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Testimony

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**First Audit of the Financial
Operations of the Library of Congress**

Statement of
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Before the
Subcommittee on Libraries and Memorials
Committee on House Administration
House of Representatives



Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the results of our first audit of the financial operations of the Library of Congress. Our audit, requested by the Librarian of Congress, covers the Library's fiscal year 1988 operations. Our report, entitled Financial Audit: First Audit of the Library of Congress Discloses Significant Problems (GAO/AFMD-91-13, August 22, 1991), highlights fundamental problems which adversely affected not only the Library's ability to prepare auditable financial statements, but also its ability to establish and maintain the systems and internal controls needed to carry out its stewardship responsibilities for its books and other assets and to efficiently and effectively carry out its program operations.

Today I will provide you with an overview of the weaknesses we found, the Library's proposed corrective actions, and our views on areas needing additional attention. Before I discuss the specifics of our report on the Library, however, I would like to give you some background on financial audits to place this report in perspective.

BACKGROUND

Since the early 1980s, we have been encouraging major federal agencies to develop auditable financial statements. We have audited the financial statements of a number of major departments and agencies, such as the Department of Agriculture, the General Services Administration, the Department of Veterans Affairs, the Air Force, and the Federal Housing Administration.

These audits have proven extremely beneficial in helping agencies produce statements that can be relied upon to provide a picture of where an agency stands financially and in identifying problems in agency financial operations and reporting. In the course of our first agency audits, we found that, generally, managers did not adequately (1) control their costs and resources, (2) provide the Congress and the public with an accurate accounting of the assets entrusted to them, or (3) consider financial information in making decisions.

Mr. Chairman, there is no better way to gain an understanding of the problems and required corrective actions associated with the financial management operations of an agency than to have a full-scale audit of its financial operations. I believe the Librarian had this in mind when, to his credit, he requested our audit of the Library. Also, I should point out to you that although the Library is a legislative branch agency and is therefore not required to conform to accounting standards for executive branch agencies, it voluntarily chose to do so.

Overall, the problems we found in the Library's financial operations are similar to those found at other agencies we have audited for the first time. Specifically, our audit for fiscal year 1988 disclosed that the Library's operations fell short of meeting accounting standards in three areas:

- its ability to account for and control major groups of assets and liabilities, including its collection of an estimated 89 million books and other materials,
- its ability to produce reliable financial information needed to support internal management of its programs as well as external reporting to the Treasury and the Congress, and
- its ability to achieve the intended objectives and to control the funding provided for one of its major service programs.

Let me now turn to a more detailed discussion of each of the three major areas of weaknesses in the Library's financial operations, as well as the Library's efforts to address them.

ACCOUNTING AND CONTROL OVER ASSETS AND LIABILITIES IMPAIRED

Overall, we found the Library's financial records and controls to be in such poor condition that we were unable to audit a significant portion of its assets and liabilities. The Library had not taken a physical inventory, nor did it have any cost records, for its estimated \$14.5 million in furniture and furnishings. In addition, because it did not recognize an estimated \$23.6 million in liabilities, it could not identify amounts owed. We also found that it could not effectively prevent duplicate or incorrect payments.

Of particular concern was the Library's inability to effectively account for and control its collection of an estimated 89 million books and other materials. The Library did maintain a degree of physical security over its collection through (1) its police force (2) special precautions for invaluable items, and (3) various cataloging systems. However, we were unable to substantiate either the quantity or value--estimated at the time of our audit to be almost \$7 billion--of the items in the Library's collection. Library officials informed us at the time of our audit that they had a huge backlog of millions of items waiting to be inventoried and recorded in Library records. Without proper accountability and control, the Library's national treasures could be lost or misappropriated. Since the period covered by our review, Library officials informed us that they had obtained additional resources to help get bibliographic control over the

backlog of uncataloged collection items and to improve physical security over the collection.

FINANCIAL INFORMATION HAS LIMITED RELIABILITY

The second major area of concern we found was the Library's inability to produce reliable financial information. The Library had not uniformly prescribed, documented, or followed the policies and procedures required to effectively account for, control, reconcile, and report financial management information. In addition, it could not account for the full cost of providing reimbursable services to other agencies. This lack of control, as well as incomplete and nonintegrated systems, resulted in unreliable reporting for internal Library program management, as well as external reporting to the Treasury and the Congress. For example, our audit disclosed that the Library had little or no assurance that it was recovering the cost of reimbursable services provided, or whether it was under charging or overcharging its clients. It also had an estimated \$43 million more in property and equipment than shown in its fiscal year 1988 report to the Department of the Treasury, and the amount of 1988 Library revenue recorded in two different systems varied by about \$1.8 million.

