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Report to the Librarian of Congress

August 1991

FINANCIAL AUDIT

First Audit of the Library of Congress Discloses Significant Problems

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GAO

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General Accounting Office
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Accounting and Financial
Management Division

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The Honorable James H. Billington
Librarian of Congress

Dear Dr. Billington:

In response to your request to provide you with a better understanding of the Library's financial affairs, we audited the financial operations of the Library of Congress. Specifically, as part of our work, we examined available financial information on the Library and reviewed its internal accounting controls and its compliance with laws and regulations for the fiscal year ended September 30, 1988. This report covers the results of our audit for fiscal year 1988 and points out steps that the Library has taken and needs to take to improve its financial operations.

This was the first attempt to audit the financial operations of the Library. Because audited opening balances were not available for the Library's statements of operations and cash flows, our review was limited to the consideration of financial information in its consolidated statement of financial position as of September 30, 1988. Further, practical limitations on our ability to apply certain procedures required by generally accepted government auditing standards precluded us from giving an opinion on this statement. Otherwise, our work was performed in accordance with generally accepted government auditing standards.

Results in Brief

We found the Library's financial and accounting records to be in such poor condition that we were unable to audit significant account balances. Because of weaknesses in the Library's financial management operations, its ability to account for and control its collection of an estimated 89 million books and other materials was limited. Also, the risk was high that (1) other assets could have been lost or misappropriated, (2) material errors or irregularities could have occurred in the processing of the Library's financial transactions without being promptly detected, (3) appropriated funds could have been used for purposes other than those intended by the Congress, and (4) Library programs and activities could have been operated in a manner not intended by agency management or the Congress.

A detailed discussion of the Library's internal control deficiencies is presented in appendix I. Appendix II discusses instances in which the Library did not comply (or in which we could not assess the Library's compliance) with applicable laws and regulations. Appendix III presents the consolidated statement of financial position as of September 30, 1988, and the limitations which precluded an audit opinion thereon. We caution users that this consolidated statement has limited reliability.

Accounting and Control of the Collection and Other Assets and Liabilities Impaired

We are seriously concerned about the limited controls over the Library's collection of books and other materials. While the Library provides a degree of physical security over its collections through (1) its guard force, (2) special precautions for invaluable items, and (3) various cataloging systems, its quantity records related to the collection are not accurate and dollar accountability is not maintained. Neither the quantity of items in the Library's collection nor the value of the collection (estimated to be $6.8 billion at year-end) could be substantiated. Without proper accountability and other related internal controls, losses or misappropriations can occur and not be detected and the Library's ability to protect this national treasure is limited.

In addition:

- the Library had no cost records for its furniture and furnishings,
- the Library could not support its reported accounts receivable or its advances from others and failed to record other liabilities, and
- the Library could not effectively prevent duplicate or incorrect payments.

Financial Information Has Limited Reliability

The Library was unable to produce reliable financial management information needed to support internal management of its programs and activities as well as its external reporting to the Treasury and the Congress. Our review disclosed a number of instances where the Library did not follow generally accepted accounting principles (GAAP) for the federal government and internal control standards prescribed in GAO's Policy and Procedures Manual for Guidance of Federal Agencies.[1]

[1]As a legislative branch agency, the Library is not bound by the requirement in 31 U.S.C. 3511 that executive agencies comply with the accounting principles and standards prescribed by the Comptroller General. However, the requirements in Title 2 as well as in other titles of that manual, such as Title 7, which deals with fiscal procedures, do provide effective financial management controls. The Library chose in preparing its 1988 financial statements to follow the reporting requirements of Title 2.

Library management had not otherwise provided the internal control guidance needed to ensure the effective integration of its systems and processing of its financial transactions. Specifically,

- uniform accounting policies and procedures were not prescribed, documented, or followed (appendix I),
- the financial management system was not complete or integrated (appendix I),
- routine reconciliations of accounts were not conducted (appendix I), and
- no method existed to reliably determine the cost of reimbursable services the Library provides to others or to ensure that it complied with restrictions on employees paid from indirect cost reimbursements (appendix II).

FEDLINK Program Controls Weak

Weaknesses in the Library's controls over its Federal Library and Information Network (FEDLINK) bibliographic and data base retrieval services provided to federal agencies have adversely affected both its ability to achieve intended program objectives and its ability to comply with applicable laws and regulations. As a result, the Library was unable to ensure proper fund control and was vulnerable to violations of the Anti-Deficiency Act and other relevant statutes. Specifically, the Library

- awarded contracts to provide services which were not consistent with the purpose of the FEDLINK program (appendix I),
- used expired funds (appendix II) and amounts in excess of authorized obligation limits (appendix I) to pay for FEDLINK services,
- obligated FEDLINK funds without proper authorization or documentation (appendix I),
- did not satisfy competition requirements before awarding FEDLINK contracts (appendix II), and
- could not demonstrate that its automated data processing (ADP) contract awards under the FEDLINK program were properly authorized (appendix II).

In addition, as set forth in appendix II, the Library made unauthorized use of revolving gift funds and improperly accepted nonappropriated fund reimbursements as gifts.

Library Has Initiated Action

Since the period covered by our review, new Library managers have reported taking a number of steps to improve the conditions described in this report, including

- obtaining resources to get bibliographic control over the backlog of uncataloged collection items,
- establishing a framework of Financial Services Directives for issuing accounting principles and standards,
- adopting a policy requiring annual reviews of the Library's accounting systems,
- conducting a study to establish a basis for overhead charges on reimbursable services,
- restricting FEDLINK services to designated program purposes,
- discontinuing the carryover of expired funds to pay for the following year's FEDLINK services,
- documenting sole-source justifications for FEDLINK contracts over $25,000,
- adopting a policy allowing only the procurement of authorized ADP services, and
- stopping the use of gift fund accounts to accept and retain fees from nonfederal customers.

These steps, if properly carried out and monitored, should result in significant improvements over the situation we found in 1988. However, many of the problems in the Library's financial management operations are wide-ranging and will require a sustained effort and additional resources over a number of years before they are fully corrected. In addition, the problems related to the Library's collection have not yet been completely addressed and need prompt management attention.

To ensure full implementation of the above actions and to correct the problems discussed in this report, we are recommending that you designate a chief financial officer to act as the focal point to (1) bring the Library's collection under good accounting control, (2) establish policies and procedures that are consistent with Title 2, and (3) develop and implement a financial management improvement plan with specific milestones. Our specific recommendations are set forth in more detail in our reports on internal accounting controls (appendix I) and on compliance with laws and regulations (appendix II).

Agency Comments and Our Evaluation

The Library of Congress provided written comments on a draft of this report. These comments are presented in appendix IV. The Library generally agreed with our findings and recommendations. It also pointed out actions already taken to bring its collection under bibliographic and physical control, improve its overall financial policy and direction, correct deficiencies in the financial operations of its FEDLINK program, and request statutory authority for its revolving fund activities.

However, the Library disagreed with our findings in two areas. First, it disagreed that it should attempt to value its collection now because such valuation would not be practical until it has a complete item listing. As discussed in appendix I, we believe the Library should record and maintain 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.

The Library also disagreed that its records were inadequate to assess compliance with the statutory limit of 65 on the number of employees paid from indirect cost reimbursements. Our audit disclosed that the Library lacks a reliable method to accumulate costs; therefore, as discussed in appendix II, it cannot ensure that it is complying with the employee limitation.

We are sending copies of this report to the Senate and House Appropriations Committees; the Joint Committee on the Library; the Senate Committee on Rules and Administration; and the Subcommittee on Libraries and Memorials, Committee on House Administration. We would like to thank you and your staff for the cooperation and courtesy provided during our review.

Sincerely yours,

Donald H. Chapin
Assistant Comptroller General

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Abbreviations

ADP	automated data processing
BOA	basic ordering agreement
CFO	Chief Financial Officer
FARS	Financial Accounting and Reporting System
FEDLINK	Federal Library and Information Network
FMFIA	Federal Managers' Financial Integrity Act
GAAP	generally accepted accounting principles
GAO	General Accounting Office
GSA	General Services Administration

Report on Internal Accounting Controls

As part of our attempt to audit the financial statements of the Library of Congress as of September 30, 1988, we made a study and evaluation of the system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards.

The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Library's financial statements. For purposes of this report, we have classified the significant internal accounting controls into the following categories:

- the collection,
- financial reporting,
- payroll,
- procurement,
- property and equipment,
- revenue, and
- treasury.

We limited our study and evaluation of the control categories listed above to a preliminary review of the system in order to obtain an understanding of the control environment and the flow of transactions through the accounting system. Because we could not rely on the Library's internal control system, and because it was more efficient to expand substantive audit tests, our study and evaluation of the internal accounting controls did not extend beyond this preliminary review phase.

The Library's management is responsible for establishing and maintaining an effective system of internal accounting controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal accounting controls are to provide management with reasonable assurance that (1) obligations and costs are in compliance with applicable laws, (2) funds, property, and assets are safeguarded against waste, loss, and unauthorized use or misappropriation, and (3) assets, liabilities, revenues, and expenditures applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over the Library's assets. Because of inherent limitations in any system of internal accounting controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

Our preliminary review of the system disclosed conditions that we believe increase the risk that errors or irregularities that are material to the Library's financial statements could occur and not be promptly detected. We believe that many of these conditions could have been prevented had the Library followed the accounting and financial management standards applicable to other federal agencies.

Under 31 U.S.C. 3511 and 3512, federal executive agencies are required to conform to GAAP and the internal control standards prescribed by the Comptroller General. These requirements are found in GAO's Policy and Procedures Manual for Guidance of Federal Agencies. These requirements are not applicable to the Library since it is a legislative agency. However, because Library officials have expressed their intent to comply with many of these requirements, we cite them as criteria throughout the remainder of this report.

Federal executive agencies are also required to comply with the Federal Managers' Financial Integrity Act (FMFIA) and the Chief Financial Officers (CFO) Act of 1990. FMFIA requires agencies annually to assess their internal controls, report on weaknesses, and develop a plan to strengthen weak internal controls. The CFO Act establishes chief financial officers and provides for improvements in accounting systems, internal controls, and financial management to ensure the issuance of reliable financial information. Among its major requirements are the (1) annual preparation and audit of financial statements and (2) preparation and annual update of a 5-year system improvement plan. The 5-year plan is to include a system integration strategy and relevant milestones. As a legislative branch agency, the Library is not required to adhere to the requirements of either FMFIA or the CFO Act. However, we believe that these requirements provide a framework for effective action by the Library to improve its financial management.

Our review disclosed a number of conditions that constituted material weaknesses in the Library's system of internal controls. We found that the Library's internal control policies, as well as its procedures governing the accounting and reporting of financial management information:

- did not ensure that Library assets were properly accounted for, and that both assets and liabilities were accurately recorded and reported;
- were not uniformly prescribed, documented, or followed; and
- did not ensure that FEDLINK (1) awarded contracts consistent with its program purposes, (2) provided and paid for services within applicable appropriation limits, and (3) properly recorded obligations.

Since we completed our work, the Library has taken a number of actions to improve its internal controls. These actions represent an important first step toward addressing the material weaknesses affecting the Library's system of internal controls. When completed, these actions should result in an improved system of internal controls for the Library. However, given the magnitude and widespread nature of the Library's internal control weaknesses, completion of its planned corrective action will require a substantial, sustained commitment of resources over a number of years.

Assets and Liabilities Not Controlled

The Library had not established internal control policies and procedures to account for and control its assets and liabilities during fiscal year 1988. Specifically, we found that its internal control policies and procedures (1) did not provide adequate accountability for the estimated 89 million items in the Library's collection or for its other property and equipment, (2) resulted in the misstatement of the Library's accounts receivable, and (3) resulted in the understatement of liabilities and impeded its payment process from effectively preventing incorrect or duplicate payments.

Library Collection and Other Property and Equipment Not Controlled

The Library estimated that its collection contained nearly 89 million items worth about $6.8 billion as of September 30, 1988. Among the Library's collection are many valuable and irreplaceable items, including a rough draft of the Declaration of Independence, a Gutenberg Bible, the first and second drafts of the Gettysburg Address, and musical instruments, including Stradivari violins. We estimated that it also had about $73 million in other property and equipment at the end of fiscal year 1988.

The Library has established measures to provide physical security over its assets. Guards are stationed at each exit to scrutinize people leaving the Library to ensure that they are not removing Library items. More valuable items in the collection are kept in special secured areas, under lock and key. The Library's Divisions use various cataloging systems, including automated and manual methods to try to track their various holdings.

The Library did not have internal control policies and procedures to accurately determine the size of its collection or the value of its property and equipment. Title 2 requires that property records be established and maintained to show all acquisitions, whether by purchase or donation, as well as disposals. It also requires that when assets, such as those in the Library's collection, are reported in the financial statements, they be recorded in the accounting records at acquisition cost (if purchased), fair value (if donated or if cost records are not available), or carrying value (if transferred from another agency). GAAP permit libraries to disclose their book collections as notes to their financial statements. The internal control standards also require that periodic physical counts of all property be performed and compared with recorded amounts. The Library had not prescribed procedures to control and to provide a complete and accurate record of (1) the cost or fair value and the date of acquisition for items in its collection and (2) the quantity of items in its collection. In addition, the Library did not have policies and procedures requiring a periodic physical inventory of its collection. As a result, it did not know either the quantity or value of the assets in its collection and was unable to provide assurance that it could effectively manage the collection or safeguard it from theft, vandalism, and accidental destruction.

