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United States Government Accountability Office
Washington, DC 20548

May 25, 2007

The Honorable James H. Billington
Librarian of Congress
United States Library of Congress

Subject: *Internal Control: Improvements Needed in the Library of Congress' Capitol Preservation Fund-Related Internal Controls*

Dear Dr. Billington:

On March 13, 2007, we issued our report¹ on our audit of the Capitol Preservation Fund's (CPF) fiscal years 2005 and 2004 financial statements, including the results of our tests of related internal control and selected provisions of laws. In that report, we noted the need to improve certain CPF-related internal controls established by the Library of Congress (Library) in conjunction with financial management services it provides to the Capitol Preservation Commission (Commission). The purpose of this report is to discuss further those internal control deficiencies and to make four recommendations to the Library for improving its CPF-related internal controls and related procedures.

Results in Brief

In our audit of the CPF's fiscal years 2005 and 2004 financial statements, we found that the Library's CPF-related internal controls associated with CPF payments and financial reporting needed to be improved. Specifically, we found that Library controls were ineffective in ensuring that the CPF had sufficient cash in its account with the U.S. Treasury² to cover payments from the account. We also found that the Library's internal controls associated with the preparation and review of the CPF's financial statements for fiscal years 2005 and 2004 were not operating effectively.

¹GAO, *Financial Audit: Capitol Preservation Fund's Fiscal Years 2005 and 2004 Financial Statements*, GAO-07-335 (Washington, D.C.: Mar. 13, 2007).

²Treasury Fund Symbol 09X8300 United States Standard General Ledger account 1010 – Fund Balance with Treasury.

While not considered material weaknesses,³ these deficiencies represent reportable conditions⁴ with respect to the Library's CPF-related internal controls.

Our four recommendations follow the sections in which corresponding internal control issues are discussed. In commenting on a draft of this report, the Library agreed that its CPF-related internal controls can be improved and identified actions that will be taken to respond to our recommendations.

Scope and Methodology

As part of our audit of the CPF's fiscal years 2005 and 2004 financial statements, we obtained a sufficient understanding of the Library's CPF-related internal controls over financial reporting and compliance with laws and regulations to plan our audit. In addition to examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made in preparing the CPF's financial statements and notes, and evaluating the overall presentation of the financial statements and notes; we also tested selected internal controls over financial reporting (including safeguarding of assets) and compliance and tested compliance with selected provisions of laws that have a direct and material effect on the CPF's financial statements. We conducted our audit in accordance with U.S. generally accepted government auditing standards.

Background

The Commission was established by Public Law 100-696, 102 Stat. 4608 (November 18, 1988) to provide improvements in, preservation of, and acquisitions for the U.S. Capitol and other locations under the control of the Congress. To finance the Commission's activities, Public Law 100-696 established the CPF within the U.S. Treasury. The CPF's assets consist of amounts derived from contributions, surcharge proceeds from the sale of certain commemorative coins, and interest earned from Treasury securities purchased with available CPF assets.

The Commission does not have permanent staff or employees. To help facilitate Commission activities, Public Law 100-696 requires the House of Representatives Fine Arts Board, the Senate Commission on Art, and the Architect of the Capitol to

³A 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 errors, fraud, or noncompliance 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.

⁴Reportable conditions are matters coming to the auditor's attention that, in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the ability to meet the financial reporting and compliance objectives of internal control. The objectives of financial reporting controls are to provide reasonable assurance that transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in conformity with U.S. generally accepted accounting principles and assets are safeguarded against loss from unauthorized acquisition, use, or disposition. The objectives of compliance controls are to provide reasonable assurance that transactions are executed in accordance with laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements.

provide staff support and assistance, as requested. The Library is also required to provide financial management services to the Commission.⁵ The financial management services provided by the Library include coordinating with the U.S. Treasury on deposits to and payments from the CPF; managing, in accordance with an established investment policy, the purchase and redemption of CPF-related investments in Treasury securities; maintaining records and related internal controls associated with the CPF's investment transactions, assets, liabilities, net assets, revenues, and expenses; and preparing the CPF's financial statements in conformity with U.S. generally accepted accounting principles. In providing these services, the Library relies on the financial information it receives and maintains and other information provided to the Library by representatives of the Commission, the U.S. Treasury, and the Architect of the Capitol.

CPF Payment-Related Internal Control Deficiencies

The Library did not have adequate controls and procedures to ensure that the CPF has sufficient cash in its account with the U.S. Treasury prior to approving payments from the account. Over a 4-week period covering late September and early October 2004, significant deficiencies in the Library's CPF-related safeguarding controls led to five CPF payments that exceeded the CPF's available cash balance, resulting in negative balances in the CPF's cash account with Treasury. Several factors contributed to these negative cash balances: a mistake in the process of recommending a vendor invoice for payment, a lack of supervisory review of the invoice payment recommendation, and reliance on inaccurate spreadsheet data used to monitor the CPF's available cash balance.

