Date     May 25, 2023
To       Dr. Carla Hayden
         Librarian of Congress
From     Eric N. Mader         Acting Inspector General
Subject  Results of the Library of Congress’ FY 2022 Financial Statements
         Audit, Report No. 2022-FN-101

The attached report presents the results of the annual audit of the Library of Congress’ (Library) financial statements for fiscal year (FY) 2022.

We contracted with the independent certified public accounting firm of KPMG for the FY 2022 audit. The contract required that KPMG perform the audit in accordance with Government Auditing Standards; the Office of Management and Budget Bulletin 22-01, Audit Requirements for Federal Financial Statements; and the U.S. Government Accountability Office and the Council of the Inspectors General on Integrity and Efficiency’s Financial Audit Manual.

Results of Independent Audit

Financial Statement Opinion

For the twenty-seventh consecutive year, we are pleased to report that the auditors issued an unmodified (clean) opinion on the Library’s financial statements. In its audit, KPMG 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.

Internal Control over Financial Reporting

KPMG’s consideration of internal controls over financial reporting resulted in a material weakness concerning the Library’s ineffective financial statement review control to respond to certain risks of material misstatements in its consolidated
financial statements. Details for this finding is in Exhibit I of the Independent Auditor’s Report.

Compliance with Laws and Regulations

KPMG found no instance of noncompliance with laws and regulations tested. Details of its tests are in the Compliance and Other Matters section of the Independent Auditor’s Report.

Office of the Inspector General Oversight of KPMG

In connection with the contract, we reviewed KPMG’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. KPMG is responsible for the attached auditor’s report dated May 16, 2023, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

cc: J. Mark Sweeny, Principal Deputy Librarian
    Edward R. Jablonski, Chief Operating Officer
    Mary J. Klutts, Chief Financial Officer
    Michael Van Deusen, Comptroller
    Judith A. Conklin, Chief Information Officer
    John E. Rutledge, Deputy Chief Information Officer
    Meredith Skowronski, Senior Counsel, Audit Liaison
    Margaret Williams, General Counsel

Attachments

---

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.
Independent Auditors’ Report

Inspector General of the Library of Congress
Library of Congress:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Library of Congress (Library), which comprise the consolidated balance sheets as of September 30, 2022 and 2021, and the related consolidated statements of net costs and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Library of Congress as of September 30, 2022 and 2021, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), 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. 22-01, Audit Requirements for Federal Financial Statements. Our responsibilities under those standards and OMB Bulletin No. 22-01 are further described in the Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Library of Congress and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter – Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the Agency Financial Report to provide additional information for the users of its consolidated financial statements. Such information is not a required part of the consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for 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.
Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, Government Auditing Standards, and OMB Bulletin No. 22-01 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, Government Auditing Standards, and OMB Bulletin No. 22-01, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Library of Congress’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management’s Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic 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

Management is responsible for the other information included in the Financial Statements Report. The other information comprises the Librarian of Congress Letter to the President of the Senate and the Speaker of the House of Representatives, the Table of Contents, and Results of the Library of Congress Financial Statement Audit but does not include the consolidated financial statements and our auditors’ report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2022, we considered the Library’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers’ Financial Integrity Act of 1982.

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 and 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.

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 a 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 a 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 deficiencies described in the accompanying Schedule of Findings as item Exhibit I to be a material weakness.

Library management did not report the material weakness in Exhibit I in its Internal Control Program, Systems, Controls and Legal Compliance section included in the Management’s Discussion and Analysis section of the accompanying Financial Statements Report.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library’s consolidated financial statements as of and for the year ended September 30, 2022, are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and 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 or OMB Bulletin No. 22-01.
Library's Response to Findings

*Government Auditing Standards* requires the auditor to perform limited procedures on the Library's response to the findings identified in our audit and following the accompanying Schedule of Findings. The Library's response was not subjected to the other auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

**Purpose of the Reporting Required by Government Auditing Standards**

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Library of Congress’s internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

Washington, District of Columbia
May 16, 2023
Independent Auditors' Report
Exhibit I – Material Weakness

Schedule of Findings – Material Weakness

The weakness in internal control described in this Exhibit existed during the year ended September 30, 2022. The determination of which control deficiencies rise to the level of a material weakness or a significant deficiency is based on an evaluation of the impact of control deficiencies identified, considered individually and in the aggregate, on the Library of Congress (Library) consolidated financial statements as of and for the year ended September 30, 2022. The associated entity level controls, as defined by the Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States (Green Book), are also identified in the Conditions and Causes areas of this Exhibit.