We found that the quantities reported for the Library's collection were based on unsubstantiated records accumulated over many years. The values were based on the judgment of division chiefs responsible for the collection. The division chiefs told us that their records were not used to support the estimate of 89 million items in the various categories of the collection as of September 30, 1988, and that they did not believe that the reported quantities were reliable. For example, we found that the Library lacked internal control policies and procedures to ensure that recent acquisitions that were waiting to be cataloged were properly accounted for and controlled. One division chief told us that an estimated two-thirds (or about 9 million) of the items he is responsible for had not been inventoried and recorded in any Library accounting or property records. An official from another division told us that about 600,000 items acquired within the past 5 years were stored in boxes in a warehouse, waiting to be inventoried and recorded.

Division chiefs, who had custodial responsibility for different categories in the collection, attempted to create some records of the property in their custody. However, lacking centralized internal control policies and procedures, the policies and procedures vary and do not meet Title 2 requirements. For example, we determined that some division records contain titles and bibliographic information while other division records are in the form of "shelf lists," which identify only the locations of particular items. These types of records are not satisfactory property records for maintaining accountability and achieving effective financial management because they do not indicate such critical data as quantities on hand, cost or fair value, and date acquired. Since the Library's records did not permit us to determine the quantities on hand, and physical counts had not been conducted, we were unable to determine how many items may have been omitted from the property records.

In addition to the Library's lack of a cumulative general ledger balance for property and equipment discussed later in this appendix, we found that (1) there were no records for furniture and furnishings, which is one category of property and equipment, and (2) the Library did not conduct a physical inventory of its furniture and furnishings. While we developed information indicating the value of the Library's property and equipment at the end of fiscal year 1988 to be an estimated $73 million, we could not substantiate the accuracy or reliability of this estimate.

Included in our overall estimate of the Library's property and equipment at $73 million, net of accumulated depreciation, is an estimated $14.5 million for furniture and furnishings, net of accumulated depreciation. We derived the $14.5 million estimate by compiling outlays for furniture and furnishings over the last 15 years and then deducting our estimate of accumulated depreciation. This compilation included all expenditures for furniture and furnishings during this 15-year period, regardless of whether they met the criteria for capitalization. Such information does not allow the separation of capitalizable items from total expenditures or the determination of useful lives as required by GAAP. Specifically, GAAP require that all property with an initial acquisition cost of $5,000 or more, and an estimated useful life of 2 years or more, be capitalized, recorded in property records, and reported in financial statements.

In its 1991 budget, the Library requested and received resources to work on its plan to reduce its unprocessed backlog of collection items and bring it under bibliographic control. For fiscal year 1992, the Library requested additional resources to ascertain the existence and condition of each item in its collection and to provide for the use of bar code labels to control the movement of items in the collection. Its fiscal year 1992 resource request included funds for conducting a physical count of furniture and furnishings and for establishing and maintaining inventory records for furniture and furnishings.

Accounts Receivable Not Determinable

We were unable to determine whether the Library's $35 million in reported accounts receivable as of the end of fiscal year 1988 was correct. However, this amount improperly included amounts for which services had not yet been performed in conjunction with its reimbursable programs and excluded amounts due from nonfederal or quasi-governmental customers, which should have been reported as receivables. Also, it had not recorded a liability for advances received.

GAAP require that amounts received in advance of the provision of services should be recognized as a liability until services are rendered. When the services are rendered, GAAP also require that the applicable portion of the liability be recorded as revenue, with corresponding adjustments to the liability account. Also, a receivable should be established for the amount of any reimbursable services provided for which reimbursements have not been received.

We found that, for the Library's largest reimbursable programs (including FEDLINK), its internal control policies and procedures improperly permitted it to recognize not-yet-earned revenue and related accounts receivable. A Library official told us that he recorded an account receivable when he sent a customer agency a request for an advance payment in the amount of the agency's anticipated usage of reimbursable services. The Library did not have controls to enable it to distinguish, in its accounting records, between (1) the amount of the reported $35 million in accounts receivable it had earned by providing services and (2) the amount which should not have been recognized as accounts receivable because services had not yet been performed. Because the Library records did not indicate whether the related services had been performed when receivables were recorded, we were unable to determine how much of the reported $35 million in accounts receivable should have been reduced at the end of fiscal year 1988 to reflect the amount of reimbursable services the Library had yet to perform.

The Library operated on a cash basis, rather than an accrual basis as prescribed by GAAP, when accounting for FEDLINK transactions involving services to customers it considered to be nonfederal or quasi-governmental. We reviewed a file of 10 unprocessed agreements for about $76,000 in services as of fiscal year-end. These agreements had been signed but had not been entered in the accounting records. For eight of these agreements, worth about $74,000, we found that FEDLINK services had been provided to the customers in accordance with the signed agreements, and the Library had made payments to vendors. However, the Library did not establish accounts receivable when services had been provided to these nonfederal or quasi-governmental customers and recognized revenue only when cash was received.

At the end of fiscal year 1988, the Library was unable to determine what portion of the advances it had received was for services that had not yet been performed. The $46.5 million liability for advances received and reported in the Library's fiscal year 1988 financial statements is an unsubstantiated estimate based on the year-end balances recorded in the general ledgers as undelivered orders for its reimbursement programs. (See note 14, appendix III.)

Rather than revising its accounting system to report accounts receivable based on services rendered instead of billings sent, after our review, the Library reported that it had reduced its accounts receivable by actions such as eliminating service to delinquent customers. Its $35 million in accounts receivable as of September 30, 1988, was reduced to $8 million as of March 21, 1991, according to Library officials. Library officials also said that they no longer treat nonfederal or quasi-governmental customers differently from other customers, and do not deal with any who are not authorized to use federal supply sources.

Payment Process Not Controlled

The Library did not control its payment process. Specifically, we found that the Library did not record its liabilities as they were incurred and was unable to effectively prevent duplicate or incorrect payments. As a result, the Library did not recognize an estimated $23.6 million in liabilities at the end of fiscal year 1988, and, although we did not conclusively identify any duplicate or incorrect payments, weak controls over payments increase the Library's vulnerability in this area.

Title 2 requires that liabilities be recorded when goods and services are received. To determine whether the Library's payment process included the prompt recording of liabilities, we reviewed the payment process and found that the Library was recording liabilities when the invoices were in the process of being paid, without regard to the receipt of the related goods and services. As a result, the Library could not readily determine how much it owed vendors for the goods and services it had received.

To determine the amount of Library liabilities that had not been recorded in the accounting records at fiscal year-end, we reviewed the Library's payments to vendors during the first 3 months after the close of the fiscal year. From a sample of 579 invoices paid throughout that 3-month period, we identified the vendor charges applicable to fiscal year 1988 and applied the percentages found to the total invoices paid each month. As a result, we estimated that the Library had not recorded liabilities of about $23.6 million as of fiscal year-end. At our suggestion, the Library made adjustments to recognize these additional liabilities in its September 30, 1988, statement of financial position.

We also noted several weaknesses in the Library's controls to prevent incorrect payments to vendors. Title 7 requires that (1) vendor invoices be voided after payment to prevent reuse in the payment process, (2) payment be made only on original invoices, rather than copies, unless special authorization is obtained, and (3) any changes on payment vouchers indicate proper authorization. Although we did not identify any duplicate or incorrect payments, the weaknesses we found in fiscal year 1988 transactions that increase the Library's vulnerability in this area include the following:

- Library staff did not void vendor invoices after payment to prevent reuse in the payment process. Instead, payment data were entered on voucher worksheets or other cover sheets which were not permanently attached to the invoices; there was no payment stamp, label, or written notation on the invoices. If some of these invoices became detached from the cover sheets, they could accidentally be reentered into the payment process and paid again without detection.
- Payments were made, without approval, on copies or duplicates of invoices. We were told that sometimes the program offices submit duplicate invoices or copies rather than the original. In other cases, the invoice is misplaced and the vendor is asked to submit a duplicate. In one instance, the Library paid a vendor $9,405 based on a duplicate copy of an invoice. In another instance, the Library paid $137 based on a triplicate copy of an invoice. In both instances, we could find no explanation of why payments were made on other than the original invoices. Without adequate document control and supervisory approval, unauthorized transactions could be entered into the payment process.
- Amounts were changed on payment vouchers after they had been approved for payment, with no indication as to who made the changes

or why. On one voucher we examined, a payment listed for $60,980 was changed to $62,173, with no explanation or identifying signature. On another voucher, a payment of $1,459 was added without explanation or identification.

In addition to weaknesses in the Library's controls allowing duplicate and incorrect payments, weak controls also impede identifying and correcting such payments. Specifically, the Library did not maintain payment records (for example, paid invoice files or listings of invoices paid) in a manner that allowed it to readily identify specific invoices it had paid. The automated files maintained data by vendor and date paid but did not identify individual invoices paid. Consequently, in order to identify any duplicate or incorrect payments, the Library staff would have to manually search previously processed payment packages and review the individual invoices paid to a vendor in question.

Library officials informed us after our review that they have revised the Library's procedures for estimating accounts payable for fiscal year-ends 1989 and 1990 so that they would more closely approximate actual amounts owed. They also said they began to improve controls over payment processing by voiding vendor invoices after processing, and by no longer paying on copies of invoices, or letting employees change payment vouchers without a supervisor's approval. These changes have not yet been incorporated into written procedures.

Financial Management Policies and Procedures Not Uniformly Prescribed, Documented, or Followed

The Library had not uniformly prescribed, documented, or followed the policies and procedures required to effectively control the accounting and reporting of its financial management information. We found that this resulted in a financial management system that was not complete or integrated. We also found that a fundamental accounting procedure, the routine reconciliation of accounts, was not being performed, which allows erroneous reporting to persist.

Because the Library lacked these fundamental policies and procedures, it had little or no assurance that personnel involved in processing financial transactions among the Library's various components were acting in conformance with management's policies or with the requirements of financial management laws and regulations. In the absence of such guidance, we found that staff tended to develop their own procedures to meet their needs. Consequently, there is no assurance that the resulting financial data will be accurate, compatible, consistent, and in accordance with Library policy and GAAP. As a result, the Library could not ensure the accuracy and reliability of the financial information included in its internal management reports or in its external reports.

Weaknesses in the Library's internal control policies and procedures affecting its overall financial management system structure—specifically integration and reconciliation—are covered in this section. Weak Library internal control policy and procedures also affect its ability to account for and control budgetary resources and other assets and liabilities and are discussed in other sections of this report.

Financial Management System Not Complete or Integrated

The Library did not have centralized policies and procedures needed to control and integrate its financial management system, including a general ledger supported by subsidiary Library accounting systems. As a result, the Library had no assurance that its financial reports were complete, accurate, and reliable.

Accounting system standards in Title 2 require that the annual financial statements be the culmination of the entity's accounting and budgeting system that is an integral part of its total financial management system. An agency's accounting system should also provide for the accumulation of cost data to account for and manage available resources.

An accounting system which complies with these standards would have a number of interrelated subsidiary systems. These include a general ledger and subsidiary systems that account for and control specific assets and liabilities as well as authorize the use of, and account for and control, appropriated funds and other resources. Taken as a whole, the accounting system authorizes, records, classifies, and reports financial data related to revenues, expenses, costs, assets, liabilities, and government equity. Accounting system standards in Title 2 also require that accounting systems include safeguards to ensure data integrity.

The general ledger should maintain summary information on the agency's assets, liabilities, equity, revenues, expenses, costs, losses, and gains and produce summary financial reports which provide the necessary information for preparing financial statements. The general ledger should be established and operated so that it will provide control over, and draw information from, the subsidiary systems that initially authorize, record, process, and report individual financial transactions. Consequently, the information presented in an agency's financial statements should be traceable to its general ledger and subsidiary systems.

The Library uses the automated Financial Accounting and Reporting System (FARS) for the general ledger portion of its accounting system. During our review of the Library's accounting operations, we found that FARS was not integrated with the numerous systems that generate accounting data, and consequently did not contain all the data necessary to produce the required year-end financial reports. FARS did not have information on accounts payable, property and equipment owned by the Library, the Library's collection of books and other materials, or on the cost of reimbursable services provided to other federal agencies and other entities. For example, because the Library had not established centralized internal control policies and procedures to guide the establishment and operation of its general ledger, it had—during its year-end closing procedures—improperly deleted from its general ledger the cost of property and equipment purchased during fiscal year 1988. As a result, FARS had a zero cumulative balance for the Library's property and equipment at the end of fiscal year 1988. Financial information needed to support these major accounts had to be reconstructed from sources outside the Library's general ledger (for example, program managers and property systems) to support the preparation of year-end financial reports.

