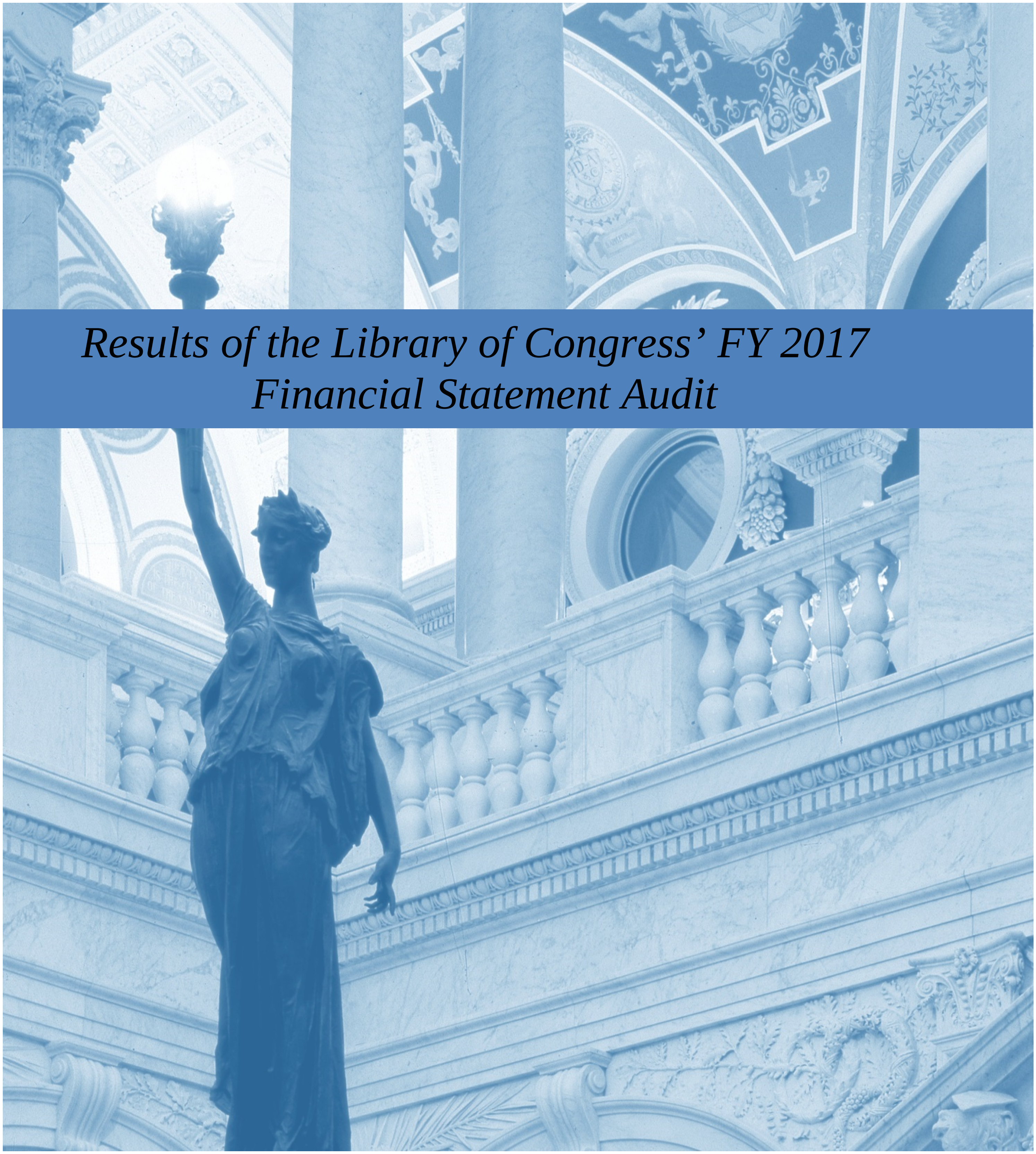

Results of the Library of Congress' FY 2017 Financial Statement Audit

Library of Congress Office of the Inspector General

FOR PUBLIC RELEASE

2017-FN-101

August 2018

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Appendix A: OIG Transmittal Memo

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LIBRARY OF CONGRESS

Office of the Inspector General

MEMORANDUM

DATE June 18, 2018

TO Dr. Carla Hayden
Librarian of Congress

FROM Kurt W. Hyde *KWH*
Inspector General

SUBJECT Results of the Library of Congress' *FY 2017 Financial Statements Audit*

The attached reports present the results of the annual audit of the Library of Congress' (Library) financial statements for fiscal years (FY) 2017 and 2016.

