The Library’s Controls for Three Gift Funds Are Generally Working but Need to Be Enhanced
MEMORANDUM FOR: Dr. Carla Hayden
Librarian of Congress

FROM: Kurt W. Hyde
Inspector General

SUBJECT: The Library's Controls for Three Gift Funds Are Generally Working but Need to Be Enhanced, Report No. 2016-PA-102

September 29, 2017

This transmits our final report summarizing the results of the Office of the Inspector General’s audit to determine whether the Library’s internal controls for gift funds are appropriately designed, implemented, and working effectively. The Executive Summary provides an overview of our findings. The audit’s results appear on pages 1 to 9. Management’s response to our recommendations appears in Appendix B.

Based on management’s written responses to the draft report, we consider all of the recommendations resolved. Your response provided an action plan for the implementation of each recommendation, in accordance with LCR 9-160, Rights and Responsibilities of Employees to the Inspector General, §6.A. We were separately informed that all open recommendations would be implemented by the fourth quarter of fiscal year 2018.

We appreciate the cooperation and courtesies extended by the Prints and Photographs Division, the Office of the Chief Financial Officer, the Development Office, and the Office of the General Counsel during this audit.

cc: Deputy Librarian
   Associate Librarian, Library Services
   Chief, Prints and Photographs Division
   Chief Financial Officer
   Director, Development Office
   General Counsel
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The Library’s Controls for Three Gift Funds Are Generally Working but Need to Be Enhanced

Summary

The Library of Congress (Library) is authorized to accept cash gifts for its benefit, such as for gift funds. Donors may stipulate terms and conditions that the Library is bound to honor upon accepting gifts, but all accepted gifts are subject to the Library’s accounting and budgetary internal controls.

Our audit objectives were to determine whether the Library’s internal controls for gift funds are (1) appropriately designed and implemented and (2) working effectively. The Office of the Inspector General (OIG) judgmentally selected three Prints and Photographs Division (P&P) gift funds to audit.

The Library Has Established Controls for Gift Fund Management

The Library has designed internal controls that serve as a baseline for gift fund management. These controls include those related to receipts, budgeting, stewardship, and supervisory review. For example, the Librarian of Congress reviews and accepts gifts that establish new gift funds. Also, the Library creates multi-year spending plans and has supervisory controls over spending. Nonetheless, the Library can strengthen its control environment by adding steps to ensure that it makes timely gift deposits, provides donors with proper donation instructions, and performs reconciliations of donation data.

For Three Gift Funds, Controls Were Generally Working Effectively; Additional Steps Need to Be Taken for One Fund

OIG judgmentally selected three P&P gift funds for testing whether specific controls were working effectively, such as whether proper supporting documentation was properly maintained, gift receipts and revenue were received and recorded, and whether expenditures were made according to the terms of the gifts. Except as noted, we found no issues in our testing. OIG identified that for one of the three P&P gift funds, the Library needs to improve its record-keeping, monitoring of changes to terms and conditions, communication of information to relevant stakeholders within the Library, and monitoring of stakeholders’ compliance with gift requirements.

Recommendations

OIG recommends that the Library (1) develop timeliness requirements for depositing gifts; (2) review and update P&P public-facing websites with proper donation instructions; (3) create a requirement for timely and periodic reconciliations of donation data; (4) develop guidance on how to handle a donor’s request to change a grant agreement’s terms and conditions; (5) develop systematic approaches to assigning gift requirement responsibilities to stakeholders; and (6) monitoring stakeholders’ compliance with gift requirements.

Management’s Response

Management agreed with all recommendations (see Appendix B on page 13). The Library’s response initially did not include a time frame for the implementation of corrective actions but subsequent communications informed us that all remaining open recommendations were estimated to be completed by the fourth quarter of fiscal year 2018.
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Background

The Library of Congress (Library) is authorized by statute to accept cash gifts for its benefit, such as for gift funds. The Library’s Trust Fund Board (TFB) handles cash gifts intended for long-term investment (e.g., endowments). Donors may stipulate terms and conditions that the Library is bound to honor upon accepting gifts, but all accepted gifts are subject to the Library’s accounting and budgetary internal controls.