In addition, the Library had no internal control policies and procedures in place to ensure the accuracy of the data obtained from these other sources. For example, our examination of the value of the Library's property and equipment obtained from other sources showed it to be unreliable. In an attempt to determine the reliability of the value of property and equipment for financial statement presentation, we interviewed managers and examined available procurement and budget office records. Based on this work, we estimated that the Library owned $73 million worth of property and equipment, net of accumulated depreciation at the end of fiscal year 1988. Our estimate is about $43 million more than the Library disclosed in its fiscal year 1988 report to the Department of the Treasury.

According to Library officials, the various units operated their own accounting or financial management systems with few or no policies and procedures regarding standard controls that should be used. Several Library officials told us that each unit acted in its own interest and independently determined the extent of controls needed in its own systems and operations. If Library units are permitted to operate systems with differing control requirements, the Library will be unable to ensure the integrity of the data used as a basis for its financial reporting. As a result, the Library's financial reports may include duplicate or incompatible information. For example, Library program personnel from two different components used separate systems to record and account for revenues from the Library's reimbursable programs. We found that the amount of 1988 revenue recorded in the two systems differed by about $1.8 million.

In addition, the Library had not established policies and procedures needed to account for the recovery of the full cost of providing reimbursable services to other federal agencies. Consequently, the Library had little or no assurance that it was recovering the cost of providing these services, or whether it was under- or overcharging its clients.

Since we completed our work, the Library developed and promulgated a regulation and began issuing a new series of directives to establish the accounting principles and standards to be followed throughout the Library. The regulation included a list of financial management systems, including subsidiary systems, and established a requirement for annual reviews of all its financial management systems. The Library has issued three directives as of March 1991. In addition, the Library has reorganized its financial management operations by establishing a Financial Systems Office to be responsible for documenting accounting procedures, and has also issued a general plan to reach a long-term goal of audited annual financial statements. Library officials also told us that new year-end closing procedures were adopted at the end of fiscal year 1989 to record values for a number of accounts in the general ledger, including estimated unearned revenue, previously unrecorded accounts receivable, equipment, and depreciation. However, they also told us that they had not prepared written guidelines that documented these procedures.

Officials said that they do not have the resources needed to move quickly toward the goal of audited financial statements. They told us that they have requested funds in the fiscal year 1992 budget for two systems accountants and two systems analysts to document and carry out its planned system improvement efforts.

Accounts Not Routinely Reconciled

We found that the Library had not established policies and procedures requiring routine reconciliation of the general ledger control accounts with subsidiary records. As a result, the Library could not identify and correct any errors in the accounts before they adversely affected the reliability and accuracy of its financial statements and other financial management information.

Accounting system standards in Title 2 require that reconciliations between summary and detailed records be periodically performed and documented and that adjustments, if necessary, be made promptly to properly bring these records into agreement. If it is determined that two sets of independently derived records are not in agreement, management is alerted to a potential problem. It can then follow up to determine the reasons for lost assets or failed procedures and correct the errors or system weaknesses. Reconciliation requires identifying, investigating, and resolving all discrepancies between general ledger control accounts and subsidiary records and, where warranted, making the appropriate adjustments to either the subsidiary records or to the general ledger control accounts.

We found that although differences existed between the general ledger account balances and subsidiary records, Library management had not established internal control policies and procedures requiring the Library staff to reconcile these differences. For example, the amounts of revenues and related account balances recorded in FARS did not agree with subsidiary account records maintained by the Photoduplication Service, and by the Motion Pictures, Broadcasting, and Recorded Sound Division. The FARS general ledger showed about $40,000 more in revenue than the Photoduplication Service's records for fiscal year 1988. Similarly, the 1988 revenue recorded in the FARS general ledger for the Motion Pictures, Broadcasting, and Recorded Sound Division differed by more than $14,000 from that division's records. We found no evidence that any attempt had been made to reconcile these differences.

In addition, as discussed previously, the Library had not conducted, or established policies and procedures requiring, periodic physical inventories of its collection or other property. Consequently, it also had not reconciled such inventory counts to either its detailed subsidiary or general ledger accounts for these assets as required by Title 2.

Weak Controls Over FEDLINK Program

The Library did not control Federal Library and Information Network program operations to ensure that funds were properly expended. The Library's FEDLINK program operates under the Economy Act to support federal library and information centers in the procurement of books, serials, and computer-based information retrieval services for an estimated 1,400 FEDLINK members. The purpose of the program is to consolidate many federal agencies' needs for these services and to obtain lower volume prices from vendors than each individual agency could. To achieve these savings, the Library instituted FEDLINK program procedures to award a large volume of standardized contracts.

An agency must have sufficient internal controls to ensure that obligations and expenditures are made in conformance with applicable legal requirements and policy guidelines. Specifically, the Library's internal control policies and procedures over its FEDLINK program operations were not sufficient to ensure that

- the purposes of the FEDLINK contracts were consistent with the program's objectives;
- FEDLINK fund obligations were limited to available budget authority;
- FEDLINK obligations were based on properly authorized purchase orders or other documents establishing the existence of a binding contract; and
- FEDLINK obligations were authorized by responsible program officials acting within the scope of their authority.

As a result, the Library was unable to ensure proper fund control and was vulnerable to violations of the Anti-Deficiency Act and other statutes governing the Library's actions.

FEDLINK Contracts Not Limited to Program's Purposes

The Library did not establish the internal controls to ensure that FEDLINK contract awards were consistent with the purpose of the FEDLINK program. Our judgmental sample of 242 FEDLINK contract awards, 7 percent of the total 3,529 FEDLINK contract awards during fiscal year 1988, showed that 55 percent of the contracts, valued at $43.7 million, were for purposes other than that of the FEDLINK program. This amount represented 37 percent of the $117 million in FEDLINK contracts awarded in 1988.

The Library did not institute policies and procedures to ensure that FEDLINK contracts would be limited to the standardized contracts for bibliographic and data base services.

We found that the following contracts were awarded in fiscal year 1988, even though they were not consistent with the purpose of the FEDLINK program:

- a $200,000 contract for a study of the U.S. Navy's facilities for testing acoustic antisubmarine warfare devices,
- a $24,000 contract for a study of data relating to nuclear submarine overhauls in public shipyards,
- a $137,000 contract to develop an engineering change proposal tracking system for the Navy, and
- a $355,000 contract for converting engineering drawings to digitized data to be stored in the Engineering Data Computer Assisted Retrieval System for the Air Force.

We found instances in which separate statements of work were needed to clarify the contracts which we identified in our sample as not being within the scope of the FEDLINK program. Contracts to provide access to automated bibliographic and data base retrieval services generally do not require such separate statements of work.

The Library informed us that, since fiscal year 1988, it stopped accepting contracts for purposes outside the scope of FEDLINK and named the Associate Librarian for Management as contracting officer on ongoing contracts of that type. It also advised both its vendors and its customers that certain items would no longer be available through FEDLINK, such as specialized development or maintenance of data bases, customized software, and equipment. According to FEDLINK reports, use of this category of FEDLINK service (research services) dropped from $45 million in fiscal year 1988 to $1.4 million in fiscal year 1989.

FEDLINK Services Provided Exceeded Available Amounts

We found that the Library did not have sufficient internal control procedures to ensure that FEDLINK obligations did not exceed available obligational authority. As a result, at the end of fiscal year 1988, the Library had provided FEDLINK services over the amount of budget authority customers had made available to the Library. Specifically, we found that 262 of 3,529 customer accounts had funding shortages that resulted in negative balances amounting to about $372,000 at fiscal year-end.

Title 7 requires the performing agency in an interagency reimbursable program to monitor costs and obligations to ensure that they do not exceed available obligational authority. Thus, the Library is responsible for (1) ensuring that the cost of services provided does not exceed the estimate for the services requested—the amount of obligational authority received—and (2) immediately notifying the requesting agency and curtailing performance if it becomes evident that the cost will exceed the authorized amount available.

The Library does not have internal control policies and procedures to ensure that it does not incur obligations in excess of the amount of funds transferred to the Library on an individual basis. When the Library entered into contracts with FEDLINK vendors in fiscal year 1988, it did not establish a control procedure to ensure that the total amount of obligations it incurred for FEDLINK services at each participating agency did not exceed the amount of available funds. Instead, the obligations for all agencies using a particular vendor were combined in the accounting records. Thus, a vendor could provide services to customer agencies to the extent of the remaining available obligational authority in a vendor's account, without considering the cost of service provided to any one agency. The Library's lack of controls over the obligational authority on an agency basis prevented it from effectively ensuring that obligations were not incurred in excess of authorized obligational authority.

Our tests revealed 30 cases in which FEDLINK customers were requested to provide funding for fiscal year 1988 FEDLINK services when they renewed their fiscal year 1987 interagency agreement, but did not do so until up to 11 months had expired. According to a Library official, services continued to agencies which were expected to renew their contracts and, thus, were continued in all 30 of the above cases. Although it did not yet have obligational authority transferred from the other agencies, the Library paid for these services using its own appropriated funds.

Library officials told us that, since the completion of our work, they have instituted procedures to help ensure that services provided to customers do not exceed available amounts. Specifically, they have established new Library policy, providing for (1) rejection of all invoices exceeding obligated amounts available, and (2) cancellation of services to customers who do not renew their interagency agreements by transferring obligational authority promptly.

FEDLINK Obligations Not Based on Proper Documentation

The Library did not have internal control policies and procedures in place to ensure that all FEDLINK obligations were based on proper documentation. Without proper documentation, the Library cannot ensure that its obligations are made for the correct amounts.

The criteria for validly recording obligations are set forth in 31 U.S.C. 1501(a) and Title 7. One of these criteria requires agencies to obtain documentary evidence of the existence of a binding agreement between the agency and another agency (or person) before recording a valid obligation.

Under the FEDLINK program, the Library negotiates and executes a basic ordering agreement (BOA) with each vendor. A BOA is an agreed-upon set of terms and conditions under which the vendor will supply services to the federal government. Although it facilitates contracting, a BOA is not a contract and thus is not binding on the Library. The actual contract between the vendor and the government is formed when the Library places an order with a vendor to provide services to an agency and the vendor accepts the order. The ordering documents, which are binding on the Library, are either in the form of (1) amendments to prior Library BOAS with FEDLINK vendors, which include detailed statements of work or (2) letters to FEDLINK vendors to notify them to begin services and indicate the level of funds each agency has committed to the vendors.

We reviewed orders placed with 14 of 131 FEDLINK vendors, representing $67.4 million of $90.9 million in program obligations for fiscal year 1988. In each of the 14 cases we found that when the Library placed FEDLINK orders, the binding documents requesting the vendors to provide their services were not used to record the obligations. For example, the Library notified a vendor in a letter dated June 30, 1988, to begin providing services to an agency. The letter stated that the funding level was $251,429. We were unable to match any of the documents that the Library used to obligate funds for the services ordered from that vendor in fiscal year 1988 to the amount of services ordered in the letter. Also, in a letter dated September 2, 1988, the Library notified a vendor to begin providing services to another agency and stated that the funding level was $1.6 million. We reviewed all documents used to obligate funds for that vendor in fiscal year 1988 but none matched the amount of services ordered in the letter.

For these 14 vendors, we found that unsigned requests, which may include several orders not specifically identified, were prepared in the FEDLINK program office and submitted to the accounting office for use in obligating funds. In entering the obligations, the accounting office had no way of knowing whether the amounts being entered were based on binding ordering documents identifying both specific customer agency and vendor. Consequently, the Library had no assurance that all recorded obligations were properly authorized, or that all proper obligations were recorded.

The Library has changed the procedure by which the FEDLINK office notifies the accounting office to obligate funds. Specifically, beginning in fiscal year 1991, the Library requires that when FEDLINK sends the accounting office a signed notice of obligation of funds, it also attaches a list of individual customers, the total of whose orders equals the amount on the notice of obligation. If this procedure is properly implemented and monitored, it should help ensure that FEDLINK vendor orders match the notice of obligation that accounting uses to support the obligations in its records.

FEDLINK Contracts Not Authorized by Responsible Official

The Librarian of Congress delegated contracting authority for the FEDLINK program to the chief of the Procurement and Supply Division. Under this delegation, all Library contracts with FEDLINK vendors must be signed by this official or his contracting officers. We found that the contracts with FEDLINK vendors were signed by personnel who did not have contracting authority. We also found that an individual who had several incompatible duties was involved in authorizing contracts.

The Library did not have internal control policies and procedures in place to ensure that all FEDLINK contracts were authorized by responsible contract officials. While reviewing our sample of 242 FEDLINK contracts, we identified 187 cases where the Library's contracting officers did not sign the contracts with FEDLINK vendors. They only signed the BOAs with each vendor. As discussed previously, because the BOAs do not order vendors to provide services to agencies and are not binding on the Library, they do not constitute actual contracts between the vendors and the Library. These 187 orders representing binding contracts on the Library were signed by the FEDLINK managers who did not have contracting authority. The Library had no internal control policy requiring that the orders be reviewed and approved by persons with contracting authority prior to establishing a contract between the Library and its FEDLINK vendors.

