



UNITED STATES GOVERNMENT

LIBRARY OF CONGRESS

Memorandum

Office of the Inspector General

TO: Ambassador John O'Keefe
Executive Director
Open World Leadership Center

December 19, 2007

FROM: Karl W. Schornagel
Inspector General

A handwritten signature in black ink, appearing to read "Karl W. Schornagel".

SUBJECT: Open World Leadership Center FY 2006 Financial Statements Audit

We contracted with the independent public accounting firm of Kearney & Company to audit the financial statements of the Open World Leadership Center (Open World) as of September 30, 2006 and for the year then ended. The contract required that the audit be conducted in accordance with generally accepted government auditing standards; OMB's bulletin, *Audit Requirements for Federal Financial Statements*; and the GAO/PCIE¹ *Financial Audit Manual*.

In its audit of Open World, Kearney & Company found:

- The financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,
- There were no material weaknesses in internal control² over financial reporting (including safeguarding assets) and compliance with laws and regulations, and
- No reportable noncompliance with laws and regulations it tested.

Although Kearney & Company reported that there were no material weaknesses, it did identify certain matters involving Open World's control environment that while not significant enough to

¹ PCIE is an interagency council that is charged with promoting integrity and effectiveness in federal programs and primarily consists of the Presidentially appointed inspectors general (IG) under the IG Act, as amended.

² According to federal financial audit criteria, audit findings are classified as to their significance. A "reportable condition" in the auditor's opinion represents a deficiency in the design or operation of an internal control which could adversely affect Open World's ability to record, process, summarize, and report financial data consistent with assertions made by management in the financial statements. A "material weakness" is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements may occur and not be detected promptly by employees in the normal course of performing their duties.

be considered reportable conditions deserve management attention. Kearney & Company is reporting these matters along with its recommendations for improvement to management in a separate letter.

In connection with the contract, we reviewed Kearney & Company's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on Open World's financial statements or conclusions about the effectiveness of internal control or conclusions on compliance with laws and regulations. Kearney & Company is responsible for the attached auditor's report dated September 5, 2007³ and the conclusions expressed in the report. However, our review disclosed no instances where Kearney & Company did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Attachments

³ The American Institute of Certified Public Accountant's *Statement on Auditing Standards No. 1*, Sec. 530.01, requires that an auditor's report cannot be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to support the audit opinion (generally this is the last day of audit fieldwork). Our transmittal letter was delayed because the auditors and Open World management conducted additional research to resolve disclosure issues related to the combined Statement of Budgetary Resources. Specifically, management wanted to assure that financial statement readers were not misled by the presentation requirements of the combined Statement of Budgetary Resources and its presentation of budget authority. Please see note 10 to the financial statements for a detailed explanation.

OPEN WORLD LEADERSHIP CENTER

FINANCIAL STATEMENTS FOR FISCAL YEAR 2006



Washington, DC
June 2007

OPEN WORLD LEADERSHIP CENTER
FINANCIAL STATEMENTS FOR FISCAL YEAR 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS



OPEN WORLD LEADERSHIP CENTER

Financial Statements

Fiscal Year Ended September 30, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

MISSION AND OVERVIEW

The mission of the Open World Leadership Center (“The Center”) is to enhance understanding and capabilities for cooperation between the United State and the countries of Eurasian and the Baltic States by developing a network of leaders in the region who have gained significant, firsthand exposure to America’s democratic, accountable government and free-market system. Since its founding by Congress in 1999, the Open World Program, which is administered by the Center, has enabled nearly 10,500 current and future leaders from Russia, Ukraine, Lithuania, and Uzbekistan to experience American democracy and civil society, work with their American counterparts, live in American families and communities, and gain new ideas and inspiration for implementing change back home. Open World is today the largest U.S.-Russia exchange program and a proven model for exchanges for leaders from other Eurasian countries.

The Center is an independent entity in the Legislative Branch governed by a board of trustees. Board members consist of members of Congress and private citizens. The Congressional leadership appoints congressional members while the Librarian of Congress appoints citizen board members. The Librarian of Congress is currently the Chairman of the Board.

The Center receives appropriated funds and is authorized to receive private donations. All funds credited to the Center are deposited in a United States Treasury trust fund, the Open World Leadership Center Trust Fund.

