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LIBRARY OF CONGRESS

Opportunities to Improve General and Financial Management

Joint Statement of
J. William Gadsby, Director, Government Business Operations;
Robert W. Gramling, Director, Corporate Audits and Standards;
Joyce C. Doria, Partner, Booz-Allen & Hamilton, Inc.;
Paul E. Lohneis, Partner, Price Waterhouse LLP

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Mr Chairman and Members of the Joint Committee:

We are pleased to be here today to discuss the recently completed management and financial reviews of the Library of Congress. Our comments today will focus on four major themes—the Library's mission, operations, resources, and financial condition. In October 1995, Senators Hatfield and Mack asked that we conduct a broad assessment of the Library's management. This request was made in response to specific allegations concerning the Library's handling of thefts of rare materials, as well as longstanding problems related to human resources and financial management. The Senators asked that the work be completed by the Spring of 1996. To help meet that time frame, given that our limited resources were already committed to other priority projects, we contracted with Booz-Allen & Hamilton Inc. to conduct a general management review of the Library and with Price Waterhouse LLP to conduct an audit of the Library's fiscal year 1995 financial statements.

As part of GAO's contractor oversight role, we worked closely with Booz-Allen and Price Waterhouse as they planned and executed their work and developed their reports. Prior to contracting with Booz-Allen and Price Waterhouse, we independently performed preliminary work at the Library. This preliminary work was provided to the contractors to assist them in understanding the operations of the Library and in planning their work. GAO also provided the contractors with information from our 1991 financial audit[1] report of the Library. To ensure a sound approach to the study, we reviewed the contractors' workplans and provided them with standard GAO financial audit and information management methodologies. As the contractors executed their work, we received periodic briefings and made ourselves available to answer questions, discuss potential findings, and review related evidentiary support. GAO also made arrangements for the contractors to share drafts of their reports with the Library to obtain comments from Library officials on the reports' factual matters as well as their recommendations. This statement is based on the reports recently completed by the contractors. The executive summaries of their reports[2] are attached.

[1]Financial Audit: First Audit of the Library of Congress Discloses Significant Problems, GAO/AFMD-91-13, August 22, 1991.

[2]Management Review of The Library of Congress, Booz-Allen & Hamilton Inc. (Washington: May 7, 1996); Financial Statement Audit for the Library of Congress for Fiscal Year 1995, Price Waterhouse LLP (Washington: May 7, 1996).

Before highlighting the management review and financial audit findings, we would like to note some aspects of the Library's activities that can serve as a useful context for discussing the overall management of the Library. First, the Library's collections are large and diverse. The Library collects materials covering a wide range of subject matter, in over 400 languages, and in a variety of formats ranging from books and manuscripts to photographs and sound recordings. The Library believes it currently has over 103 million items and adds to its collections at a rate of about 2.5 million items per year. The Library's foreign language collections constitute approximately 50 percent of its book collections and approximately 60 percent of its cataloging workload.

Second, the Library provides an extremely wide range of products and services. The Library of Congress is much more than just a library. It provides products ranging from policy analysis and information to support legislative decisionmaking, to books on tape to aid the blind and physically handicapped. It also provides copyright registration services to the creative public, cataloging standards and services for libraries across the nation and some foreign libraries, and a host of other products and services. The Library has also recently embarked on its National Digital Library program. Under this program the Library plans to digitize 5 million of its 103 million items by the year 2000, at a cost of $60 million. Of this amount, $15 million are to be provided by appropriations and $45 million are to be provided by private donations.

Within this context, Booz-Allen's findings on the Library's mission, operations, and resources and the results of Price Waterhouse's financial statement audit are summarized as follows.

Booz-Allen Management Review of the Library of Congress and Recommendations

Library's Mission Needs Reassessing

Today, the Library is at an important crossroads in its long history. Its efficiency, effectiveness, and continued relevance may depend on its ability to address key issues about its future mission. The Library's mission and activities have continued to grow since its creation in 1800, and the growth of its mission has been matched or exceeded by the growth of its collections. Booz-Allen found that the Library's staff, management structure, and resources are in danger of being overwhelmed by this growth.

Booz-Allen identified three alternative missions that could be considered to shape the Library's future. The three missions can be used to characterize the potential scope of activity and the customers the Library might serve: (1) Congress; (2) Congress and the nation; and (3) Congress, the nation, and the world community of libraries, publishers, and scholars. The current Library mission and activities fall somewhere between the latter two alternatives.

Under the first mission alternative, the Library would refocus its functions on the original role of serving Congress. Collections would be limited to broadly defined congressional and federal government needs, and Congressional Research Service-provided information would continue to support legislative functions. There would be no national library, and leadership of the information/library community would be missing unless assumed by other organizations. Booz-Allen concluded that the Library would require significantly fewer staff and financial resources to carry out this mission.