For the Library's largest reimbursable program, FEDLINK, only one individual was responsible for executing interagency agreements, billing the agencies in accordance with the agreements, receiving funds submitted by these agencies, and maintaining the accounting and budgetary records related to these transactions. This practice is a violation of the internal control standard requiring separation of duties. It eliminates effective checks and balances and increases the risk that errors, irregularities, or wrongful acts will occur and not be detected in accounting for assets and liabilities. This individual was also authorized to use his supervisor's signature stamp to authorize documents that should have required a higher level of approval or authorization.

Since we completed our review, the Library changed the procedures so that responsible contracting officers in its Contracts and Logistics Unit now sign delivery orders requesting vendors to begin service to customers. Library officials told us that the lack of separation of duties has been partially ameliorated because more than one person now works on interagency agreements. They said that reorganization will soon occur wherein the accounts receivable function for FEDLINK will be performed in the accounting office while approval of interagency agreements will happen in the budget office.

Conclusions

Because of weaknesses in its internal control policies and procedures, the Library was unable to manage its programs and activities in accordance with sound accounting and financial management practices. A high level of risk existed that material errors or irregularities could occur in processing financial transactions and in awarding contracts and not be promptly detected. More importantly, the Library could not effectively ensure the safeguarding of its collection. This national treasure must be protected to the fullest extent possible by good records and other internal control safeguards. Overall, the Library was unable to ensure that (1) its assets were not being lost to waste, fraud, and abuse, (2) the financial information available to management was sufficiently accurate and reliable to form an adequate basis for sound financial management decisions, and (3) budget resources entrusted to it by other agencies were effectively controlled.

Lack of sufficient attention to financial management issues by top management has been a major cause of the problems we found in the Library's financial operations. Evidence of this lack of attention was demonstrated by (1) the lack of an effective system of internal accounting controls, (2) a lack of clear statements of financial management goals and policies (such as a policy and procedures manual), and (3) the lack of an effective financial management system. Overall, three additional elements were needed to bring about lasting improvements in the Library's internal controls. 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 GAAP. 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 under FMFIA) and audits by internal and external auditors. Such a plan would have disclosed many of the problems discussed in this report and alerted Library managers to the need for corrective actions.

The Library has reportedly taken a number of steps to improve the conditions we identified. However, many of the conditions noted during our review are complex and widespread problems that will only be resolved through strong financial management leadership and the sustained commitment of dedicated resources over a number of years. The Library must be vigilant to ensure that the necessary follow-up steps are completely implemented and monitored.

Recommendations

To help the Library bring about lasting improvements in its internal controls, we recommend that the Librarian of Congress take the following actions.

- Designate a chief financial officer to act as the focal point for the Library's accounting and financial management functions. This official should be responsible for developing and implementing internal control and accounting system policies and procedures, and for directing, integrating, and reviewing the operation of financial management systems throughout the Library.
- Establish accounting and internal control policies and procedures to ensure compliance with Title 2 requirements. These policies and procedures should include provisions to address the specific weaknesses noted in this report, including provisions to (1) account for and control assets and liabilities, (2) establish a complete, integrated financial management system, (3) ensure that required reconciliations are performed routinely, and (4) ensure that FEDLINK program obligations are properly authorized.
- Develop an overall financial management improvement plan to (1) carry out a physical inventory of the Library's national treasure, (2) assist in setting priorities and fixing accountability and responsibility, and (3) specify corrective actions and milestones which will lead to the production of an effective set of internal controls, an integrated financial management system established in accordance with Title 2, and an

annual report that includes financial statements. The plan should provide for periodic reviews of the Library's financial operations by financial managers (such as those conducted by executive agencies under FMFIA) and for periodic independent financial audits to ensure the continued integrity and reliability of data produced by financial systems.

Agency Comments and Our Evaluation

In its comments on a draft of this report, the Library generally concurred with our findings and recommendations and pointed out the efforts it has made and has underway to improve its financial management operations. Specifically, the Library stated that it has an ongoing effort to catalog its unprocessed backlog of items to be added to its collection and that it has implemented an automated system to locate and track movement of items in the collection. It is currently expanding this automated system to cover more cataloged items. It has been inventorying the cataloged items and expects to complete the initial phase in 5 years. Also, the Library has attempted to increase physical security over the collection by (1) requiring staff to wear identification badges, (2) planning implementation of a user card program, and (3) accepting bids on a theft detection system.

Until the collection is completely cataloged, the Library believes it would be unrealistic and nonproductive to attempt to put a financial value on the collection, especially in light of the current disagreement in the federal accounting community on how accounting for national treasures should be accomplished. We agree that it may not be practical to put a financial value on all items in the Library's collection now but believe it would be desirable for the Library to begin recording and maintaining cost information on any newly acquired items. If it does not start doing this now, future efforts to value items in the collection will be more difficult.

Report on Compliance With Laws and Regulations

As part of our attempt to audit the financial statements of the Library of Congress as of September 30, 1988, we made such tests of compliance with laws and regulations as we considered necessary in the circumstances. Because of issues raised during our review concerning the FEDLINK program, we expanded our work to include extensive testing of compliance with laws and regulations applicable to that program.

The management of the Library of Congress is responsible for compliance with laws and regulations applicable to the Library. Our review of compliance with laws and regulations, made for the purpose described in the preceding paragraph, does not necessarily cover all laws and regulations with which the Library is required to comply. As part of our work, we reviewed and tested compliance with provisions of:

- the Library's basic governing legislation (2 U.S.C. 131-175),
- the Copyright Law (17 U.S.C. 101 et seq.),
- the Economy Act (31 U.S.C. 1535-1536),
- the Anti-Deficiency Act (31 U.S.C. 1341, 1342, and 1511-1519),
- legislation concerning recording obligations and balances available for obligation (31 U.S.C. 1501 and 1502),
- the Advertising Act (41 U.S.C. 5),
- the Federal Property and Administrative Services Act (40 U.S.C. 759), and
- the 1988 Legislative Branch Appropriations Act (Public Law 100-202).

As a result of our review, we found a number of instances in which the Library did not comply with applicable laws. We also found instances in which the Library's weak internal controls and poor records prevented us from obtaining the information needed to assess compliance. These instances, and Library action since 1988 which correct or reduce the noncompliances, are summarized in the following discussion.

Funds Transferred to FEDLINK Program Improperly Used in Subsequent Fiscal Years

We found that the Library violated 31 U.S.C. 1502(a) by using annual appropriations other agencies transferred to it under the Economy Act before fiscal year 1988 to pay for fiscal year 1988 FEDLINK services. The Library had not established internal control policies and procedures to ensure that FEDLINK fund expenditures were made only from properly available appropriations.

Under 31 U.S.C. 1502(a), a fiscal year appropriation may be used only for contracts which are obligated within, and meet the needs of, that fiscal year. In addition, Title 7 requires that when advances from agencies for reimbursable services exceed the actual costs of performance for a fiscal year, the excess should be refunded promptly upon completion of performance. These rules applied to appropriations transferred to the Library under the Economy Act. Therefore, the Library could not properly use residual prior fiscal year annual appropriations received from ordering agencies to pay for FEDLINK data base and ADP services actually provided during subsequent years.

Rather than deobligating amounts transferred from other agencies when the appropriations expired, the Library used remaining balances to pay for contract services for subsequent years even though these funds were no longer legally available for expenditure. The Library instructed FEDLINK customers, in signing up for each year's services, to deduct prior year carryover amounts in determining how much funding to transfer to the Library for the new year's services. We found over 300 cases where FEDLINK customer agencies carried over prior year funds to acquire fiscal year 1988 services totaling almost $1.4 million.

One agency used about $1,547,000 of services from FEDLINK vendors in fiscal year 1988 and part of fiscal year 1989, but had transferred only about $1,333,000 in appropriations to FEDLINK during that period. The Library paid the shortfall, about $214,000, using expired appropriated funds previously transferred from that agency.

Since 1988, the Library has notified agencies of its policy limiting the use of prior year appropriations to (1) only pay for prepayments for services rendered during the first quarter of the subsequent fiscal year and (2) only when the agency states before the end of the fiscal year to be charged that it intends to use the vendor's services in the following fiscal year. Under these limitations, the Library reports that carryovers have fallen from $41.3 million carried over from 1988 to 1989 to $2.1 million carried over from 1990 to 1991.

Although this policy has limited the amount of funds which are improperly used, in our view, the Library lacks authority to carry over expired fiscal year appropriations to pay for data base and ADP services in the following fiscal year. In its comments on a draft of this report, the Library stated that it will no longer permit carryover of funds.

The Library's Revolving Fund Operations Exceeded Its Statutory Authority

We found that the Library continued to use certain revolving gift funds in a manner which exceeded its authority. In fiscal year 1988, the Library operated 12 revolving funds to finance a number of activities (for example, the sale of photo duplication, recordings, and publications) with revenue ranging from $940 to almost $3.7 million per fund. The funds were created by gifts which donors designated to be used as self-sustaining activities. The gifts were then operated as revolving funds and are now many times larger than their original size.

The Library is authorized by 2 U.S.C. 160 to accept "gifts or bequests of money for immediate disbursement in the interest of the Library, its collections, or its services."[2] In our report, Library of Congress' Revolving Trust Funds, FGMS-80-76, September 24, 1980, we concluded that section 160 does not authorize the Library to set charges for goods and services provided through self-sustaining (revolving) gift funds which (1) enlarge the funds beyond the original amounts donated, (2) produce revenues for other activities, or (3) create a substantial surplus. We also noted that the operation of the Library revolving gift funds considerably diminished the Congress' ability to oversee and control the size and use of these funds. Therefore, we recommended that the Library seek statutory authority to finance those activities, for which the gifts were originally donated to the Library, through revolving funds.

In response to our 1980 report, the Library now provides the Congress with additional information in its annual budget submission and notifies its oversight committees when it proposes to accept new gifts designated for self-sustaining activities. However, in a letter to the Library's General Counsel, B-198730, December 10, 1986, we continued to express concern about the Library's reliance on its general gift authority to maintain revolving funds. We have not identified any additional actions taken since 1986 to give the Library a specific statutory basis for the use of such gifts as revolving funds or to bring such funds under effective congressional oversight.

Subsequent to our review, the Library prepared draft legislation which would authorize it to transfer the gift funds which are being used as revolving funds into a new Library of Congress revolving fund. On June 27, 1991, S. 1416, a similar bill, was introduced in the Senate.

[2]Under 2 U.S.C. 154-162 and 163, the Library of Congress Trust Fund Board is authorized to accept gifts "for the benefit of, or in connection with, the Library, its collections, or its service, as may be approved by the Board and the Joint Committee on the Library." This authority has not been used to accept the gifts designated to be used as self-sustaining activities.

The Library Improperly Accepted Nonappropriated Fund Reimbursements as Gifts

The Library improperly used gift fund accounts to accept nonappropriated funds to pay for FEDLINK services. Library officials who are responsible for the gift funds have stated that these accounts were established to accept and retain nonappropriated fund reimbursements for providing FEDLINK services to "quasi and nongovernmental organizations." However, the Library's authority to accept gifts under 2 U.S.C. 160 does not authorize the Library to accept these nonappropriated reimbursements. Gifts are defined as gratuitous conveyances or transfers of ownership in property without consideration. Reimbursements for FEDLINK services are not gratuitous conveyances without consideration and therefore, are not gifts encompassed within section 160. In addition, the Library does not have authority under any other law to receive nonappropriated fund reimbursements and treat them as gifts. Thus, the Library acted improperly in receiving nonappropriated funds as reimbursements for FEDLINK services provided and treating them as gifts. In fiscal year 1988, the Library received about $800,000 in revenue for FEDLINK services and recorded it in the gift fund accounts. Because the Library records did not specifically identify the customers who paid for their services through the gift funds, we could not determine how many FEDLINK customer accounts were treated in this manner.

The Library informed us that, since 1988, it has changed its policy and has closed the FEDLINK gift funds. It now offers FEDLINK services only to federal agencies paying with appropriated funds, or to authorized government contractors with cost reimbursement contracts. The Library's policy, if properly implemented, would ensure that all FEDLINK costs are ultimately paid by appropriated funds.

Some FEDLINK Contract Awards Violated the Advertising Act

In fiscal year 1988, the Library, under its FEDLINK program, awarded 242 contracts (worth about $50.6 million) in violation of the Advertising Act. The act generally requires federal agencies to advertise for proposals before awarding goods or services contracts over $25,000. The act exempts any contract for which the contracting officer involved certifies that there is only one responsible source. During fiscal year 1988, we found that the Library awarded 586 FEDLINK contracts, each of which exceeded $25,000 and thus was subject to the Advertising Act. We examined a sample of 242 contract files amounting to $50.6 million and found no evidence that the Library sought competition among vendors before awarding these contracts. Instead, the Library simply sent orders to the vendors requested by the ordering agencies. Further, we found no evidence that the Library's contracting officers certified that the vendors selected were the sole responsible sources of the goods and services involved.

