servers, routers, printers, and other equipment. The recognition of critical data, operations, resources, and emergency procedures is a key process which should involve management and staff.

- We also recommend that the Library develop a formal Disaster Recovery Plan. This plan should outline the steps to be taken in the event of a disaster and identify who should be contacted. When completing this plan management should identify a location for which processing will resume in the event of a disaster.

5. YEAR 2000 COMPLIANT SOFTWARE FOR FINANCIAL SYSTEMS HAVE 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. Additionally, the Library has not developed formal written policies and procedures for managing the Year 2000 project. The Library also lacks a system of tracking costs related to the Year 2000 issue.

Recommendation:

We recommend the following:

- the Library continue evaluating each of its financial systems and subsystems so that key systems that must be Year 2000 compliant can be identified and updated as soon as possible. The addition of a new account coding system would help track costs related to Y2K projects and offer some information on projected budget overruns and expenses vs. capitalized costs related to Year 2000. We understand that the general ledger will be updated during fiscal year 1998.

- the Library formally document policies and procedures for system development and program management to assist them in their Year 2000 efforts.

6. THE LIBRARY'S INSPECTOR GENERAL (IG) OVERSIGHT FUNCTION IS LIMITED

The independence of the IG office and their role in the Library's overall internal control environment appears to be limited based upon the fact that management (Librarian or Deputy) must approve, and in some cases determine, the work to be performed by the office. Additionally, the Inspector General's office is limited due to the lack of legislative and budgetary authority.

We also reviewed the role of the Library's IG office and the internal audit function that it serves during our evaluation of the internal control environment of the Library. We considered the Library's overall process of establishing, evaluating, testing and reporting on internal control policies and procedures within the organization. We noted that one individual responsible for establishing accounting and internal control procedures within the organization and recording transactions in accordance with such procedures also has the responsibility of testing the effectiveness of the procedures and producing a report for the Librarian in this regard. During this testing and reporting phase, the IG office has minimal involvement.

We have noted that the Librarian fully supports the concept of an independent IG's office with statutory authority. In April of 1997, the Library initiated draft legislation for a statutory Inspector General's Office, modeled after the Government Printing Office. This draft legislation would provide a separate appropriation to the IG and require the IG to report semi-annually to Congress. It is noted that Congress has not enacted this legislation as of mid March 1998.

Recommendation:

We recommend the following:

- the Library re-evaluate its internal control and accounting environment and design an environment that provides for adequate segregation of duties in the areas of establishing, evaluating, testing and reporting on internal control and accounting policies and procedures within the organization.

- 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.

APPENDIX B
MATTERS OF NONCOMPLIANCE WITH LAWS AND REGULATIONS

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

GAO found that the Library continued to use certain revolving gift funds in a manner which exceeded its statutory authority under 2 U.S.C. 160 to accept "gifts or bequests of money for immediate disbursements in the interest of the Library, its collections, or its services" (*Library of Congress Revolving Trust Funds*, FGMS-80-76, September 24, 1980; *Financial Audit: First Audit of the Library of Congress Discloses Significant Problems*, GAO/AFMD-91-13, August 22, 1991). In fiscal year 1988, the Library operated 12 revolving funds to finance a number of activities, with revenue ranging from $940 to almost $3.7 million per fund. Gifts which donors designated to be used for self-sustaining activities, created these funds. These revolving funds are now many times larger than their original size. The independent accountants' report on both the 1995 and 1996 financial statements noted that the condition continued to exist.

We also noted the existence of this condition during our fiscal year 1997 audit work. We identified 11 revolving funds, none with specific congressional authorization and ten with fund balances in excess of the original gift. One fund had revenues of $5.8 million.

The Library is granted statutory authority under 2 U.S.C. 160 to "accept gifts or bequests of money for immediate disbursement in the interest of the Library, its collections, or its services." However, the GAO report concluded that the authority granted under 2 U.S.C. section 160 does not give the Library 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:

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

APPENDIX C
STATUS OF PRIOR YEAR FINDINGS

COMPUTER SECURITY
SECURITY PRACTICES OVER INFORMATION TECHNOLOGY SYSTEMS ARE INADEQUATE.

Recommendations made in 1996	Actions Completed / Further Action Needed
1. The Library implement Data Center Access Controls that restrict Data Center Access to Authorized Staff. Visitor logs should be used to document all other authorized access, including time and purpose of the visit.	Action Completed: The Library has implemented Data Center Access controls that restrict Data Center access to authorized staff. Visitor logs are now used to document all other authorized access, including time and purpose of visit. No further action 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, minicomputer, local area network, and data communications).	Action Completed: The Library has implemented a number of individual security plans within ITS and CRS. Further Action Needed: Further refinement is needed. See current year Appendix A comments.
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.	Actions Completed: The number of users with this access has been reduced. Further Action Needed: Further refinement is needed. See current year Appendix A comments.
4. The Library develop, document, and implement policies and procedures for the use of ACF 2 privileges to ensure that privilege use is warranted, monitored, and reviewed by appropriate management.	Actions Completed: The number of users with this access has been reduced. Further Action Needed: Further refinement is needed. See current year Appendix A comments.

5. The Library develop, document, and implement comprehensive policies and procedures requiring Human Resources to inform Data Security personnel of all terminated employees of their termination before their termination date. We also recommend that information concerning vendors and internally relocated employees be forwarded to Data Security personnel before termination or relocation date.	Action Completed: 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. No further action needed
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.	Action Completed: Current policies and procedures exist that allows the Data Security Office to review changes made to access privileges with management approval. No further action needed

FINANCIAL
WEAKNESSES IN CONTROLS OVER THE FINANCIAL REPORTING PROCESS.

Recommendations made in 1996	Actions Completed / Further Action Needed
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 also working with the FEDLINK financial director to design an enhanced report to aid them in their reconciliation process. Regular and timely review of the reconciliation 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.	Action Completed: FSD has assigned employees to assist the program systems with their reconciliations with continuous follow-up with the service units. Further Action Needed: Further refinement is needed. See current year Appendix A comments.

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 be lacking. Grouping attendees by the type of transactions they process (i.e., deposits or receipts, procurement, payroll, and property and equipment) would allow the classes to be more tailored to the audience and attendees would then receive information most relevant to their duties.	Action Completed: FSD has revised the Limited Control Review methodology to be more of a "how-to" approach. Further Action Needed: Further refinement is needed. See current year Appendix A comments.
3. Tailor the Limited Review internal 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.	Action Completed: The Limited Control Reviews/Questionnaires were revised in FY 1997. No further action needed
4. Coordinate with the IG's office as to the timing and extent of their planned audits of selected Limited Control Reviews in 1997. 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.	Action Completed: The Library did not perform limited control reviews in FY 1997. Further Action Needed: Further refinement is needed. See current year Appendix A comments.
5. Revise the timing for conducting some of the 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.	Action Completed: No revised Limited Control Reviews were conducted in FY 1997. However, a detailed schedule staggering the reviews was implemented for the FY 98 reviews. Further Action Needed: Further refinement is needed. See current year Appendix A comments.
6. Delay implementing the planned activity-based costing project until full staffing of key positions is achieved.	Action Taken: The Library has filled the position of Budget Officer, Operations Officer, and the Systems Accountant. Further Action Needed: The Library needs to fill the key position of Reports and Controls Officer.