We contracted with the independent certified public accounting firm of Kearney & Company (Kearney) for the FY 2017 audit. The contract required that Kearney perform the audit in accordance with *Government Auditing Standards*; the Office of Management and Budget Bulletin 17-03, *Audit Requirements for Federal Financial Statements*; and the GAO/PCIE *Financial Audit Manual.*

Results of Independent Audit

Financial Statements

For the twenty-second consecutive year, we are pleased to report that the auditors issued an unmodified (clean) opinion on the Library's financial statements. In its audit, Kearney found that the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Further details are in the *Independent Auditor's Report.*

Report on Internal Controls

Kearney's consideration of internal controls over financial reporting (including the safeguarding of assets) resulted in a material weakness and the identification of three significant deficiencies.[1]

Kearney noted a material weakness over the internal controls regarding the Library's complex financial reporting processes resulting in improper reporting of investment gains and losses and other errors. Kearney also noted significant deficiencies regarding the internal controls for 1) untimely de-obligation of funds, 2) lack of support and untimely recording of new obligations, and 3) lack of validation for the

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[1] A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Library's financial statements will not be prevented, or detected and corrected 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. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

accounts payable accrual. Details for these findings are in the *Independent Auditor's Report on Internal Control over Financial Reporting.*

Compliance with Laws and Regulations

Kearney found one instance of noncompliance with laws and regulations regarding the lack of support for bulk obligations. Details for this finding are in the *Independent Auditor's Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements.*

Office of the Inspector General Oversight of Kearney

In connection with the contract, we reviewed Kearney's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with *General Auditing Standards*, was not intended to enable us to express, and we do not express, opinions on the Library's financial statements, conclusions about the effectiveness of internal controls, or conclusions on compliance with laws and regulations. Kearney is responsible for the attached auditor's report dated April 16, 2018, and the conclusions expressed in the report.[2] However, our review disclosed no instances where Kearney did not comply, in all material respects, with U.S. generally accepted government auditing standards.

cc: Principal Deputy Librarian
Chief Operating Officer
Chief Financial Officer
General Counsel

Attachments

[2] In accordance with U.S. generally accepted government auditing standards, Kearney's report is dated as of the last day of their fieldwork. Kearney's final report was delivered to the Office of the Inspector General on April 27, 2018.

Appendix B: Independent Auditor's Report

KEARNEY& COMPANY

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INDEPENDENT AUDITOR'S REPORT

Inspector General
Library of Congress

Librarian
Library of Congress

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Library of Congress (the Library), which comprise the consolidated balance sheets as of September 30, 2017 and 2016, the related consolidated statements of net cost and changes in net position, the combined statements of budgetary resources (hereinafter referred to as the "financial statements") for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Library as of September 30, 2017 and 2016, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other Required Supplementary Information (hereinafter referred to as the "required supplementary information") be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by OMB and the Federal Accounting Standards Advisory Board (FASAB), who consider it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing it for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Management Report is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements; accordingly, we do not express an opinion or provide any assurance on it.

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COMPANY

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 17-03, we have also issued reports, dated April 16, 2018, on our consideration of the Library's internal control over financial reporting and on our tests of the Library's compliance with provisions of applicable laws, regulations, contracts, and grant agreements, as well as other matters for the year ended September 30, 2017. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 17-03 and should be considered in assessing the results of our audits.

Kearney & Company

Alexandria, Virginia
April 16, 2018

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Appendix C: Independent Auditor's Report on Internal Control over Financial Reporting

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Inspector General
Library of Congress

Librarian
Library of Congress

We have audited the consolidated financial statements of the Library of Congress (the Library) as of and for the year ended September 30, 2017, and we have issued our report thereon dated April 16, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Library's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 17-03. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the first deficiency described in the accompanying Schedule of Findings to be a material weakness.