Starting with fiscal year 1991, the Library established a policy requiring orders for FEDLINK services valued at over $25,000 from a particular vendor to be publicized in Commerce Business Daily. If no other vendors notify the Library that they can offer the required services, Library contracting officers certify that there is only one responsible source and award the order. This policy, if properly implemented by the Library, will correct the noncompliance found in our review.

The Library's Records Cannot Be Used to Assess Compliance With Cost Controls in the Economy Act

The Library's accounting system did not provide the information necessary to determine whether the FEDLINK reimbursements it received and retained were limited to the amounts allowed under the Economy Act. A federal agency which provides goods or services to another agency under the Economy Act may be reimbursed for (1) its costs to either directly provide or pay a vendor for the service and (2) other costs which it incurs incident to providing or purchasing the service. Any amount which an agency receives and retains as a reimbursement must, at a minimum, bear a significant relationship to the services provided or work performed by the agency.

In fiscal year 1988, the Library entered into Economy Act agreements to provide $117 million in FEDLINK services to various federal agencies. The agencies receiving the Library's FEDLINK services transferred about $5.5 million to the Library to reimburse it for its costs in excess of payments to FEDLINK vendors. However, because of the Library's poor accounting systems, the Library could not demonstrate any significant relationship between its costs of providing FEDLINK services and most of the fees it charged. The Library could only demonstrate that about $930,000 in costs had a significant relationship to the FEDLINK services it provided. Although we are aware that total costs recoverable would have exceeded $930,000, the Library's accounting records did not provide sufficiently detailed information to determine how much of the additional $4.6 million the Library received in reimbursements represented allowable costs under the Economy Act. Therefore, we are unable to resolve whether the Library complied with the Economy Act's requirement to limit reimbursements to actual costs.

In 1990, the Library had a consultant study the appropriate costs to charge agencies which participate in the Library's reimbursable programs. The consultant's report, using fiscal year 1990 budget information, estimated the Library's cost of providing FEDLINK services at $3.4 million in 1990 and $3.3 million in 1991. The Library has used these estimates to revise the fees it charges its FEDLINK customers to recover Library costs. Until the Library establishes an accounting system which provides the information necessary to determine the actual costs of FEDLINK and other Library operations, the study results will provide a more reasonable basis than in the past for what costs may be properly charged to FEDLINK users.

The Library's Records Cannot Be Used to Assess Compliance With the 1988 Legislative Branch Appropriations Act

The Library's accounting system did not provide the information needed to determine whether the Library used its Economy Act reimbursements in accordance with the Legislative Branch Appropriations Act for 1988. The act restricted the Library from using Economy Act reimbursements, which were for its general and administrative overhead costs, to employ more than 65 employees. The Library's Administrative Working Fund, which was intended to finance the indirect, administrative overhead positions attributable to reimbursable programs, was used to pay about 60 employees during 1988. However, as discussed previously in this report, the Library's accounting system did not provide the cost accounting information necessary to determine the costs it incurred in operating its reimbursable programs. Therefore, the Library had very little assurance that reimbursements it received were properly categorized as either administrative overhead costs or direct costs. Funds identified as direct cost reimbursements by the Library may in fact be administrative overhead cost reimbursements. Those funds may have been used to pay employees beyond the 60 paid from the Administrative Working Fund. Accordingly, because the Library's records did not provide the cost information necessary to determine where its reimbursable costs were being incurred and for what purposes, we are unable to ascertain whether the Library complied with the appropriations act restriction.

The consultant study which estimated the Library's 1990 and 1991 costs for operating FEDLINK also estimated the proper allocations of those costs between direct costs and indirect costs. Without an effective accounting system to provide actual cost information, the Library still lacks assurance that it is complying with the limits of its annual appropriations act.

The Library's Procedures Could Not Be Relied Upon to Ensure Compliance With Limitations on ADP Service Procurements

The Library did not employ the necessary controls and procedures to determine whether ADP contracts awarded under the FEDLINK program in fiscal year 1988 complied with dollar ceilings established by the Federal Property and Administrative Services Act. These dollar ceilings vary by type of ADP service and number of responsible sources. The act provides the General Services Administration (GSA) with the sole authority to procure ADP services for federal agencies, but authorizes GSA to delegate its authority to award ADP contracts to other agencies. GSA delegated authority to the Library to award FEDLINK contracts for bibliographic and data base retrieval services. Blanket delegations in the Code of Federal Regulations authorize all agencies to award ADP contracts meeting various specified criteria.

We judgmentally selected a sample of 242 contracts with vendors that received more than $100,000 in FEDLINK contracts during fiscal year 1988. We examined the Library's contract records to determine if the Library had authority to award the contracts and found that 62 percent of the contracts in our sample complied with the terms of either the specific delegation from GSA or the blanket delegations. One contract did not comply with either of the delegations and was, thus, an unauthorized ADP procurement. However, for the remaining 38 percent of our sample, the available information was not sufficient to determine whether the Library had authority for the purchases. The information in the Library's records did not sufficiently describe what was being purchased and the related costs.

Since 1988, the Library has adopted a policy of limiting all orders placed through FEDLINK to the specific services covered by the delegation of procurement authority which GSA issued to the Library. The basic ordering agreements which the Library now negotiates with FEDLINK vendors exclude data base development, equipment, personnel services and other types of services not included in the delegation from GSA. The Library has ensured that this policy is complied with by not accepting specific agency orders and vendor basic ordering agreements. Continuation of these steps should resolve the problem raised in our review.

Conclusions

The Library did not comply with applicable laws and regulations in maintaining revolving funds under its gift fund authority, accepting and retaining nonappropriated funds as reimbursements for FEDLINK services, and seeking competition prior to awarding contracts. In addition, because of the Library's inability to determine the costs of its reimbursable programs, we are unable to resolve whether the Library complied either with the Economy Act requirement for charging agencies for the actual cost of providing services under reimbursable programs or with the appropriations act limit on funding employee positions from Economy Act reimbursements for general and administrative overhead costs. Finally, because of the lack of essential information about the Library's purchase of ADP services for FEDLINK, we are unable to resolve whether delegated authority existed for 38 percent of the FEDLINK ADP contracts we examined.

Because of the material instances of noncompliance noted in the preceding paragraphs, we cannot state that the Library was in compliance with the terms and provisions of laws and regulations for those transactions not tested.

Recommendations

To address the compliance issues discussed, we recommend that the Librarian of Congress:

- Ensure that appropriations transferred to the Library from other federal agencies are expended only for services provided during the fiscal year for which the appropriations are available.
- Seek statutory authority to use gifts for self-sustaining activities as revolving funds.
- Stop accepting nonappropriated funds as reimbursements for FEDLINK services.
- Ensure that prices charged customers under the FEDLINK program reflect the Library's actual costs.
- Ensure that the number of staff positions financed from Economy Act reimbursements complies with the limitation imposed by law.

Agency Comments and Our Evaluation

With the exception of our finding concerning the 65 employee limit, the Library agreed with our findings and recommendations and pointed out steps it is taking to ensure that it is in compliance with applicable laws and regulations. With respect to the 65 employee limit, the Library disagreed that its records cannot be used to assess compliance with the requirement to limit to 65 the number of employees who can be paid with Economy Act reimbursements for indirect costs. It stated that the staff positions paid as direct costs are in direct support of the programs and thus are direct costs; only the approximately 60 positions paid from the Administrative Working Fund are indirect cost employees.

However, our audit disclosed that without a reliable system or method to accumulate costs, the Library is unable to ensure that all the indirect costs for employees providing administrative services to its reimbursable programs have been recorded in the Library's records. Additional personnel could also have provided indirect support to the Library's reimbursable programs, but these costs would not have been recognized under the Library's current indirect cost accumulation method. If more than five additional employees provided such indirect support services, the Library would have violated its annual appropriations act limit of 65 employees paid for by indirect cost reimbursements.

Consolidated Statement of Financial Position of the Library of Congress for the Fiscal Year Ending September 30, 1988

We attempted to audit the following consolidated statement of financial position of the Library of Congress as of September 30, 1988. This statement is the responsibility of the Library of Congress management.

We are not expressing an opinion on this financial statement because it was not practical for us to perform the necessary auditing procedures required to satisfy ourselves as to

- the quantity and value of the Library's collection, disclosed in note 9;
- the quantity and cost of the Library's furniture and furnishings;
- the amounts of the Library's accounts receivable and advances from others; and
- the amounts of the Library's reimbursable costs and related reimbursements.

Because of the materiality of the weaknesses discussed in detail in appendixes I and II, we caution users that the Library's September 30, 1988, consolidated statement of financial position has limited reliability.

Consolidated Statement of Financial Position

September 30, 1988
(dollars in thousands)

Assets	
Funds with U.S. Treasury (note 3)	$132,499
Accounts Receivable, Net (note 4)	35,113
Permanent Loan to U.S. Treasury (note 5)	5,048
Investments (note 6)	326,251
Inventories (note 7)	1,900
Future Appropriations (note 8)	9,878
Library Collection (note 9)	
Property and Equipment, Net of Accumulated Depreciation (note 10)	72,577
Other Assets	135
Total Assets	$583,401
Liabilities and Equity	
Liabilities	
Accounts Payable (note 12)	$ 25,283
Amounts Due to Treasury (note 13)	1,449
Accrued Payroll and Benefits (note 1)	11,865
Accrued Annual Leave	10,017
Advances From Others (note 14)	46,499
Obligations Under Capital Leases (note 11)	9,855
Amounts Due Copyright Owners (note 6)	321,555
Total liabilities	426,523
Equity of the U.S. Government	
Invested Capital (note 15)	63,756
Unexpended Appropriations (note 16)	73,314
Cumulative Results of Operations (note 17)	(574)
Fund Balances	20,382
Total equity of the U.S. Government	156,878
Total Liabilities and Equity	$583,401

The accompanying notes are an integral part of this financial statement.

Notes to the Consolidated Statement of Financial Position

Note 1: Significant Accounting Policies

A. Accounting Entity and Basis of Consolidation

The Library of Congress is an agency in the legislative branch of the federal government. It was founded in 1800 primarily to provide information and policy analyses to the members and committees of the Congress. Since then, the Library has been assigned other major missions such as administering the U.S. copyright laws and a national program to provide reading material for blind and physically handicapped residents of the U.S. and its territories and for U.S. citizens residing abroad. The Library supports the nation's libraries and helps them establish bibliographic control (through classification and categorization) over the world's publishing. It also administers the various gift and trust funds donated to the Library.

The Library's programs and operations are subject to oversight by the Joint Committee on the Library which comprises members of the U.S. Senate and House of Representatives. The Library relies primarily on appropriated funds to support its programs and operations. Its request for these funds is subject to review by the House and Senate Appropriations Committees' Subcommittees on Legislative Branch Appropriations. The Library also receives funds from other agencies for services provided under the Economy Act and other statutes. In addition, the Library receives donations from the public in the form of gifts and trusts. The trust funds are controlled by the Library of Congress Trust Fund Board, which consists of the Librarian of Congress (who is Chairman and Secretary of the Trust Fund Board), the Chairman of the Joint Committee on the Library, the Secretary of the Treasury, and two members from the private sector.

Fiscal year 1988 was the first year the Library has prepared external financial statements and subjected them to audit by the U.S. General Accounting Office (GAO). As a legislative branch agency, the Library is not required to follow the executive agency accounting principles established by the Comptroller General under 31 U.S.C. 3511. These standards, referred to as generally accepted accounting principles (GAAP) for federal agencies, are contained in Title 2 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies. However, the Library maintains its fund balances with the Department of the Treasury and submits information required by Treasury to incorporate its financial and budget data into the overall federal government structure. Therefore, for purposes of this financial statement, the Library has chosen to follow the reporting requirements of Title 2.

Title 2 requires federal agencies to annually issue four consolidated financial statements: (1) statement of financial position, (2) statement of operations, (3) statement of changes in financial position, and (4) statement of reconciliation to the budget. Since this was the Library's first attempt to comply with these reporting requirements, it prepared only the consolidated statement of financial position for the year ended September 30, 1988.

The accompanying consolidated statement of financial position has been prepared using the accrual basis of accounting. All significant intra-agency balances and transactions have been eliminated in consolidation. The statement includes the accounts of all funds under the Library's control in fiscal year 1988. These include 15 general fund accounts, 12 service fee funds (originally established as gift funds), 58 trust funds, and 107 gift funds. The general funds are combined to form a single fund type; the service fee funds are combined to form a second fund type; the gift and trust funds are combined with the Payments to Copyright Owners' Fund to form a third fund type. (See note 19.)

B. Recognition of Financing Sources

The Library receives the majority of the funding needed to support its programs through appropriations. The Library receives both annual and multiyear appropriations that may be used, within statutory limits, for operating and capital expenditures (primarily equipment, furniture, and furnishings). Additional amounts are obtained through reimbursements for services performed for other federal agencies as authorized by the Economy Act and the Library's annual appropriation legislation. Also, the Library receives gifts from donors and interest on invested funds. In addition, the Library operates several self-sustaining service fee funds which generate revenues from sale of various products and services to the public and federal customers.