LIBRARY RECORDS FOR CAPITALIZED NON-BULK PROPERTY AND EQUIPMENT ARE NOT ACCURATE AND COMPLETE

Recommendations made in 1996	Actions Completed / Further Action Needed
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.	Action Completed: C&L has reviewed IBCFACS database for errors and made corrections. While C&L has taken this step they still rely on service units to assist in proper asset valuation. Further Action Needed: C&L still needs to strengthen its procedures for reviewing information entered into the IBCFACs database. See current year Appendix A comments.
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 if the resource 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 generic terms that clearly describe the asset being purchased.	Action Completed: C&L has procedures in place to review data entry. Further Action Needed: C&L still need to strengthen its review procedures because errors can still be found. See current year Appendix A comments.
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 services units must notify C&L but is not specific as to haw or when the other units should provide notification. Until compliance with FSD 96-7 becomes commonplace within the Library, we recommend C&L send 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.	Acton Completed: C&L issued a memorandum to all Library service units and offices requesting for personnel to be assigned to act as "Property Liaisons" to enhance communication between their unit and C&L. Further Action Needed: These procedures need to be strengthened because additional errors were found during our review of FY 1997. Additional training of Property Liaison staff would help decrease the errors. See current year Appendix A comments.
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.	Action Completed: Contracting Officers have started to analyze purchase requests. No further action needed

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 donated assets were not located in any of those areas.	Action Complete: A comprehensive physical inventory was taken during FY 1997. No further action needed.
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 revised its policies retroactively for consistency.	Action Completed: A study of useful lives for certain classes of property was conducted in June. No action was taken to adjust FY 1997 figures. Further Action Needed: The Library needs to implement a new useful life policy. See current year Appendix A comments.
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 the future lease payments for comparison to the assets 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.	Action Completed: C&L has adopted the use of "T-Value" software which helps determine actual costs & interest expense for leases. Further Action Needed: The Library still needs to determine how "lease vs. buy" decisions are to be utilized on capital leases.
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	Action Completed: No action has taken place during FY 1997. Further Action Needed: FSD needs to implement a package that will calculate and track depreciation. See current year Appendix A comments.

IBCFACS system could still function as a property control system for all assets over the safeguard threshold, which is currently $300.	

SAFEGUARD CONTROLS FOR PROPERTY AND EQUIPMENT ARE NOT ADEQUATE

Recommendations made in 1996	Actions Completed / Further Action Needed
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 acquisition, 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.	Action Completed: C&L issued a memorandum to all Library service units and offices requesting for personnel to be assigned to act as "Property Liaisons" to enhance communication between their unit and C&L. Further Action Needed: These procedures need to be strengthened because additional errors were found during our review of FY 1997. Additional training of Property Liaison staff would help decrease the errors. See current year Appendix A comments.
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.	Action Completed: Effective June 1,1997, the Library has increased the threshold for bar coding and the tracking of assets from $300 to $500. No further action needed.

Recommendations for National Library Service for The Blind and Physically Handicapped	
1. We recommend that NLS consider merging the report 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 of machine-lending agency (MLA) of all machines in the custody 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.	Action Completed: No action has been taken for FY 1997. Further Action Needed: NLS should implement a playback tacking system that encompasses both of the current systems used. See current year Appendix A comments.
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 monthly reports from the lending agencies, it should compare the total s 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.	Action Completed: No action has been taken for FY 1997. Further Action Needed: The Library should establish an acceptable range of "location unknown" playback machines. See current year Appendix A comments.
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.	Action Completed: No action has been taken for FY 1997. Further Action Needed: The Library should implement policies and procedures to insure that the work performed by the independent contractors is correct and accurate. See current year Appendix A comments.

WEAKNESSES EXIST IN THE FINANCIAL REPORTING SYSTEM APPLICATIONS CONTROLS

Recommendations made in 1996	Actions Completed/Further Actions Needed.
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.	Action Completed: The procedures for override security report were changed in February to require documentation that supports review of the override transactions. No further action needed.

THE LIBRARY LACKS A BUSINESS CONTINUITY PLAN

Recommendations made in 1996	Actions Completed/Further Actions Needed.
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.	Action Completed: No action has been taken for FY 1997. Further Action Needed: The Library should prepare and implement a comprehensive business continuity plan. See current year Appendix A comments.

YEAR 2000 COMPLIANT SOFTWARE FOR FINANCIAL SYSTEMS HAVE NOT BEEN IMPLEMENTED

Recommendations made in 1996	Actions Completed/Further Actions Needed.
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.	Action Completed: The Library has begun to review the impact of Y2K. Further Action Needed: Further refinement is necessary. See current year Appendix A comments.

THE LIBRARY'S INSPECTOR GENERAL OVERSIGHT FUNCTION IS LIMITED

Recommendations made in 1996	Actions Completed/Further Actions Needed.
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.	Action Completed. Draft legislation was submitted to Congress. Further Action Needed: Further refinement and follow-up is necessary. See current year Appendix A comments.

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

Recommendations made in 1996	Actions Completed/Further Actions Needed.
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.	Action Completed: No action has been taken for FY 1997. Further Action Needed: The Library needs to seek statutory authority to operate gift revolving funds. See current year Appendix B comments.

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

Recommendations made in 1996	Actions Completed/Further Actions Needed.
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. 330(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.	Action Completed: Indirect money costs are not being used. The Library has received specific legislation in the Legislative Appropriations Act of 1998, authorizing the moneys in the revolving fund to be available without fiscal year limitations. No further action required.
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.	Action Completed: No action has been taken for FY 1997. No further action required.

NO COMPREHENSIVE COLLECTION SECURITY PLAN OR FORMAL RISK ASSESSMENT

Recommendations made in 1996	Actions Completed/Further Actions Needed.
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 time frames under which each milestone is expected to be accomplished.	Action Completed: Library Services developed and submitted to the Executive Committee for approval a strategy for short term and long term implementation for the multi-year risk assessment. Further Action Needed. Additional refinement is necessary. See our report on Management's Assertion About the Effectiveness of Internal Controls over Safeguarding Collection Assets.