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. We consider the last three deficiencies described in the accompanying Schedule of Findings to be significant deficiencies.

We noted certain additional matters involving internal control over financial reporting that we will report to the Library's management in a separate letter.

Status of Prior-Year Findings

In the Independent Auditor's Report on Internal Control over Financial Reporting included in the audit report on the Library's fiscal year (FY) 2016 financial statements,[1] we noted four issues related to internal controls over financial reporting. The FY 2016 internal control findings and their statuses are summarized in ***Exhibit 1*** below.

Exhibit 1: Status of Prior-Year Findings

Control Deficiency	FY 2016 Status	FY 2017 Status
Untimely De-Obligation of Funds	Significant Deficiency	Significant Deficiency
Internal Use Software Development Cost Capitalization Need Improvement	Significant Deficiency	Closed
Improper Recording of Investment Gains and Losses	Significant Deficiency	Material Weakness
Lack of Validation for the Accounts Payable Accrual	Significant Deficiency	Significant Deficiency

The Library's Response to Findings

The Library does not have a response to the findings identified in Kearney's audit at this time, but it will respond to the findings identified in our audit in a later date. The Library's response will not be subjected to the auditing procedures applied in our audit of the consolidated financial statements; accordingly, we do not express an opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the Library's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 17-03 in considering the entity's internal control.

[1] Library of Congress Financial Statements, FY 2016

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Accordingly, this communication is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
April 16, 2018

Schedule of Findings

Material Weakness

I. Complex Financial Reporting Process Resulting in Improper Reporting of Investment Gains and Losses and other Errors (*Repeat Condition*)

As a Legislative agency of the Federal Government, the Library of Congress (the Library) is not required to comply with the requirements of the Chief Financial Officers (CFO) Act of 1990. However, for purposes of financial management and reporting, the Library has issued Library of Congress Regulation (LCR) 6-110, Financial Management, which states:

> "The Office of the Chief Financial Officer (OCFO) will establish and maintain procedures to ensure that all of the Library's financial activities are conducted in a manner consistent with a legislative branch agency, are in accordance with applicable laws and regulations, follow generally accepted accounting and internal control principles, and are managed with integrity and reliability."

To this end, the Library has adopted FASAB standards for financial reporting in a manner consistent with a Legislative agency and, wherever practical, the Library conforms to Generally Accepted Accounting Principles (GAAP) for Federal agencies.

In order to comply with FASAB standards, the Library needs to have policies and procedures in place to help meet this objective. For example, the Library holds private investments in stock, index, and money market funds as part of its gift and trust fund board (TFB) programs. The Library needs to have policies and procedures in place to ensure that it records investment activity in compliance with GAAP and Department of the Treasury (Treasury) regulations.

During our fiscal year (FY) 2017 audit of the Library, Kearney & Company, P.C. (Kearney) noted that there were significant delays in the financial statement close process and in preparing the financial statements. As compared to prior years, the Library took an additional two months to complete the FY 2017 year-end financial statement close activities, and the Library provided Kearney with draft financial statements one month later than in the prior year. In addition to the delays, Kearney also noted errors made in financial reporting and related supporting schedules not identified during Library management's review.

Most notably, Kearney noted that the Library incorrectly reduced the Unrealized Gains account by $28.7 million and incorrectly increased the Gains on Disposition of Investments account by $28.7 million when it adjusted the investment accounts. Kearney brought this to the Library's attention and noted that the Library was attempting to correct a prior period error, but it had incorrectly posted the adjustment to the current-year gain or loss accounts. At Kearney's recommendation, the Library corrected the Statement of Net Cost to remove the impact of the $28.7 million error incorrectly posted to the Unrealized Gains and the Gains on Disposition of Investments accounts.

Based on discussions with management and review of the Library's financial reporting process, Kearney noted that management and supervisors within the OCFO spend the majority of their time processing transactions as part of their normal duties. Additionally, management noted that the transactions processed in the Library's financial reporting system (i.e., Momentum) are often complex and not easily understood. Because of the time spent processing these complex transactions, managers and supervisors in the OCFO have little time to perform high-level reviews and analysis over information reported in the financial management system. For example, Kearney noted that while Library personnel completed reconciliations during FY 2017 to verify investments account balances, the reconciliations did not cover realized and unrealized gain and loss accounts; therefore, errors in these accounts went unnoticed by management.

