

The Library Continues to Face Challenges Ensuring Effective Financial Management and Reporting

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**OFFICE OF
INSPECTOR GENERAL
LIBRARY**
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MEMO

Date May 28, 2020

To Dr. Carla Hayden
Librarian of Congress

From Kurt W. Hyde
Inspector General



Subject Report No. 2019-SP-101 – *The Library Continues to Face Challenges Ensuring Effective Financial Management and Reporting*

This transmits our report for the Office of the Inspector General's evaluation of the Top Management Challenge related to financial management and reporting. The executive summary begins on page *i* and the full text of the report begins on page 1.

Based on management's written response to the draft report, we consider all of the recommendations resolved. Your responses provided an action plan for the implementation of each recommendation, in accordance with LCR 9-160, *Rights and Responsibilities of Employees to the Inspector General*, §6.A. This report will be made publicly available.

We appreciate the cooperation and courtesies extended by the Financial Services Directorate during this evaluation.

cc Chief Operating Officer
General Counsel

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Summary

We initiated this evaluation to report on the progress made by the Library of Congress (Library) in addressing the material weakness, significant deficiencies, and noncompliance with laws and regulations reported by the independent public accountants during their FY 2017 Library financial statements audit. We first identified financial management and reporting as one of the Library's Top Management Challenges in September 2018.

What the Evaluation Found

We commend the Library's progress made between the FY 2017 and FY 2019 financial statement audits. The Library has shown a decline in the number of significant deficiencies and the removal of the Library's one material weakness. However, as the number of reportable conditions (i.e., the material weakness and significant deficiencies) has declined, the number of non-reportable conditions (management letter comments) has increased. We have concluded that progress overall has been incremental and that more time is needed for the Library to implement robust financial management and reporting controls and procedures. Further progress partially depends on the Financial Services Directorate (FSD) having adequate funding and well-trained human capital resources to ensure that corrective activities continue.

The Library also continues to face challenges with developing an effective IT cost accounting methodology. This is because the Library has not implemented systematic procedures to capture this data. In September 2018, we reported that a vital step towards developing an effective IT cost accounting methodology involved developing technology business management (TBM). TBM provides the foundation for improving IT investment decision making and related analysis. When fully implemented, TBM will provide Library management with the capability to improve financial analysis for IT investment planning, system development and operating performance by functional area.

Recommendations

OIG is making three recommendations, including that FSD 1) develop an integrated master schedule for identified control deficiencies relating to financial management and reporting that presents all

key activities to mitigate, their appropriate timing, associated costs, milestones, and other resources, 2) take a greater leadership role with implementing TBM including taking steps to equip itself with the required skills and resources it needs to improve and further develop TBM, such as hiring cost accountants, and 3) work collaboratively with the Office of the Chief Information Officer and the Human Capital Directorate to implement a more robust solution to properly capture all internal labor costs attributed to IT capital investments for personnel involved with software development. As part of this effort, Library-wide guidance and procedures for capturing such internal labor-costs should be developed.

Management Comments

In response to the draft report, Library senior management agreed with all recommendations (see Appendix B). In its response, the Library expands on various FSD directional initiatives through FY 2023 that focus on assessing and implementing more effective and efficient financial management and reporting through improved business processes and technologies as well as continued optimization of its workforce.

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Background

A reliable system of internal controls over financial reporting is vital for an agency to accurately and reliably report on its financial transactions and position. Agency management relies on its financial reporting for decision-making and accountability to Congress and the American taxpayer. We identified financial management and reporting as a top management challenge in the September 2018 semiannual report to Congress. We reported that the Library of Congress (Library) needed to take corrective action to maintain an unmodified (clean) opinion on its financial statements audit.

The Library has received clean opinions since FY 1996. In August 2018, we issued the results of the FY 2017 financial statement audit performed by an independent public accounting firm for the period ending September 30, 2017.¹ The firm identified a material weakness and three significant deficiencies in internal controls over financial reporting and an instance of non-compliance with laws and regulations. A material weakness indicates that there is a reasonable possibility that a material misstatement of the Library's financial statements would not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

In April 2020, the independent public accounting firm completed the FY 2019 financial statement audit. The independent public accounting firm reported no material weaknesses and one significant deficiency. However, the Library received 12 management letter comments.² See Table 1 for year-to-year comparison of audit results.