	Safeguarding Collection Assets.
2. We recommend the Library Service 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 Service Directorate who will play a significant role in the 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.	Action Completed: Library Services developed and submitted to the Executive Committee for approval a strategy for short term and long term implementation for the multi-year risk assessment. Further Action Needed: Additional refinement is necessary. See our report on Management's Assertion About the Effectiveness of Internal Controls over Safeguarding Collection Assets.
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 or 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 degree 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. • Consider the role of the AOC and what limitations the Library may have with regard to physical security in areas where AOC has responsibility.	Action Completed: Library Services developed and submitted to the Executive Committee for approval a strategy for short term and long term implementation for the multi-year risk assessment. Further Action Needed: Additional refinement is necessary. See our report on Management's Assertion About the Effectiveness of Internal Controls over Safeguarding Collection Assets.
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.	Action Completed: Library Services developed and submitted to the Executive Committee for approval a strategy for short term and long term implementation for the multi-year risk assessment.

• 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.	Further Action Needed: Additional refinement is necessary. See our report on Management's Assertion About the Effectiveness of Internal Controls over Safeguarding Collection Assets.

WEAK CONTROL ENVIRONMENT AND INCOMPLETE CONTROL ACTIVITIES

Recommendations made in 1996	Actions Completed/Further Actions Needed.
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 known.	Actions Completed: The Library has made strides to continue to improve the security of collections in all four life cycles(storage, processing, transit and use) The Library developed a Library Security Plan. Security at points of entry for materials are being addressed(i.e. the Copyright Office is being provided with book theft protection devices and a pilot program is under way to improve the security for compact discs(CD) without damaging the CD. Staff awareness continues to improve through the inclusion of security in the position descriptions and performance plans. Further Action Needed: Improvements are still needed in the overall physical security of all assets. See our report on Management's Assertion About the Effectiveness of Internal Controls over Safeguarding Collection Assets.
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	Actions Completed: No action has been taken in FY 1997. Further Action Needed: The Library needs to implement

party accepting the transfer or delivery.	policies and procedures to better secure the transfer of documentation. See our report on Management's Assertion About the Effectiveness of Internal Controls over Safeguarding Collection Assets.
3. **Item Level Security** - We recommend that policies be formulated documenting what item level security will be implemented for different categories of assets.	Action Completed: The Library has made strides to continue to improve the security of collections in all four life cycles(storage, processing, transit and use) The Library developed a Library Security Plan. Security at points of entry for materials are being addressed(i.e. the Copyright Office is being provided with book theft protection devices and a pilot program is under way to improve the security for compact discs (CD) without damaging the CD. Staff awareness continues to improve through the inclusion of security in the position descriptions and performance plans. Further Action Needed: Additional polices need to be documented on the level of security related to the different categories of assets. See our report on Management's Assertion About the Effectiveness of Internal Controls over Safeguarding Collection Assets.
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.	Action completed: The Library issued a 296-page Request for Proposal on July 7, 1997 to acquire an Integrated Library System. Further Action Needed: The Library needs to follow-up on this RFP and sign a contract to provide this system.
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 preservations risks.	Action Completed: This risk was considered when risk assessment was done. Further Action Needed: This risk needs to be considered as future risk assessments are completed.

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.	Action Completed: The use of surrogates was considered when risk assessment was done. Further Action Needed: This risk needs to be considered as future risk assessments are completed.

LACK OF EFFECTIVE MANAGEMENT INFORMATION AND MONITORING

Recommendations made in 1996	Actions Completed/Further Actions Needed.
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.	Action Completed: No action has taken place during 1997. Further Action Needed: The Library should integrate the performance plan process with the collections risk assessment. Once major controls have been identified, each division should develop measurable tasks to be performed to assure those controls are functioning. See our report on Management's Assertion About the Effectiveness of Internal Controls over Safeguarding Collection Assets.

Report of Independent Auditors 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, 1997.

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.

- 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.

- 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 de-acidification storage, audio presentation, 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.

- 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 it should be included in the Library's assertion if it results in either:

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

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

Opinion on Management's Assertion

The Library 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, 1997. 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 1996.

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, 1997, is fairly stated based upon the criteria described above.

Clifton Gunderson L.L.C.

March 27, 1998
Greenbelt, Maryland

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

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

The Library's security plan has not yet been fully developed and a comprehensive risk assessment has not been performed to identify the significant risks to the collections, the proposed or established control activities to mitigate the risks, the policies and procedures necessary to implement the necessary controls, the required management information needed to carry out its responsibilities, and the methods by which management will monitor the effectiveness of the established control procedures.

Since the security plan must be used in conjunction with the parallel risk assessments which purpose is to identify risk mitigating opportunities within the Library's bibliographic, inventory and preservation control environments, the Library will be unable to fully implement its comprehensive collections security plan and the Library will not be able to address the vulnerabilities associated with the safeguarding of the collections, until the comprehensive risk assessment is completed.

The Library has taken a number of recent initiatives to address prior findings related to collections security that will provide it the basis for implementing its security plan and for conducting a formal library-wide risk assessment. Among these are:

- In February 1997 the Library appointed a Director of Security and established the Office of Security Directorate to centralize the authority and responsibility of the Library's Security structure;

- Established the Collections Security Oversight Committee (CSOC) which is comprised of senior librarians and managers representing the Library's diverse curatorial and processing divisions;

- The Rare Book and Special Collections Division commenced an inventory of its holdings, beginning with the initial core of the Library's original collection, The Thomas Jefferson Collection;

- A threat profile was developed that identifies three levels of sophistication to the threat of theft and mutilation to the collections;

- A comprehensive planning framework for the Library's Security plan was developed that prioritized the Collections along a five-tiered risk continuum. The prioritization matrix depicts five differentiated levels of risk offering reasonable assurance that security controls will be successful in deterring threats. Generic minimal security standards for the five tiers of

collections are captured in a grid integrated across the collections' four life cycles;

- The Library conducted a validation of the prioritization matrix in which 9 divisions and the Law Library participated. This initial validation highlighted unmet security requirements across the collections' four life cycles. In addition, two formal risk assessments were conducted that documented the detailed processes affecting the controls within the Geography and Map Division and the Copyright Office;

- The Library issued a draft security plan that focuses on the physical security and procedural standards and requirements for protecting the collections. The plan encompasses protection of the Library's facilities, personnel, and other assets, and key elements include building security improvements, establishing a comprehensive security training and awareness program and establishing a process to evaluate the security program.

The Library's security plan calls for three sets of actions that must occur prior to full implementation as follows:

1) Perform a library-wide risk assessment to identify risk mitigating opportunities within the bibliographic, inventory, and preservation control environments.
2) Conduct the surveys called for in the collections prioritization matrix grids.
3) Implement a Library-wide communications and awareness program on issues related to security awareness.

The combination of the physical security minimal standard established in the security plan with the mitigating opportunities identified as a result of the risk assessments will provide the Library with the capability of assessing the effectiveness of the control measure across the complete spectrum of collections security concerns. When the surveys are completed the Library will be able to complete its scheme of minimal standards with respect to such issues as the feasibility of marking selected Treasures, analysis of loading dock operations, presence of security guards in specific reading rooms and coverage of silver, bronze and copper collections while in process.

