

**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 its 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.

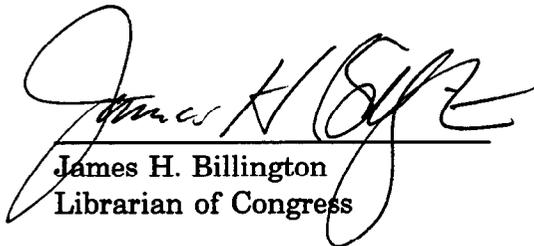
The audit of the Consolidated Financial Statements was performed by the independent accountants, Clifton Gunderson L.L.C. The independent accountants' report on the Consolidated Statement of Financial Position, Consolidated Operating Statement, internal controls, and compliance with certain laws and regulations is included in Section 6 of this report.



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## **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.



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