Without adequate reviews of detailed transactions or adequate time to perform high-level review and analysis of financial reporting results, the Library is at risk that uncorrected errors in financial reporting or gaps in internal controls may go unnoticed by management. This may result in increased audit findings and potential errors on the financial statements.

Kearney recommends that the Library:

1. Perform an analysis of current financial reporting processes to identify any complex processes that could be simplified or eliminated, to include an analysis on how transactions are reported in the financial reporting system. If the OCFO does not have the bandwidth to perform such an analysis, it should consider hiring an outside consultant with expertise and knowledge of best practices in Federal financial reporting processes.
2. Once financial reporting processes are reviewed and simplified, where possible, document all steps needed to report financial transactions in desk guides or procedures documents.
3. Perform an assessment of who should be performing the processes, such that procedures are assigned to the lowest level feasible, to allow for a detail review below the management level, where possible.
4. Develop and establish high-level analytical procedures at the supervisor and manager level to facilitate the identification and correction of errors in financial reporting processes.

Specifically related to the errors found in the investment gain and loss accounts, Kearney recommends that the Library:

5. Establish and document procedures to record corrections, including prior-period corrections, in accordance with United States Standard General Ledger (USSGL) guidance. The Library should use these procedures to ensure that corrections posted to the financial management system are properly reflected on the Balance Sheet, Statement of Changes in Net Position, and Statement of Budgetary Resources, as well as that current period results are not impacted by prior-period adjustments.
6. Establish and document procedures to perform a quarterly reconciliation of non-Treasury investments, to include reconciling all investment, realized and unrealized gain and loss accounts. As part of the quarterly reconciliation, Library personnel should compare the

market value of investment per statements received from the financial institutions with the investment balance recorded in the financial system. Any difference noted in the market value should be recorded as an adjustment to the balance of Market Adjustment – Investments account and the unrealized gain or loss accounts. The Library should also use this reconciliation to ensure the appropriate historical cost and current market value amounts are recorded in memo accounts used to create the investment footnote that accompanies the financial statements, as well as to ensure that current period realized and unrealized gains and losses are properly reported on the financial statements.

* * * * *

Significant Deficiencies

II. Untimely De-Obligation of Funds (*Repeat Condition*)

Unliquidated Obligations (ULO) represent binding agreements for goods and services that have not yet been delivered or received and will require future outlays. Agencies should maintain policies, procedures, and information systems to ensure that the balance of ULOs reported in its financial systems represents required Federal outlays. The Library records obligations in its financial management system when it enters into an agreement, such as a contract or purchase order, to purchase goods or services. Once recorded, obligations remain open until they are fully reduced by disbursements, de-obligated, or the appropriation funding the obligations is closed.

As part of our obligations testing, Kearney reviewed $5.3 million of the $12.2 million obligations using a stratified risk-based population to identify older obligations. During our testing, we identified 11 ULOs with a cumulative balance of approximately $1.5 million for which the agency did not anticipate future outlays of funds. For the 11 exceptions, two of which were repeat exceptions from the FY 2016 audit, Kearney agreed the recorded ULO amount to the current contract amount; however, the respective service units acknowledged that the funds were no longer needed and the Office of Contracts confirmed that the contract was, or should be, in the contract close-out process. Based on our testing results, we noted that the Library is in the practice of waiting for Contracting Officers (CO) to complete the contract close-out process prior to de-obligate any remaining funds on the contract, which continues to result in obligations remaining open for periods of one to four years without any activity.

Additionally, Kearney noted 13 ULOs with a cumulative balance of $3.3 million for which the Library could not provide support, indicating that there would be future spending on the obligations. Based on the lack of evidence for anticipated future spending and the fact that there had been no activity on these obligations in at least a year, Kearney concluded that these ULOs should also be de-obligated.

Failure to maintain an effective ULO control environment in which invalid open obligations are identified and de-obligated in a timely manner may result in difficulties in managing funds, improper payments, inaccurate budgetary reports, and possible violations of Federal regulations.