While the security plan calls for the integration of the risk assessment process, the planned actions do not adequately address when risk assessments will be performed or which locations will be included in the risk assessment. The Library planned to perform four risk assessments during fiscal year 1998, but as of March 1998, none of these assessments have been performed. Currently, only two risk assessments are planned; one of which is funded and funding for the second has yet to be made available. Management has not made performing the risk assessments a priority by deciding to use funds that were available for two of the risk assessments for other purposes. The Library's fiscal 1999 budget calls for the performance of eleven risk assessments.

Recommendations:

We recommend the Library take action to fully develop its security plan and perform the Library-wide risk assessment. The Library's draft security plan focuses on the physical security and procedural standards and requirements for protecting the collections. Several areas addressed by the security plan remain undeveloped. We recommend the Library take the necessary actions to

develop and implement the programs that are essential to the full implementation of the security plan. Specifically, the Library should:

- Develop a comprehensive security training and awareness program for Library employees that should have one central point of contact to serve as its program manager;

- Establish a formal oversight program providing continuous evaluation of the various safeguards, systems and procedures intended to protect the Library collections, facilities and personnel. The Director of Security, in coordination with the Office of Inspector General should develop a proposal for establishing a formal security oversight and evaluation program;

- Determine who has ultimate authority over Library facility access control, automated access and intrusion detection systems. The Director of Security should assess current policies, regulations, and procedures relating to the administration and operations of the security program, including the revision of relevant documents and distribution of such; as well as the establishment of a schedule for periodic review of security regulations and operating procedures;

- Staff police operations adequately and adopt a standardized approach to training by providing for a full time police training officer. Additional equipment and the consolidation of the two communication centers currently used will enable the Library of Congress police to more effectively carry out its mission;

- Ensure that all baseline physical security standards are met. While major strides have been made in terms of physical security, not all baseline standards have been met, including perimeter security, entry security, interior security, and security planning.

We recommend the Library complete the surveys called for in the collections prioritization matrix grids, and perform a library-wide risk assessment to identify risk mitigating opportunities within the bibliographic, inventory, and preservation control environments. We also recommend that the risk assessments take into consideration the following items:

- 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;

- 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: 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, the contractor security review conducted from October 1995 through June 1996, and information gathered during the two risk assessments already performed in the Map and Geography Division and the Copyright Office. 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 and during analysis of proposals submitted to date.

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

The Library's control environment has not been conducive to effective security over the collections. Securing the collections has traditionally been less important than being able to serve them to the public. Weaknesses in controls over storage areas offer temptations to employees who have access to valuable items.

In its assertion, management describes a number of significant weaknesses in bibliographic controls, inventory controls, preservation controls, and physical security controls over collections assets as of September 30, 1997. Management also describes initiatives the Library has undertaken since September 30, 1996 to remedy some of these weaknesses.

The Library has implemented many physical security measures, including the installation of extensive high technology physical and electronic security measures, key and lock controls, installation of closed circuit surveillance and intrusion detection systems, and access control measures for area housing collections, installation of x-ray machines and metal detectors at key entrances and exits, and insertions of theft detection targets, and the expansion of security measures in reading rooms. Although the Library has made progress in physical security, it appears as though security awareness has not improved significantly. Many of the observations we made are the same as those reported in prior audit reports, particularly with respect to access controls within the work areas of the Capitol Hill facilities. Simple measures such as keeping doors shut in areas where materials are located and stored are not routinely followed. Our observations identified inconsistencies in levels of security in reading rooms, work areas where collections are processed, and among collection items in transit within the Library's Capital Hill facility and in transit to the Landover facility. 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 observed that some reading rooms are fully equipped with security guards, 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. We observed open doors to areas that stored material off limits to the public and access doors to stack areas that were unlocked. Library staff did not readily challenge unknown personnel. Many work areas where collections are in-process did not take minimum security measures. Our observations included the following:

- Observations of the Main reading room and stack areas noted that lockers were not used, doors to three alcoves storing materials off limits to the public were either left open or propped open and not monitored. The door to Deck 32 was unlocked allowing access to the secure stack area doors. Once inside the deck stairway all movements go undetected;

- Materials stored in the Serial Record Division's "secure" room were not recorded on any type of inventory, that would at minimum include the title, item description, quantity, or other information such as where the item came from or where it was going;

- Materials stored in the Anglo-American Acquisitions Division's mail room were parked in bins, stacked on shelves and along the walls. The doors to the mail room were propped open and accessible by any individual;

- Materials received by the Arts and Sciences Cataloging Division arrive without transfer documentation listing the items received, and some materials are not yet marked as Library property. This makes it difficult to track and provide accountability for the material as it is processed into the Library. Although access to the fifth floor where the Division is located is restricted, the entry and exit doors to the division were propped open during working hours making the material stored by the entry and exit ways more accessible to theft or misappropriation;

- Responsibilities for keys to secure rooms and vaults located in the Anglo-American Division and the Special Materials Cataloging Division are not assigned or monitored. Neither Division utilizes key logs or sign-in and sign-out logs to record materials entering and leaving the vault area;

- Vault areas were used to store materials other than rare and valuable materials;

- The Landover facility had no tracking procedures for materials bound for the Library's Capitol Hill 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. The Landover facility continues to allow Library employees to exit the building without proper searching for Library material;

- Rare collections assets stored at the Landover facility were not adequately protected. Broken and deteriorating storage containers were in continued use. We observed rare books stored in cardboard containers were exposed to severe conditions, and in some instances were falling out of the storage containers;

- Items that enter the Library through the Madison 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. Architect of the Capitol staff and police officers were allowed to exit the Madison Loading dock without inspection for Library materials.

The Library maintains two manual shelf lists, housing millions of cards where important bibliographic and inventory data is maintained. These systems are not currently integrated and require significant man hours to maintain. Implementation planning for the Library's Integrated Library System (ILS) began in 1997. The ILS will provide for integration of many separate Library functions into one system and will provide on-line inventory control for individual items but does not provide for the conversion of information contained in the Library's manual shelf

lists and serials visible file. Additionally, implementation of the ILS will have a significant impact on arrearage reductions, further impacting bibliographic controls.

Recommendations:

We recommend integration of the Library's overall physical security plan, 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.

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. We recommend that polices be formulated documenting what item level security will be implemented for different categories of assets.

We support the need for the Library to acquire an Integrated Library System, 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. We recommend the Library develop a plan for converting the manual shelf lists so that this information may be merged into the ILS.

We recommend that 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 long term preservation risks.

3. THE LIBRARY LACKS EFFECTIVE MANAGEMENT INFORMATION FOR 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. We noted that not all the performance plans we reviewed contained collections security as an objective. Until the risk assessments are performed it will not be known what tasks personnel should be performing or how performance will be measured.