FY	Material Weakness	Significant Deficiency	Noncompliance with Laws and Regulations	Management Letter Comments
2015	-	-	-	2
2016	-	4	-	6
2017	1	3	1	7
2018	-	1	-	14
2019	-	1	-	12

Table 1: Summary of Financial Statement Findings for FY 2015 – 2018
Source: OIG

As a legislative branch agency, the Library is not subject to many of the financial management requirements of executive branch agencies such as the

¹ [2017-FN-101](#), *Results of the Library of Congress' FY 2017 Financial Statement Audit*, August 2018.

² Management letter comments report control deficiencies that are not considered material weaknesses or significant deficiencies.

Federal Managers' Financial Integrity Act (FMFIA) and the Government Performance and Results Act Modernization Act. When appropriate, however, the Library's policy is to act in accordance with the spirit of such statutes. For example, the Library has chosen to implement the spirit of Office of Management and Budget (OMB) Circular A-123 by developing and implementing an integrated risk management framework.³ In July 2018, we reported that it will take the Library years to successfully develop and implement a more robust strategic planning framework, one that includes goals with specific and aggressive outcomes that can be used to evaluate performance using verifiable performance metrics.⁴

As stated in OMB M-16-17, OMB Circular No. A-123 and FMFIA have been at the center of Federal requirements to improve accountability in Federal programs and operations. Over the years, government operations have changed dramatically, becoming increasingly complex and driven by changes in technology. At the same time, resources are constrained and stakeholders expect greater program integrity, efficiency, and transparency in government operations.

In its consolidated report on top management and performance challenges for the federal government, the Council of the Inspectors General on Integrity and Efficiency (CIGIE) identified financial management as a top management challenge facing multiple federal agencies.⁵ According to CIGIE, agencies' ability to track and report financial data has not kept pace with agency needs as government programs and operations continue to grow in complexity. In particular, outdated financial management systems may not have the configurations necessary to track and report financial data reliably as agency needs evolve, making effective financial management difficult.

CIGIE also identified human capital management challenges related to recruiting, managing, developing, and optimizing agency human resources. In the September 2018 semiannual report to Congress, we reported that the retirements of experienced FSD staff impacted the FY 2017 audit and contributed in part to the improper reporting identified by the audit. As shown on Figure 1 below, the Library's permanent staff has steadily declined over the past decade. As stated in the FY 2020 Congressional Budget Justification, FSD is now beginning to lose significant Library-specific business expertise to retirement in budget, accounting, financial reporting and financial systems. Since FY 2017, nine FSD staff have retired and three additional staff have resigned. New skills in data analytics are needed to align with the Librarian's priority on data-driven decision-making.

³ OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Controls*, July 2016.

⁴ [2018-SP-103](#), *Continued, Persistent Focus Needed to Strengthen the Library's Strategic Planning and Performance Management*, July 2018.

⁵ *Top Management and Performance Challenges Facing Multiple Federal Agencies*, April 2018.

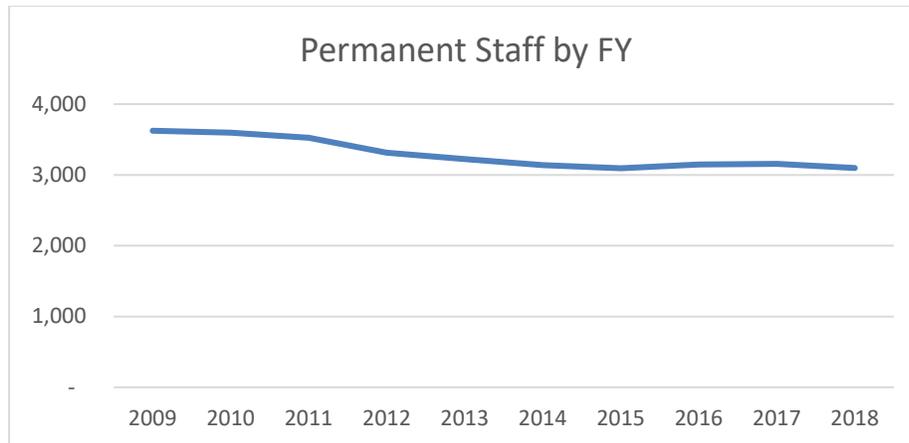


Figure 1: Decline of permanent staff from FY 2009-2018.

Source: Library of Congress Annual Reports

As part of our planning for this evaluation, we reviewed the updated corrective action plan prepared by the Financial Services Directorate (FSD). The Chief Financial Officer heads FSD (formerly the Office of the Chief Financial Officer) within the Office of the Chief Operating Officer. FSD is responsible for directing the Library's financial activities and systems, including, establishment of budgetary and accounting standards; budget preparation; allotment of funds; control of expenditures; disbursement, collection, and investment of funds; accounts payable; purchase and travel card program management; financial administration of grants; and financial reporting.