Kearney recommends that the Library:

1. Strengthen the process to review open obligations and ensure that the status of open obligations, to include the identification of older obligations, is formally documented and reviewed by the appropriate personnel, as well as that action is taken to timely de-obligate unneeded funds. One alternative that the OCFO should explore is the possibility of using a ULO aging report in Momentum to identify all ULOs with no activity in the previous six months, filtered by obligation origination date. Working with the Office of Contracts, this report could be used as the basis for a periodic review of obligations. The COs or Contracting Officer's Representatives (COR), in conjunction with the service units, should perform this review to determine if obligations are still valid or to identify

obligations that are no longer needed so that the COs and CORs can take action to de-obligate the funds.

2. Continue to train personnel, service units, the Office of Contracts, and the OCFO on the ULO review process, specifically on how to execute the review, in addition to understanding the importance of de-obligating unneeded funds in a timely manner.
3. OCFO should monitor the review process to ensure service units are providing an accurate status on open obligations in a timely manner and, when necessary, the COs are issuing contract modifications and de-obligating funds timely.

III. Lack of Support and Untimely Recording of New Obligations (Repeat Condition)

As noted previously, ULOs represent binding agreements for goods and services that have not yet been delivered or received and will require future outlays. Accordingly, the Library should record an obligation in its financial management system when it enters into an agreement, such as a contract or purchase order, to purchase goods and services. The Library should maintain policies, procedures, and information systems to ensure that obligations represent required Federal outlays, comply with laws and regulations, and are appropriately approved.

During our testing of new obligations created in FY 2017, Kearney identified two obligations for which the Library did not have a formal signed agreement, such as a contract or purchase order. The obligations were created by acquisitions officers in Acquisitions and Bibliographic Access (ABA) in the acquisitions module of the Voyager ILS, a subsidiary system of the Library's Momentum financial management system. These two obligations represented bulk amounts, which ABA spends against throughout the year as management reviews and approves purchase orders.

Recording obligations prior to entering into a legally binding agreement between the Government and vendors overstates the Library's obligations, which may result in improper payments, inaccurate budgetary reports, and possible violations of Federal regulations.

Additionally, during our testing of new obligations created in FY 2017, Kearney noted five instances in which the Library did not record approved purchase orders in the financial management system for two weeks to four months following the approval. Four of the five instances related to FedLink purchases and one of the five instances related to a special event held by the Library. Kearney noted that the obligation was recorded in FedLink's financial system in a timely manner for three of the four FedLink exceptions; however, the obligation was not recorded in Momentum for more than two weeks after the obligations were approved.

While Kearney was able to verify the amount recorded for these obligations, the gap in time between the purchase order approval and the recording of the obligation in the financial management system left the Library with spans of time where it was inaccurately reporting obligations and the status of funds.

Kearney recommends that the Library:

1. Update the process for ABA purchases to ensure that obligations are not recorded in Momentum prior to the Library entering into a legally binding agreement to make a purchase. If the Library has a need to reserve funds prior to entering into a legally binding agreement, it should consider recording a commitment for these amounts.
2. Formally document the updated process for ABA purchases in Library policies and procedures, as appropriate, to ensure all Library employees understand and are recording commitments and obligations in accordance with the Library's policies and procedures.
3. Strengthen and better integrate the obligation process for FedLink transactions to ensure there are no delays between the approval of a purchase order and the recording of obligations, as well as ensure all obligations are supported by an approved purchase order. This could be accomplished by implementing a periodic reconciliation between purchase orders that were approved in the FedLink system and obligations recorded in the financial management system.
4. Ensure that all Library personnel with the responsibility for recording obligations in Momentum understand the importance of recording obligations timely. This could be accomplished through training and enforced through periodic reviews of obligations to ensure obligations are recorded promptly after approval.

IV. Lack of Validation for the Accounts Payable Accrual (*Repeat Condition*)

The Library should record an accounts payable (AP) accrual for all goods and services received as of the financial statement date. The AP accrual may include estimated amounts for goods and services received for which the Library has not yet obtained an invoice. Additionally, the Library must accumulate sufficient, relevant, and reliable data on which to base accrual estimates, and Library management should ensure that adequate documentation is available to support the estimates. Failure to validate estimations may result in erroneous financial statements and failure to identify emerging financial risks in a timely manner.