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 24, 1998

Dear Mr. Oliver:

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 1997. The audit report makes 45 recommendations, and the Library concurs with 38 and partially concurs with seven. The enclosure presents a detailed response to the recommendations in the draft.

I am pleased that the audit report reflects the Library's continued progress in ensuring accountability of our resources. For the second consecutive year, the Library has received an **unqualified audit opinion** on the consolidated financial statements. The audit report listed **no material internal control weaknesses**, and the number of reportable conditions decreased from seven to six.

The report recommends that the Library take steps to end noncompliance with laws and regulations concerning the operation of gift revolving funds. This is a long-standing condition, and the Library is continuing its efforts to secure better authorization for the operation of gift revolving funds by seeking appropriate legislation.

Finally, the audit report documents the progress being made to improve the safeguarding of our collections. A centralized security organization was established during fiscal 1997, and the Library's first Director of Security was appointed. A comprehensive Library Security Plan was also completed.

We recognize that while substantial progress has been made there is still much work to be done. We look forward to the challenge and to working cooperatively with your firm and the Congress in continuing to improve the accountability of the Library's resources. Please accept my appreciation and thanks for a professional audit report.

Sincerely,

Donald L. Scott
Deputy Librarian of Congress

Mr. William H. Oliver
Director of Federal Government Services
Clifton Gunderson L.L.C.
7833 Walker Drive, Suite 440
Greenbelt, Maryland 20770

Enclosure

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APPENDIX A
REPORTABLE CONDITIONS

1. LIBRARY RECORDS FOR CAPITALIZED PROPERTY AND EQUIPMENT ARE NOT ACCURATE OR COMPLETE AND SAFEGUARDING CONTROLS FOR NATIONAL LIBRARY SERVICE FOR THE BLIND AND PHYSICALLY HANDICAPPED ARE NOT ADEQUATE.

In order to facilitate maintaining accurate property and equipment listings, we recommend that the Library take the following actions:	***LC Response**	**LC Action**	**LC Plans**
1. Contracts and Logistics perform quarterly property reconciliations as required by FSD 96-7 in order to allow C&L to post the capitalized property subledger to the general ledger. It is noted that FSD 97-7 has superseded FSD 96-7 but the quarterly reporting requirement has not changed.	Concur	C&L will comply with the recommendation and FSD Directive 97-7. C&L/Logistics is currently finishing reconciliation analysis of fiscal 1998 first quarter payment records provided by FSD. Second quarter general ledger expenditure reports from FSD are due to C&L shortly for reconciliation. Reports on the reconciliations of these records will be sent to FSD within the guidelines specified by FSD Directive 97-7.	C&L will perform quarterly reconciliations of the payment ledgers against the IBCFACS sub-ledger with reports being sent to FSD as detailed in FSD Directive 97-7.
2. C&L strengthen it's policies and procedures for reviewing information entered into the IBCFACS subledger, including the review of data by a non data entry employee.	Concur	C&L has already taken action on this recommendation in fiscal 1997 by having the supervisors review and approve information that has been entered into the IBCFACS sub-ledger.	Continue activities cited in "LC Action".

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

In order to facilitate maintaining accurate property and equipment listings, we recommend that the Library take the following actions:	*LC Response	LC Action	LC Plans
3. Develop a formal policy or procedure to be put in place that enables the posting employee at C&L to contact the technical representatives from the service unit should a question arise about the capitalization or expense of items purchased. Also that training be provided to those individuals that post these transactions so that they may better identify what should be capitalized or expenses.	Concur	During fiscal 1998, C&L/Logistics has requested service units to assign "property liaisons" to represent their units, offices or divisions with C&L on property control issues. Training was held for 54 staff and during the remainder of fiscal 1998, Logistic's inventory staff will be working with property liaisons to refine inventory reports on capitalized assets.	C&L will provide service unit staff requisitioning PP&E with instructions on how technical assets should be requisitioned on purchase order documents. In addition, C&L will work with service units property liaison staff to identify technical items appropriately on the IBCFACS sub-ledger, will provide guidance to C&L procurement and contracting staff on how technical assets should be requisitioned on purchase orders and will provide in-house training to inventory specialists in FASAB and GAO directives and guidelines regarding capitalization or expense of PP&E.
4. C&L establish procedures for following up on invoices of assets that have not been received for a considerable period of time, to ensure that all costs related to the assets have been recorded on the subsidiary ledger properly	Concur	In fiscal 1997 and 1998, C&L/Logistics began issuing written follow-ups with FSD voucher examiners to obtain completed invoice payment data.	C&L will work with FSD staff to develop written invoice close-out procedures for capitalized assets.

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

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In order to facilitate maintaining accurate property and equipment listings, we recommend that the Library take the following actions:	***LC Response**	**LC Action**	**LC Plans**
5.The Library appoint a staff person at the directorate level to be held accountable for the implementing of Section 3.31 of FSD 96-7 so that all acquisitions, dispositions, and transfers of property are managed at the local level.	Partially concur	Property liasons have been established to handle property issues at the local level.	None.
6.All assets acquired through the use of a trade-in be reviewed and approved by a qualified personnel within C&L.	Concur	Logistics Inventory Management staff are now working with Procurement staff to provide copies of asset records for assets that may be traded-in on newer assets. As part of this process, present values of these assets are reviewed and are used to negotiate trade-in values. If the Procurement staff can not negotiate trade-in values close to the present value of the asset, then the older asset is kept and made available to other offices and divisions.	C&L will develop written procedures for evaluating and processing trade-ins of assets, will designate inventory specialists to assist the procurement specialists in reviewing trade-ins requested on purchase requisitions and obtain supervisory approval for trade-ins of assets.

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

In order to facilitate maintaining accurate property and equipment listings, we recommend that the Library take the following actions:	*LC Response	LC Action	LC Plans
7. NLS/BPH consider merging the reporting performed by the two separate playback machine tracking systems and begin to capture all data within the BPHICS system. NLS would need to ensure that BPHICS and MME contain data from the same time period since MMR has more historical information. The BPHICS system would need to be modified to capture the collective status by machine lending agency of all machines within their custody, as well as, acquisition information by serial number.	Concur	Implementation has begun in fiscal 1998.	None.
8. NLS/BPH establish an acceptable range for the independent contractor to compare totals for each machine model reported by each lending agency. If a MMR is submitted outside of that range there should be a formal policy or procedure established to ensure that these discrepancies are investigated and resolved.	Concur	NLS/BPH compares monthly data supplied by the machine lending agencies (MLA) with BPHICS data. If data is outside the acceptable range, NLS/BPH will work with the MLA to reconcile the difference.	None.

