

# MEMO

**Date** May 30, 2019  
**To** Dr. Carla Hayden  
Librarian of Congress  
**From** Kurt W. Hyde   
Inspector General  
**Subject** Results of the Library of Congress' FY 2018 Financial Statements  
Audit, Report No. 2018-FN-101

On April 26, 2019, we transmitted the results of the fiscal year 2018 audit of the Library of Congress' financial statements performed by the independent public accounting firm of Kearney & Company, P.C. (Kearney). In accordance with U.S. generally accepted government auditing standards, we are reporting the corrective actions of the Library to address the deficiencies in internal control. Based on your May 20, 2019, response to the draft report, we consider all the recommendations resolved. Kearney will determine whether the recommendations were implemented during the fiscal year 2019 financial statements audit.

The attached report will be publicly posted to our website. The Library's response to the management letter comments will not be made publicly available.

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

Attachments



# MEMO

**Date** April 26, 2019  
**To** Dr. Carla Hayden  
Librarian of Congress  
**From** Kurt W. Hyde   
Inspector General  
**Subject** Results of the Library of Congress' FY 2018 Financial Statements  
Audit, Report No. 2018-FN-101

The attached reports present the results of the annual audit of the Library of Congress' (Library) financial statements for fiscal years (FY) 2018 and 2017.

We contracted with the independent certified public accounting firm of Kearney & Company (Kearney) for the FY 2018 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-third 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 over Financial Reporting*

Kearney's consideration of internal controls over financial reporting (including the safeguarding of assets) resulted in a significant deficiency regarding the Library's complex financial reporting process resulting in improper reporting of

investment gains and losses and other errors.<sup>1</sup> Details for this finding are in the *Independent Auditor's Report on Internal Control over Financial Reporting*.

#### *Compliance with Laws and Regulations*

Kearney found no instance of noncompliance with laws and regulations tested. Details of its tests 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 *Government 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 5, 2019, and the conclusions expressed in the report.<sup>2</sup> 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

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<sup>1</sup> 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.

<sup>2</sup> 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 15, 2019.

## **INDEPENDENT AUDITOR'S REPORT**

To the Inspector General and Librarian of the Library of Congress

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of the Library of Congress (Library), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as the "financial statements") for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 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 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. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Library as of September 30, 2018 and 2017, 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 Management's Discussion and Analysis and other Required Supplementary Information (hereinafter referred to as the "required supplementary information") be presented to supplement the financial statements. Such information, although not a part of the 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 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 regarding the methods of preparing the information and comparing it for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the 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 financial statements taken as a whole. The Management Report is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements; accordingly, we do not express an opinion or provide any assurance on it.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards* and OMB Bulletin No. 19-01, we have also issued reports, dated April 5, 2019, 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, 2018. 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. 19-01 and should be considered in assessing the results of our audits.

A handwritten signature in blue ink that reads "Kearney &amp; Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia  
April 5, 2019

## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

To the Inspector General and Librarian of the Library of Congress

We have audited the financial statements of the Library of Congress (Library) as of and for the year ended September 30, 2018, and we have issued our report thereon dated April 5, 2019. 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. 19-01, *Audit Requirements for Federal Financial Statements*.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the 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 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. 19-01. 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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings, that we consider to be a significant deficiency.

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



### **The Library's Response to Findings**

The Library does not have a response to the findings identified in Kearney & Company, P.C.'s (Kearney) audit at this time, but it will respond to the findings identified in our audit at a later date. The Library's response was not subjected to the auditing procedures applied in our audit of the 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. 19-01 in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Kearney &amp; Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia  
April 5, 2019

## Schedule of Findings

### Significant Deficiency

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

**Background:** As a Legislative agency of the Federal Government, the Library of Congress (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 Federal Accounting Standards Advisory Board (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.

**Condition:** During the fiscal year (FY) 2018 financial statement audit, the Library provided the draft financial statements a month after the initial due date, even though the initial due date was two months later than the prior year’s due date. The Library also failed to provide documentation related to investments timely, as key audit requests related to investments were provided a month to two months after their initial due date. As noted in prior years, these delays were caused by complex financial reporting processes, which required increased time on the part of management to review the financial statements and support schedules prior to providing them to Kearney & Company, P.C. (Kearney).

The Library took initial steps to address the issues related to complex financial reporting during FY 2018 by beginning to document processes and workflows. However, because of the broad overarching nature of this issue, it will take time to develop new processes and implement changes. Therefore, as of the end of FY 2018, the Library still had many complex financial reporting processes in place, making high-level reviews more difficult and increasing the risk of unidentified errors.

In FY 2018, the Library also took steps to address the issues identified around the improper recording of investment gains and losses. Most notably, the Library hired an outside consultant to review its current investment processes, workflows, and posting models and provide recommendations, as well as to assess these areas for improvement through modernization and automation. Additionally, the Library attempted to reconcile investment accounts at the end of FY 2018 but had not completed this exercise as of the end of the audit.

