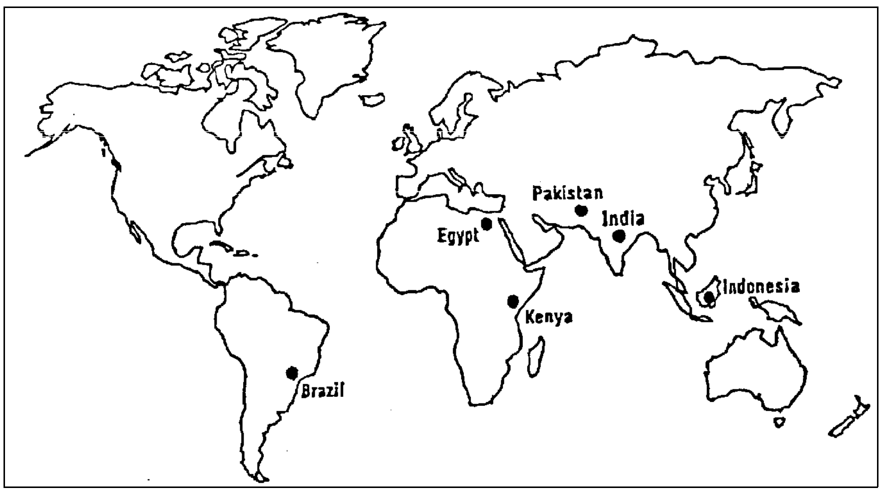
LIBRARY OF CONGRESS

THE COOPERATIVE ACQUISITIONS PROGRAM REVOLVING FUND

FINANCIAL STATEMENTS FOR FISCAL YEAR 1998



Washington, DC
June 1999

THE COOPERATIVE ACQUISITIONS PROGRAM REVOLVING FUND

FINANCIAL STATEMENTS FOR FISCAL YEAR 1998

T A B L E O F C O N T E N T S

THE COOPERATIVE ACQUISITIONS PROGRAM REVOLVING FUND FINANCIAL STATEMENTS Fiscal Year Ended September 30, 1998

MANAGEMENT'S DISCUSSION AND ANALYSIS

MISSION AND OVERVIEW

The mission of the Library of Congress Cooperative Acquisitions Program is to support advanced research and study about all aspects of the less-developed areas of the world, through the acquisition and distribution of primary research materials published in more than 40 developing nations. These materials are not otherwise reliably available in the United States. Because of nearly forty years of participation in this program, the research libraries of the nation's most prestigious universities have developed unequalled collections which support advanced research about the developing world. In fiscal year 1998, the Library supplied more than 400,000 individual publications to more than 80 U.S. institutions of higher learning and academic institutions abroad.

HISTORY

In 1958, Congress approved Public Law 83-480, Section 104n, which amended the Agricultural Trade Development and Assistance Act of 1954 (popularly known as Public Law 480) and authorized the Librarian of Congress to use foreign currencies that accrued to the government in connection with the sales of agricultural commodities to finance "the acquisition of books, periodicals, and other materials...of cultural or educational significance...and the deposit thereof in libraries and research centers in the United States specializing in the areas to which they relate."

This amendment led to the formation of the Library's overseas offices and Cooperative Acquisitions Programs. The overseas offices were created due to the ineffectiveness of conventional international commercial methods in acquiring books and other research materials from less-developed countries. Because of the lack of established publishing industries or international vendors, poor book distribution systems, and the political and economic instability of the nations of the developing world, a local presence is the only effective way to acquire the needed primary source materials.

In 1962, the Library opened the New Delhi Office, and by 1964 had opened offices in Karachi, Pakistan; Dacca, Pakistan (now Bangladesh); Cairo, Egypt; Tel Aviv, Israel; and Jakarta, Indonesia. In 1965, Congress expanded the Library's overseas offices through Public Law 89-329, the Higher Education Act of 1965, Title II-C, known as the National Program for Acquisitions and Cataloging (NPAC).