Appropriations are recognized as revenues at the time they are used to pay expenses. Other revenues are recognized when earned.

Major Sources of the Library's Funding in Fiscal Year 1988

Source	Amount (in thousands)
Appropriations	$253,388
Reimbursements for services	74,493
Service fee receipts	4,427
Gift and trust receipts	5,372
Total fiscal year 1988 funding	$337,680

A future financing source is recognized for unfunded expenses such as annual leave earned but not taken. The value of such leave is estimated to be about $9.9 million at the end of fiscal year 1988 and is shown as a liability in the financial statements. Accrued annual leave in the amount of $139,000 for the service fee accounts is funded.

C. Translation of Currencies

The Library of Congress receives and utilizes foreign currencies in carrying out operations abroad. It conducts business through six overseas offices and uses local currencies. At year-end, account balances remaining in foreign currencies are translated to U.S. dollar equivalents at the uniform governmentwide Treasury reporting rates.

D. Property and Equipment

Property and equipment is valued at acquisition cost and includes equipment purchased by the Library and that acquired through capital leases. It does not include the land, buildings, and improvements used by the Library, as discussed in the next paragraph. Depreciation is computed on a straight-line basis using estimated useful lives ranging from 5 to 20 years.

Land, buildings, and improvements have been excluded because they are under the custody and control of the Architect of the Capitol. This arrangement currently involves the Thomas Jefferson, James Madison, and John Adams buildings. Costs associated with the acquisition and maintenance of these buildings are accounted for by the Architect. In fiscal year 1988, the Architect spent $16.3 million to pay for the cost of operating these buildings.

E. Inventories

The Library's inventories are comprised, primarily, of unissued supplies that will be consumed in future operations and small amounts of materials used to reproduce printed materials and sound recordings for both internal and external sales. Consumable operating supplies are valued at cost using a first-in first-out (FIFO) method of valuation.

F. Accrued Leave

Employee annual leave is accrued as it is earned, and the accrual is reduced when leave is taken. At least once per year, the amount is adjusted to reflect the current pay rates for the annual leave hours each employee has earned but not used (usually at the end of the fiscal year). All sick and other types of leave are expensed as taken.

G. Accrued Payroll and Benefits

Accrued Payroll and Benefits consists of unpaid personnel compensation and employee benefits accrued to Library employees as of September 30, 1988.

Note 2: Accounting for Intergovernmental Activities

The financial activities of the Library of Congress interact with and depend on other federal government agencies. Thus, the Library's statement of financial position does not reflect all financial decisions and activities applicable to it as if it were a stand-alone entity.

A. The Library's consolidated statement of financial position is not intended to report the agency's share of the federal deficit or of public borrowings, including interest thereon.

B. The Library of Congress is authorized to provide to other federal libraries and agencies services such as automated library information and other data base retrieval services through data base vendors and in-house research studies. These services are provided on a cost reimbursement basis.

C. The majority of the Library's employees participate in the Civil Service Retirement System (CSRS), to which the Library makes matching contributions (7 percent of pay). The Library does not, however, report CSRS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management.

On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, can elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Library automatically contributes 1 percent of pay and then matches any employee contribution up to an additional 4 percent of pay.

For most employees hired since December 31, 1983, the Library also contributes the employer's matching share for Social Security.

The following table shows the amounts the Library contributed to the retirement plans and Social Security in fiscal year 1988.

Library Contributions to Retirement Plans During 1988

Paid to	Amount (in thousands)
CSRS	$ 8,465
FERS	3,327
Social Security	2,284
	$14,076

D. Certain legal actions to which the Library may be a named party are administered and, in some instances, litigated by other federal agencies. Legal actions to which the Library is a litigant are covered by the Federal Tort Claims Act. Generally, amounts (over $2,500 for Federal Tort Claims Act cases) to be paid under any decision, settlement, or award pertaining to these litigations are paid from the Treasury's Claims, Judgments, and Relief Acts Fund. Several legal actions brought by or on behalf of Library employees were pending at fiscal year-end, with a total loss exposure in excess of $18 million. However, the Library's management and legal counsel do not believe these actions will result in a material loss to the Library or the government. Since the Library, except for contract dispute payments, is not required to reimburse this fund for payments made on its behalf, the decision to make such payments is not reflected in the Library's statement of financial position.

Note 3: Funds With U.S. Treasury

The amount shown as Funds with U.S. Treasury represents the balances of the appropriated, service fee, and gift and trust funds that are on deposit with the U.S. Treasury as well as undeposited amounts that were on hand at the end of the fiscal year and the various imprest funds.

Note 4: Receivables

Receivables, as of September 30, 1988, consisted of accounts receivable, interest accrued on copyright royalties invested in market-based Treasury securities, and travel advances. The major portion of accounts receivable resulted from billings to other federal agencies under interagency agreements for data base retrieval and other library services. When originally established, these receivables represented requests for advance payments to which the Library had claim as the contracted services were performed. However, the Library's accounts receivable accounting procedures do not distinguish between that portion of the year-end accounts receivable balance that represents requests for unearned advances and that portion that represents receivables to which the Library is entitled.

The table below shows the accounts receivable balance at the end of fiscal year 1988.

Accounts Receivable as of September 30, 1988

Source	Accounts receivable (in thousands)
Other federal agencies	$36,001
The public	57
Less allowance for losses	(1,321)
	34,737
Interest due on copyright royalties invested	195
Travel advances	181
Total net accounts receivable	$35,113

Note 5: Permanent Loan to U.S. Treasury

Under 2 U.S.C. 158, up to $10 million of Library trust funds may be invested with the United States Treasury as a perpetual loan at a variable interest rate of at least four percent per annum.

As of September 30, 1988, the trust funds had $5,048,091 invested in the permanent loan to the U.S. Treasury at an interest rate of 8-1/2 percent.

Note 6: Investments

Investments as of September 30, 1988, consist of market-based Treasury securities, marketable Treasury securities, and other investments that include both debt and equity instruments of private sector business entities. The market-based Treasury securities, which are nonmarketable, were purchased with the jukebox and cable TV royalties collected by the Copyright Office on behalf of copyright owners. These investments will be held in trust until distributions to copyright owners are authorized by the Copyright Royalty Tribunal. The marketable Treasury and other securities were obtained and are held by the trust funds under the conditions set forth in the respective trust instruments.

The other marketable securities are valued at cost while the Treasury securities are valued at cost less unamortized discounts and premiums. The investments purchased with copyright royalties are valued at cost since premiums and discounts are not amortized. Because they are held in a custodial capacity, income does not accrue to the Library's benefit.

The next table shows cost and market values of investments.

Values of Investments as of September 30, 1988

	Cost	Market
	---(thousands)---	
Market-based		
Treasury securities	$321,112	n/a
Marketable		
Treasury securities	1,364	$1,300
Other marketable securities	3,775	3,779
Total	$326,251	

Note 7: Inventories

As of September 30, 1988, the Library's inventories consisted of operating supplies, work-in-process, and photo duplication production materials. The Library does not have adequate inventory systems to fully account for these amounts. While shown for financial reporting purposes in the Library's 1988 consolidated financial statement, the Library has not recorded all of these estimated amounts in its official accounting records. The inventories are valued at cost using the FIFO method of valuation. The following estimated amounts, shown in the following table, were compiled from available Library records during the course of GAO's audit.

Estimated Inventory on Hand as of September 30, 1988

Type inventory	Amount (in thousands)
Operating supplies	$1,539
Work-in-process:	
Photoduplication	64
Recorded sound lab	95
Photoduplication materials	202
Total	$1,900

Note 8: Future Appropriations

Future appropriations represent the future funding needed to pay for unfunded annual leave that was earned but not taken as of the end of the fiscal year. This leave, estimated to be $9.9 million at fiscal year-end, is not funded through appropriations until it is taken. An equal amount has been recognized as a financing source in order to properly match expenses and revenues. The annual leave liability of $10 million also includes $139,000 for funded accrued annual leave of the service fee funds.

Note 9: Library Collection

The value shown in the table below for the Library's collection, as of September 30, 1988, was estimated based on a limited valuation of the nearly 89 million items constituting the collections at that time. This approach was necessary because the cost records for most of the items are no longer available. The quantities were taken from Library records that had been accumulated over the years. The value was determined based on the best judgment of the managers responsible for the various categories of the collection.

Estimated Value of Each Category of Collection Items as of September 30, 1988

Category	Quantity	Value (in millions)
Book collection	21,697,724	$ 823
Audio material	1,302,800	14
Manuscripts	36,563,392	128
Maps	3,919,000	475
Microforms	7,343,209	110
Print material/print products	5,272,075	115
Visual material	12,255,365	3,902
Rare music	38[a]	193
String instruments and bows	37	12
Flutes	1,651	1
Rare books	611,933	1,000
Total	88,967,224	$6,773

[a]Represents musical collections rather than single items. Each collection comprises varying numbers of items. The value is based on each collection as a whole.

Note 10: Property and Equipment

Property and equipment consists primarily of operating equipment, ADP software, production equipment at contractor facilities, equipment on loan to the public, and furniture and furnishings.

Operating equipment consists of pieces of serialized equipment (containing manufacturer's serial number) such as computers, printers, and typewriters, which have an acquisition price greater than $300.

ADP software consists of software purchased from outside vendors. It does not include leased software.

Equipment at contractor facilities consists of tooling machinery provided to contractors engaged in repairing equipment such as cassette players specially developed for the blind and physically handicapped.

Equipment on loan to the public consists of equipment such as cassette players specifically developed for use by the blind and physically handicapped.

The Library does not have adequate property systems to fully account for its property and equipment. As a result, the amounts shown are estimates based on available Library records. These estimates will not be recorded in the Library's accounting records until its accounting system has been upgraded to track and maintain such data.

The balance for furniture and furnishings has been derived from budget records because accounting data is not available.

The next table shows property and equipment at the end of fiscal year 1988.

Property and Equipment as of September 30, 1988

Category	Cost	Accumulated depreciation	Book value
		(in thousands)	
Operating equipment	$28,500	$15,707	$12,793
Leased equipment	14,672	5,857	8,815
ADP software	2,749	1,109	1,640
Equipment at contractor facilities	1,635	286	1,349
Equipment on loan to public	65,607	32,174	33,433
Furniture and furnishings	24,453	9,906	14,547
Total	$137,616	$65,039	$72,577

Note 11: Leasing Arrangements

As of September 30, 1988, the Library was committed to various capital and operating leases amounting to $13.2 million and $2.2 million, respectively. All leases are cancelable at the Library's discretion, generally without penalty. All of the operating leases are contracted for 1 year. Capital leases, especially those covering computer equipment, contain purchase options which permit transfer of ownership to the Library at the end of the lease term.

The following table shows future minimum lease payments required under capital leases. This table is based on available Library records because the Library does not have an adequate financial system to account for capital leases. These estimates will not be recorded in the Library's accounting records until the systems have been upgraded to track and maintain data on capital leases.

Future Minimum Lease Payments

		Amount due (in thousands)
Fiscal year ending:		
1989		$ 4,598
1990		4,482
1991		3,141
1992		1,011
1993 and beyond		1
Total minimum lease payments		$13,233
Less:		
Executory costs	1,589	
Amount representing interest	1,789	3,378
Net Obligations Under Capital Leases		$ 9,855

Note 12: Accounts Payable

Accounts payable consists of amounts due to the vendors and other agencies for goods and services received prior to the end of fiscal year 1988. It includes about $13.7 million owed to contractors for providing data base retrieval and other library-related services to other federal agencies at the request of the Library of Congress. It also includes other miscellaneous payables.

The next table shows the composition of accounts payable at the end of fiscal year 1988.

Accounts Payable as of September 30, 1988

Accounts Payable	Amount (in thousands)
Accounts payable - public	$24,603
Accounts payable - other federal agencies	530
Other miscellaneous payables	150
Total	$25,283

Note 13: Amounts Due to the Treasury

This liability represents revenues the Library received in fiscal years 1987 and 1988 in excess of amounts it was authorized to retain and, as of fiscal year-end, had not transferred to the Treasury as required. In fiscal year 1988, the Library was authorized to retain $5 million of the revenues it collected for catalog distribution services. It recognized revenues for these services that exceeded this authorized level by $1.4 million. Since the Library is not authorized to retain this amount, it is reportable as miscellaneous receipts due to the Treasury.

Note 14: Advances From Others

Advances from others consists of amounts collected from federal agencies and the public under the Library's reimbursable programs for a variety of services not yet provided. The table below shows the nature of the advances from others at 1988 fiscal year-end.

Advances From Others as of September 30, 1988

Advances	Amount (in thousands)
Data base services	$43,160
Photoduplication services	529
Bibliographical services	1,439
Copyright services	1,371
Total	$46,499

Note 15: Invested Capital

Invested capital represents U.S. Government resources invested in certain Library assets. The $64 million year-end balance consists mainly of the undepreciated value of capital assets including property and equipment, certain other minor assets, and related adjustments made as of September 30, 1988.

Note 16: Unexpended Appropriations

Unexpended appropriations consist of unobligated balances and undelivered orders. Unobligated balances represent amounts appropriated which are unobligated and have not lapsed, been rescinded, or been withdrawn.