Since the period of our audit, Library managers told us that they have taken a number of steps to address our concerns in this area, including

- establishing a framework of Financial Services Directives for issuing accounting principles and standards,
- establishing a basis for reimbursable service charges, and
- adopting a policy requiring annual reviews of the Library's accounting systems.

FEDLINK PROGRAM CONTROLS WEAK

The third major area of weakness we identified involved the Library's Federal Library and Information Network (FEDLINK) program. We found the Library's controls over this program--which provides bibliographic and data base retrieval services to an estimated 1,400 customers at volume prices--to be so weak that both its ability to achieve intended program objectives and its ability to comply with applicable laws and regulations, including the Anti-Deficiency Act (31 U.S.C. 1341 and 1517), is adversely affected. Specifically, we found that the Library awarded contracts to provide services which were not consistent with the purpose of the FEDLINK program. For example, we found that a \$200,000 contract was awarded under the FEDLINK program for a study of the U.S. Navy's facilities for testing acoustic antisubmarine warfare

devices. Such a study was clearly outside the FEDLINK program's bibliographic and data base retrieval service function.

We also found that the Library obligated FEDLINK funds without proper authorization or documentation, used expired funds and amounts in excess of authorized obligation limits to pay for FEDLINK services, did not satisfy competition requirements before awarding FEDLINK contracts, and could not demonstrate that all its FEDLINK automated data processing contract awards were properly authorized. In addition, the Library made unauthorized use of revolving gift funds and improperly accepted nonappropriated fund reimbursements as gifts.

New Library management has reported it is taking a number of steps to strengthen FEDLINK controls since the period covered by our audit.

Specifically, it reported establishing policies and procedures that

- restrict FEDLINK services to designated program purposes,
- prohibit the carryover of expired funds to pay for the following year's services,
- require documenting sole-source justifications for FEDLINK contracts over \$25,000,
- allow only the procurement of authorized ADP services,
- prohibit the use of gift fund accounts to accept and retain fees from nonfederal customers, and
- transmitted draft legislation to authorize it to transfer gift funds which are being used as revolving funds into a new Library of Congress revolving fund. A similar bill, S.1416, was introduced in the Senate in June 1991.

ACTIONS TAKEN, BUT SUSTAINED
IMPROVEMENTS STILL NEEDED

The Library has already taken a number of steps to address the conditions found in our audit. These steps, if properly carried out and monitored, should result in significant improvements over the situation we found in 1988.

However, the problems related to the Library's collection and its ability to accumulate its cost for services provided were not yet completely addressed at the close of our audit and needed prompt management attention.

While the Library told us it has initiated a number of actions to increase physical control over its collections, additional action is needed to bring its national treasures under accounting control. Such control is needed to help management carry out its stewardship responsibilities. We agree that it may not be practical to put financial values on all items in the Library's collection now. However, the Library should begin recording and maintaining cost information on all new acquisitions. If it does not start doing this now, future efforts to value items in the collection will be more difficult.

Another area requiring additional attention is the Library's ability to reliably accumulate costs for the reimbursable services it provides. Until the Library is able to at least reliably estimate such costs, it cannot assure itself that it has complied with the Economy Act requirement for charging agencies the actual cost of services provided, or with annual appropriation act restrictions on employees that can be paid from indirect cost reimbursements.

In conclusion, I would like to underscore the need for Library management to demonstrate strong financial management leadership and a sustained commitment to dedicating needed resources over a number of years. In particular, the Library must be vigilant to ensure that the necessary follow-up steps are completely implemented and monitored. This will be crucial given the complex and widespread nature of the weaknesses we found.

In our recent report, we identified three additional elements that we believed were needed to bring about lasting improvements in the Library's financial operations.

- First, designating and supporting a chief financial officer, who would be part of the Library's top management, would provide a focal point for establishing and implementing Library-wide internal control standards and guidance.
- Second, uniform internal control policies and procedures need to be established for the entire Library to ensure compliance with generally accepted accounting principles.
- The third essential element is to establish an overall financial management improvement plan. Such a plan would identify the magnitude of the Library's current financial management problems and establish goals and a schedule of milestones for meeting those goals. To be most useful, the plan would provide for regular reviews of operations (such as those conducted by executive agencies) and audits by internal and external auditors. Such reviews would have disclosed many of the problems discussed in this report and

alerted Library managers to the need for corrective actions.

We believe that these elements provide an excellent overall blueprint for establishing and maintaining an effective financial management structure for the Library.

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Mr. Chairman, this concludes my remarks. I would be happy to answer any questions you or other subcommittee members may have at this time.

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