Roles and responsibilities related to gift and trust funds are outlined in Library of Congress Regulations (LCRs). The Development Office seeks private resources to support the Library’s broad range of programs. The Budget Office, located in the Office of the Chief Financial Officer, administers investments and the Office of the General Counsel provides legal advice and support. The Director of Development seeks to ensure that the Budget Office receives necessary documentation, including copies of: (1) the instrument of gift, (2) applicable correspondence, and (3) the Librarian’s acceptance letter. Upon receipt of the documentation, the Budget Office establishes accounts for the gifts. A gift fund manager is assigned by the head of the applicable service unit to oversee the fund’s accounting and budgeting activities and to make expenditures in accordance with donor-stipulated terms and conditions.

Table 1 illustrates the number of gift and TFB funds over a ten-year period ending in fiscal year (FY) 2016. There are 132 gift funds and 106 TFB funds represented.

1 See 2 U.S.C. §156-Gifts, etc., to Library of Congress Trust Fund Board and 2 U.S.C. §160-Disbursement of Gifts, etc., to Library. For the purposes of this audit, OIG focused on gifts of cash and not on other types of gifts.
2 The TFB consists of the Librarian of Congress (who is Chairman and Secretary of the TFB), the Chairman and Vice-Chairman of the Joint Committee on the Library, the Secretary of the Treasury (or an assistant secretary designated in writing by the Secretary of the Treasury), and ten members appointed by the President of the United States (two), the U.S. House of Representatives (four), and the U.S. Senate (four).
3 LCR 1-212, Development Office, Office of the Librarian
4 LCR 1-233, Office of the Chief Financial Officer
5 LCR 1-215, Office of the General Counsel
6 LCR 6-510, Accepting Gifts and Bequests of Money
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Table 2 provides the combined net asset value\(^7\) of gift and TFB funds over a ten-year period ending in FY 2016. The funds had a combined net asset value of approximately $177.1 million.

\(^7\) For FYs 2007-2013, the term “combined asset value” was used in the financial statement and in FYs 2014-2016, the term “combined net asset value” was used.
Financial accounting components of gift and trust funds are subject to review as part of the Library’s annual financial statement audit conducted by an independent public accounting firm under the supervision of OIG. The FY 2011 financial statement audit of the James Madison National Council Fund identified a material weakness in internal controls for financial reporting related to the recording of contributions.8 The FY 2012 financial statement audit identified opportunities for improving how the Library estimates the value of a gift trust for financial reporting.9 The FY 2016 financial statement audit found that the Library improperly recorded investment gains and losses on its non-Treasury investments.10

Findings

I. The Library Has Established Controls for Gift Fund Management

The Library has established internal controls that serve as a baseline for gift fund management. These controls include those related to receipts, budgeting, and stewardship and supervisory review.

- **Fund receipts** – The Library formally reviews all potential gifts with donor-imposed requirements associated with the gifts (gift requirements) before acceptance. The TFB must review and accept gifts or donations that establish new trust funds. The Librarian of Congress (the Librarian) must formally accept gifts that establish new gift funds. These steps initiate the establishment of a separately tracked fund in the Library’s accounting records. Policies state that checks are received, deposited, and recorded in the Library’s financial management system (Momentum) by the Disbursement Office.

- **Budgeting** – The Office of the Chief Financial Officer (OCFO) creates separate gift fund codes in Momentum and coordinates annually with service units to create, review, and approve multi-year budget spending plans for each fund. Funds can only be expended within approved budget object classes which correlate to gift requirements.

- **Stewardship and supervisory review** – A fund manager and an operational fund manager are assigned to each gift fund and determine whether obligations and disbursements from the fund are in compliance with the terms of the gift. The managers have access to the “Gift & Trust Fund Database,” a database maintained by OCFO that stores pertinent documentation on the establishment of gift funds. Gift fund amounts can be obligated and spent only with the approval of the fund manager, operational fund manager, service unit head, Deputy Librarian, or the Librarian.