HISTORY

Congress established Open World in May 1999 as a Library of Congress–run pilot exchange for emerging Russian leaders. In late 2000, Congress created the Open World Leadership Center (Public Law 106-554) as a separate legislative branch entity to manage the program, which had already hosted 3,500 Russians in 48 states. In 2003, Congress made the other New Independent States and the Baltics eligible for Open World and expanded the Russia program to include cultural leaders. The Center’s board of trustees selected Lithuania, Ukraine, and Uzbekistan to pilot new exchanges, and Open World welcomed its first delegates from these nations in December 2003. One year later, Congress extended Open World eligibility to any countries designated by the Center’s board. Today the original Russia program, the cultural leaders program for Russia and exchanges with other countries in the region are collectively called the Open World Program.

Open World conducts its programs with the help of many respected government agencies and NGOs

in the United States and participating countries. A large pool of prominent U.S. and foreign government bodies and international NGOs nominate most candidates. Finalists are then selected by committees composed mainly of U.S. Embassy staff. The U.S. visits are carried out by some 20 organizations with exchange-program expertise that the Center competitively selects and awards grants to each year. These organizations either host groups themselves or recruit local affiliates, civic organizations, educational institutions, and government bodies to do so. In addition to arranging the professional agendas, these local host organizations provide meals, lodging, and cultural and social activities.

Open World awards contracts for the international and domestic travel and other logistical and administrative arrangements for the program and other expert services.

Open World relies on the Library of Congress through an interagency agreement to provide accounting services and support, financial reporting and financial statements, personnel and human resources services, contracting services, legal services and office space.

OVERVIEW OF FINANCIAL STATEMENTS

In accordance with Federal accounting standards, the Library has prepared Open World Leadership Center’s Balance Sheet for fiscal year 2006.

Balance Sheet

The purpose of the balance sheet is to provide financial statement users with information about OWLC’s assets, liabilities, and net position as of September 30, 2006. OWLC’s net position consists of the funds authorized by Congress for operations the fund since inception, private donations, and the net results of operations through September 30, 2006.

Assets		Liabilities and Net Position	
2006		2006	
Intragovernmental	\$ 15,215,391	Intragovernmental Liabilities	\$ 4,459
Prepayments	397,298	Other Liabilities	3,010,385
Other	6,039	Net Position	12,603,884
Total Assets	\$15,618,728	Total Liabilities and Net Position	\$15,618,728

OWLC’s assets total \$15.6 million in fiscal year 2006 with Investments with the Department of the Treasury as the major item. OWLC’s liabilities total \$3.0 million consisting of accounts payable and accrued payroll liabilities.

Statement of Net Costs

The purpose of the Statement of Net Costs are to provide financial statement users with information about the program costs (\$14.5 million) and earned revenues (\$0) for OWLC for the fiscal year ended September 30, 2006. In other words, the statement presents the net costs (\$14.5 million) of the program for fiscal year 2006.

Statement of Changes in Net Position

The purpose of the Statement of Changes in Net Position are to provide financial statement users with information about OWLC's financing sources and the components of the changes in net position. The OWLC net position increased by nearly \$700 thousand primarily through donations (\$100 thousand) and intra-governmental transfers (\$500 thousand) to support the OWLC program.

Statement of Budgetary Resources

The Statement of Budgetary Resources and the related disclosures provide information about how budgetary resources were made available as well as their status at the end of the period. The Budgetary Resources section of the statement presents the total budgetary resources available to the OWLC. The Status of Budgetary Resources section of the statement presents information about the status of budgetary resources at the end of the period. Finally, the Outlays section presents the total outlays of OWLC and relates obligations incurred to total outlays.

OWLC's budgetary resources were \$32.5 million for fiscal year 2006, of which \$2.6 million was the unused balance from the previous fiscal year and \$29.9 million resulted from current year activity (particularly \$14 million appropriated and \$13.9 million of that appropriation transferred to the trust fund account). Outlays of \$27.5 million included the \$13.9 million of transfers cited above and \$13 million of outlays to run the program. As this statement is not consolidated, amounts appropriated and transferred are combined and reported in total.