Between 1962 and 1986 twenty-three overseas offices were funded for operations; all but six were closed when no longer needed. Since 1987, the Library has operated six overseas offices–in New Delhi, India; Cairo, Egypt; Rio de Janeiro, Brazil; Jakarta, Indonesia; Nairobi, Kenya; and Islamabad, Pakistan.

These six overseas offices are responsible for acquiring materials for the Library of Congress collections and, on a cost recovery basis, for the participants in the Cooperative Acquisitions Program. The offices are under the administrative control of the Library's African/Asian Acquisitions and Overseas Operations Division.

YEAR 2000 (Y2K) PLANS

Certain critical automated systems used in the Library's six overseas offices are not certified as Y2K compliant. However, a new system (Integrated Field Office System) is currently undergoing final testing and is being implemented in the Cairo Office. The new system will be implemented in all six overseas offices before the close of the calendar year. Approved contingency plans are on record, in the event that any unexpected delays occur.

OVERVIEW OF FINANCIAL STATEMENTS

Fiscal year 1998 is the first year of operation for the Cooperative Acquisitions Program Revolving Fund (CAPRF). Section 207 of the Legislative Branch Appropriations for fiscal year 1998 (P.L. 105-55) established the CAPRF from the existing balances in the gift fund program, and mandated that the Library submit an annual audited financial statement for the revolving fund. The CAPRF is authorized to acquire foreign publications and research materials on behalf of participating institutions on a cost-recovery basis. In accordance with Federal accounting standards, the Library has prepared a Balance Sheet, Statement of Net Costs, Statement of Changes in Net Position, and a Statement of Budgetary Resources for the CAPRF.

Balance Sheet

The purpose of the balance sheet is to provide financial statement users with information about the CAPRF's assets, liabilities, and net position as of September 30, 1998. The CAPRF's Net Position consists of the funds approved in Public Law 105-55 to initially capitalize the fund and the net results of operations for fiscal year 1998.

Assets		Liabilities and Net Position	
Intragovernmental	$ 2,896,486	Intragovernmental Liabilities	$ 165,777
		Other Liabilities	1,368,985
Other	105,875	Net Position	1,467,599
Total Assets	$ 3,002,361	**Total Liabilities and Net Position**	$ 3,002,361

The CAPRF's assets total just over three million dollars, with the Fund Balance with the Department of the Treasury ($2.8 million) as the major item. The CAPRF's other liabilities total $1.3 million, which primary consists of the advances received from the program participants ($1.1 million that would be refunded to participants upon termination in the program and $86,323 that would not be refunded upon termination in the program).

Statement of Net Costs

The purpose of the Statement of Net Costs is to provide financial statement users with information about the costs and earned revenues for the CAPRF for the fiscal year ended September 30, 1998. In other words, the statement presents the net costs of the program -- $24,468. As cited in Public Law 105-55, the CAPRF recovers its full costs over a reasonable period of time. This net costs of $24,468 represents normal timing differences between the earning of revenue and the incurrence of costs.

Statement of Changes in Net Position

The purpose of the Statement of Changes in Net Position is to provide financial statement users with information about the CAPRF's financing sources and the components of the changes in net position. The CAPRF's financing sources totaled $1,492,067 for the year ended September 30, 1998. This amount primarily consists of the start-up capital that was authorized in Public Law 105-55 ($1,384,163) but also includes an imputed financing source ($107,904), which represents overhead costs of the Library for the Cooperative Acquisitions Program that was not funded by the CAPRF. This disparity is caused by the Library's usage of differing allocation methods for financial statements and cost recovery. The CAPRF's net position is $1,467,599 as of September

30, 1998. This amount results from the financing sources ($1,492,067) being netted against the net costs of the program ($24,468).

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 Library. 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 the Library and reconciles obligations incurred to total outlays.

The CAPRF's budgetary resources were $4.1 million, of which approximately one-third ($1.4 million) was the start-up capital and the other two thirds ($2.7 million) was obtained from the participants in fiscal 1998. Total outlays of $1.5 million was a result of incoming amount from participants ($2.7 million) exceeding the outlay of funds for the programs activities ($1.2 million).