OIG identified two control activities and one monitoring-related issue that should be addressed to enhance the Library’s gift fund internal controls –

- **Documenting timeliness expectations through policies and procedures.** Policies and procedures, including LCR 6-320: *Cash Management* and Directive 6-320.1: *Deposit Procedures*, did not state a timeliness requirement for making gift deposits from the time checks are received by the Library, putting the Library potentially at greater risk of untimely deposits. Federal agencies, including the Library, are generally required by Department of
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Treasury regulations to deposit checks on a daily basis if using Treasury’s electronic check deposit system, OTCnet.\textsuperscript{11,12} OIG recommends that OCFO update Directive 6-320.1 to include a timeliness requirement for the deposit of gifts. The Disbursing Office should also update its procedures manual to include the requirement and then adhere to it.

- \textit{Protecting donations against loss and fraud.} OIG identified a P&P public-facing website that directed donors to send donations to the Development Office; Directive 6-320.1 states that all incoming receipts should be addressed to the Disbursing Office.\textsuperscript{13} During the audit, OIG recommended that P&P review all of its public-facing websites and update them to direct donors to send donation checks to the Disbursing Office, as required by Directive 6-320.1. Prior to the issuance of OIG’s report, P&P informed us that they had conducted the review, did not find any other issues of this kind, and had updated the website in question as needed.

- \textit{Monitoring donations for loss and fraud.} OIG determined that the Development Office did not reconcile donation data stored in its donor database, Raiser’s Edge, with Momentum’s records on gifts;\textsuperscript{14} the Disbursing Office is required to reconcile on a monthly basis its deposit data with Momentum’s records per Directive 6-320.1.\textsuperscript{15} Gifts sent to the Development Office are at greater risk of loss and fraud if they are not reconciled. OIG recommends that the Development Office update its procedures manual to include a requirement for timely and periodic reconciliations of Raiser’s Edge and Momentum data on donations and then adhere to it.

\textsuperscript{11} \textit{Treasury Financial Manual}, vol. 1, part 5, sec. 2055. As a legislative branch agency, the Library is not required to follow the Treasury Financial Manual.
\textsuperscript{12} OTCnet Check Capture is a process which enables the Library to scan paper checks through a check reader and send them electronically for deposit using the Department of Treasury’s web-based application OTCnet.
\textsuperscript{13} See section II. Background. As part of this arrangement, the Disbursing Office notifies the Development Office of monetary gift donations in order for a tax receipt to be issued to the donor.
\textsuperscript{14} This practice has not been adopted in the past because Raiser’s Edge does not connect electronically to Momentum. Nonetheless, a reconciliation of this kind done manually would serve two purposes. First, the reconciliation would help to ensure that any donations received by the Development Office and forwarded to the Disbursing Office were recorded in Momentum, thus identifying lost or stolen checks. Second, it would help to ensure that the Development Office had an accurate record of donations in Raiser’s Edge for the purpose of sending tax receipts. If a donor’s check was deposited and recorded in Momentum, but not recorded in Raiser’s Edge, the Development Office would not know to send the donor a tax receipt.
\textsuperscript{15} See section III. Procedures, B. High Volume Designated Receipt Locations, subsection 5.
II. For Three Gift Funds, Controls Were Generally Working Effectively; Additional Steps Need to Be Taken for One Fund

OIG judgmentally selected three P&P gift funds for attribute testing including verification of proper supporting documentation, validation of gift receipts and revenue, and that expenditures were made according to the terms of the gifts.\(^\text{16}\) Except as noted below, we found no issues in our testing.

OIG identified that certain internal controls were not in place for one of the gift funds.\(^\text{17}\) They related to maintaining updated and accurate gift records, performing management reviews of changes to the terms and conditions of grant agreements, effectively communicating information with relevant stakeholders within the Library, and monitoring stakeholders’ compliance with gift requirements.

Under a grant agreement dated April 2015, a donor gave the Library a gift of approximately $500,000 for deposit in the gift fund. The grant agreement stipulated that the Library use the gift to commission a photographer named in the grant agreement to produce and deliver 6,000 copyright-free digital images.\(^\text{18,19}\)

During a July 2015 in-person meeting attended by the Library’s Director of Development (Director) and other primary stakeholders, various changes were made to the grant agreement’s terms and conditions. The Director told OIG that the donor asked the photographer to take additional photographs and the photographer agreed.