The second mission alternative would emphasize the Library's national role, and current activities of a global nature would be deemphasized. The national library role would be formally acknowledged, and the Library's leadership and partnering roles would be strengthened. This mission would require increased interaction with national constituencies. Booz-Allen concluded that the Library would require somewhat fewer staff and financial resources to carry out this mission.

Under the third mission alternative, the Library would continue and perhaps broaden its activities to serve the worldwide communities of libraries, publishers, and scholars. Collections would expand substantially with accompanying translation and processing consequences. Booz-Allen concluded that this expanded mission would require increased staff and financial resources.

After determining whom the Library will serve, the next step should be to decide how the Library will serve them. Booz-Allen identified two role options: (1) independent archive/knowledge developer and (2) information/knowledge broker. Within the role of independent archive/knowledge developer, the Library would continue to develop and manage collections independently in Library and other government facilities. Traditional, original cataloging and research or development functions would be performed primarily by Library components and staff. Library collections and facility requirements would continue to expand based on collection strategy and policy. Traditional areas of Library expertise, such as acquisitions, cataloging, and preservation, would continue to grow in importance and would drive future staffing and resource requirements.

Within the role of information/knowledge broker, the Library's principal role would change from being a custodian of collections with an independent operational role to that of a comprehensive broker or referral agency. The Library would initiate collaborative and cooperative relationships with other libraries and consortia. It would use information technology to tell inquirers which library in the nation or the world has the specific information. Under this scenario, the Library's collections would be selectively retained and/or transferred to other institutions with arrangements for appropriate preservation. Other institutions would need to demonstrate their willingness and capability to participate in such a system.

Booz-Allen assessed each of these mission and role options and discussed them during focus groups with Library management, congressional staff, external customers, and others. Many focus group participants perceived a need to systematically limit and consolidate the Library's global role. On the basis of these discussions as well as its other findings from the overall management review of the Library, Booz-Allen recommended that the Library's mission be focused within the Congress/nation alternative, and planning should begin toward a future mission of serving Congress and performing the role of a national information/knowledge broker.

Booz-Allen made this recommendation in the context of the following points. First, a final decision on any new future mission and role should receive thorough examination and debate by all the affected stakeholders—Congress, the Library, government agencies, state and local governments, other libraries, publishers, and others in the information-handling business. Second, this examination and debate

should include a thorough consideration of the appropriate role of technology in supporting the Library's operation. Third, the Library should initiate and guide this examination and debate. And fourth, at the end of the process, the mission of the Library should be affirmed by Congress, and resources should be provided at a level that would enable the Library to effectively fulfill the chosen mission.

Regardless of what Congress ultimately affirms regarding the future mission of the Library, Booz-Allen also identified a number of management and operational issues that should be addressed.

Library's Management and Operational Processes Need Improving

Booz-Allen reported that the Library's management processes could be more effective. First, it concluded that the Library should institute a more comprehensive planning and program execution process that provides for better integration of key management elements, such as strategic and operational planning, budget development, program execution, performance measurement, and evaluation. Second, Booz-Allen noted that the Library should improve the capability to make decisions and solve problems that cut across organizational lines primarily by clarifying roles, responsibilities, and accountability. Third, it pointed out that the Library should reengineer its support services, particularly in the areas of information resource management, facilities, security, and human resources, to improve the capability of its infrastructure to support the mission.

Additionally, Booz-Allen noted that the Library does not manage its operations from a process management approach but instead uses a functional approach. For example, the Library has different groups to acquire, catalog, preserve, and service each collection. Under this functional approach, the Library is not in a good position to routinely consider such factors as current arrearage status or requirements for preservation, cataloging, and storage when coordinating and planning for acquisitions of large collections. These factors could be considered more effectively under a process management approach, because one group would perform these functions for each collection. This approach also would permit the information technology function to support one Library-wide infrastructure rather than its current duplicative and poorly integrated systems. One major benefit of using a process management approach and integrated information technology infrastructure is that it provides a better understanding of how to control, manage, and improve how the organization delivers its products and services.

Booz-Allen made a number of specific recommendations targeted directly at improving the Library's management and operational processes. It emphasized that three organization-related recommendations are key to the Library's overall success in improving its management and operations. Booz-Allen recommended that the Library

- clarify the role of the Deputy Librarian to serve as the Library's Chief Operating Officer and vest the individual occupying that position with Library-wide operational decisionmaking authority;
- elevate the Chief Financial Officer's position to focus greater attention on improving the Library's financial systems and controls; and
- establish a Chief Information Officer position to provide leadership in technology across the organization, which should help the Library function more effectively in the electronic information age.

