Date       July 13, 2021
To         Dr. Carla Hayden
            Librarian of Congress
From       Kurt W. Hyde
            Inspector General

On June 21, 2021, we transmitted the results of the fiscal year 2020 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 July 12, 2021, response to the draft report, we consider all the recommendations resolved. KPMG will determine whether the recommendations were implemented during the fiscal year 2021 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
Date  June 21, 2021
To  Dr. Carla Hayden
Librarian of Congress
From  Kurt W. Hyde
Inspector General
Subject  Results of the Library of Congress’ FY 2020 Financial Statements
Audit, Report No. 2020-FN-101

The attached reports present the results of the annual audit of the Library of Congress’ (Library) financial statements for fiscal years (FY) 2020 and 2019.

We contracted with the independent certified public accounting firm of Kearney & Company (Kearney) for the FY 2020 audit. The contract required that Kearney perform the audit in accordance with Government Auditing Standards; the Office of Management and Budget Bulletin 19-03, Audit Requirements for Federal Financial Statements; and the GAO/CIGIE Financial Audit Manual.

Results of Independent Audit

Financial Statements

For the twenty-fifth 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 material weakness concerning the Library’s complex and untimely financial reporting process resulting in
accounting errors.\footnote{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.} 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 May 14, 2021, and the conclusions expressed in the report.\footnote{In accordance with U.S. generally accepted government auditing standards, Kearney’s report is dated as of the last day of its fieldwork. Kearney’s final report was delivered to the Office of the Inspector General on May 21, 2021.} 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
    Acting Comptroller
    Chief Financial Officer
    General Counsel

Attachments
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, 2020 and 2019, 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, 2020 and 2019, 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 the Management’s Discussion and Analysis (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 May 14, 2021, 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 ending September 30, 2020. 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.

Alexandria, Virginia
May 14, 2021
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Inspector General and Librarian of the Library of Congress

We have audited, 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, the financial statements of the Library of Congress (Library) as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Library’s financial statements and we have issued our report thereon dated May 14, 2021.

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 opinions 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 a 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings, that we consider to be a material weakness.

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.

Alexandria, Virginia
May 14, 2021
Schedule of Findings

Material Weakness

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 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 is responsible for ensuring controls are operating effectively and implementing a reporting timeline that provides timely and relevant distribution of financial results. In addition to these actions and responsibilities, the Library also 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 audits 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. This extended timeline has also had an impact on the audit timeline, as the Library was unable to provide sufficient documentation to complete its audit timely. The following table lists the Library’s audit report date from FYs 2016 to 2020:

<table>
<thead>
<tr>
<th>FY</th>
<th>Audit Report Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>March 14, 2017</td>
</tr>
<tr>
<td>2017</td>
<td>April 16, 2018</td>
</tr>
<tr>
<td>2018</td>
<td>April 5, 2019</td>
</tr>
<tr>
<td>2019</td>
<td>April 3, 2020</td>
</tr>
<tr>
<td>2020</td>
<td>May 14, 2021</td>
</tr>
</tbody>
</table>
Additionally, the Library took greater than eight months to formally issue its FY 2019 financial statements report after the completion of the audit. The FY 2019 financial statements report was formally released on December 17, 2020, more than one year after the FY-end.

When completing the FY 2020 financial statements and related audit, the quality of financial reporting supporting schedules and documentation decreased, as more errors were noted than in the prior two years. Additionally, there were increased delays, for as long as three months, in providing documents requested in the audit, as some supporting schedules had to be reworked to correct errors identified by management. Similarly, there were delays in providing responses to audit follow-up questions, also as long as three months, because personnel responsible for answering the questions did not have the adequate information or knowledge to provide a response (specifically, in the Investment and Expense area, where audit follow-up questions went unanswered for months, or where staff provided inaccurate responses to follow-up questions).

Since FY 2016, the Library has had an outstanding audit finding related to the improper recording of gains and losses on its non-Treasury investments. Since then, the Library has taken steps to address this finding to include performing a reconciliation of investment accounts. In FY 2020, the Library’s FSD performed a reconciliation of non-Treasury investments balances, as well as the related unrealized gain and loss accounts. However, this reconciliation did not include all investment accounts, and the reconciliation did not include any explanations for variances noted. Furthermore, staff responsible for posting realized and unrealized gain amounts to the financial management system are using internally developed spreadsheets as support and were unable to trace and agree these transactions to third-party documentation or answer questions related to these transactions.

During the FY 2020 audit, an issue identified in the Library’s expense account took over three months to resolve. After various communications and follow-up with the auditor, Library staff came to the realization that an expense transaction related to an Interagency Agreement (IAA) between two offices within the Library was improperly recorded to the operating expense account in FY 2020 when the cash was transferred internally and should not have been expensed until FY 2021 when the expense was incurred. Because this was an IAA, the incorrect expense amount was offset by an incorrect revenue amount of equal value, both of which were eliminated at the statement level; therefore, this mistake did not have an impact on the overall financial statements. However, because the IAA was incorrectly recorded as an expense at the time the money was transferred, this contributed to the Library’s confusion and the delays in determining what was recorded and how this transaction should have been recorded.

In many cases, a key manager in the FSD reviewed and reworked supporting schedules prior to providing them to the auditors or, in the case of follow-up questions related to the investment and expense issues, had to research the answer, and provide responses because the staff under them was unable to provide an adequate or accurate response. This contributed to delays, as it created a bottleneck in responding to audit requests.