During our test over the AP accrual process, Kearney noted that the condition identified in FY 2016 had not changed and that the Library did not validate the new AP accrual methodology for FedLink expenses to ensure that the estimated AP accrual was accurate in FY 2017. Management had begun to review the process around FedLink expenses in an effort to identify a method to perform the AP accrual validation, but it had not implemented any changes by the end of FY 2017. The Library's failure to perform a validation of its AP accruals estimates for FedLink increased the risk of reporting erroneous information on the financial statements.

Kearney recommends that the Library:

1. Modify the FedLink processes and/or system to capture the date that customers receive goods or services.
2. Implement a process to regularly validate the AP accrual methodology for FedLink by comparing the estimate to actual data. Kearney recommends that the OCFO review the

results of the validation and update the AP accrual methodology for FedLink, as necessary, to ensure estimates accurately reflect actual data.

Appendix D: Independent Auditor's Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS, REGULATIONS, CONTRACTS, AND GRANT AGREEMENTS

Inspector General
Library of Congress

Librarian
Library of Congress

We have audited the consolidated financial statements of the Library of Congress (the Library) as of and for the year ended September 30, 2017, and we have issued our report thereon dated April 16, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's consolidated financial statements are free from material misstatement, we performed tests of its compliance with provisions of applicable laws, regulations, contracts, and grant agreements, non-compliance which could have a direct and material effect on the determination of financial statement amounts. We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Library. Providing an opinion on compliance with those provisions was not an objective of our audit; accordingly, we do not express such an opinion. The results of our tests disclosed an instance of non-compliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 17-03, which is described in the accompanying Schedule of Findings and Responses.

The Library does not have a response to the finding identified in Kearney's audit at this time, but it will respond to the finding identified in our audit in a later date. The Library's response was not subjected to the auditing procedures applied in our audit of the consolidated financial statements; accordingly, we do not express an opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 17-03 in considering the entity's compliance.

Accordingly, this communication is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
April 16, 2018

Schedule of Findings

Non-Compliance and Other Matters

I. Lack of Support for Bulk Obligations (New Condition)

Obligations are definite commitments that create a legally binding agreement between the Government and vendors. Per 31 United State Code (U.S.C.), Section 1501(a) (the "recording statute"):

> "An amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of (1) a binding agreement between an agency and another person (including an agency) that is (A) in writing, in a way and form, and for a purpose authorized by law; and (B) executed before the end of the period of availability for obligation of the appropriation or fund used for specific goods to be delivered, real property to be bought or leased, or work or service to be provided."

Accordingly, the Library of Congress (the Library) should record an obligation in its financial management system when it enters into an agreement, such as a contract or purchase order, to purchase goods and services. The Library should maintain policies, procedures, and information systems to ensure that obligations represent required Federal outlays, comply with laws and regulations, and are appropriately approved.

During our testing, Kearney & Company, P.C. (Kearney) identified two obligations created in fiscal year (FY) 2017 for which the Library did not have a formal signed agreement, such as a contract or purchase order. The obligations were created by acquisitions officers in Acquisitions and Bibliographic Access (ABA) in the acquisitions module of the Voyager ILS, a subsidiary system of the Library's Momentum financial management system. These two obligations represented bulk amounts, which ABA spends against throughout the year as management reviews and approves purchase orders.

Recording obligations prior to entering into a legally binding agreement between the Government and vendors overstates the Library's obligations, which may result in improper payments, inaccurate budgetary reports, and possible violations of Federal law.

Kearney recommends that the Library:

1. Update the process for ABA purchases to ensure that obligations are not recorded in Momentum prior to the Library entering into a legally binding agreement to make a purchase. If the Library has a need to reserve funds prior to entering into a legally binding agreement, it should consider recording a commitment for these amounts.
2. Formally document the updated process for ABA purchases in Library policies and procedures, as appropriate, to ensure all Library employees understand and are recording commitments and obligations in accordance with the Library's policies and procedures.