As part of our audit work, OIG analyzed how the Library handled the changes to the grant agreement’s terms and conditions. OIG identified the following internal control activities that should be strengthened to reduce the risk of noncompliance.

- **Maintaining updated and accurate gift records.** The changes were not formally documented, such as in a revised grant agreement or in the Development Office’s donor database system, Raiser’s Edge.\(^\text{20}\) There was no requirement that such changes be documented.

\(^{16}\) See Appendix A: Objectives, Scope, and Methodology for information on the gift funds tested.

\(^{17}\) Control activities are the policies and procedures that help ensure necessary actions are taken to address risks to achieving the entity’s objectives. See Vincent M. O’Reilly [et al.], *Montgomery’s Auditing Twelfth Edition* (New York: J. Wiley & Sons, 1998), pg. 9-4.

\(^{18}\) Copyright-free images have no restrictions upon their use, such as by the public.

\(^{19}\) The Library also established in June 2015 a Memorandum of Recommendation to use the funds to acquire the images for its collections, a necessary step as part of the acquisition.

\(^{20}\) The Development Office had not documented the July 2015 meeting in Raiser’s Edge until March 2017, when OIG started making inquiries.
• **Performing management reviews.** The changes were not reviewed by the Office of the General Counsel (OGC), nor was there a requirement for such a review.

• **Communicating information with relevant stakeholders.** Gift requirements were not formally assigned to stakeholders or revisited when the changes occurred. For example, responsibility for the publication of hardback coffee table books was not assigned in the grant agreement. The Director told OIG that the photographer was responsible. However, OIG learned that the Library had only a general cooperative agreement with the photographer that had not been reviewed with regard to the publication of the books in question.21, 22

OIG also determined that the Development Office’s procedures manual and the Library’s regulations and directives do not provide guidance on assigning responsibilities for gift requirements and tracking them until completion. 23

• **Monitoring stakeholders’ compliance with gift requirements.** Compliance with the revised gift requirements was not formally monitored, which prevented OIG from being able to determine whether the Library was in compliance with the grant agreement. 24

  • **Interim and final reports were not delivered according to the grant agreement’s schedule.** The Library was to submit interim and final reports to the donor on January 31, 2016, and January 31, 2017, respectively, per the agreement. The Development Office issued one report in April 2017; according to the Director, no other reports would be issued.

  • **Images were not made available to the public and the donor according to the grant agreement’s schedule.** The Library was to make the photographer’s images accessible to the public through P&P’s online catalog “within a few months of their receipt.” After the last batch of images was received in July 2016 in fulfillment of the grant agreement, only about one-third of them were accessible as of

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21 In May 2017, the Director, Chief of P&P, and Director of Publishing sent a memorandum to OGC and OCFO outlining its activities related to the publication of the books in question and proposed changes to clarify roles and responsibilities for the publication of books involving the photographer in the future.

22 In performing the audit, OIG determined that the Smithsonian Institution had a documented, systematic approach to assigning and tracking responsibilities for gift requirements. The approach includes an orientation meeting for relevant stakeholders and the use of an electronic database for tracking progress made by stakeholders on their assigned responsibilities.

23 LCR 6-510 addresses the issue of assigning responsibilities in part. The LCR defines who is authorized to solicit, notify, review, and accept gifts for the Library. It also outlines duties for certain positions, such as the fund manager. However, the LCR does not address assigning and tracking responsibilities associated with gift requirements.

24 The Director told OIG that the donor had been satisfied to-date with the Library’s compliance.
February 10, 2017. Also, the Library was to provide the images to the donor by December 1, 2016, but the images had not been shared with the donor as of May 3, 2017.

Recommendations numbered four to six in the following section address the issues outlined above.

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25 After OIG pointed out that the original set of images had not been posted as required under the original grant agreement, P&P posted the rest of them. According to the Chief of P&P, the division was waiting to post the remaining images until receiving the additional photographs requested by the donor at the July 2015 meeting. From the Chief’s perspective, it would be more efficient to load the photographs and their descriptions in as few large batches as possible.