Undelivered orders represent obligations the Library had incurred as of September 30, 1988, for goods and services which were ordered but had not been received by that date. Undelivered orders include amounts for orders or services for which reimbursement to the appropriation has not yet been recognized. Advance payments from customer agencies are recognized as a liability (see note 14) and are shown as unfilled customer orders which reduce unexpended appropriations. The next table shows unexpended appropriations at the end of fiscal year 1988.

Unexpended Appropriations as of September 30, 1988

Type	Amount (in millions)
Unobligated balances	$ 25.5
Undelivered orders	91.6
Unfilled customer orders	(43.8)
Total	$ 73.3

Note 17: Cumulative Results of Operations

The balance shown represents the cumulative deficit arising from the Library's general fund operations. Approximately $454,000 of the $574,000 deficit reported as of September 30, 1988, is a result of fiscal year 1988 operations. The remaining balance is the result of operations in prior years. These losses occurred in the operation of the Library's reimbursable programs; however, because the Library lacks adequate accounting and financial management systems to properly track the cost of operating its programs and to accurately identify certain of its revenues, it could not determine which of its reimbursable programs experienced the operating deficits.

Note 18: Subsequent Events

As of September 30, 1989, a significant portion of the reimbursable work which the Library's Federal Research Division performs for the Department of Defense was terminated. With this funding no longer available from the sponsoring agency, the Library found it necessary, in February 1990, to conduct a reduction in force for its employees who had worked on the Department of Defense projects. The Congress, in its conference report on appropriations for the legislative branch (H. Rept. 101-254), directed the Library to delay this action past the end of fiscal year 1989 while it made funds available to allow the Department of Defense to continue these Library services. However, after receiving its appropriations, the Department of Defense decided not to renew its contracts for these services.

This decision, coupled with the congressional directive, resulted in the Library incurring $912,000 in fiscal year 1990 costs, for these employees. Since these employees were hired specifically to work on the sponsoring agency's contracts, it was the Library's position that the $912,000 should be reimbursed by the sponsoring agency, but DOD refused to fund these costs. However, the 1991 Department of Defense Appropriations Act (Public Law 101-511, November 5, 1990) specifies that $912,000 of the Operation and Maintenance, Defense Agencies appropriation is available only for transfer to the Library of Congress.

Note 19: Schedule of Assets, Liabilities, and Equity by Fund Type, as of September 30, 1988

	General funds	Service fee funds	Gift and trust funds	Consolidated
	--------------(dollars in thousands)--------------			
Assets				
Funds with U.S. Treasury (note 3)	$121,964	$4,182	$ 6,353	$132,499
Accounts Receivable, Net (note 4)	34,772	146	195	35,113
Permanent Loan to U.S. Treasury (note 5)			5,048	5,048
Investments (note 6)			326,251	326,251
Inventories (note 7)	1,539	361		1,900
Future Appropriations (note 8)	9,878			9,878
Library Collection (note 9)				
Property and Equipment, Net of Accumulated Depreciation (note 10)	72,269	308		72,577
Other Assets			135	135
Due From Other Library Funds	(247)	243	4	
Total Assets	$240,175	$5,240	$337,986	$583,401
Liabilities and Equity				
Liabilities				
Accounts Payable (note 12)	$ 24,900	$ 232	$ 151	$ 25,283
Amounts Due to Treasury (note 13)	1,449			1,449
Accrued Payroll and Benefits (note 1)	11,646	191	28	11,865
Accrued Annual Leave	9,878	139		10,017
Advances From Others (note 14)	45,970	529		46,499
Obligations Under Capital Leases (note 11)	9,855			9,855
Amounts Due Copyright Owners (note 6)			321,555	321,555
Due to Other Library Funds	(19)		19	
Total Liabilities	103,679	1,091	321,753	426,523
Equity of the U.S. Government				
Invested Capital (note 15)	63,756			63,756
Unexpended Appropriations (note 16)	73,314			73,314
Cumulative Results of Operations (note 17)	(574)			(574)
Fund Balances		4,149	16,233	20,382
Total Equity of the U.S. Government	136,496	4,149	16,233	156,878
Total Liabilities and Equity	$240,175	$5,240	$337,986	$583,401

Comments From the Library of Congress

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

THE LIBRARIAN OF CONGRESS

WASHINGTON, D.C. 20540

July 5, 1991

Dear Mr. Chapin:

Thank you for the opportunity to review and comment on the General Accounting Office (GAO) draft report entitled First Audit of the Library of Congress Discloses Significant Problems. As you are aware, I requested this audit shortly after taking office to obtain an independent assessment of the Library's financial condition at the time I assumed responsibility for its operations.

GAO's draft reaffirms the steps we are taking to improve the Library's financial activities, and the draft's findings parallel those contained in reports issued by the Library's Transition Groups and the Inspector General. As noted in your draft, we have not waited for GAO's written report to rectify problems and are continuing to take steps to correct the deficiencies identified during the audit. In fact, my comments will serve to document for the record steps taken since 1988 to improve financial policy and direction, to bring the Library's enormous collection of 97 million items under bibliographic and physical control, to correct deficiencies in the Federal Library and Information Network (FEDLINK) program, and to request modern statutory authority to conduct fee service activities.

See comment 1.

Chief Financial Officer

The Library's financial management system problems have built up over a period of years as a result of inadequate management attention and insufficient resources. We have taken a number of actions to improve financial direction. First, I have strengthened the Library's accounting and financial management functions by restructuring the central management services and by appointing professional financial managers to the key positions of Associate Librarian for Management, who reports directly to me, and Director of Financial Services, who reports to the Associate Librarian for Management. Both of these senior managers are certified public accountants, with extensive backgrounds in Federal financial management systems. The Director, Financial Services functions as the Library's Chief Financial Officer (CFO) by overseeing the day-to-day financial operations and providing policy advice through the Associate Librarian for Management to the Library's Management Team. The Library's Management Team is responsible for making policy. Members include myself, the Acting Deputy Librarian of Congress, and the eight Associate Librarians who head up each of the Library's Service Units.

Second, we developed a financial management plan to accomplish the maximum level of improvement possible in the shortest time possible, while at the same time, planning and establishing long-term plans and goals for an effective, integrated financial management system. Third, I issued a Library of Congress regulation that sets forth financial policy, responsibilities, standards, and the requirement for annual reviews of financial operations.

As stated in the draft, it is going to take "a sustained effort and additional resources over a number of years" before all of the problems GAO noted are fully corrected. The Library's fiscal 1992 budget request includes additional resources to strengthen financial controls and operations including funding for professional accountants, systems analysts, inventory management specialists, and collections technicians. I agree with GAO that additional resources are an essential part of correcting the Library's long-standing financial management problems.

Control of the Library's Collections

Our top priority is bringing the Library's collections under bibliographic control so we can make this unique and irreplaceable national treasure accessible while we safeguard its use. We received a substantial appropriation in fiscal 1991 to begin the very lengthy process of cataloging arrearages. Once we have a complete catalog, we will have the basic inventory we need to control and track the movement of items in the collections. Until this task is completed, we cannot realistically or productively attempt to put a financial value on the collections.

Federal Library and Information Network (FEDLINK) Program

The bulk of the findings and recommendations contained in the draft are directed to problems in the FEDLINK program. FEDLINK is a program, operating under the Economy Act, designed to support the Federal Library and Information Center Community (FLICC) in the cost effective procurement of books, serials, and computer-based information retrieval services for more than 1,400 FEDLINK members.

In a press release dated March 10, 1989, I announced that the Library's Inspector General found that certain agencies were using the FEDLINK program to contract for services without competition -- services which were not within the scope of the FEDLINK program. Prior to any of GAO's findings, I set in motion actions to change FEDLINK operations substantially. As a result, most of the deficiencies mentioned in the GAO draft have been completely corrected and steps are being taken to correct the remaining items. Improvements include ensuring that Federal contracting and competition procedures are strictly followed, that only authorized services are offered to FLICC members, that obligations do not exceed available amounts and are properly documented, and that funds are accounted for in accordance with the law. However, administration of this $50 million reimbursable program under the authority of the Economy Act remains difficult because of the requirement to conduct program activities one year at a time. Under the authority of a revolving fund, we will be able to establish reserves and set rates to ensure the viability of the program over the long term. Therefore, the Library has included the FEDLINK program in the proposed Library of Congress revolving fund.

Revolving Fund Legislation

On May 24, 1991, I transmitted draft legislation to the House Administration Committee and the Senate Committee on Rules and Administration that will provide a modern authorization and fiscal structure for the various Library products and services that have long been supported by fee service charges. As you are aware, a previous GAO report, in 1980, made a similar recommendation, after which the Library initiated legislation to amend the Library of Congress Trust Fund Board Act (2 U.S.C. 160) to clarify its authority. In response, the Library received a letter from the Vice-Chairman of the Joint Committee on the Library indicating that the Library had not exceeded its authority. I believe the draft legislation will put in place the modern fiscal structure recommended by GAO and will enable the Library to provide specialized services requested by the educational and information communities. I am counting of your support for enactment of this legislation.

Finally, we believe that the Library's records show our compliance with the 1988 Legislative Branch Appropriations Act, which limits the number of employees paid from administrative working funds (AWF) to 65. The Library's records clearly distinguish between employees paid from AWF and employees paid from the direct cost reimbursements received from the reimbursable programs. These records document that employees paid from monies received to reimburse indirect costs (AWF) have never exceeded the statutory limit.

While we have made progress in improving the Library's financial management since 1988, a number of major steps still remain, including upgrading the Library's outdated, partially automated central accounting system. As you are aware, this is a major task requiring a substantial investment in resources. The GAO audit alone took several staff years to complete and was a significant investment of your resources. I look forward to continuing to work with GAO on this important task. I am confident that with the support of Congress, we can continue to make progress and put in place a system that fully meets Federal standards.

The enclosure presents a detailed response to the findings and recommendations in the draft.

Sincerely,

James H. Billington
Librarian of Congress

Enclosure

Mr. Donald H. Chapin
Assistant Comptroller General
United States General Accounting Office
441 G Street, NW
Washington, DC 20548

July 5, 1991

LIBRARY OF CONGRESS' RESPONSE TO GAO'S AUDIT FINDINGS AND RECOMMENDATIONS

REPORT ON INTERNAL ACCOUNTING CONTROLS

1. GAO Finding: The Library's internal control policies and procedures governing the accounting and reporting of financial management information were not uniformly prescribed, documented, or followed.

   Library of Congress (LC) Response: The Library has developed a long-term plan and set goals for improvement of its financial management system. The plan uses a "building block" approach towards financial management improvement beginning with a regulation which specifies the Library's internal control policies and accounting standards, and assigns responsibilities and requirements for annual reviews and reports of Library operations. The Library has initiated a system of financial services directives to communicate the policies, standards, and procedures to the Library's financial systems managers.

2. GAO Finding: The Library's Financial Management System is not complete or integrated.

   LC Response: As stated above, the Library has taken steps to centralize control over the financial management system by implementing and communicating centralized policies, standards, and procedures and ensuring that they are observed. The Library has initiated a Financial Management System Improvement Project to document accounting requirements and information needs for a fully integrated system, to evaluate alternatives and develop options for improvement of the Library's outdated, partially automated central accounting system, and to assist with implementation tasks. To staff this effort, the Library's fiscal 1992 budget includes a request for additional funding for systems accountants and analysts.

3. GAO Finding: General Ledger Control Accounts were not routinely reconciled with subsidiary records.

   LC Response: The two program financial systems that GAO found were not routinely reconciled with the central accounting records are being evaluated for improvement, including the establishment of automated interfaces and procedures to ensure adequate reconciliations. The Library has also requested three operating accountants in its 1992 budget requests to improve the timeliness of reconciliations.

4. GAO Finding: FEDLINK contracts were not limited to the program's purposes.

   LC Response: The Library has instituted procedures to ensure that only authorized services are provided to FEDLINK's members and participants. For example, FEDLINK solicitations include an explicit list of services which are excluded from awards under both the delegation of procurement authority (DPA) and non-DPA service categories. Among the excluded services are the provision of equipment for sale or lease, development or customization of software or database systems, generic automatic data processing applications, and personnel or consulting services. Review by the Technical Panels and LC Contracting Officers and formal certification by the offerors themselves ensures that such services are not included in LC/FEDLINK agreements.

5. GAO Finding: The Library's authority to award FEDLINK ADP contracts cannot be verified.

   LC Response: See Report on Compliance with Laws and Regulations, Item 7.

6. GAO Finding: FEDLINK services provided exceeded available amounts.

   LC Response: Since fiscal year 1990, the Library has enforced the requirement that no service from vendors to agencies is authorized without a current Interagency agreement (IAG) and valid delivery order. Strict enforcement of this policy ensures that amounts obligated will not exceed obligational authority.

7. GAO Finding: FEDLINK funds were expended without regard to period of availability.

   LC Response: See Report on Compliance with Laws and Regulations, Item 1.