Deficiencies in the Library of Congress' Controls Over Financial Reporting

Background:
As a Legislative Branch agency of the Federal Government, the Library is not required to comply with the requirements of the Chief Financial Officers 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 Financial Services Directorate (FSD) 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.”

During the fiscal year (FY) 2022 audit, we identified the following deficiencies that, in aggregate, we determined to be a material weakness.

Conditions:
During the FY2022 audit, the Library did not design and implement an effective financial statement review control to respond to certain risks of material misstatements in its consolidated financial statements, as required by Green Book Principle 10, Design Control Activities. Specifically:

1. The Library did not design controls effectively to monitor that when costs were capitalized the proper Budget Object Class Code (BOC) was used to align the cost capitalization offset with the initial expense recorded.

2. The Library did not effectively implement controls to confirm that revenue accruals reversed properly or identify and correct errors as part of its financial statement analysis controls.

Causes:
The Library did not have the necessary resources and staffing available to perform its financial statement review procedures at the level of precision to prevent and/or to detect and correct material misstatements, as required by Green Book Principle 4, Demonstrate Commitment to Competence. Specifically:

1. The Library did not use quality information and perform a review of its Note 12 disclosure at a level of precision to identify a material presentation error, as required by Green Book Principles 13, Use Quality Information and 16, Perform Monitoring Activities.

2. The Library did not document internal controls to meet operational needs and provide evidence that controls are capable of being monitored, as required by Green Book Principles 3, Establish Structure, Responsibility, and Authority, and 16, Perform Monitoring Activities.
**Effects:**

Without adequate reviews of detailed transactions or high-level review and analysis of financial reporting results, the Library is at increased risk that errors in financial reporting or gaps in internal controls may go undetected by management, which may result in errors in the financial statements. As a result of the conditions identified:

1. Non-Capitalizable Equipment was understated by approximately $29M and Contractual Services was overstated by approximately $29M, until corrected.

2. Advances from Others was overstated by approximately $13M and Earned Revenue was understated by approximately $13M, until corrected.

**Recommendations:**

We recommend the Library:

1. Recruit, develop, and retain sufficient personnel to implement procedures to increase the level of precision of its financial statement review controls.

2. Develop and implement procedures to verify that cost capitalization offsets are recorded under the same BOC code as the original expense was recorded.

3. Document and implement controls to confirm the reversal of its revenue accruals and to perform a root cause analysis as part of its financial statement analysis.
MEMORANDUM

DATE May 16, 2023
TO Eric Mader, Acting Inspector General
FROM Carla Hayden, Librarian of Congress

The Library of Congress (Library) has reviewed the draft Independent Auditor’s Report from KPMG, 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 and regulations. We are pleased the Library received an unmodified, clean, audit opinion, finding the financial statements were fairly presented, and with no instance of noncompliance with laws and regulations.

The Library will continue to work diligently on improving the processes and reviews related to financial reporting matters. Although the material weakness identified by the auditors has no net effect on net cost and has already been corrected by the Library, we acknowledge the Library may benefit from refinement of its review process a more focused control over its financial statements. To facilitate more detailed reviews and enhance controls, the Financial Services Directorate (FSD) has been actively recruiting to fill knowledge gaps and vacancies that have arisen during the last few years. Attaining a staffing level that affords FSD sufficient resources to enable staff to develop specialized knowledge of the Library’s budget and accounting requirements and sufficient time to remediate matters as they arise is fundamental to effective oversight and control of the financial management processes. The Library also will continue to explore other ways to improve the accuracy and transparency of the Library’s financial statements.

We will provide corrective action plans in response to the individual audit recommendations within 30 days of the final report issuance as required by LCR 9-160.

cc: Mary Klutts, Chief Financial Officer