

MEMO

Date June 8, 2020
To Dr. Carla Hayden
Librarian of Congress
From Kurt W. Hyde 
Inspector General
Subject Results of the Library of Congress' FY 2019 Financial Statements
Audit, Report No. 2019-FN-101

On May 14, 2020, we transmitted the results of the fiscal year 2019 audit of the Library of Congress' financial statements performed by the independent public accounting firm of Kearney & Company, P.C. (Kearney). In accordance with U.S. generally accepted government auditing standards, we are reporting the corrective actions of the Library to address the deficiencies in internal control. Based on your June 5, 2020, response to the draft report, we consider all the recommendations resolved. Kearney will determine whether the recommendations were implemented during the fiscal year 2020 financial statements audit.

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

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

Attachments

MEMO

Date May 14, 2020
To Dr. Carla Hayden
Librarian of Congress
From Kurt W. Hyde 
Inspector General
Subject Results of the Library of Congress' FY 2019 Financial Statements
Audit, Report No. 2019-FN-101

The attached reports present the results of the annual audit of the Library of Congress' (Library) financial statements for fiscal years (FY) 2019 and 2018.

We contracted with the independent certified public accounting firm of Kearney & Company (Kearney) for the FY 2019 audit. The contract required that Kearney perform the audit in accordance with *Government Auditing Standards*; the Office of Management and Budget Bulletin 17-03, *Audit Requirements for Federal Financial Statements*; and the GAO/CIGIE *Financial Audit Manual*.

Results of Independent Audit

Financial Statements

For the twenty-fourth consecutive year, we are pleased to report that the auditors issued an unmodified (clean) opinion on the Library's financial statements. In its audit, Kearney found that the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Further details are in the *Independent Auditor's Report*.

Report on Internal Controls over Financial Reporting

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

Library's complex and untimely financial reporting process.¹ Details for this finding are in the *Independent Auditor's Report on Internal Control over Financial Reporting*.

Compliance with Laws and Regulations

Kearney found no instance of noncompliance with laws and regulations tested. Details of its tests are in the *Independent Auditor's Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements*.

Office of the Inspector General Oversight of Kearney

In connection with the contract, we reviewed Kearney's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with *Government Auditing Standards*, was not intended to enable us to express, and we do not express, opinions on the Library's financial statements, conclusions about the effectiveness of internal controls, or conclusions on compliance with laws and regulations. Kearney is responsible for the attached auditor's report dated April 3, 2020, and the conclusions expressed in the report.² However, our review disclosed no instances where Kearney did not comply, in all material respects, with U.S. generally accepted government auditing standards.

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

Attachments

¹ A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Library's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

² In accordance with U.S. generally accepted government auditing standards, Kearney's report is dated as of the last day of their fieldwork. Kearney's final report was delivered to the Office of the Inspector General on April 15, 2020.

INDEPENDENT AUDITOR'S REPORT

To the Inspector General and Librarian of the Library of Congress

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Library of Congress (Library), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as the "financial statements") for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Library as of September 30, 2019 and 2018, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and other Required Supplementary Information (hereinafter referred to as the "required supplementary information") be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by OMB and the Federal Accounting Standards Advisory Board (FASAB), who consider it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing it for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Management Report is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements; accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03, we have also issued reports, dated April 3, 2020, on our consideration of the Library's internal control over financial reporting and on our tests of the Library's compliance with provisions of applicable laws, regulations, contracts, and grant agreements, as well as other matters for the year ended September 30, 2019. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to



provide an opinion on internal control over financial reporting or on compliance and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03 and should be considered in assessing the results of our audits.