26 According to the Director, as a result of the July 2015 meeting, the images are now due to the donor in December 2017.
Recommendations

We recommend:

1. OCFO should update Directive 6-320.1 to include a timeliness requirement for the deposit of gifts. The Disbursing Office should also update its procedures manual to include the requirement and then adhere to it.

2. P&P should review all of its public-facing websites and update them to direct donors to send donation checks to the Disbursing Office, as required by Directive 6-320.1.

Prior to the issuance of OIG’s report, P&P informed us that they had conducted the review, did not find any other issues of this kind, and had updated the website in question as needed.

3. The Development Office should update its procedures manual to include a requirement for timely and periodic reconciliations of Raiser’s Edge and Momentum data on donations, and then adhere to it.

4. The Development Office, in consultation with OCFO and OGC as appropriate, should update its procedures manual to include guidance on how to handle a donor’s request to change a grant agreement’s terms and conditions, and then adhere to it. The guidance should address how and by whom the request would be reviewed and how it would be memorialized, such as in a new grant agreement and/or in Raiser’s Edge.

5. The Development Office, in consultation with OCFO and OGC as appropriate, should develop a systematic approach to assigning gift requirement responsibilities to stakeholders, update its procedures manual to include guidance on how to implement the approach, and then adhere to it. As part of the approach, assignments should be made soon after a grant agreement has been established, such as at an orientation meeting among stakeholders.

6. The Development Office, in consultation with OCFO and OGC as appropriate, should develop a systematic approach to monitoring stakeholders’ compliance with gift requirements, update its procedures manual to include guidance on how to implement the approach, and then adhere to it. As part of the approach, compliance should be tracked using an electronic database. The Library should also consider whether OCFO and/or OGC should perform general oversight on a periodic basis considering the risks associated with noncompliance.
Appendix A: Objectives, Scope, and Methodology

The purpose of this self-initiated audit was to determine whether (1) the Library’s internal controls for gift funds are appropriately designed and implemented and (2) the controls are effectively working. OIG initiated this audit in January 2017 and fieldwork activities were completed in August 2017.

Three P&P gift funds were judgmentally selected for the audit’s second objective; they are summarized in Table 3.

<table>
<thead>
<tr>
<th>Gifts and Photographs Division’s Gift Fund Reviewed</th>
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<tbody>
<tr>
<td>Gift Fund Name</td>
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<tr>
<td>----------------</td>
</tr>
<tr>
<td>Use by Prints &amp; Photographs Curatorial Section</td>
</tr>
<tr>
<td>Center for American Architecture</td>
</tr>
<tr>
<td>21st Century Photography</td>
</tr>
<tr>
<td>Totals</td>
</tr>
</tbody>
</table>

Table 3: Prints and Photographs Division's gift funds reviewed by OIG.

Source: Gift & Trust Funds Database and Financial Reporting System reports.

As part of performing the audit’s first objective, OIG (1) reviewed laws, regulations, policies, procedures, and other documents relevant to the Library’s gift funds; (2) conducted in-person interviews with Library staff involved with managing, administering, and overseeing gift fund activities, including representatives of OCFO, P&P, the Administrative Services Directorate of the Office of the Associate Librarian for Library Services, the Development Office, OGC, and the Publishing Office; and (3) completed a process flowchart on the steps to establish a gift fund in the Library’s financial accounting system, Momentum, and Library Services’ resource allocation system, eManagement. All activities were performed in Library offices in Washington, D.C.

As part of the second objective, OIG (1) extracted all FY 2016 revenue and expenditures transactions and documentation;27 (2) downloaded all supporting gift fund documentation from the Gift & Trust Fund Database maintained by OCFO;

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27 Documentation for the three gift funds tested was extracted from the Library’s financial management system, Momentum. Documentation for the 21st Century Photography gift fund was extracted from Library Services’ library management system, Integrated Library System.
(3) performed attribute testing on all FY 2016 revenue and expenditure transactions; (4) conducted in-person, follow-up interviews with the Library staff interviewed as part of the first objective; and (5) conducted an in-person interview with a representative of the Smithsonian Institution’s Office of Sponsored Projects to learn about the Smithsonian’s approach to assigning and tracking responsibilities for gift requirements. All activities were performed in Library offices in Washington, D.C., except for the interview with the Smithsonian representative, which took place at a Smithsonian office in Arlington, VA.