As a matter of practice, the Library invests CPF funds obligated for contracts until the related obligations are due to be paid. As a result, it is important that the Library effectively manage the CPF's investments and cash balance to ensure that there is sufficient cash available when contract invoices are to be paid.

The CPF's initial negative cash balance occurred when a Library official recommended an approved vendor invoice for payment under the assumption that the invoice was related to another fund managed by the Library. When the invoice was paid, it was correctly charged to the CPF resulting in a negative cash balance. In reviewing the events surrounding the payment, we found that there was no supervisory review of the Library official's recommendation that the invoice should be paid.

An electronic spreadsheet that was used by the Library official, who had recommended the vendor invoice for payment, to monitor the availability of funds and manage CPF investment purchases was not updated to reflect the use of CPF funds to pay the vendor invoice. As a result, the spreadsheet overstated the amount of CPF funds available for investment. On four occasions, the inaccurate spreadsheet data were relied upon to support recommendations for the purchase of new Treasury investments, each of which exceeded the amount available in the CPF for investment.

⁵Public Law 101-45 103 Stat. 97, 107 (June 30, 1989).

Following the Library's review and approval of each investment recommendation, the Bureau of Public Debt (Bureau) executed the investment purchase resulting in new negative balances in the CPF's cash account with Treasury. In reviewing the investment purchases, we noted that the Library did not have procedures for reconciling the spreadsheet data on CPF funds available for investment to relevant information from the CPF's general ledger. We also noted that the supervisory review and approval of the investment recommendations did not effectively determine whether or not there were sufficient funds available to pay for the investments purchased. Library officials told us that they learned about the negative cash balance in mid-October 2004 and addressed this deficiency by redeeming, prior to maturity, Treasury investments to increase the CPF's cash balance to a positive balance. During the remainder of fiscal year 2005, the CPF's cash account remained positive.

The five instances of negative cash balance with Treasury constituted procedural violations of the Department of the Treasury's operating guidance⁶ applicable to investments in Treasury securities by government investment accounts, such as the CPF. The Treasury guidance requires that sufficient funds be available in the account (CPF) before a payment is made to vendors or to invest funds. With regard to the negative cash balances, the Library's internal controls applicable to recommending and approving CPF payments did not provide adequate assurance that sufficient CPF funds were available before the payments were made. In discussing the need to strengthen the CPF-related payment controls, the Library acknowledged that, going forward, recommendations for CPF payments should be based on supporting information from the CPF's general ledger and other reliable sources (i.e., Bureau confirmations of investment redemptions) and those reviewing and approving payment recommendations should confirm the availability of funds needed to cover planned payments.

Recommendations

To help strengthen internal controls over CPF-related payments for vendor invoices and investments in Treasury securities, we recommend that the Librarian of Congress direct the Library's Chief Financial Officer to revise applicable processes and procedures to require that

- all CPF-related payment recommendations be based on available cash balance data that have been reconciled with the CPF general ledger and other reliable

⁶See the Department of the Treasury, Operating Circular, *Responsibilities Relating to Government Investment Accounts and Investment in Government Account Series (GAS) Treasury Securities*, at www.publicdebt.treas.gov, effective November 15, 2002. Chapter 6000, *Responsibilities Relating to Disbursement of Moneys from Government Investment Accounts* requires that investment accounts have a cash balance at least equal to the amount planned to be disbursed before making the disbursement. In addition, Section 4060, *Policies governing investment of monies in government investment accounts*, requires that funds to be invested in Treasury securities be available to the Department in the Treasury general fund to pay for the purchase of Treasury investments.

source information to confirm that the CPF will have sufficient cash to fund the planned payments at the time they will be made, and

- all CPF-related payment recommendations receive supervisory review and approval that includes reviewing evidence confirming that sufficient funds will be available to fund the recommended payment.

CPF-Related Financial Reporting Deficiencies

During our audits of the CPF's fiscal years 2005 and 2004 financial statements, we identified significant errors in the CPF's fiscal year 2005 financial statements that were not detected during the Library's preparation and review of the financial statements. These errors represented significant deficiencies in the Library's CPF-related financial reporting controls. Specifically, we found that the fiscal year 2005 financial statements

- contained significant, though offsetting, errors in amounts received from and used by investing activities in the Statement of Cash Flows because Library staff mistakenly assumed that certain general ledger data represented investment purchase and redemption activities when the data actually represented corrections of earlier errors in recording investment transactions;
- did not correctly identify and present the amount of the change in net assets as part of the reconciliation of the change to the net cash provided/used by operating activities in the Statement of Cash Flows as required by U.S. generally accepted accounting principles; and
- did not correctly identify and present the amount of temporarily restricted net assets released from restrictions during the year in the Statement of Activities as required by U.S. generally accepted accounting principles.