During FY 2018, the Library posted an unsupported amount of \$629 thousand to Gains on Disposition of Investments. Because the Library had not completed its reconciliation of investment accounts, it did not identify the error until well after FY 2018 year-end. While the Library had not issued its FY 2018 financial statements at the time it posted the correction in FY 2019, management chose not to adjust the FY 2018 financial statements and, instead, post the adjustment in the current year because it felt the amount was immaterial and because the two general ledger (GL) accounts impacted by the adjustment are reported on the same line in the financial statements, so the adjustment has no effect to the overall financial statements.

**Cause:** As noted in prior years, while the Library's financial processes are documented in cycle memos, there are very few standard operating procedures (SOP) or desk guides that provide step-by-step guidance on how to perform financial processes. This lack of documented procedures makes it difficult for Library staff to understand the how and/or why transactions are processed, making the review of transactions more difficult and less effective.

Specifically, in relation to investment accounts, Library personnel do not have documented procedures and are not performing timely reconciliations of the non-Treasury investments to include reconciling the realized and unrealized gains and losses. Therefore, errors posted to these accounts in FY 2018 went unnoticed by management until well into FY 2019. The Library also does not have procedures on how to properly record prior-period corrections of errors. Therefore, when the Library posted a correction for FY 2018 gains on investments in FY 2019, it posted the amounts to the wrong gain accounts.

Additionally, in an effort to reduce errors in financial reporting and related supporting schedules this year, the Library took additional time to review most schedules and documents prior to providing them to Kearney. While this may have reduced the number of errors we found during the audit, it had a negative impact on the timing of providing audit documentation.

**Effect:** Complex and undocumented financial reporting processes make it more difficult to perform high-level review and analysis of financial reporting results and leave the Library at risk that uncorrected errors in financial reporting or gaps in internal controls may go unnoticed by management. This will result in increased audit findings and potential errors in the financial statements.

Improper recording of unrealized and realized investment gains and losses may result in misstatements on the Statement of Changes in Net Position. Additionally, if corrections to prior-year gain and loss amounts are posted to the Unrealized Gain and Gain on the Sale of Investment accounts versus the Prior-Period Adjustments Due to Corrections of Errors account, this could result in a misstatement on the Statement of Changes in Net Position as well.

**Recommendations:** 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.
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 pushed down to the lowest level feasible to allow for a timely detailed 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.
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 GL accounts related to investments and realized and unrealized gains and losses. 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 GL account Market Adjustment – Investments 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 and to ensure that current-period realized and unrealized gains and losses are properly reported on the financial statements.

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**APPENDIX A: STATUS OF PRIOR YEAR DEFICIENCIES**

In the *Independent Auditor’s Report on Internal Control over Financial Reporting* included in the audit report on the Library of Congress’ (Library) fiscal year (FY) 2017 financial statements,<sup>1</sup> we noted several issues that were related to internal control over financial reporting. The status of the FY 2017 internal control findings is summarized in the table below.

<b>Control Deficiency</b>	<b>FY 2017 Status</b>	<b>FY 2018 Status</b>
<b>Complex Financial Reporting Process Resulting in Improper Reporting of Investment Gains and Losses and Other Errors</b>	Material Weakness	Significant Deficiency
<b>Untimely De-Obligation of Funds</b>	Significant Deficiency	Management Letter
<b>Lack of Support and Untimely Recording of New Obligations</b>	Significant Deficiency	Closed
<b>Lack of Validation for the Accounts Payable Accrual</b>	Significant Deficiency	Management Letter

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<sup>1</sup> Library of Congress Financial Statements Fiscal Year 2017

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

To the Inspector General and Librarian of the Library of Congress

We have audited the financial statements of the Library of Congress (Library) as of and for the year ended September 30, 2018, and we have issued our report thereon dated April 5, 2019. 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. 19-01, *Audit Requirements for Federal Financial Statements*.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Library's financial statements are free from material misstatement, we performed tests of its compliance with provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance which could have a direct and material effect on the financial statements. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 19-01.

**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. 19-01 in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.



Alexandria, Virginia  
April 5, 2019

MEMORANDUM

**DATE** May 20, 2019  
**TO** Kurt Hyde, Inspector General  
**FROM** Carla Hayden, Librarian of Congress *Carla Hayden*  
**SUBJECT** Management Response to Independent Auditor's Report on the Library of Congress' FY 2018 Financial Statements

The Library of Congress (Library) has reviewed the draft Independent Auditor's Report from Kearney & Company, which includes the auditor's opinion on the Library's financial statements, report on internal controls over financial reporting, and report on compliance with laws, regulations, contracts, and grant agreements.

The Library has made strides in addressing prior audit findings and in ensuring that it has processes in place to timely record obligations and close out and de-obligate funds on completed contract activities. We are pleased that the audit resulted in a clean opinion with no findings of noncompliance with laws and regulations.

Although the FY18 audit report identifies a significant deficiency relating to the Library's financial reporting process, we have engaged external consultants and have been working to simplify and document the Library processes. The Library will continue to improve our existing internal control procedures and acknowledges the importance of accurate and timely reporting of financial data.

We also appreciate the comments provided in the management letter and the opportunity to better our fiscal operations. The attached chart responds separately to each of those recommendations.

Attachment

cc: Mary Klutts, Chief Financial Officer