FSD also serves as liaison with the U.S. Office of Management and Budget, the Department of the Treasury, the Government Accountability Office, and the Committee on Appropriations of the House of Representatives, and the Committee on Appropriations of the Senate in areas relating to Library financial functions and prepares reports for transmittal to these agencies as required. FSD is also responsible for managing a single, shared environment called the Legislative Branch Financial Management System (LBFMS). LBFMS supports seven agencies in the legislative branch.

Findings

We determined that the Library made progress as reported in the FY 2018 financial statement audit report, however, the Library continues to face challenges with implementing a robust IT cost accounting methodology.⁶ Further progress partially depends on the Financial Services Directorate (FSD) having adequate funding and well-trained human capital resources to ensure that corrective activities continue. In order to make best use of those resources and help ensure the Library’s success, FSD should develop an integrated master schedule (IMS) that serves as the focal point for driving the timely implementation of the change needed.⁷

The Library Has Made Improvements on Decreasing the Number of Material Weaknesses and Significant Deficiencies Since FY 2017 but More Work Remains

We commend the Library’s progress made between the FY 2017 and FY 2019 financial statement audits. Table 2 below depicts a decline in the number of significant deficiencies and the removal of the Library’s one material weakness. However, as the number of reportable conditions (i.e., the material weakness and significant deficiencies) has declined, the number of non-reportable conditions (management letter comments) has increased. We have concluded that progress overall has been incremental and that more time is needed for the Library to implement robust financial management and reporting controls and procedures.

FY 2017	FY 2018	FY 2019
<ul style="list-style-type: none"> • 1 material weakness • 3 significant deficiencies • 1 noncompliance with laws and regulations • 7 management letter comments • 12 Total Deficiencies 	<ul style="list-style-type: none"> • 1 significant deficiency • 14 management letter comments • 15 Total Deficiencies 	<ul style="list-style-type: none"> • 1 significant deficiency • 12 management letter comments • 13 Total Deficiencies

Table 2: Summary of Financial Statement Deficiencies - FY 2017 to 2019
Source: OIG

⁶ [2018-FN-101](#), *Results of the Library of Congress’ FY 2018 Financial Statements Audit*, May 2019.

⁷ An integrated master schedule (IMS) is a program schedule that includes the entire required scope of effort, including the effort necessary from all government, contractor, and other key parties for a program’s successful execution from start to finish. For further information, refer to the Government Accountability Office’s *Schedule Assessment Guide – Best Practices for Project Schedules*, [GAO-16-89G](#), December 2015.

Our review of FSD's corrective action plan showed the Library made important progress in addressing long-standing control deficiencies such as:

- Contract closeout –The Contracts and Grants Directorate (CGD) has taken proactive steps to deobligate unliquidated obligations (excess funds) from inactive contracts, making funds available for other use. In 2019, CGD has deobligated over \$1.8 million through July 2019.
- Hiring new staff – Since FY 2017, FSD has hired nine staff including seven new accountants to replace 13 staff lost through attrition including seven accountants. During FY 2019, FSD posted vacancy announcements for three positions. In December 2019, FSD had 18 accountants on staff (Accounting Series 0510).
- Standard operating procedures – FSD began the process of creating or updating documented standard operating procedures and desk guides to provide step-by-step guidance for staff on how to perform financial processes.

Other areas where the Library has made strides to implement prior audit recommendations include:

- Performed a competency assessment of FSD workforce to help senior management in FSD identify vulnerabilities in staff capabilities caused in large part by a significant number of recent retirements of staff and related turnover.
- Completed an independent analysis of the Library's current investment processes, workflows, and system architecture resulting in recommendations for improvement, modernization, and automation.
- Completed an independent analysis of the existing FSD accounts payable accrual estimate and validation method related to FEDLINK as well as business processes and workflows related to the accrual.⁸
- Completed an independent review to analyze and document the current and future state of the Library's chart of accounts and posting models, and made recommendations for change. The analysis did not include specific configuration or an implementation plan of such recommendations.
- Contracted for an independent evaluation of financial reporting processes and indirect cost analysis.

⁸ The Library administers FEDLINK, an organization of federal agencies working together to achieve optimal use of the resources and facilities of federal libraries and information centers by promoting common services, coordinating and sharing available resources, and providing continuing professional education for federal library and information staff.

