

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

Fiscal Year Ended September 30, 1998

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, 142 gift funds, 87 trust funds, and 13 revolving funds. Although the Library of Congress, a legislative agency, is not required to comply with the Federal Financial Managers' Integrity Act (FMFIA), the Government Management and Reform Act (GMRA) or the Chief Financial Officers Act (CFO), it has chosen to follow these Acts in a manner consistent with a legislative agency in order to fulfill its internal control objectives.

The Library's financial management policy, LCR 1510, requires regular internal control reviews by its program and subsidiary system managers. Criteria applied in these reviews are based on the internal control standards and financial systems standards presented in Appendices 2 and 3 of Title 2 of the GAO's Policy and Procedures Manual for Guidance of Federal Agencies. Library management evaluates the responses to these reviews, as well as information provided by the Library's Inspector General and by independent auditors to determine the extent of compliance with the following internal control objectives over financial reporting.

- ▶ Assets are safeguarded against loss from unauthorized acquisition, use or disposition
- ▶ Transactions are executed in accordance with laws governing the use of budget authority and with laws and regulations that could have a direct and material effect on the consolidated financial statements
- ▶ Transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and to maintain accountability for assets.

This report on financial controls does not address safeguarding of the Library's collection (heritage) assets. A separate management report on the collections is presented at 5-3.

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.

The Library evaluated its internal controls for fiscal 1998 on the basis described above and identified the following deficiencies:

- ▶ **Security practices and certain other controls over information systems are inadequate.** The following weaknesses were present during fiscal year 1998 and require further actions to correct: Logical access controls do not sufficiently restrict access, segregation of duties is not adequately addressed in all areas, and software development and change controls need improvement.
- ▶ **The Library lacks a business continuity plan.** The Library has initiated business continuity planning, but key elements are not completed.

Because internal control weaknesses existed during some part of fiscal 1998, we cannot provide reasonable assurance that the Library's internal controls over financial reporting at September 30, 1998, met the objective that assets are safeguarded against loss from unauthorized acquisition, use or disposition.

We believe internal controls over financial reporting were effective at September 30, 1998, in providing reasonable assurance for the following two objectives: (1) transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and to maintain accountability for assets; and (2) 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 report the financial position, operations, and changes in net position and the combining statement reports the budgetary resources of the Library for fiscal year 1998. 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 auditors, Clifton Gunderson L.L.C. The independent auditors' report on the Consolidated Balance Sheet, Consolidated Statement of Net Costs, Consolidated Statement of Changes in Net Position, Combining Statement of Budgetary Resources, 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, 1998

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 115 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 pictures, 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 and organizing 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 (i.e., highly acidic) paper in the mid-nineteenth century and a variety of unstable media in the twentieth (nitrate film stock, wax cylinders, audio tape, and digitization etc.) have presented the Library 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 within the special format materials such as manuscripts and rare books, it was only in this decade that the Library took serious recognition of the extent to which the same problem afflicted the general collections (i.e., 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, Virginia 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 sought additional space and resources for secondary storage and film and audio preservation facilities. In December 1997, the Congress authorized the acquisition of space in Culpepper, Virginia owned by the Federal Reserve Bank of Richmond to be used as the National Audio-Visual Conservation Center. This center is projected to be sufficient to house all the Library's AV collections for the next 25 years. The Congress has approved the management development plan for the Center which enables full occupancy no later than 2005. During fiscal year 1998, 100,000 reels of moving image materials were moved to the Center.

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 (e.g., 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, 1998. Moreover, while the Library has an extensive series of controls in all four areas of risk and while we began in 1997 and continued in 1998 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 is underway; it and the implementation of the collections security plan will significantly increase the security of the Heritage Assets.

Bibliographical controls: As of September 30, 1998, the Library had reduced the arrearage count to 19,090,657 items from the 1989 benchmark number of 39.7 million -- a decrease of 51.9 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 the Library-wide implementation of the 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 for books and paper based materials, and the acquisition of the National Audio-visual Conservation Center is a major step in the preservation of film and other media.

Physical security controls: In fiscal year 1998 the Library sustained major advances in collections security. The Library aggressively implemented actions outlined in the October 1997 Security Plan, focusing on those whose cumulative impact will significantly enhance collections security. In collaboration with the

Collections Security Oversight Committee (CSOC), the Director of Security linked the one third unmet minimum standards with the Library's Planning, Programming, Budgeting, and Execution System (PPBES). The Executive Committee approved three Management Decision Packages (MDEPS) addressing Reader Registration, Contract Security Monitors in Reading Rooms, and Marking and Tagging Library Materials for inclusion in its fiscal year 2000 budget request. The Library has also integrated its preservation, bibliographic, and inventory control measures within the security planning framework presented in the 1997 Plan. The Director of Security, again in collaboration with CSOC, initiated the development of measurements to enable the Executive Committee to track the Library's progress in reducing the risk of theft and mutilation to the collections. The Library is completing a draft update of the Security Plan which will be published in January 1999. A permanent implementing structure established in the draft plan has been addressing collections security issues since September, 1998. Conveners of four standing committees are accountable for implementing the schedule of 20 actions outlined in the draft plan. The Library completed additional physical security and procedural controls in fiscal year 1998 further strengthening its controls over the Heritage Assets. Some 891,342 theft detection targets have been installed in class H and S volumes in the general collections and incoming materials in the Copyright Office. The Office of Security installed new video surveillance cameras in the Main Reading Room and installed extensive electronic and physical security controls and the placement of security guards to protect the Top Treasures, Religion in Early America, and Freud exhibits. Security guards have been assigned to full time duty in the Main Reading Room. The Library opened an expanded cloakroom in the Jefferson Building in June 1998 and beginning June 15 imposed personal belongings restrictions on readers using the Main Reading Room. The Library also issued reader identification cards to 46,209 researchers registered in fiscal year 1998. The process of stamping the rare book collection with LC property stamps continued, bringing the number of items that bear permanent property stamps to 705,026. With the assistance of a private auditing firm, the Library completed nine 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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