Library's Resources Need Better Managing

The effective allocation and use of human and financial resources are paramount to support the day-to-day activities of the Library. However, Booz-Allen found that a variety of weaknesses hamper the Library's ability to maintain the intellectual capital of its workforce and that the Library has opportunities for increasing revenue. Booz-Allen made several recommendations to improve the Library's ability to deal with these important issues.

Human Resources Issues

The success of the Library's mission depends heavily on its human resources. Whether the mission is to serve Congress, the nation, or the world, its ultimate achievement rests with the quality of the Library staff. However, Booz-Allen found that the human resource function at the Library has some significant problems that may hamper the Library's ability to maintain its intellectual capital.

- First, the Library does not have a coordinated training program.
- Second, human resources' personnel and processes are not equipped to handle changes to recruitment, training, or selection requirements that may result from technology, changes to the Library's mission, or staff turnover.
- Third, the human resources services unit is not able to strategically plan for workload and staffing requirements because of its poor coordination among the Library service units.

- Fourth, ongoing problems in communications between managers and the unions inhibit their ability to plan together for future directions of the Library.
- Finally, the personnel management operations, particularly competitive selection and training, inhibit the Library's ability to bring on new staff members and get them trained quickly. Currently, it takes about 6 months to recruit and hire new employees.

Revenue Opportunities

Booz-Allen recognized that improving the Library's operations would require additional funding. Thus, as part of its review, Booz-Allen looked for opportunities through which the Library could generate revenue to help offset the costs of improvements. It found that opportunities to significantly increase revenues exist in the copyright registration and cataloging areas. By fully recovering copyright registration costs, Booz-Allen estimated that the Library could receive additional revenue annually ranging from $12-$29 million, depending on different assumptions. The potential revenue to be generated from charging publishers a fee for cataloging could be about $7.5 million annually.

Booz-Allen recognized that these additional potential revenue opportunities must be reviewed in light of past efforts to increase revenues and the Library's mission. For example, Congress decided in 1948 and 1989 not to recover full cost of copyright registration, and the perception in the library community is that cataloging is at the heart of what the Library does and forms an integral part of its mission. Consequently, both of these revenue opportunities need to be considered as part of reexamining the Library's mission with a view towards better balancing its mission and available resources.

In order for the Library to have success with the implementation of any revenue opportunities, an appropriate support structure will be required. Therefore, Booz-Allen suggested that the Library needs to develop a legislative strategy that will provide it with the financial mechanisms and authority needed to implement new fee-based services. To date, Congress has not provided the Library with legislation authorizing fee-based services and all the different financial mechanisms needed to pursue a range of fee-based service opportunities.

The demand for Library resources will continue to remain high whether it serves Congress, the nation, or the world. Accordingly, Booz-Allen also suggested that the Library consider discontinuing or reducing products

and services that are not consistent with a newly established mission. Booz-Allen interviews and focus groups identified the following Library products and services as possible candidates for reduction: selected special collections acquisitions, foreign acquisitions, selected English language acquisitions, original cataloging, exhibits, displays, and performances.

Price Waterhouse Financial Audit for the Library of Congress for Fiscal Year 1995 and Recommendations

Library's Financial Management Practices Need Improving

As a part of the review of the Library's management, Price Waterhouse (1) audited the Library's fiscal year 1995 consolidated statement of financial position, (2) examined assertions made by Library management concerning the effectiveness of internal controls over financial reporting, (3) reviewed compliance with selected laws and regulations, and (4) examined assertions made by Library management concerning the safeguarding of the Library's collection. This was the first financial statement audit of the Library since our audit of the Library's fiscal year 1988 financial statements.

Financial Statements

Price Waterhouse found that the Library had mixed results in implementing GAO's recommendations made in its 1991 report. The Library made improvements including resolution of significant compliance and control problems in the Federal Library and Information Network (FEDLINK) program and implementation of a new financial management system in fiscal year 1995. Price Waterhouse also found that the Library established accounting policies and procedures to address many of the problems we found in our audit of the Library's 1988 financial statements. However, the Library had not supplemented that system with the processes necessary to generate complete, auditable financial statements. For example, the Library's new system had not been configured to generate the detailed trial balances necessary for an audit, and the system did not track significant account balances, including property and equipment and advances from others.

Further, the Library did not record significant accounting entries, including those converting balances from the old system, in sufficient detail to permit effective audit analysis of the accounts. Price Waterhouse stated that this latter deficiency, coupled with the lack of comparable prior year information and audited opening balances, precluded it from auditing the Library's fiscal year 1995 operating statement.