Statement of Financing

The Statement of Financing are presented to explain how budgetary resources obligated during the fiscal year (presented on the Statements of Budgetary Resources) relate to the net costs of operations of the OWLC (presented on the Statements of Net Costs). The OWLC had \$14.1 million difference between its net obligations (\$28.6 million) and its net cost (\$14.5 million) in fiscal 2006 which primarily exists due to the aforementioned \$13.9 million transfer of appropriation to the trust fund account.

LIMITATIONS OF THE FINANCIAL STATEMENTS

OWLC's financial statements are the culmination of a systematic accounting process. The statements have been prepared to report the financial position and results of operations of the OWLC, pursuant to the hierarchy of accounting principles and standards set forth in Note 1 to the financial statements. While the statements have been prepared from the books and records maintained by the Library of Congress, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that obligations and subsequent liabilities cannot be incurred without legislation that provides authority to do so.

FINANCIAL STATEMENTS AND NOTES



OPEN WORLD LEADERSHIP CENTER

Balance Sheet

As of September 30, 2006

	2006
ASSETS	
Entity Assets:	
Intragovernmental Assets	
Fund Balance with Treasury (Note 2)	\$ 1,966,957
Investments (Note 3)	13,248,434
Prepayments (Note 4)	397,298
Other (Note 5)	6,039
Total Assets	<u>\$ 15,618,728</u>
LIABILITIES	
Intragovernmental Liabilities	
Accounts Payable and Accrued Funded Payroll Benefits	\$ 4,459
Accounts Payable and Accrued Funded Payroll Benefits	2,952,280
Unfunded Annual and Compensatory Leave	58,105
Total Liabilities	<u>\$ 3,014,844</u>
NET POSITION	
Cumulative Results of Operations - Earmarked	12,603,884
Total Net Position	<u>12,603,884</u>
Total Liabilities and Net Position	<u><u>\$ 15,618,728</u></u>

The accompanying notes are an integral part of these financial statements.

OPEN WORLD LEADERSHIP CENTER

Statement of Net Costs

For the Fiscal Year Ended September 30, 2006

	2006
Net Costs by Program Area:	
Open World Leadership Center:	
Program Costs	\$ 14,548,843
Less Earned Revenue	0
Net Costs of Operations	<u>\$ 14,548,843</u>

The accompanying notes are an integral part of these financial statements.

OPEN WORLD LEADERSHIP CENTER
Statement of Changes in Net Position
For the Fiscal Year Ended September 30, 2006

	2006 Cumulative Results of Operations	2006 Unexpended Appropriation
Net Position, Beginning	\$ 11,907,854	\$ 0
Budgetary Financing Sources		
Appropriations Received	0	14,000,000
Other Adjustments	0	(140,000)
Appropriations Used	13,860,000	(13,860,000)
Non-Exchange Revenue	760,487	0
Donations Cash or Securities	112,200	0
Transfer in/out without Reimbursement	500,000	0
Other Financing Sources		
Imputed Financing from costs absorbed by others	12,187	0
Total Financing Sources	15,244,873	0
Less: Net Costs of Operations	(14,548,843)	0
Net Position, Ending	\$ <u>12,603,884</u>	\$ <u>0</u>

The accompanying notes are an integral part of these financial statements.
Note: Open World Leadership Center funds are earmarked funds.

OPEN WORLD LEADERSHIP CENTER
Statement of Budgetary Resources
For the Fiscal Year Ended September 30, 2006

	2006
Budgetary Resources (Note 10)	
Unobligated Balance, brought forward , October 1	\$ 2,564,200
Recoveries of prior year obligations	185,676
Budget Authority	
Appropriation	29,197,607
Spending authority from offsetting collections	
Earned	
Collected	642,535
Change in receivables from Federal sources	1,621
Subtotal budget authority	29,841,763
Permanently not available	(140,000)
Total Budgetary Resources	\$ 32,451,639
Status of Budgetary Resources (Note 10)	
Obligations Incurred:	
Direct	\$ 29,401,998
Unobligated balance-Exempt from Apportionment	3,049,641
Total Status of Budgetary Resources	\$ 32,451,639
Change in Obligated Balance:	
Obligated Balance, Net	
Unpaid obligations, brought forward, October 1	\$ 10,959,459
Less: Uncollected customer payments from Federal sources, brought Forward October 1	0
Total unpaid obligated balance, net	10,959,459
Obligations incurred	29,401,998
Less: Gross outlays	(28,159,844)
Less: Recoveries of prior-year unpaid obligations	(185,676)
Change in uncollected customer payments from Federal sources	(1,621)
Obligated Balance, Net, End of Period	
Unpaid obligations	12,015,936
Less: Uncollected customer payments from Federal sources	(1,621)
Total, unpaid obligated balance, net end of period	\$ 12,014,315
Net Outlays (Note 10)	
Gross Outlays	28,159,844
Less: Offsetting Collections	(642,535)
Net Outlays	\$ 27,517,309