We identified the above errors, as well as other less significant errors, during our audit. They were corrected in the CPF's final fiscal years 2005 and 2004 financial statements. However, the Library's internal controls related to the preparation and review of the CPF's financial statements for fiscal years 2005 and 2004 did not provide adequate assurance that errors and omissions in the financial statements were prevented or detected on a timely basis by Library staff in the normal course of carrying out their CPF-related responsibilities. In discussing the need to improve the CPF financial statement preparation and review, the Library acknowledged that, going forward, the statements will be effectively reviewed and approved before they are provided to potential users.

Recommendations

To improve the reliability of CPF financial statements provided to potential users, we recommend that the Librarian of Congress direct the Library's Chief Financial Officer to strengthen the Library's CPF-related financial statement preparation and review process by establishing procedures that

- specify the nature and source of financial information needed to prepare and support accurate CPF financial statement balances and classifications and facilitate their review, and
- require review of the CPF's financial statements and the related supporting financial information used in their preparation.

Agency Comments

In commenting for the Library on a draft of this report, the Library's Chief Financial Officer agreed that the Library's CPF-related internal controls can be improved and identified actions that will be taken to strengthen applicable payment-related and financial reporting controls. The Library plans to implement procedures that will require all recommendations for CPF-related payments to be based on cash balance data that have been reconciled to the CPF general ledger data and the CPF financial statements to be reviewed prior to being provided to potential users. We will evaluate the Library's planned actions during our next audit of the CPF financial statements.

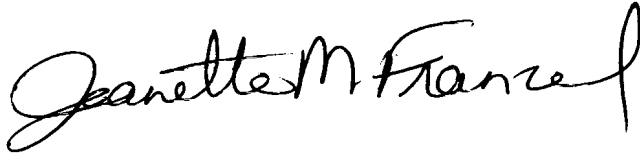
This report contains recommendations to you. The head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on the recommendations to the Senate Committee on Homeland Security and Governmental Affairs and the House Committee on Oversight and Government Reform not later than 60 days from the date of this report. A written statement also must be sent to the House of Representatives and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this report.

This report is intended for the use of the management of the Library of Congress and representatives of the Capitol Preservation Commission. We are sending copies to representatives of the Capitol Preservation Commission, the Chairman and Ranking Minority Member of the Senate Committee on Homeland Security and Governmental Affairs and the House of Representatives Committee on Oversight and Government Reform. In addition, this report will be available to other interested parties at no charge on GAO's Web site at <http://www.gao.gov>.

We acknowledge and appreciate the cooperation and assistance provided by the Library management and staff during our audit of the Capitol Preservation Fund's fiscal years 2005 and 2004 financial statements. If you have any questions about this

report or need assistance in addressing these issues, please contact me at (202) 512-9471 or by e-mail at franzelj@gao.gov. Contact points for our Office of Congressional Relations and Office of Public Affairs may be found on the last page of this report.

Sincerely yours,

A handwritten signature in black ink that reads "Jeanette M. Franzel". The signature is written in a cursive, flowing style.

Jeanette M. Franzel
Director
Financial Management and Assurance

Enclosure



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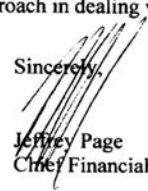
May 17, 2007

Dear Ms. Franzel:

I am writing in response to your proposed report entitled *Internal Control: Improvements Needed in the Library of Congress' Capitol Preservation Fund-Related Internal Controls* (GAO-07-732R).

The Library agrees overall with the facts and circumstance associated with each internal control deficiency identified by GAO and with GAO's conclusion that CPF-related internal controls can be improved. The Library also agrees to take the action needed to strengthen payment-related and financial reporting controls. Specifically, the Library will put procedures in place to help ensure that the CPF-related payment recommendations are based on available cash balance data that has been reconciled with the CPF general ledger data and that the supervisory review will occur and include verification of sufficient funds available (including verification of the reconciled information cited above). The Library will implement procedures to review financial statements before they are provided to potential users. The Library appreciates GAO's professionalism and its collaborative communications approach in dealing with the CPF.

Sincerely,


Jeffrey Page
Chief Financial Officer

Ms. Jeanette M. Franzel
Director
Financial Management and Assurance
United States Government Accountability Office
441 G Street, NW
Washington, DC 20548

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