Although adding to cost and time to conduct the audit, Price Waterhouse was able to perform sufficient work to overcome other weaknesses in the Library's financial management practices, except for those relating to property and equipment, which enabled Price Waterhouse to opine on the Library's consolidated statement of financial position as of September 30, 1995. Price Waterhouse found that the Library's property and equipment records were not reliable or complete and that portions of property and equipment were not adequately controlled. Accordingly, Price Waterhouse

qualified its opinion on the Library's consolidated statement of financial position as follows:

> ". . . except for the effects of such adjustments, if any, as might have been determined to be necessary had (Price Waterhouse) been able to examine evidence regarding property and equipment balances, the Consolidated Statement of Financial Position presents fairly, in all material respects, the Library's financial position as of September 30, 1995, in conformity with the basis of accounting described in Note 1 to the Consolidated Statement of Financial Position."

Internal Financial and Compliance Controls

Price Waterhouse concluded that the Library's financial internal controls in place as of September 30, 1995, were not effective in safeguarding assets from material loss and in ensuring that there were no material misstatements in the Consolidated Statement of Financial Position. In addition to the material weaknesses over property and equipment that led Price Waterhouse to qualify its opinion on the Consolidated Statement of Financial Position, Price Waterhouse reported that the Library had material weaknesses in its financial reporting preparation process, reconciliations of cash accounts with the Department of the Treasury and of various general ledger balances with those in subsidiary records, and information technology security practices over its computer operations.

Price Waterhouse concluded that the Library's internal controls in place on September 30, 1995, were effective in ensuring material compliance with relevant laws and regulations. However, Price Waterhouse reported that the Library continued to accumulate surpluses in certain gift funds that it operates as revolving funds, even though the Library does not have the statutory authority to do so. GAO previously reported this noncompliance in its audit of the Library's 1988 financial statements. GAO recommended that the Library obtain the statutory authority necessary to continue operating the revolving gift funds but it has not received such authority. Also, Price Waterhouse found one instance where the Library violated 2 U.S.C. 158a, which prohibits the Library from investing or reinvesting a gift of securities offered to the Library until acceptance of the gift has been approved by the Joint Committee on the Library. The Library believes this was an isolated error and is holding the proceeds pending approval by the committee.

Price Waterhouse made a number of recommendations that the Library should implement to fulfill its plan of having a full set of audited financial statements for fiscal year 1996. These recommendations related to the

financial report preparation process, reconciliations of accounting records, accounting for property and equipment, computer security practices, enhancing information that is provided to management, financial services staffing, controls over the general ledger and reporting system, internal self-assessment of internal controls, computer operations disaster recovery plan, controls over cash handling and check processing, and trust fund accounting.

Safeguarding the Collections

Price Waterhouse concluded that the Library's management lacked reasonable assurance that the Library's internal control structure over safeguarding of collection assets against unauthorized acquisition, use, or disposition was generally effective as of September 30, 1995. Price Waterhouse found that the Library has not completed a comprehensive risk assessment and collection security plan to identify the risks to the collection, the proposed or established control activities to address the risks, the required information management needs to carry out its responsibilities, and the methods by which management could monitor the effectiveness of control procedures. Price Waterhouse concluded that without these practices and procedures, Library managers do not have reasonable assurance that the risk of unanticipated loss (theft, mutilation, destruction, or misplacement) of materials with significant market value, cultural or historical importance, or with significant information content is reduced to an acceptable level. Booz-Allen had similar findings in its review of how the Library managed security.

Price Waterhouse recommended the Library establish a comprehensive plan for safeguarding the collections by defining and applying specific standards of care to reasonably ensure that the risks from users, internal staff, and the environment are reduced to an acceptable level. As measures of success, Price Waterhouse made the following suggestions:

- Risks from users would be effectively controlled when the Library is able to tell what collection material is served to users and what they return; when reading rooms are under a reasonable level of surveillance and users know that they are being watched; when the Library knows who its users are; and when the Library limits what material users bring into the reading rooms and knows what they take out.
- Risks from internal Library staff would be effectively controlled when the Library can be sure that only those with need have access to the collection; when the Library has secured its most at-risk material in a way that it knows who accessed secured areas; when it has established

procedures to periodically inventory key items in the collection; when staff are precluded from bringing personal items into storage areas; when it has reduced the number of non-emergency exits in the collections areas of the Library's buildings; when it has regular reporting, tracking, and follow-up of missing materials; when it has a coordinated approach to access by its own maintenance personnel and those of the Architect of the Capitol; and when it has sufficient surveillance cameras in areas where high-value materials are stored.

- Environmental risks would be effectively controlled when the Library has determined that high-value, irreplaceable items have been protected from possible fire and water damage and that its preservation program is targeting and treating its highest priority items in a timely fashion.

Although the Library has been striving to improve the safeguarding of its collection since 1991, the findings of Price Waterhouse and Booz-Allen confirm that the Library continues to have a number of significant weaknesses in safeguarding the collection materials that the Library relies upon to serve Congress and the nation.

Mr. Chairman, that concludes the overall summary of the review of the management of the Library of Congress. We would be pleased to answer any questions that you or other Members may have.

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