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Appendix E: Management Response to Independent Auditor's Report, 2017-FN-101

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LIBRARY OF CONGRESS

Office of the Librarian

MEMORANDUM

DATE August 3, 2018

TO Kurt Hyde, Inspector General

FROM Carla Hayden, Librarian of Congress Carla Hayden

SUBJECT Management Response to Independent Auditor's Report, 2017-FN-101

The Library of Congress has reviewed the draft Independent Auditor's Report from Kearney and Company, which includes the auditor's opinion on the financial statements, review of the Library's internal control over financial reporting, report on compliance with laws and regulations, and letter to management.

The audit report identifies a material weakness relating to the Library's internal controls on reporting of investment gains and losses and significant deficiencies related to untimely de-obligation of funds, lack of support and untimely recording of obligations, and lack of validation for accounts payable accrual. The auditor also reported that the Library's recording of bulk obligations of collections materials is not compliant with 31 U.S.C. 1501(a). The Library appreciates the recommendations from the auditor and looks forward to working with the OIG to improve the underlying processes and strengthen the Library's financial management. Our response to the specific findings and recommendations follows.

Independent Auditor's Report on Internal Control Over Financial Reporting

1. Material Weakness -- Complex Financial Reporting Process Resulting in Improper Reporting of Investment Gains and Losses and Other Errors

The Library acknowledges that simple, well-documented procedures may result in fewer accounting errors. We believe one factor that led to this finding was an unusual amount of staff retirement in the Office of the Chief Financial Officer in fiscal year 2017, which resulted in an elevation of certain transactional work to the managerial level and staff having heavier workloads than normal. The Library agrees that simplifying complex activities where possible will increase operational efficiencies. And we are committed to reviewing existing procedures and ensuring future staff have the necessary information to accurately and timely complete important financial functions. Accordingly, we do not anticipate a recurrence of this issue.

2. Significant Deficiency – Untimely De-obligation of Funds

The Library acknowledges that fiscal management includes timely close-out of obligations where no future outlays are expected. Since this issue was first raised, the Library has been working to refine its procedures to review unliquidated obligations and close-out contract actions where no future outlays are expected. We are encouraged by the fact the audit did not identify instances beyond four years of inactivity, which indicates the Library has adhered to the five-year period for account closeout per 31 U.S.C. 1552.

3. Significant Deficiency and Compliance with Laws and Regulations – Lack of Support and Untimely Recording of New Obligations

The Library concurs that proper timing of the recordation of obligations and expenditures of funds is necessary to ensure accurate financial reporting. These findings relate to issues arising from interfaces of two subsidiary financial systems with the Library's central financial system. Although the subsidiary systems contain documentation of the transactions, the Library will explore system solutions, strengthened processes and updated procedures to ensure proper recordation and reconciliation between systems.

4. Significant Deficiency – Lack of Validation for Accounts Payable Accrual

The Library acknowledges that validation of the accrual estimates is necessary to ensure that sufficient, relevant and reliable data is available to support the accrual estimate for reliable financial reporting. The Library activity at issue here involves contracts on behalf of revolving fund customers for which the Library historically has relied on input from third parties to confirm completion of contractor performance and final liquidation of obligations. The Library agrees to review its current accrual methodology and assess additional options for validating data on an earlier schedule.

5. Compliance with Laws and Regulations – Lack of Support for Bulk Obligations

The Library understands that federal fiscal law requires recording of obligations in accordance with specific timing and fund availability parameters. This finding is a result of an administrative accounting convenience that was developed to account for funds in the central financial system (Momentum) that are committed and obligated in the Library's subsidiary ILS/Voyager system. The Library's "bulk obligation" in Momentum sought to facilitate the interface between the aging ILS/Voyager system and the central financial management system. We appreciate the auditor's review of the process and the Library is exploring solutions to adjust existing procedures and ensure commitment, obligation, and recording documents are created in a sequential manner as liabilities arise.

Finally, we appreciate the additional comments provided in the management letter and the opportunity to improve our fiscal operations and safeguard against new risks. The attached chart responds separately to each of those recommendations.

Attachment

cc: Mary Klutts, Chief Financial Officer