A potential limitation is that OIG relied upon the Library’s Director of Development for testimonial evidence regarding decisions made by the donor, the photographer, and the Library at the July 2015 in-person meeting, as discussed in the audit report’s second finding. OIG did not corroborate the information provided by the Director with the donor or the photographer, but OIG addressed the lack of documentation about the agreed-upon changes in an audit finding and the audit’s fourth recommendation. In sum, OIG recommended that the Development Office update its procedures manual to create guidance on how to handle a donor’s request to change a grant agreement’s terms and conditions, including guidance on how changes would be memorialized.

Also, OIG did not review controls related to investments as those were audited by the independent public accountant during the FY 2016 financial statement audit; OIG supervises the annual financial statement audit. The accountant identified improperly recorded investment gains and losses on its non-Treasury investments. Other relevant prior coverage is outlined in the audit report’s background section.

For criteria, OIG used the Library’s regulations, directives, and policies and procedures, Department of Treasury guidance as applicable, the Government Accountability Office’s Standards for Internal Control in the Federal Government, and the American Institute of Certified Public Accountant’s Audit & Accounting Guide, Not-for-Profit Entities. OIG used computer-processed data from Momentum and Raiser’s Edge. OIG did not use specialists to perform the audit.

OIG conducted this performance audit in accordance with generally accepted government auditing standards as prescribed by the Comptroller General of the United States and LCR 1-140, Inspector General. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit

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29 Momentum’s general and application controls are subject to annual audit as part of the Library’s financial statement audit. OIG reconciled revenue data entered in Raiser’s Edge to Momentum.
objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
Appendix B: Management's Response

MEMORANDUM

DATE
September 28, 2017

TO
Kurt Hyde, Inspector General

FROM
Robert Newlen, Deputy Librarian for Institutional Advancement

SUBJECT
Comments on OIG Draft Report 2016-PA-102, The Library's Controls for Three Gift Funds Are Generally Working, But Need to Be Enhanced

Thank you for the opportunity to comment on the subject draft report. We appreciate the ability to respond to the interim findings and improve administration of and internal controls for gifts to the Library of Congress.

The Library generally concurs with the report's findings and recommendations and has begun to update the relevant policies and procedural documents to ensure continued compliance with all gift terms. Relationships with donors and grantors are of paramount importance to the Library, because we rely on such funds to enhance the public's access to our extraordinary collections and staff and to maintain the Library's relevance within the broader library, museum, and educational communities.

The Office of the Chief Financial Officer (OCFO) is updating the Library's financial policies and procedures governing the receipt, administration, and oversight of gifts. The existing regulations and directives on cash management reflect a process designed to balance the legal requirements imposed by the Library's gift authorities with security concerns and efficiency for deposits; however, we agree clarifying the timeliness requirements will help ensure compliance with federal rules governing the financial transactions involved with Library gifts. OCFO will work with the Office of the General Counsel and the Development Office to include in the procedures additional details of the responsible parties for each stage of the gift process – at acceptance, during administration and management of the gift or grant, including any changes to terms and conditions, and until closing of the gift fund or expiration of the grant period. Also, these offices will coordinate to include policies and procedures for periodic monitoring to guarantee reconciliation of Development Office data with the Library's financial management system and facilitate electronic tracking of gift or grant milestones as necessary.
As noted in your report, all Prints & Photographs websites have been updated to direct individuals to the proper contacts for obtaining more information on the methods available for donating to the Library. Our goal is to centralize and streamline the giving process so donors have easy access to the resources needed to determine the best method and level of giving and allow for the most effective and impactful use of their gifts.

Please let me know if you have questions or would like to discuss this in greater detail.

cc: Mary Klutts
    Elizabeth Pugh
    Sue Siegel
    Mark Sweeney
    Helena Zinkham