- Contracted to review the Financial Reporting System data warehouse configuration and make future state recommendations to improve extracts from the Legislative Branch Financial Management System (LBFMS). The statement of work also called for improving reporting performance and timeliness, and the availability of data for analytics.

The Library uses an integrated risk management and internal control framework consistent with the spirit of Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, as revised. According to the July 15, 2016, OMB Circular No. A-123, management's process for resolution and corrective action of identified internal control deficiencies must among other requirements:

- Determine the resources required to correct a control deficiency. As such, the corrective action plan must indicate the types of resources needed (e.g., additional personnel, contract support, training, etc.).
- Include critical path milestones that affect the overall schedule and performance of the corrective actions needed to resolve the control deficiency. Critical path milestones must lead to a date certain of the correction of the control deficiency.

Although the Library's corrective action plan provides summary information on the status of FSD's efforts, the plan did not contain the detail needed to provide the Library with assurance that it could be effectively implemented on schedule. For example, the corrective action plan did not fully indicate the additional personnel or skills needed. Lacking this information could delay corrective action plan target completion dates. In the September 2018 Semiannual Report to Congress, we stated that the retirements of experienced staff impacted the audit and contributed in part to the improper reporting identified in the FY 2017 audit. The Library stated that retirements of experienced staff contributed to heavier workloads for processing transactions and delays in providing necessary schedules and related supporting documentation. It also led to an inordinate amount of time spent on adjusting the financial statements, which delayed the completion of the audit by nearly two months.

The corrective action plan also did not include critical path milestones to help ensure senior Library management can monitor progress. In addition, three action steps had target dates labeled as "ongoing." The concept of critical path was explained in a July 11, 2019, OIG memo to the Executive Committee:

[the] notion of critical path is frequently associated with Information Technology (IT) projects, but the value of the approach has expanded its

application to complex efforts across industry and functional segments. Essentially, implementing an initiative from a strategic or directional plan often crosses unit boundaries, and involves critical components that comprise a “three legged stool”—at the Library those would be: [FSD], the business unit, and OCIO. Activities from each should be integrated into the master schedule, and then the critical path within the master plan is determined.

Developing an IMS will help connect all the scheduled work of the Library and contractors in a network, or collection of logically linked sequences of activities. In order to help the Library plan, manage, and track progress made to strengthen financial management and reporting procedures, it should follow project management methodologies such as the Project Management Institute’s *A Guide to the Project Management Body of Knowledge (PMBOK)* and the Government Accountability Office’s *Schedule Assessment Guide – Best Practices for Project Schedules*.

Recommendation

To continue the progress made to date, we recommend:

- 1) FSD should develop an integrated master schedule for identified control deficiencies relating to financial management and reporting that presents all key activities to mitigate, their appropriate timing, associated costs, milestones, and other resources.

The Library Faces Challenges with Implementing an Effective IT Cost Accounting Methodology

On April 5, 2017, we reported the results of the Library’s FY 2016 financial statement audit. The independent public accountants reported a significant deficiency on internal controls for internal use software development capitalization when between \$1.2 million and \$9.9 million was not capitalized by FSD for development efforts relating to a U.S. Copyright Office system (eLi).⁹ Although the FY 2017 and 2018 audits did not report a material weakness or significant deficiency in this area, we believe the Library can do more to implement effective and systematic procedures to capture IT cost accounting data. As part of another review, we recently identified that software capitalization for a Library Services system (OFORS) was under reported in Momentum by approximately \$400,000 in direct contract costs. Additional costs related to internal labor were also not tracked nor capitalized. As a result, the net book value of the system was zero even though certain components of the system were put into production in 2019.

⁹ While the remaining \$8.7 million contained additional capital costs, Kearney did not pursue further quantification efforts due to the Library’s decision to formally cease development in October 2016. The resulting write-off of the eLi project prevented the above issue from resulting in financial statement errors.

Developing good cost estimates is essential for all phases of an IT project’s lifecycle. In March 2015, the Government Accountability Office (GAO) reported that until the Library establishes and implements an effective cost estimating process, there is increased risk that cost estimates may not be reliable—thereby impairing its ability to make well-informed funding decisions and affecting how it allocates resources across competing investments.¹⁰ GAO recommended the Library establish and implement an organization-wide policy for developing cost estimates that include key practices from GAO’s *Cost Estimating and Assessment Guide (Guide)*.¹¹ Although GAO confirmed that the Library has since developed guidance for developing cost estimates that generally includes the key practices discussed in their audit report, none of the cost estimates for three key investments fully met the practices associated with a comprehensive estimate. As of February 12, 2020, this recommendation remains open.