8. GAO Finding: FEDLINK obligations were not based on proper documentation.

   LC Response: In 1990, the Library revised its procedures to record only obligations made to vendors through signed "Notices of Obligation/Change in Obligation of Funds." These notices are generated from the FEDLINK Financial Office (FFO) automated system after receipt of copies of signed delivery orders. Attached to each vendor-specific notice is a detailed list of agencies and individual obligated amounts to be included in the overall obligation. In this fashion, the Financial Services Directorate (FSD) is notified of obligations on an agency-specific basis and can be assured that obligations are based on valid documents.

9. GAO Finding: FEDLINK contracts were not authorized by responsible official.

   LC Response: Beginning in fiscal year 1990, all FEDLINK orders are issued by contracting officers, and all transfer pay orders are signed by a duly authorized contracting officer. Vendors and customers have been notified that no order exists and that no service is authorized until an order has been signed and issued by a contracting officer.

10. GAO Finding: The Library collection and other property and equipment are not controlled.

    LC Response: In its fiscal year 1991 budget, the Library requested and received additional resources to reduce the arrearage of uncataloged collections. The Library has developed an arrearage management plan which will place an additional large part of the Library's collections under bibliographic control. Also, the Library has implemented an automated Collections Control Facility (CCF) which locates and tracks the movement of items in the Library's collections. The Library continues to expand the CCF to include more and more bibliographic records which increases significantly the ability to control the collections.

In addition to the arrearage project and the CCF, the Library has been conducting an inventory of the cataloged collections, and, as a result, is able to provide accurate counts for the classes which have already been completed. When the first pass through the collections is completed, in approximately 5 years, the count will begin again. The purpose of the inventory is to enhance the retrievability of the Library's general collection through correcting bibliographic errors and accounting for each physical item as represented in the Library's official shelflist. The inventory is now approximately 90% complete.

Other steps have also been taken to increase the physical security of the collections such as requiring staff to wear identification cards at all times, a user card program to be implemented in June 1991, and a theft detection system for which the Library is now receiving bids.

Since it is a top priority in the Library to achieve the maximum possible control over its collections, resources have first been allocated to cataloging, securing and making the collections accessible to the users. While developing and maintaining a financial value of the collections is a current GAO requirement, it is also true that the Federal accounting community has not reached an agreement on how accounting for national treasures should be accomplished. Until the task of cataloging the collections is completed, we cannot realistically or productively attempt to put a financial value on the collections.

In its fiscal year 1992 budget, the Library requested funding for two GS-7 inventory management specialists to develop an inventory system for the furniture and non-serialized equipment (equipment with no serial number applied by the manufacturer). We anticipate the process will take three years and will include a physical count, labeling, classification, appraisal, records research, data entry, and reconciliation.

11. GAO Finding: Accounts receivable and advances from government agencies were not determinable.

LC Response: Since fiscal year 1990, the Library has changed its year-end procedures to adjust for the accounts receivable and advances from government agencies. Also, since fiscal year 1990, the amount of unpaid accounts in the FEDLINK program has declined considerably because the Library no longer provides FEDLINK services to delinquent customers. Therefore, the unpaid balances now range between $4 and $10 million and are only outstanding for short periods of time. Due to system constraints, low priority, and the lack of resources, the Library does not maintain this information on a monthly basis.

12. GAO Finding: The payment process was not controlled.

LC Response: The Library has a manual accounts payable system. While all obligations are promptly recorded, the accounting records are adjusted only once each year to reclassify that part of obligations which are actually payable. Implementation of an automated accounts payable system is part of the Library's long-term financial management improvement plan and will provide the ability to record payables on a more frequent basis.

Based on the GAO report, the Library has made changes to improve control over its payments process. For example, the voucher examiners have been instructed to process original invoices only; copies of payment documents will not be paid unless approved by the supervisory accounting technician, assistant accounting officer, or accounting officer; voucher examiners have been instructed to initial all changes made to original payment documents; and any changes made to vouchers must be approved by the supervisory accounting technician, assistant accounting officer or accounting officer.

RECOMMENDATIONS AND LIBRARY OF CONGRESS RESPONSES

- o Recommendation No. 1. Designate a chief financial officer to act as the focal point for the Library's accounting and financial management functions.

  LC Response: Concur. The Director, Financial Services serves as the Library's chief financial officer and reports to the Associate Librarian for Management. The Director, Financial Services oversees the day-to-day financial operations and provides policy advice through the Associate Librarian for Management to the Library's Management Team. The Library's Management Team is responsible for making policy and members include the Librarian of Congress, Acting Deputy Librarian of Congress, and the eight Associate Librarians who head up each of the Library's Service Units.

- o Recommendation No. 2. Establish accounting and internal control policies and procedures to ensure compliance with title 2 requirements.

  LC Response: Concur. The Library has issued Library of Congress Regulation 1510, Financial Services, which spells out the accounting and internal control policies and procedures to be followed by the Library.

- o Recommendation No. 3. Develop an overall financial management improvement plan to (1) carry out a physical inventory of the library's national treasure, (2) assist in setting priorities and fixing accountability and responsibility, and (3) specify corrective actions and milestones which will lead to the production of an effective set of internal controls, an integrated financial management system established in accordance with title 2, and an annual report that includes financial statements. The plan should provide for periodic reviews of the Library's financial management operations by financial managers (such as those conducted by executive agencies under the Financial Managers' Integrity Act) and for periodic independent financial audits to ensure the continued integrity and reliability of data produced by financial systems.

  LC Response: Partially Concur. The Library has introduced a long-term financial management improvement plan which specifies corrective actions, assigns responsibilities, and includes milestones for improvement of the financial management system. Using a "building block approach," the plan was developed to accomplish the maximum level of improvement possible in the shortest time possible, while at the same time, establishing long-term plans and goals for an effective, integrated financial management system. The plan calls

See comment 2.

for annual inventories and reviews of the financial management system and reports from the Director, Financial Services to the Librarian on the status of the system.

As stated in our response to Finding 10, the Library is taking steps to bring its collections under bibliographic control to facilitate their access and use by the public. Also, the Library is taking steps to increase the physical security of the collections by requiring identification of staff in the Library at all times and installing a theft detection system. Valuing and maintaining a financial record of the Library's collections cannot be realistically addressed until these basic steps are completed.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

1. GAO Finding: Funds transferred to the FEDLINK program were improperly used in subsequent years.

   LC Response: Upon the advice of counsel, the Library has taken several steps since 1988 to ensure that funds are used only in accordance with the law. Those steps include requiring agencies to certify the period of availability of the funds being transferred to the Library for the FEDLINK program. As noted by GAO, the Library has significantly reduced the carryover of funds since 1988 by limiting the practice to funds required to ensure continuity of services. However, based upon the Library's review of the GAO draft report, the Library will no longer permit carryover of funds.

2. GAO Finding: The Library's revolving fund operations exceeded its statutory authority.

   LC Response: The Library has operated gift revolving funds for many years. Most notable is the Photoduplication Service which has been in operation since 1938. It is our understanding that GAO is not saying that the Library does not have the authority to establish such funds but that it cannot expand the scope of the funds beyond the original gift. In 1980, GAO reached the same conclusion and recommended that the Library seek specific authority for each revolving fund activity. The Library prepared a bill to amend the Library of Congress Trust Fund Board Act to provide this authority. The legislation was sent to Congress but was never enacted. Later, the Librarian received a response from the Vice-Chairman, Joint Committee on the Library who advised that he believed that GAO was "overreaching" when it charged that the Library of Congress is "circumventing congressional control," and he did not believe that the Library of Congress had exceeded the scope of its authority regarding the revolving funds.

   The Library believes that it is time to resolve this long-standing issue and has initiated legislation to establish a Library of Congress revolving fund. The proposed legislation also amends 2 U.S.C. 150 to provide a more modern fiscal structure for the Cataloging Distribution Service.

   See comment 3.

   The Library's general counsel reviewed the GAO draft report and proposes that GAO change the wording on page 98, Appendix I, to prevent future misinterpretation. The Library proposes that the third sentence of paragraph 2 read:

"Although 2 U.S.C. 160 allows the Library to accept gifts intended to become self-sustaining funds, and the corpus of those funds may be increased by the original donor(s) and others, the Library may not, without specific authority, set charges for self-sustaining activities which enlarge the funds beyond the original amounts donated, produce revenues for other activities, or create a substantial surplus." (Emphasis added.)

3. GAO Finding: The Library improperly accepted non-appropriated fund reimbursements as gifts.

   LC Response: The Library discontinued accepting non-appropriated money and closed the FEDLINK gift-fund accounts in 1990. The Library has implemented procedures to ensure that FEDLINK services are provided only to eligible participants.

4. GAO Finding: Some FEDLINK contract awards violated the Advertising Act.

   LC Response: Since 1988, the Library has implemented procedures to ensure that FEDLINK contracts are advertised and awarded in accordance with applicable regulations. Additionally, Library regulations now require that all Library contracts for $25,000 or more be reviewed by both the Library's Office of General Counsel and the Associate Librarian for Management.

5. GAO Finding: The Library's records are inadequate to assess compliance with cost controls in the Economy Act.

   LC Response: In 1990, the Library's indirect cost methodology and rates were reviewed by an independent consultant. Based upon the results of that review, the Library implemented, for fiscal year 1991, a revised indirect cost rate and methodology. While the Library's current methodology is documented and is an improvement over the past approach, we plan to evaluate further the Library's cost accounting methodology as part of the financial management improvement effort.

6. GAO Finding: The Library's records are inadequate to assess compliance with the 1988 Legislative Branch Appropriations Act.

   See comment 4.

   LC Response: The Library does not agree with this finding. The Library's records distinguish between the direct costs of the reimburseable programs and indirect costs or administrative working funds (AWF). The staff positions which are in direct support of the programs are direct costs and are charged directly to the programs. The Library believes the provisions of the 1988 Legislative Branch Appropriations Act, which limits the number of employees which can be paid from AWF funds, to apply to the indirect cost reimbursements. The Library's records are organized to maintain control over this limitation. During 1988, the number of positions paid from the AWF at no time exceeded the 65-employee limit stipulated in the Act. Therefore, the Library does not agree with GAO that noncompliance may have occurred, nor that the records were inadequate to assess compliance.

7. GAO Finding: The Library's procedures could not be relied upon to ensure compliance with limitations on ADP service procurements.

LC Response: Since 1990, all equipment and maintenance have been removed from FEDLINK ordering agreements. Also, The Library has not requested a DPA from GSA for the purchase or lease of equipment through the FEDLINK program. In fiscal years 1991 and 1992, offerors are required to certify that their offers do not include a provision for the sale, lease, or rental of equipment. Also, Contracts and Logistics (C&L) has established an internal contract review board, consisting of two independent contracting officers, for the review of all awards over $25,000. Additionally, all awards over $25,000 are reviewed by the Office of General Counsel and the Associate Librarian for Management prior to issuing the order.

RECOMMENDATIONS AND LIBRARY OF CONGRESS RESPONSES

- Recommendation No. 1. Ensure that appropriations transferred to the Library from other federal agencies are used in the fiscal year during which they are available.

  Library Response: Concur. The Library has implemented policy and procedures to ensure that funds received from other agencies are used in the fiscal year they are available.

- Recommendation No. 2. Seek statutory authority to use gifts for self-sustaining activities as revolving funds. If authority is not granted, consider reducing these funds' operations to a level that will sustain the level of the original gifts.

  See comment 5.

  Library Response: Partially Concur. The Library has again initiated legislation to establish a revolving fund for its service-fee activities. If this new authority is not granted, we will evaluate the use of these funds at that time.

- Recommendation No. 3. Stop accepting nonappropriated funds as reimbursements for FEDLINK services.

  Library Response: Concur. The Library has discontinued the use of gift funds in the FEDLINK program and has established criteria for determining eligible FEDLINK participants.

- Recommendation No. 4. Ensure that prices charged customers under the FEDLINK program reflect the Library's actual costs.

  Library Response: Concur. The Library has initiated new cost recovery procedures which we feel are reasonable. We plan to continue review of the procedures as a part of our new system development efforts.

- Recommendation No. 5. Ensure that the number of staff positions financed from Economy Act reimbursements complies with the limitation imposed by law.

  Library Response: Concur. The Library will continue to maintain its records to ensure that it is in compliance with the Law.

The following are GAO's comments on the Library of Congress letter dated July 5, 1991.

GAO Comments

1. The Library's estimate of 97 million items in its collection reflects additions subsequent to September 30, 1988. Our report reflects the Library's estimate of 89 million items in its collection at the end of fiscal year 1988.

2. Discussed in "Agency Comments and Our Evaluation" section of appendix I.

3. This comment addresses material included in appendix I of our draft report, "Discussion of Library's Noncompliance With Applicable Laws and Regulations." In finalizing our report, this appendix was deleted.

4. Discussed in "Agency Comments and Our Evaluation" section of appendix II.

5. As discussed in "The Library's Revolving Fund Operations Exceeded Its Statutory Authority" section of appendix II, proposed legislation similar to that requested by the Library was introduced in the Senate on June 27, 1991.

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