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

Alexandria, Virginia
April 3, 2020

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Inspector General and Librarian of the Library of Congress

We have audited the financial statements of the Library of Congress (Library) as of and for the year ended September 30, 2019, and we have issued our report thereon dated April 3, 2020. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Library's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 19-03. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

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

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



The Library's Response to Findings

The Library does not have a response to the findings identified in Kearney & Company, P.C.'s (Kearney) audit at this time, but it will respond to the findings identified in our audit at a later date. The Library's response was not subjected to the auditing procedures applied in our audit of the financial statements; accordingly, we do not express an opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the Library's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03 in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

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

Alexandria, Virginia

April 3, 2020

Schedule of Findings

Significant Deficiency

I. Complex and Untimely Financial Reporting Process (Repeat Condition)

Background: As a Legislative Branch agency of the Federal Government, the Library of Congress (Library) is not required to comply with the requirements of the Chief Financial Officers (CFO) Act of 1990. However, for purposes of financial management and reporting, the Library has issued Library of Congress Regulation (LCR) 6-110, *Financial Management*, which states: “The Financial Services Directorate (FSD) will establish and maintain procedures to ensure that all of the Library’s financial activities are conducted in a manner consistent with a legislative branch agency, are in accordance with applicable laws and regulations, follow generally accepted accounting and internal control principles, and are managed with integrity and reliability.”

To this end, the Library has adopted Federal Accounting Standards Advisory Board (FASAB) standards for financial reporting in a manner consistent with a Legislative Branch agency and, wherever practical, the Library conforms to Generally Accepted Accounting Principles (GAAP) for Federal agencies. As part of the Library’s adoption of FASAB and GAAP, it prepares an annual set of financial statements and related notes and submits itself to an independent financial statement audit.

Condition: While the Library has chosen to prepare financial statements and submit itself to an independent financial statement audit, it has not implemented processes or enforced a timeline to prepare its financial statements in a timely and efficient manner. While most Federal agencies, specifically the Executive Branch, as well as some Legislative Branch agencies, prepare and issue their financial statements and complete their audit by mid-November, or one and a half months after the fiscal year (FY) close, the Library, in recent years, has taken up to six to seven months to complete its annual financial report and provide sufficient documentation to complete its audit. The following table lists the Library’s audit report dates from FYs 2016 to 2019:

FY Report	Date
FY 2016	March 14, 2017
FY 2017	April 16, 2018
FY 2018	April 5, 2019
FY 2019	April 3, 2020

In FY 2017, the Library experienced significant delays in the financial statement close process and in preparing the financial statements. As compared to prior years, the Library took an additional two months to complete the FY 2017 year-end financial statement close activities, as well as an additional month to prepare draft financial statements. In addition to the delays, the Library also made errors in financial reporting and related supporting schedules not identified during the Library management’s review.

During the FY 2018 financial statement audit, the Library had fewer errors in financial reporting and related supporting schedules because management made a conscious effort to review most schedules and documents. However, this had a negative impact on the timing of providing audit documentation. Most notably, the Library provided the draft financial statements a month after the initial due date, even though the initial due date was two months later than the prior year's due date.

During the FY 2019 financial statement audit, there were similar delays. The Library provided the draft financial statements a month after the initial due date. Also, in FY 2019, the Library continued to make errors in financial supporting schedules, specifically the supporting schedule for pledges and the investment reconciliation, which contributed to delays in the audit. While the pledge schedule was eventually reviewed and corrected, it was not completed timely so that immaterial errors could be corrected on the financial statements.

Based on discussions with management, the Library is continuing its attempts to address the issues related to complex financial reporting by bringing in new staff to fill vacancies and increase skill sets within the Financial Services Division (FSD), in addition to working with contractors to document processes and workflows.

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

While FSD management made an effort to perform reviews of financial transactions and schedules this year and last, it created a bottleneck in the process, which resulted in delays in completing financial reporting tasks and providing audit documentation.

Additionally, because the Library is not required and has not chosen to enforce a deadline to complete its financial statements and financial statement audit, as other Federal agencies are, other duties and tasks tend to take priority over tasks needed to complete the financial statements or respond to audit requests, resulting in continued delays.