In our September 2019 Semiannual Report to Congress, we introduced a new top management challenge for the U.S. Copyright Office’s Modernization Program. We highlighted that for the Library’s modernization effort to succeed, the Library needed to make changes in order to properly monitor progress and ensure accountability. We stated that implementing an initiative from a strategic or directional plan often crosses unit boundaries, and involves critical components that comprise a “three legged stool”—at the Library those would be: the business unit, OCIO, and FSD. We reported that FSD must ensure that all project costs are captured, variances are tracked and reported, and adequate cost data is provided on a timely basis to management and stakeholders for decision making. We stated it must ensure warning flags are in place to advise senior management if the modernization program starts to vary materially from its budget.

As stated in GAO’s *Guide*, cost estimating is difficult and requires estimators possess a variety of skills and have access to high-quality data. Cost estimating involves collecting and analyzing historical data and applying quantitative models, techniques, tools, and databases to predict a program’s future cost. GAO’s *Guide* further states:

- A program’s approved cost estimate is often used to create the budget spending plan.
- Program office cost estimates are normally prepared by a multidisciplinary team whose members have functional skills in financial management.
- Cost estimating requires good organizational skills, in order to pull together disparate data for each cost element and to package it in a meaningful way.
- Centralizing the cost estimating team and process—cost analysts working in one group but supporting many programs—represents a best practice.

¹⁰ GAO-15-315, *Strong Leadership Needed to Address Serious Information Technology Management Weaknesses*, March 2015.

¹¹ GAO-09-3SP, *Cost Estimating and Assessment Guide*, March 2009.

- In contrast, decentralization often results in ad hoc processes, limited government resources (requiring contractor support to fill the gaps), and decreased independence.

In September 2018, we reported that a vital step towards developing an effective IT cost accounting methodology involved developing technology business management (TBM).¹² TBM is essential for improving IT investment decision-making and related analysis. When fully implemented, TBM will provide Library management with the capability to improve financial analysis for IT investment planning, system development performance, system period performance, operating performance by functional area, and IT system rationalization.

Designed to give senior management the facts they need to collaborate on business-aligned decisions, TBM provides a framework founded on transparency for cost, consumption, and performance. The Office of Management and Budget (OMB) has leveraged this widely adopted taxonomy and plans on aligning the Federal IT budget with TBM. Using a multi-year phased-in approach, FSD and the Office of the Chief Information Officer (OCIO) introduced elements of TBM in FY 2018 by implementing IT tower codes in the Library of Congress Budget System (LCBS) and LBFMS.¹³ This is in line with OMB's phased approach that includes IT tower codes and cost pools as depicted in Figure 2 below.

¹² [2018-SP-102](#), *Steady Progress, But There Are Gaps in OCIO's Roadmap to Modernize Its IT Environment*, September 2018.

¹³ IT towers are the basic building blocks of IT services and applications. The Library tracks agency-wide IT spending in LBFMS by requiring users to group various IT expenses into IT tower codes.