The accompanying notes are an integral part of these financial statements. In particular, readers are encouraged to refer to Note 10 on page 14 for more explanation of this Statement.

OPEN WORLD LEADERSHIP CENTER
Statement of Financing
For the Fiscal Year Ended September 30, 2006

	2006
Resources Used to Finance Activities	
Budgetary Resources Obligated	
Obligations Incurred	\$ 29,401,998
Spending Authority from Offsetting Collections and Recoveries	(829,833)
Net Obligations	<u>28,572,165</u>
Other Resources	
Imputed Financing from Costs Absorbed by Others	12,187
Total Resources Used to Finance Activities	<u>28,584,352</u>
Resources Used to Finance Items not Part of the Net Cost of Operations	
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	(153,707)
Resources that Fund Expenses in Recognized in Prior Periods	(21,896)
Resources that Finance the Acquisition of Assets	30
Other Resources or Adjustments to Net Obligated Resources that do not affect Net Cost of Operations	(13,860,000)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	<u>(14,035,573)</u>
Total Resources Used to Finance the Net Cost of Operations	<u>14,548,779</u>
Components of Net Cost of Operations that will not Require or Generate Resources in Current Period	64
Net Costs of Operations	<u>\$ 14,548,843</u>

The accompanying notes are an integral part of these financial statements.

Open World Leadership Center
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Open World Leadership Center (OWLC), a legislative branch agency of the federal government was established by Public Law 106-554 to bring political and civic leaders to the United States to meet their American counterparts and experience American style democracy and free enterprise in action. The OWLC relies primary on appropriated funds to support its programs and operations. Budget requests are subject to review by the House Appropriations Committee and the Senate Appropriations Sub-committees on Legislative Branch. The OWLC also receives funds from other federal agencies and gifts from the public to carry out its operations.

The OWLC's programs and operations are governed by a board of trustees. Board members consist of members of congress (appointed by the congressional leadership) and private citizens (appointed by the Librarian of Congress). The Librarian of Congress is currently the Chairman of the Board.

B. Basis of Presentation

The accompanying financial statements report the financial position, net costs, changes in net position, budgetary resources and financing of the OWLC for fiscal years 2006. These statements and schedules include amounts of all funds designated by law and managed for the purpose of OWLC. The statements were prepared from the Library's financial management system in accordance with the form and content for entity financial statements specified by the Library's financial management regulations and directives and the accounting policies summarized in this note.

As a legislative branch agency, the OWLC is not required to follow the executive agency accounting principles established by the Comptroller General under 31 U.S.C. 3511 or standards developed by the Federal Accounting Standards Advisory Board (FASAB). However, OWLC maintains its fund balances with the Department of the Treasury and submits information required to incorporate its financial and budget data into the overall federal government structure. For purposes of financial management and reporting, the OWLC follows Library regulation (LCR 1510) which adopts the federal standards for financial reporting and internal controls in a manner consistent with a legislative agency.

C. Basis of Accounting

Transactions are recorded on the accrual basis and are within budgetary limitations established to facilitate compliance with legal constraints and controls over use of federal funds. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash.

The OWLC's financial statements conform to accounting principles generally accepted in the United States of America as promulgated by the FASAB. The American Institute of Certified Public Accountants recognizes FASAB Standards as generally accepted accounting principles for federal reporting entities.

The statements were also prepared based on guidance published in the Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements. The OWLC is not required to adopt this circular, and accordingly has elected to use the disclosures management deems necessary for the fair presentation of financial statement information.