Effects: Without adequate reviews of detailed transactions or adequate time to perform high-level review and analysis of financial reporting results, the Library is at increased risk that uncorrected errors in financial reporting or gaps in internal controls may go unnoticed by management. This will result in increased audit findings and potential errors in the financial statements.

Additionally, continued delays in preparing the financial statements at year-end decrease the likelihood that management and other stakeholders will use financial data to make decisions, as the data is not available timely. These delays also have the potential to interfere with the daily and monthly financial statement tasks, as FSD spends more than half of the year preparing the annual financial statements and related notes. Additionally, because the financial statement audit

is not completed until far into the following FY, the Library is not able to timely implement corrective actions and process changes to address issues identified during the audit.

Recommendations: Kearney & Company, P.C. (Kearney) recommends that the Library:

1. Perform an analysis of current financial reporting processes to identify any complex processes that could be simplified or eliminated, to include an analysis on how transactions are reported in the financial reporting system. If the FSD does not have the bandwidth to perform such an analysis, it should consider hiring an outside consultant with expertise and knowledge of best practices in Federal financial reporting processes.
2. Once financial reporting processes are reviewed and simplified, where possible, document all steps needed to report financial transactions in desk guides or procedures documents.
3. Perform an assessment of who should be performing the processes, such that procedures are pushed down to the lowest level feasible to allow for a detailed review below the management level, where possible, and take any necessary action to ensure that staffing levels and skill sets are sufficient to perform the processes and procedures.
4. Develop and establish high-level analytical procedures at the supervisor and manager level, as well as make sure adequate resources are available at the supervisor and manager level and trained appropriately to execute analytical procedures and ensure the identification and correction of errors in financial reporting processes.
5. Establish and enforce a timeline to prepare and issue the annual financial statements and related notes within a reasonable time period after the close of the FY.

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APPENDIX A: STATUS OF PRIOR-YEAR DEFICIENCIES

In the *Independent Auditor's Report on Internal Control over Financial Reporting* included in the audit report on the Library's FY 2018 financial statements,¹ we noted one issue related to internal control over financial reporting. The status of the FY 2018 internal control finding is summarized in *Exhibit 1*.

Exhibit 1: Status of Prior-Year Findings

Control Deficiency	FY 2018 Status	FY 2019 Status
Complex and Untimely Financial Reporting Process	Significant Deficiency	Significant Deficiency

¹ Library of Congress Financial Statements Fiscal Year 2018

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

To the Inspector General and Librarian of the Library of Congress

We have audited the financial statements of the Library of Congress (Library) as of and for the year ended September 30, 2019, and we have issued our report thereon dated April 3, 2020. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit; accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 19-03.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03 in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.



Alexandria, Virginia
April 3, 2020

MEMORANDUM

DATE June 5, 2020
TO Kurt Hyde, Inspector General
FROM Carla Hayden, Librarian of Congress *Carla Hayden*
SUBJECT Management Response to Independent Auditor's Report on the Library of Congress' FY 2019 Financial Statements

The Library of Congress (Library) has reviewed the draft Independent Auditor's Report from Kearney & Company, which includes the auditor's opinion on the Library's financial statements, report on internal controls over financial reporting, and report on compliance with laws, regulations, contracts, and grant agreements. We are pleased the Library received a clean audit opinion, finding the financial statements were fairly presented, and with no findings of noncompliance with laws and regulations.

The Library continues to refine its processes in order to reduce complexity and thereby increase the efficiency and effectiveness of the Library's financial reporting. We constantly face new challenges in light of the global reach and operating environment, and leadership of the legislative branch financial management system. Nevertheless, we believe the overall results of the audit reflect the efforts taken by the Library over the last year to address several internal control procedures and preserve the accuracy of its financial reports.

We recognize there is more to be done and that the recommendations identified will require our continued attention and improvement. We appreciate your support as we work on these issues in the coming year.

Attachment

cc: Mary Klutts, Chief Financial Officer