LIMITATIONS OF THE FINANCIAL STATEMENTS

The Cooperative Acquisitions Program Revolving Fund'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 Cooperative Acquisitions Program Revolving Fund, 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 of 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 sorvereign entity. One implication of this is that obligations and subsequent liabilities cannot be incurred without legislation that provides authority to do so.

THE COOPERATIVE ACQUISITIONS PROGRAM REVOLVING FUND

Balance Sheet

As of September 30, 1998

ASSETS		
Entity Assets:		
Intragovernmental Assets		
Fund Balance with Treasury (Note 2)	$ 2,814,982	
Accounts Receivable, Net (Note 3)	81,504	
Accounts Receivable, Net (Note 3)	47,043	
Cash and Other Monetary Assets (Note 4)	47,297	
Inventory and Related Property, Net (Note 5)	11,535	
Total Assets		$ 3,002,361
LIABILITIES		
Intragovernmental liabilities		
Accounts Payable (Note 7)	$ 165,777	
Advances from Others (Note 8)	1,139,534	
Accounts Payable (Note 7)	143,128	
Other Liabilities (Note 9)	86,323	
Total Liabilities		$ 1,534,762
NET POSITION		
Cumulative Results of Operations		1,467,599
Total Liabilities and Net Position		$ 3,002,361

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

THE COOPERATIVE ACQUISITIONS PROGRAM REVOLVING FUND

Statement of Net Costs

For the Year Ended September 30, 1998

Net Costs by Program Area:		
Cooperative Acquisitions Program:		
Program Costs	$	1,535,996
Less Earned Revenue		1,511,528
Net Costs of Operations	$	24,468

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

THE COOPERATIVE ACQUISITIONS PROGRAM REVOLVING FUND
Statement of Changes in Net Position
For the Year Ended September 30, 1998

Net Costs of Operations		$ 24,468
Financing Sources (Other than Exchange Revenue)		
Imputed Financing	$ 107,904	
Start -up Capital	1,384,163	
Total Financing Sources		1,492,067
Change in Net Position		1,467,599
Net Position, Beginning		0
Net Position, Ending		$ 1,467,599

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

THE COOPERATIVE ACQUISITIONS PROGRAM REVOLVING FUND
Statement of Budgetary Resources
For the Year Ended September 30, 1998

Budgetary Resources		
Budget authority	$ 1,384,162	
Spending authority from offsetting collections	2,709,059	
Total Budgetary Resources		$ 4,093,221
Status of Budgetary Resources		
Obligations incurred, new	$ 1,815,614	
Unobligated balance - available	2,277,607	
Total, Status of Budgetary Resources		$ 4,093,221
Outlays		
Obligations incurred, new	$ 1,815,614	
Less: spending authority from offsetting collections and adjustments	2,709,059	
Subtotal	(893,445)	
Less: obligated balance, net - end of period	583,332	
Total Outlays, Net		$ (1,476,777)

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

The Cooperative Acquisitions Program Revolving Fund
Notes to the Financial Statements
For the Year Ended September 30, l998

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Cooperative Acquisitions Program Revolving Fund (CAPRF) was authorized by Public Law 105-55 on October 7, 1997. The Library of Congress (the Library) operates the CAPRF on a cost-recovery basis to acquire foreign publications and research materials for participating institutions. The operations of the CAPRF are managed by the African/Asian Acquisitions and Overseas Operations Division (AfA/OVOP). Fees charged to the participants are set and approved by the Library to recover the full direct and indirect costs of the program incurred by the Library over a reasonable period of time.

The institutions that participate in the program constitute more than 80 academic libraries. The program is managed by six overseas field offices: Jakarta (Indonesia), Nairobi (Kenya), Cairo (Egypt), Rio De Janeiro (Brazil), New Delhi (India), and Islamabad (Pakistan).

B. Basis of Presentation

The accompanying financial statements and schedules report the financial position, operations, changes in net position, and the budgetary resources of the CAPRF for fiscal year 1998. These statements and schedules include amounts of all funds designated by law and managed for the purpose of the CAPRF. 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 Library is not required to follow the executive agency accounting principles established by the Comptroller General under 31 U.S.C. 3511 or the new standards now being developed by the Federal Accounting Standards Advisory Board (FASAB). However, the Library 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 Library has issued a regulation (LCR 1510) which adopts the executive branch reporting requirements 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 a liability is incurred, without regard to receipt or payment of cash.