D. Use of Estimates in Preparing Financial Statements

The preparation of financial statements, in conformity with Federal accounting standards, requires management to make estimates and assumptions. These estimates affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements, and the amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

Note 2. Fund Balance with Treasury

	2006
Trust Funds	\$548,258
Gift Funds	1,418,699
Total	<u>\$1,966,957</u>

Note 3. Investments, net

OWLC funds that are not needed currently to finance current activities are invested in interest-bearing obligations of the United States. OWLC has directed the Library to invest funds derived from contributions in Treasury securities. Due to the short-term nature of the investments, the cost of investments in conjunction with accrued interest approximates their fair market values. Investments outstanding were \$13,248,434 as of September 30, 2006. Annual investment rates were from 4.125% to 4.625% in fiscal year 2006.

	2006
Face Value	\$13,097,000
Interest Receivable	151,434
Investments, Net	<u>\$13,248,434</u>

Note 4. Prepayments

OWLC awards grants to approximately 25 organizations with exchange-program expertise that are competitively selected for the purpose of hosting the foreign delegates. As of September 30, 2006, \$397,298 had been paid to but not yet used by these organizations to carry out their services. These funds are expected to be used by the organizations during fiscal year 2007.

Note 5. Other Assets

Other assets primarily consist of leasehold improvements and payroll related accounts receivable.

Note 6. Intra-governmental Activities

The financial activities of OWLC interact with and depend on the services of the Department of State and the Library of Congress for administrative support.

Note 7. Imputed Financing Sources

An imputed financing source of \$12,187 was recognized for partial funding of employee benefit costs incurred on behalf of the OWLC by the Office of Personnel Management.

Note 8. Total Cost and Earned Revenue by Budget Functional Classification

Total Cost by Function Classification:	2006
Education, Training, Employment and Social Services	\$14,548,843

Note 9. Total Cost by Program Activity

Open World Leadership Center Program:	2006
Intragovernmental Costs	\$470,106
Public Costs	14,078,737
Total Program Costs	<u>\$14,548,843</u>

Note 10. Budgetary Resources

OWLC's General Fund received appropriations of \$14,000,000, less \$140,000 rescission. The Appropriation amount reflected in Budget Authority in this note and in the Statement of Budgetary Resources includes the general fund appropriation as well as its transfer of \$13,860,000 from the general fund to the trust fund. This "combined" reporting, where elimination of internal transfers is not permitted, is a standard presentation of the Statement of Budgetary Resources, as required by generally accepted accounting principles for a legislative agency.

The following presentation is designed to assist the reader in understanding that the actual appropriation for fiscal year 2006 was \$14,000,000 less the rescission of \$140,000 and not the budget authority of \$29,841,763.

For the Fiscal Year Ended September 30, 2006	Appropriated Capital	Non- Appropriated Capital	COMBINED
Budgetary Resources			
Unobligated Balance, brought forward, October 1	\$0	\$2,564,200	\$2,564,200
Recoveries of prior year obligations		185,676	185,676
Budget Authority			
Appropriation	14,000,000	15,197,607	29,197,607
Spending authority from offsetting collections			
Earned			
Collected		642,535	642,535
Change in receivables from Federal sources		1,621	1,621
Subtotal budget authority	14,000,000	15,841,763	29,841,763
Permanently not available	(140,000)		(140,000)
Total Budgetary Resources	<u>\$13,860,000</u>	<u>\$18,591,639</u>	<u>\$32,451,639</u>
Status of Budgetary Resources			
Obligations Incurred:			
Direct	\$13,860,000	\$15,541,998	\$29,401,998
Unobligated Balance-Exempt from Apportionment		3,049,641	3,049,641
Total Status of Budgetary Resources	<u>\$13,860,000</u>	<u>\$18,591,639</u>	<u>\$32,451,639</u>
Change in Obligated Balance:			
Obligated Balance, Net			
Unpaid obligations, brought forward, October 1	\$0	\$10,959,459	\$10,959,459
Obligations incurred	13,860,000	15,541,998	29,401,998
Less: Gross outlays	(13,860,000)	(14,299,844)	(28,159,844)
Less: Recoveries of prior-year unpaid obligations		(185,676)	(185,676)
Change in uncollected customer payments from Federal sources		(1,621)	(1,621)
Obligated Balance, Net, End of Period			
Unpaid obligations	0	12,015,936	12,015,936
Less: Uncollected customer payments from	0	(1,621)	(1,621)