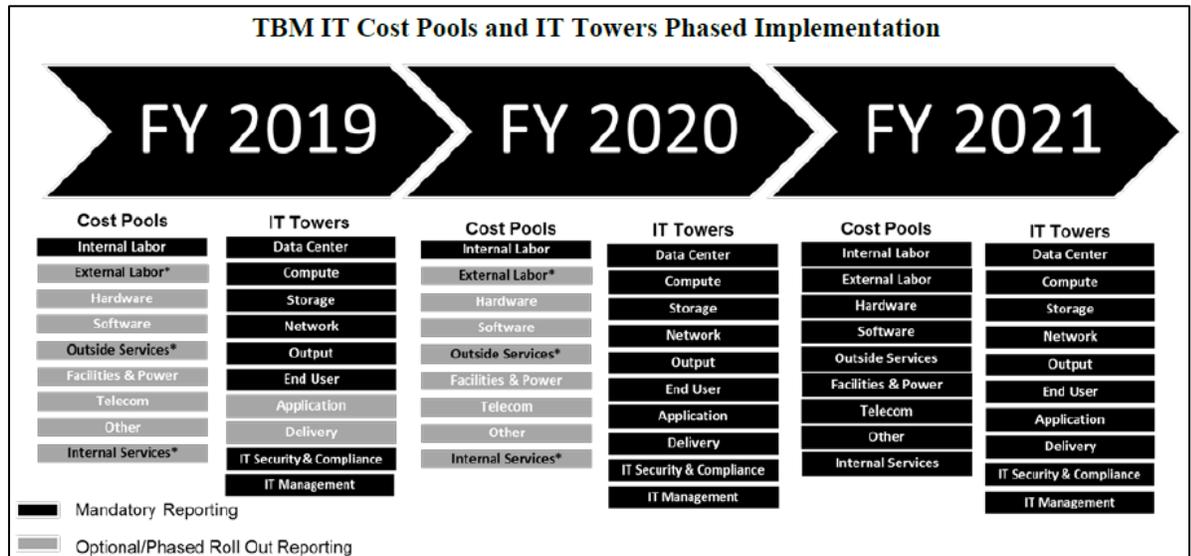


Figure 2: OMB TBM-based Phased Implementation
Source: OMB FY 2019 IT Budget – Capital Planning Guidance

By FY 2021, OMB will require executive agencies to fully implement TBM. The only cost pool that OMB requires in FY 2019 is internal labor. Internal labor relates to Government personnel costs including compensation and benefits attributed to IT investments. As of July 2019, Library management told us that they had not yet implemented a systematic process to capture all internal labor costs associated with IT investments. OCIO began capturing certain internal labor hours on a weekly basis in August 2018. Project and actual costs are only captured for OCIO resources. OCIO does not capture the cost of service unit resources involved with internal use software development. As a result, the Library is at risk of understating its asset balances and overstating expenses. Implementing TBM will allow the Library to use a combination of cost and performance metrics to assess cost of performance. Further, TBM relies on accurate cost accounting data for effective project management. Poor cost accounting data inhibits effective decision-making, increasing the risk of cost overruns or reductions in project scope due to unexpected limitations on capital resources. There needs to be Library-wide guidance and procedures for capturing such internal labor-costs—this should come from FSD.

GAO has found that government agencies lacked uniform guidance on cost estimating practices and procedures that would be the basis for formulating valid, consistent, and comparable estimates. GAO stated, “Developing a good cost estimate requires stable program requirements, access to detailed documentation and historical data, well-trained and experienced cost analysts, a risk and uncertainty analysis, the identification of a range of confidence levels, and adequate contingency and management reserves.” FSD is the most logical unit within the Library to take the lead in ensuring that the Library implements a sound cost accounting methodology to formulate good cost estimates and capture all project and program costs so that proper analysis can be performed.

Nevertheless, FSD must acquire the cost accounting skills and apparatus necessary to set the proper guidance, track development costs, and ensure warning flags are in place to advise management if the various programmatic and IT initiatives vary materially from its budget. Further, it will require training of various service units to ensure cost information is recorded accurately and comprehensively.

Recommendation

We recommend:

- 2) FSD take a greater leadership role with implementing TBM. In order to do so, FSD must take steps to equip itself with the required skills and resources it needs to improve and further develop TBM, such as hiring cost accountants.
- 3) FSD work collaboratively with OCIO and the Human Capital Directorate (HCD) to implement a more robust solution to properly capture all internal labor costs attributed to IT capital investments for personnel involved with software development. As part of this effort, Library-wide guidance and procedures for capturing such internal labor-costs should be developed.

Appendix A: Objectives, Scope, and Methodology

The evaluation's objectives were to report on the progress made by the Library in addressing the material weakness, significant deficiencies, and noncompliance with laws and regulations reported by the independent public accountants during their FY 2017 Library financial statements audit.

We initiated this evaluation in September 2018 and completed fieldwork activities in December 2019.

In performing the evaluation, we conducted multiple interviews with members of management and staff from FSD, OCIO, and HCD. We had regular discussions with the independent public accounting firm during performance of the FY 2018 and 2019 financial statements audits. We utilized documentary evidence including corrective action plans addressing the FY 2017 and 2018 financial statements audits. We also reviewed relevant guidance in Office of Management and Budget's (OMB) *FY 2019 IT Budget – Capital Planning Guidance*; OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*; the Project Management Institute's *A Guide to the Project Management Body of Knowledge (PMBOK)*; the Government Accountability Office's (GAO) *Schedule Assessment Guide – Best Practices for Project Schedules*; GAO's *Cost Estimating and Assessment Guide*, and GAO audit reports. We also reviewed prior OIG work related to our objectives as reported in prior audits, evaluations, memorandums, and Semiannual Reports to Congress.

All of our activities took place in the Library's Madison Building in Washington, District of Columbia.