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

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In order to facilitate maintaining accurate property and equipment listings, we recommend that the Library take the following actions:	***LC Response**	**LC Action**	**LC Plans**
9. NLS/BPH implement policies and procedures to monitor both the input from the lending agencies and the output from the independent contractor on a regular basis, and document a plan for preforming machine lending agency audits. These audits should be scheduled on a five year basis due to the fact that these machines comprise over 70% of the Library's property and equipment.	Concur	Action planned.	Implementation will be initiated in fiscal 1998.
10. The Library re-evaluate its useful life policies for the capitalization of property and equipment and that they correct all existing assets retroactively.	Partially concur [1]	This items was a fiscal 1996 audit recommendation. After the fiscal 1996 audit was completed, C&L/Logistics conducted extensive reviews of asset useful life cycles. Actions were completed to update the majority of useful life cycles (example: computers were originally given a five year useful life, but all new computers are given a three year useful life). On October 1, 1997, a new useful life cycle was issued by the head of Logistics, to take effect for assets procured (or leased) in fiscal 1998. Additionally a procedure was written and implemented.	None, since actions to comply with the original audit recommendation are complete.

[1] C&L does not agree with the recommendation to "correct all existing assets retroactively". When this issue was addressed with the predecessor auditors, the guidance was given to not change depreciation schedules on existing assets.

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In order to facilitate maintaining accurate property and equipment listings, we recommend that the Library take the following actions:	***LC Response**	**LC Action**	**LC Plans**
11. The Library adhere to FSD-96-7 and SFFAS No. 6, *Accounting for Property, Plant and Equipment,* in recording leasehold improvements to multi-use Heritage assets and non Heritage assets. The Library should monitor current developments in accounting for property, plant, and equipment as issued by the FASAB throughout the year.	Concur	Seven LC staff who have some responsibility for PP&E are to attend the "Forum on Valuation and Other Selected Issues Relating to Property, Plant and Equipment", which will be held in April, 1998. This forum will provide better understanding of FASAB decisions, procedures and policies, so that they can be implemented at the Library.	C&L will develop written procedures to monitor and record leasehold improvements to multi-use Heritage assets and non Heritage assets, will obtain quarterly reports from the Facility Services Office on leasehold improvements made, so proper action can be taken to capitalize or expense the improvement on the general ledger and will obtain information on how to access FASAB or GAO procedures for proposed directives on PP&E and implement them accordingly at the Library.

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

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2. SECURITY PRACTICES OVER INFORMATION TECHNOLOGY SYSTEMS NEED TO BE IMPROVED.

We Recommend that:	*LC Response	LC Action	LC Plans
1.The Library develop and implement policies and procedures that set standards by which certain sensitive utilities and data-sets will be protected and that security configurations are set to meet those policies and procedures.	Concur	ITS has developed a position for a management and program analyst to work on planning documentation and also on policies and procedures. In addition, the Library has requested two positions for strategic, operational, and architectural planning in the FY99 budget (this will include some documentation of policies and procedures).	ITS plans to document recommended policies and procedures as resources allow.
2.The Library develop and implement policies and procedures addressing remote access. Additionally, remote access authorization should be documented, dial-in authentication should be added, and dial-up telephone numbers should be changed periodically.	Concur	ITS has and continues to work with the Chief of Staff to document policy and technical issues related to remote E-mail access. In addition, ITS has announced to service and support units its intentions to consolidate dial-in access as a first step to better secure that access.	ITS plans to draft a recommendation regarding the remote E-mail access for the Chief of Staff and to brief her on related policy and technical issues. Also, ITS plans to consolidate dial-in access as a first step to better secure E-mail access, institute periodic number and password changes to further secure dial-in access and document dial-in policies and procedures as resources allow.

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

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We Recommend that:	*LC Response	LC Action	LC Plans
3. The Library implement a comprehensive computer security awareness program that allows for periodic data security education and user declaration of their responsibilities with relation to data security.	Concur	ITS has briefed the Library's senior managers, with a Justice Department security expert, on the importance of security awareness training. Also, ITS helped to document Computer Security Awareness training responsibilities in the Library's LCR policy on computer security. ITS has met with service and support security representatives and offered to share information and training materials. Finally, ITS has provided speakers for brief security awareness training as part of new employee orientations and administrative management training.	ITS plans to offer to the Internal University (IU) all materials that have been gathered for security awareness training and plans to offer to "train the trainers" in the IU or service units to teach security awareness.
4.The Library coordinate with the Internal University which is primarily responsible for conducting Security Awareness and Training with ITS who has the expertise, and document what roles each department will serve and what resources are needed to meet the Library's guidelines and the Computer Security Act of 1987. Once this issue is resolved the responsible party should develop a training program that performs a comprehensive entity wide security training that meets the criteria of the Act and the mission of the Library.	Concur	See above.	See above.

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We Recommend that:	*LC Response	LC Action	LC Plans
5.The Library redistribute responsibilities and adhere to the principles of segregation of duties. Management should reallocate responsibilities within ITS to remove this condition, while at the same time making efforts to acquire the staff needed to fill the number of vacant positions.	Concur	ITS has filled the position of the Chief of the Systems Engineering Group and has added two positions to the System Engineering Group to work specifically on network and UNIX security issues.	Due to the relative newness and complexity of these systems and issues, and because of the inevitable limits on staff resources, the auditor's recommendations in regards to the segregation of duties of the security staff in the network and open systems can only be implemented as resources allow.
6.Management initiate the development of policies and procedures as a part of an ITS-wide initiative to provide guidance, standards and efficiency for new staff in the performance of their functions and responsibilities.	Concur	None.	ITS plans to document recommended policies and procedures as resources allow.
7. The Library develop policies, procedures, and standards regarding the use of software. These policies should restrict the use of public domain and personal software and encompass all of the computer resources and employees at the Library to minimize the risks related to this issue.	Concur	As part of the IG's upcoming audit of PC software, ITS has met with the IG to discuss the audit and LC's policy, has offered to assist the IG with technical help on software tools for gathering information and has begun an inventory of PC software licenses to be used in conjunction with the audit.	ITS plans to develop and distribute a policy in cooperation with the Deputy Librarian, IG, GC and the Copyright office.

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We Recommend that:	*LC Response	LC Action	LC Plans
8. The Library and ITS management develop policies and procedures to control programs as they progress through testing to final approval. The policies and procedures should include the test plan standards, preparation and approval of system specifications, documentation of software changes, documentation and approval of test plans, review, documenting, and approval of test results, and criteria for moving changed programs into production.	Concur	ITS has policies and procedures for mainframe software as it progresses through testing to final approval, has developed and documented basic procedures for developers on the UNIX platform and has implemented and automated asset management system that will be used to track the ILS system as it progresses through testing to final approval.	ITS plans to document recommended policies and procedures as resources allow.
9. The Library and ITS management develop policies and procedures to control emergency changes on the MVS and UNIX platforms. The procedures should include after the fact approval from operations, programming, and user management.	Concur	None.	ITS plans to document recommended policies and procedures as resources allow.
10. The Library and ITS management develop policies and procedures which provide for the use of library management software to label and inventory programs on the MVS and UNIX platforms.	Partially Concur [2]	None.	ITS plans to document recommended policies and procedures as resources allow.