For the Fiscal Year Ended September 30, 2006	Appropriated Capital	Non- Appropriated Capital	COMBINED
Federal sources			
Total, unpaid obligated balance, net end of period	<u>\$0</u>	<u>\$12,014,315</u>	<u>\$12,014,315</u>
Net Outlays			
Gross Outlays	\$13,860,000	14,299,844	\$28,159,844
Less: Offsetting Collections		(642,535)	(642,535)
Net Outlays, as reported in the Budget of the U.S. Government	<u>\$13,860,000</u>	<u>\$13,657,309</u>	<u>\$27,517,309</u>

Budget Authority as reported in the Combined Statements of Budgetary Resources includes amounts made available to OWLC from general and trust funds. In contrast, appropriations received as reported in the Consolidated Statement of Changes in Net Position pertain only to amounts made available to OWLC from general funds. The following is a reconciliation of these amounts:

	2006
Combined Statement of Budgetary Resources – gross budget authority, before reduction for \$140,000 rescission	\$ 29,841,763
Less amounts made available to the OWLC trust fund from the OWLC general fund	(13,860,000)
Less Transfers-in, donations and interest earned for program activities	(1,337,607)
Less refunds of prior year expenditures and other	(644,156)
Consolidated Statement of Changes in Net Position – Gross appropriations received before reduction for \$140,000 rescission	<u>\$14,000,000</u>

Independent Auditor's Report

Executive Director, Open World Leadership Center

We have audited the accompanying Balance Sheet of the Open World Leadership Center (the Center) as of September 30, 2006, and the related Statement of Net Cost, Statement of Changes in Net Position, Statement of Financing, and combined Statement of Budgetary Resources (hereinafter referred to as the financial statements), for the year then ended. The Center is an independent Legislative Branch entity as of September 30, 2006. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

SUMMARY

As stated in our opinion on the financial statements, we concluded that the Center's financial statements for the year ended September 30, 2006, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting disclosed no material weaknesses.

The results of our tests of compliance with certain provisions of laws and regulations disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States.

The following sections present our opinion on the Center's financial statements, our consideration of the Center's internal control over financial reporting, our tests of the Center's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

OPINION ON FINANCIAL STATEMENTS

We have audited the accompanying Balance Sheet of the Center as of September 30, 2006, and the related Statement of Net Cost, Statement of Changes in Net Position, Statement of Financing, and combined Statement of Budgetary Resources, for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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. 06-03, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Center as of September 30, 2006, and its net costs, changes in net position, budgetary resources, and financing of operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph. The information in the Management's Discussion and Analysis is not a required part of the Center's financial statements, but is considered supplementary information required by OMB Circular No. A-136, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information; however, we did not audit this information and we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Center's internal control over financial reporting by obtaining an understanding of the Center's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 06-03. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Center's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by



employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted no matters involving internal control and its operations that we consider to be material weaknesses.

In Kearney & Company's fiscal year (FY) 2005 audit of the Library of Congress (the Library), we reported on weaknesses identified in the Library's General Support System (GSS) and Entity-Wide Security Program, which we described as reportable conditions. Specifically, we noted that the Library had not fully implemented an Entity-Wide Security Program, and in addition, we identified control weaknesses in the Library's GSS which affected the availability, integrity, and confidentiality of all applications and data residing in the processing environment. The Library processes all of the Center's financial transactions; therefore, the weaknesses that we identified in the Library's financial audit also affect the Center's internal control structure. During FY 2006, the Library completed the implementation of enhancements addressing the above weaknesses, and therefore, information technology (IT) internal control weaknesses are no longer considered reportable conditions. IT internal controls exist in a dynamic environment where new risks are constantly evolving. Consequently, continued management commitment to an effective IT internal control environment will be essential to ensure that the Library's financial and sensitive information will be adequately protected in this new environment.

We noted other matters involving internal control and their operation over financial reporting, which have been reported to the Center's management in a separate letter dated September 5, 2007.

COMPLIANCE AND OTHER MATTERS

Management of the Center is responsible for complying with laws and regulations applicable to the Center. As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin 06-03. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to the Center.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 06-03.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.



This report is intended solely for the information and use of the Center, the Office of Inspector General of the Library, management of the Center, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

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

September 5, 2007
Alexandria, Virginia