We conducted this evaluation in accordance with the *Quality Standards for Inspection and Evaluation*, January 2012, issued by the Council of the Inspectors General on Integrity and Efficiency (CIGIE) and with Library of Congress Regulation 1-140, *Inspector General*. CIGIE's standards require that we obtain sufficient, competent, and relevant evidence to provide a reasonable basis for our findings, conclusions, and recommendations. We believe that the evidence obtained provides such a reasonable basis.

Appendix B: Management Response



Office of the Librarian

MEMORANDUM

DATE May 26, 2020
TO Kurt Hyde, Inspector General
FROM J. Mark Sweeney, Principal Deputy Librarian of Congress
SUBJECT Library Response to OIG Evaluation Report 2019-SP-101

A handwritten signature in blue ink, appearing to be "JMS", located to the right of the "FROM" line.

The Library agrees with the observations and three recommendations presented in the Office of the Inspector General's (OIG) Evaluation Report 2019-SP-101, *The Library Continues to Face Challenges Ensuring Effective Financial Management and Reporting*.

Financial Services Directorate (FSD) directional initiatives through FY23 continue to focus on assessing and implementing more effective and efficient financial management and reporting through improved business processes and technologies and continued optimization of the financial workforce. In the near term, FSD will address resolving control deficiencies relating to financial management and reporting by developing an integrated master schedule (IMS) for FSD modernization. An IMS will pull together all planned and ongoing initiatives with key objectives, dependencies, points of contacts, major milestones, decision points and forks to provide FSD and Library leadership a high-level view of all efforts to enable the FSD modernization activities and changes needed.

In coordination with stakeholders, we will include the following activities on the IMS:

- Study of policies and procedures for improving transparency and understanding of IT cost accounting and allocation processes, including for capturing and tracking Internal Use Software asset costs.
- Assessment of cost management that will evaluate increasing the Library's maturity in cost accounting and cost estimating.
- Evaluation and implementation of FSD organizational changes necessary to support priority functional areas.
- Development and implementation of a WebTA labor module and interface, to capture and report on all internal labor costs attributed to IT capital investments for personnel involved with software development.

We will engage collaboratively with the Human Capital Directorate (HCD), Office of the Chief Information Officer (OCIO), and contractor support to analyze, develop and

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implement the WebTA labor module requirements and interface to provide a robust solution to collect project-level labor accounting data for reporting and analysis of IT projects. The module is expected to roll-out initially to OCIO as a pilot in January 2021 for capturing IT project related initiatives.

Another of FSD's modernization initiatives, Enterprise Planning & Management (EPM), aims to improve the quality of planning outcomes and enable effective data-driven decision support. Contingent on funding from Congress, it is envisioned that this can be accomplished by improving the effectiveness and efficiency of Library-wide planning and performance evaluation processes, leveraging shared technology to meet the business need, and equipping our workforce with the required analytical and technical skills. EPM is underpinned by other core principals such as taking a holistic approach, facilitating collaborative stakeholder engagement, and ensuring effective change management. To optimize business performance and enable improved decision support, we must ensure that cost data (both IT and non-IT) is prepared in a manner appropriate to the specific context and that adheres to three principal applications:

1. External reporting – historical and descriptive
2. Performance evaluation and analysis – interpretative and diagnostic
3. Planning and decision support – analytical and predictive

FSD understands that having a strong foundation built on trusted and accurate cost data is crucial to meeting the broad objectives with EPM. Technology Business Management (TBM) also requires having trusted IT cost data at the "cost pools" layer of the TBM taxonomy. TBM exposes costs and consumption at the asset, application, and service levels where money is spent and benefits directly provided. Any cost analysis activities that the Library needs to be performing will also require the capture and view into labor costing data in WebTA. FSD can take a leading role in TBM by ensuring that IT cost-related data is governed to adhere to quality standards that allow for not only accurate financial reporting and compliance, but also effective performance evaluation, planning, and decision support.

FSD actions towards enabling this important leadership role will include assessing the organization's priority functional areas and bringing in new expertise and realigning existing staff functions, as appropriate, to drive the shift towards enabling methodologies to cost information and reporting, and establishing the system interventions, policies and guiding procedures to ensuring effective financial management and reporting.

We appreciate the OIG's comments and recommendations towards resolving the Library's financial management challenges. The attached chart provides additional information and target dates for resolution of the OIG's recommendations.