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 skillsets within the FSD. However, while the new staff does possess accounting and financial reporting skills, there is a general lack of knowledge of the Library’s processes and systems amongst the new staff and a lack of bandwidth, making it difficult for them to provide timely and adequate financial information. This lack of knowledge is, in part, due to the lack of documented procedures and desk guides for new staff to use and learn from, as well as the loss of institutional knowledge through attrition.

**Cause:** 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. Additionally, the recent attrition in FSD has resulted in the loss of institutional knowledge within FSD, and the current staff does not have the bandwidth or training to complete all tasks necessary to complete the financial statement reporting process timely.

FSD completed a financial reporting process review, but it has not fully implemented the recommended changes to realign functions and bring on the necessary staff with the knowledge and skillsets necessary to complete financial reporting tasks. 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.

FSD has stated that other priorities, such as month-end close, sometimes cause delays in completing the year-end close and preparing the financial statements report. Additionally, there is a bottleneck in finalizing the financial statements report, as there is a key manager in FSD responsible for managing the review of the financial statements and collecting and incorporating all comments made by offices across the Library.

FSD does have internal deadlines to complete year-end close activities, but 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, Library staff have no incentive to prioritize the completion of the financial statements report over other tasks. Despite early and frequent communication between the audit team and top management within FSD about the excessive delays in responding to audit requests, there were minimal attempts on FSD’s part to make the completion of the financial statements or the audit a top priority.

**Effect:** Improper recording of unrealized and realized investment gains and losses and improper recording of cash transfers as expenses may result in misstatements on the Statement of Changes in Net Position. Without clearly documented guidance on how to record these transactions, staff is more likely to make mistakes when recording, especially if they are not adequately trained or are rushed to complete task because they are tight on bandwidth. Additionally, 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.

Lastly, when the financial statements report is issued more than a year after the conclusion of the FY, it decreases the likelihood that management and other stakeholders, such as potential donors, will use financial data to make decisions as the data becomes outdated before it is issued. 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 report. When 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 perform the following:

1. Document all steps needed to report financial transactions in desk guides or procedures documents.
2. Perform an assessment of who should be performing the processes and when they should be performed, such that procedures are pushed down to the lowest level feasible and done when appropriate to allow for a detailed review below the management level, where possible, and take any necessary action to ensure that staffing levels and skillsets are sufficient to perform the processes and procedures.
3. Develop and establish high-level analytical procedures at the supervisor and manager level, as well as ensure 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.
4. Establish and enforce a timeline to prepare and issue the annual financial statements and related notes within a reasonable period, such as two months after the close of the FY.
5. Continue to implement recommendations from the reporting process review to realign functions within the FSD and bring on the necessary staff with the knowledge and skillsets needed to complete the financial reporting task.
6. Establish and document procedures to perform a quarterly reconciliation of non-Treasury investments, to include reconciling all general ledger accounts related to investments and realized and unrealized gains and losses. Any variances noted in the reconciliation should be investigated and explained within the reconciliation. Management should review the reconciliation to ensure it is complete and accurate and that the Library has properly recorded investment balances at year-end and realized and unrealized gain and losses throughout the year.
7. Train FSD accounting staff responsible for posting investment transactions to the financial management system on how to calculate gain and loss amounts so that they can ensure gains and losses are reported accurately and in compliance with GAAP.
8. Update the posting models in Momentum to ensure cash transfers are properly recorded and that expenses are not recorded until the expense is incurred.
9. Ensure that the process to record capital expenditures, from the requisition through the life of the asset, is documented. This documentation should include all methods
commonly used by the Library to acquire capital assets, such as assets purchased through IAAAs. This documentation should also include a process to perform periodic reconciliations of ongoing projects to construct or create capital assets to ensure the completeness of the Library’s Internal Use Software in Development balance, as well as other Construction in Progress balances.

* * * * *
APPENDIX A: STATUS OF PRIOR-YEAR DEFICIENCY

In the Independent Auditor’s Report on Internal Control over Financial Reporting included in the audit report on the Library’s FY 2019 financial statements,¹ we noted several issues that were related to internal control over financial reporting. The status of the FY 2019 internal control finding is summarized in Exhibit 1.

Exhibit 1: Status of Prior-Year Finding

<table>
<thead>
<tr>
<th>Control Deficiency</th>
<th>FY 2019 Status</th>
<th>FY 2020 Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complex and Untimely</td>
<td>Significant Deficiency</td>
<td>Material Weakness</td>
</tr>
<tr>
<td>Financial Reporting Process</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

¹ Library of Congress Financial Statements Fiscal Year 2019
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, 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, the financial statements of the Library of Congress (Library) as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Library’s financial statements, and we have issued our report thereon dated May 14, 2021.

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. We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Library. 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
May 14, 2021
MEMORANDUM

DATE July 13, 2021
TO Kurt Hyde, Inspector General
FROM Carla Hayden, Librarian of Congress

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 is in the process of recruiting new staff and will continue to reevaluate its financial management and investment processes with the goal of reducing complexity in its financial reporting. The FSD continues to document procedures and train staff in response to concerns regarding institutional knowledge attrition and to facilitate greater future efficiency.

The Library has provided corrective action plans in response to individual audit recommendations and comments to management. We appreciate your support as we move forward toward resolution.

cc: Mary Kluts, Chief Financial Officer