[2] ITS is using an automated asset management tool to inventory all software systems, and will continue to evaluate tools for management of software in the UNIX environment. However, given current plans and directions, ITS will not make any significant investment in new mainframe tools or management software because that environment will be substantially reduced as implementation of programs like ILS and LIS proceed.

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We Recommend that:	*LC Response	LC Action	LC Plans
11. The Library and ITS management develop a written System Development Life Cycle methodology.	Concur	None.	ITS plans to document recommended policies and procedures as resources allow.
12. The Library and ITS management develop policies and procedures for controlling emergency systems software changes.	Concur	None.	ITS plans to document recommended policies and procedures as resources allow.
13. The Library and ITS management develop policies and procedures for restricting access to systems software. These policies should be clearly communicated to the appropriate resources.	Concur	ITS has greatly restricted access to systems software and will continue to evaluate further restrictions.	ITS plans to document recommended policies and procedures as resources allow.
14. The Library and ITS management develop policies and procedures for controlling and testing changes to system software.	Concur	None.	ITS plans to document recommended policies and procedures as resources allow.

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3. WEAKNESSES EXIST IN CONTROLS OVER THE FINANCIAL REPORTING PROCESS

We recommend the following:	*LC Response	LC Action	LC Plans
1. The Library fully implement procedures for performance of limited control reviews as currently documented as soon as possible. This is a critical procedure in the design of the control environment of the Library that assists management in evaluating whether internal controls are designed to work efficiently and effectively to accomplish control objectives.	Concur	Financial Services has issued Directive 97-8 which sets forth a schedule for conducting limited internal control reviews.	Financial Services plans to work with each program and subsidiary system financial manager to ensure limited internal control reviews are conducted in accordance with Directive 97-8.
2. Financial Services continue to work on fully implementing timely reconciliations of all accounts, review for reasonableness and work with and train financial managers in other areas on the need for timely reconciliations to promote accurate financial reporting and provide for adequate internal controls.	Concur	Financial Services is completing Treasury reconciliations in a timely manner and working with program and subsidiary financial managers to ensure timely and accurate completion of their reconciliations in accordance with Directive 97-6.	Financial Services plans to review accounts for reasonableness during fiscal 1998 and work with program and subsidiary financial managers to complete timely reconciliations and to improve internal controls.

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4. THE LIBRARY LACKS A BUSINESS CONTINUITY PLAN

Recommendations:	***LC Response**	**LC Action**	**LC Plans**
1.We recommend that various departments within the Library develop contingency plans, test them annually, and establish the administrative and operational procedures for supporting them. These plans should set forth the procedures and facilities to be used when data center failures, natural disasters, or major equipment malfunctions occur sufficient to disrupt the normal use of the Library's PC's, LAN's, servers, routers, printers, and other equipment. The recognition of critical data, operations, resources, and emergency procedures is a key process which should involve management and staff.	Concur	ITS has shared with the service and support units GAO's guidance on contingency planning as part of the Year 2000 planning activity.	ITS has requested funding to hire two additional employees to assist in the contingency planning as part of the Year 2000 planning activity.

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Recommendations:	*LC Response	LC Action	LC Plans
2.We also recommend that the Library develop a formal Disaster Recovery Plan. This plan should outline the steps to be taken in the event of a disaster and identify who should be contacted. When completing this plan management should identify a location for which processing will resume in the event of a disaster.	Concur	ITS has implemented off-site remote robotic storage devices in the House of Representatives' Ford Building to ensure backup and recovery capability for the Library's mainframe system and has been evaluating complex UNIX platform backup, archive and management systems. In addition, ITS prepared, and presented to the EC, a disaster recovery alternatives analysis and has requested funding in fiscal 1999 to continue disaster recovery planning and implementation.	ITS plans to implement off-site, remote robotic storage for the Library's UNIX systems in either the Senate Computer Center or an alternative site and plans to begin in-depth disaster recovery planning, including hot-site capability if funding is approved for fiscal 1999.

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5. YEAR 2000 COMPLIANT SOFTWARE FOR FINANCIAL SYSTEMS HAVE NOT BEEN IMPLEMENTED

We recommendation the following:	*LC Response	LC Action	LC Plans
1.The Library continue evaluating each of its financial systems and subsystems so that key systems that must be Year 2000 compliant can be identified and updated as soon as possible. The addition of a new account coding system would help track costs related to Y2K projects and offer some information on projected budget overruns and expenses vs. capitalized costs related to Year 2000. We understand that the general ledger will be updated during fiscal year 1998.	Partially Concur [3]	None.	The Library plans to evaluate project cost accounting requirements in FY99. The Library receives payroll services from NFC. The Library recognizes that the current system for employee time reporting (PCTARE) may not be suitable for capturing employee time by projects. The Library will either work with NFC to determine if the next release of PCTARE meets project cost accounting requirements or evaluate other alternatives.
2. The Library formally document policies and procedures for system development and program management to assist them in the Year 2000 efforts.	Partially Concur [4]	None.	ITS plans to document recommended policies and procedures as resources allow.

[3] Because the Library does not currently track project costs, we will not start tracking costs for this project. The Library does not want to disrupt this important project with new time keeping requirements.

[4] ITS is using an automated asset management system as part of its Year 2000 planning and implementation activities and following GAO guidance with respect to planning for Year 2000. It is unlikely that any significant effort will be devoted to documenting system development and program management specific to Year 2000 at this point in time, but rather as resources allow with future initiatives.

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6. THE LIBRARY'S INSPECTOR GENERAL (IG) OVERSIGHT FUNCTION IS LIMITED

We recommend the following:	*LC Response	LC Action	LC Plans
1. The Library re-evaluate its internal control and accounting environment and design an environment that provides for adequate segregation of duties in the area of establishing, evaluating, testing and reporting on internal control and accounting policies and procedures within the organization.	Concur	LCR 1510 and Financial Services Directive 97-8 sets forth the policies and procedures for maintaining and reviewing the Library's internal control environment.	The Library will re-evaluate existing policies and procedures to determine if further improvements would improve the internal control environment.
2. 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.	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.	CRO continues to work with oversight staff to resolve open issues. Congressional action on IG legislation for the Library is unlikely during the remainder of the 105th Congress.

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APPENDIX B
MATTERS OF NONCOMPLIANCE WITH LAWS AND REGULATIONS

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

Recommendation:	***LC Response**	**LC Action**	**LC Plans**
1.We recommend that the Library continue to seek specific statutory authority to operate gift revolving funds, in order to comply with 2 U.S.C. 160.	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 on redrafting the legislation.	The Librarian has asked the Senate Rules Committee to introduce and support passage of revolving fund legislation again in the 105th Congress. CRO is working to meet any concerns of oversight committee members and their staff and other interested groups.