Attachment

cc: Edward Jablonski, Chief Operating Officer
Mary Klutts, Chief Financial Officer
Elizabeth Pugh, General Counsel

**Management Comments on Draft OIG Report No. 2019-SP-101
The Library Continues to Face Challenges Ensuring Effective Financial Management and Reporting**

Recommendation	Resp. Office	Comments	Target completion
<p>1</p> <p>FSD should develop an integrated master schedule for identified control deficiencies relating to financial management and reporting that presents all key activities to mitigate, their appropriate timing, associated costs, milestones, and other resources.</p>	<p>FSD</p>	<p>Agree. The following process and technology activities are planned to address control deficiencies relating to financial management and reporting, supporting FSD modernization initiatives:</p> <ul style="list-style-type: none"> - Develop Integrated Master Schedule (IMS) FY21 - that pulls together all planned and ongoing initiatives with key objectives, dependencies, Points of Contacts, Major Milestones, Decision points and Forks to provide FSD and Library leadership a high-level view of all efforts to enable FSD modernization and resolve the control deficiencies as identified. - Conduct cost management study (cost accounting and cost estimating) FY20-21 - to include a cost accounting maturity model and a cost estimating maturity model that the Library can use in support of gradually increasing its level of maturity to enable not only compliance, but also effective performance evaluation, analysis, and planning and decision support; and to identify staffing and functional gaps as well as new positions and processes necessary to close the gaps in FSD program management to support EPM, TBM, cost management, and data analytics. - Conduct IUS accounting processes study FY20-21 - to include: evaluation of IUS asset registry, and cost collection and reporting policies, frameworks, and processes associated with IUS assets; and, actionable recommendations that, if implemented, will result in the Library's ability to meet its reporting obligations in compliance with GAAP and FASAB IUS standards. - Develop & Rollout WebTA Module interface for Cost Accounting reporting FY21-22 - Hiring Actions FY20-21- FSD is continuing to carryout new hiring of FY20 FTEs approved for FSD for policy, risk and internal controls, and EPM analysis to help with needed documentation. 	<p>Q4 - FY21 to establish an initial IMS, and conduct cost accounting-related studies</p> <p>Q4 - FY22 to roll out WebTA labor module interface Library wide</p>

**Management Comments on Draft OIG Report No. 2019-SP-101
The Library Continues to Face Challenges Ensuring Effective Financial Management and Reporting**

2	FSD take a greater leadership role with implementing TBM. In order to do so, FSD must take steps to equip itself with the required skills and resources it needs to improve and further develop TBM, such as hiring cost accountants.	FSD	<p>Agree. The following people and process activities are planned to address taking a greater leadership role with implementing TBM and the required related skills and resources supporting FSD modernization initiatives:</p> <ul style="list-style-type: none"> - <i>Cost management study</i> (cost accounting and cost estimating) FY21 - <i>IUS accounting processes</i> FY20-21 - <i>Enterprise Planning and Management (EPM) - Gather requirements phase 1, Develop Integrated Business Process</i> FY21-22 - <i>Conduct EPM Governance study phases 1 and 2</i> FY22-23 - <i>Organizational and Hiring Actions</i> FY21-23 - FSD will assess and improve priority functional areas in the organization; request in an FY22 NEPR new FTEs for Cost Estimator, Cost Accountant, Data Architect, and Data Scientist; and possibly request in an FY23 NEPR additional skills necessary to broaden FSD's program management, cost management and TBM analysis support as identified in outputs of FY21 modernization studies and activities. 	<p>Q4 - FY21 to assess and define the Cost Management requirements and accounting processes</p> <p>Q4 - FY22 for EPM requirements Phase 1, & initial hiring actions</p> <p>Q4 - FY23 to perform EPM Governance Study, & any other organizational actions</p>
3	FSD work collaboratively with OCIO and the Human Capital Directorate (HCD) to implement a more robust solution to properly capture all internal labor costs attributed to IT capital investments for personnel involved with software development. As part of this effort, Library-wide guidance and procedures for capturing such internal labor-costs should be developed.	FSD, in collaboration w/OCIO and HCD	<p>Agree. In conjunction with HCD and OCIO, FSD is supporting defining business requirements for the module reporting and interface development in order to collect project-level labor accounting data for reporting and analysis of IT projects. A pilot is scheduled to begin during Fiscal 2021 and the full roll out for IT projects will occur in Fiscal 2022.</p> <ul style="list-style-type: none"> - <i>Develop & Rollout WebTA Module interface for Cost Accounting reporting</i> FY21-22 	<p>Q4 - FY22 to roll out WebTA labor module interface (Library wide)</p>