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

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

Specifically, the Library should:	*LC Response	LC Action	LC Plans
1. Develop a comprehensive security training and awareness program for Library employees that should have one central point of contact to serve as its program manager.	Concur	The Library of Congress Security Plan, transmitted to the Congress in October 1997, has an integrated schedule of 34 actions, of which 22 address collections security and 12 address the security of facilities, staff, visitors, and other assets. Action 32 (due June 1998) states that the Director of Security will develop a proposal to establish a security training and awareness program.	Action 32 will be implemented after the Office of Security staffing has been completed (Action 24, due March 1998), which includes hiring a full-time individual to oversee such a program in coordination with the Library of Congress Internal University (LCIU). Action 24 is being implemented.
2. Establish a formal oversight program providing continuous evaluation of the various safeguards, systems and procedures intended to protect the Library collections, facilities and personnel. The Director of Security, in coordination with the Office of Inspector General should develop a proposal for establishing a formal security oversight and evaluation program	Concur	Action 34 (due March 1999) states that the Director of Security, in coordination with the Inspector General (IG), will develop a formal security program evaluation process.	Action 34 is scheduled for implementation March 1999.

Specifically, the Library should:	*LC Response	LC Action	LC Plans
3. Determine who has ultimate authority over Library facility access control, automated access and intrusion detection systems. The Director of Security should assess current policies, regulations, and procedures relating to the administration and operations of the security program, including the revision of relevant documents and distribution of such; as well as the establishment of a schedule for periodic review of security regulations and operating procedures.	Concur	The Director of Security and the Architect of the Capitol (AOC) staff are engaged in discussions concerning AOC/Library control of electronic security systems. As a follow-on to this discussion, Action 26 (due March 1998) concerning a memorandum of agreement re: AOC access to Library restricted areas, will be addressed. Action 29 (due January 1999) states that the Director of Security will assess existing security policies, regulations, and procedures; update and publish them; and establish a schedule for periodic review. The policies and regulations have been assembled, and lists of these documents have been distributed.	Actions concerning the AOC will be implemented as described. Action 29 will be completed by January 1999.
4. Staff police operations adequately and adopt a standardized approach to training by proving for a full time police training officer. Additional equipment and the consolidation of the two communication centers currently used will enable the Library of Congress police to more effectively carry out its mission.	Concur	Action 27 (due December 1998) states that the Director of Security will prepare a comprehensive assessment of police operations, including staffing. LC Police equipment needs are being included in the fiscal 2000 budget request. The fiscal 1999 budget request included funds to do a feasibility study on consolidating the two LC Police communication centers.	Action 27 will be implemented by December 1998. Evaluation of LC Police equipment and facilities is ongoing.

Specifically, the Library should:	*LC Response	LC Action	LC Plans
5. Ensure that all baseline physical security standards are met. While major strides have been made in terms of physical security, not all baseline standards have been met, including perimeter security, entry security, interior security, and security planning.	Concur	Actions 05, 07, and 10 (all due June 1998) address completing an analysis of the Library's collection security needs, evaluating unmet requirements, and linking such requirements to future budget requests. Action 31 (due June 1998) addresses budget requests for upgraded facility security requirements. All actions are under way.	The Director of Security will maintain an automated tracking system to identify unmet physical security standards and prioritize budget requests to meet minimum physical security standards.
6. We recommend the Library complete the surveys called for in the collections prioritization matrix grids, and perform a library-wide risk assessment to identify risk mitigating opportunities within the bibliographic, inventory, and preservation control environments. We also recommend that the risk assessments take into consideration the following items: a. The risk assessment should prioritize control measures by identifying those risks that would cause the greatest loss to the largest number of 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 measure;	Concur	Actions 13 (due January 1998), 14 (due March 1998), 16 (due September 1998), and 17 (due November 1998) address completion of surveys called for in the collections prioritization matrix grids. Library Services (LS) has developed a strategy for short-term and long-term implementation of Library-wide risk assessments and has organized and convened an Internal Control Review Task Force with full representation.	Actions 13, 14, 16, and 17 have been or will be addressed as stated. LS will continue to take the lead in refining and implementing multi-year risk assessments, with aid from the Office of Security and other units. LS will continue to chair the task force and simultaneously perform assessments for the divisions in LS.

Specifically, the Library should:	*LC Response	LC Action	LC Plans
b. 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: 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; c. 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); d. 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 appropriated Library personnel in each unit or division;			

Specifically, the Library should:	*LC Response	LC Action	LC Plans
e. 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; f. 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, the contractor security review conducted from October 1995 through June 1996, and information gathered during the two risk assessments already performed in the Map and Geography Division and the Copyright Office. 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 and during analysis of proposals submitted to date.			

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

Recommendations:	*LC Response	LC Action	LC Plans
1. We recommend integration of the Library's overall physical security plan, 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.	Concur	Action 11 (due September 1998) states that LS and the Collections Security Oversight Committee (CSOC) will validate and integrate results of risk assessments with the Security Plan matrix. The Director of Security is ex-officio member of the Internal Control Review Task Force.	LS will continue coordinating the multi-year risk assessments of heritage assets with the Director of Security.
2.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 locations 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 much verify the completeness and accuracy of the transfer. We recommend that polices be formulated documenting what item level security will be implemented for different categories of assets.	Partially Concur	LC has established minimal standards for transfer documentation (signature accountability) as part of the physical security plan. Signatures are required for items in the platinum and gold collections during the transit and processing cycles.	The specifications for the Integrated Library System include item level control. It is only with such a system that LC will be able to track movement of the thousands of new items added each day to the 113 million items in the collections.

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Recommendations:	*LC Response	LC Action	LC Plans
3. We support the need for the Library to acquire an Integrated Library System, 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. We recommend the Library develop a plan for converting the manual shelf lists so that this information may be merged into the ILS.	Partially Concur	A Shelflist Task Group report has already outlined the strategy for conversion. In addition a statement of work is in progress for a contract to be awarded for this activity.	Award the contract for the conversion of the manual shelf lists.
4. We recommend that 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 long term preservation risks.	Concur	LC has developed an integrated preservation framework which includes assessing the impact of the facility on the preservation of the collection.	During the coming months LC will be applying the analysis grid of preservation actions (including facilities assessment) to each of the custodial and processing areas.

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

Recommendation:	*LC Response	LC Action	LC Plans
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	LC has added collections security as an element in each manager's and supervisor's performance plan.	As the Library conducts additional risk assessments of the custodial and processing divisions, specific tasks for safeguarding the collections will emerge. Those tasks will be assigned and the assigned individuals and their chiefs will be accountable for them.