The General Accounting Office (GAO), Office of Management and Budget (OMB), and Department of the Treasury established the Federal Accounting Standards Advisory Board (FASAB) for the purpose of considering and recommending accounting principles, standards, and requirements to GAO, Treasury, and OMB. FASAB has issued and the three sponsoring organizations have approved a comprehensive set of accounting standards, which cover most transactions. The accompanying financial statements are prepared in accordance with these standards. However, transactions that are not addressed by these standards may still be incurred and the following hierarchy shall be viewed as the source of providing generally accounting principles:

- Individual FASAB standards agreed to by the Controller General, the Director of OMB, and the Secretary of the Treasury, and published by OMB and the General Accounting Office;

- Interpretations related to the FASAB standards issued by FASAB and Technical Releases issued by the FASAB's Accounting and Auditing Policy Committee;

- Requirements contained in OMB's Form and Content Bulletin in effect for the period covered by the financial statements;

- Library of Congress Regulations and Financial Services Directives; and

- Accounting principles published by authoritative standard setting bodies and other authoritative sources (1) in the absence of other guidance in the first four parts of this hierarchy and (2) if the use of such accounting standards improve meaningfulness of the financial statements.

D. Financing

The CAPRF is credited with advances and amounts received as payment for purchases under the program and services and supplies furnished to program participants. For accounting and reporting purposes, AfA/OVOP management has segmented the Cooperative Acquisitions Program into six field offices.

E. 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 liabilites at the date of the financial statements, and the amounts of revenues and expense during the reporting period. Actual results may differ from these estimates.

Note 2. **Fund Balance with Treasury**

The amount shown as Fund Balance with Treasury represents CAPRF's obligated and unobligated balances which are as follows:

Obligated	$ 583,332
Unobligated	2,231,650
Fund Balance with Treasury	$2,814,982

Note 3. **Accounts Receivable, Net**

Intragovernmental accounts receivable represent amounts due from the appropriated fund for amounts originally charged against the CAPRF. Net and gross amounts are equal because no bad debt expense is expected.

Entity non-governmental accounts receivable represent amounts due from participants (primarily due to timing differences) and estimated amounts accrued for expenditure refund activity, net of expenditure activity, that was processed by the field offices but was not received or processed by the Department of State or the Library's Financial Services Directorate as of September 30, 1998. Net and gross amounts are equal because no bad debt expense is expected.

Note 4. **Cash and Other Monetary Assets**

Cash represents CAPRF cash on hand that was not deposited with the United States Treasury as of September 30, 1998.

Note 5. **Inventory and Related Property**

The CAPRF inventories are primarily comprised of postage that will be consumed in future operations.

Note 6. **General Property, Plant and Equipment, Net**

The CAPRF capitalizes furniture and equipment if the initial acquisition cost is $25,000 or more. Depreciation is computed on a straight-line basis using estimated useful lives and salvage value of zero.

The CAPRF currently has no property and equipment on its balance sheet because property and equipment in the field offices has been associated with activities funded with appropriated funds. No purchases of property and equipment meeting the $25,000 capitalization threshold and specific to the CAPRF were made in fiscal year 1998. The CAPRF does not maintain library collections.

Note 7. <u>Accounts Payable</u>

Intragovernmental accounts payable represent accrued payments to the U.S. Air Force for military postal service postage. Non-governmental accounts payable represent accrued amounts to

be paid for the expenses of operating the program, such as payments to vendors for materials and services.

Note 8. <u>Advances from Others</u>

This unearned revenue account represents current liabilities for funds collected in advance from the program participants. These collections are for direct expenses, such as the cost of materials acquired on the participants' behalf. These funds are available for obligation upon receipt of the advance. The advances are accompanied by an order profile from the participating institution. If a program participant cancels an order, these amounts are either applied to subsequent orders or are refunded.

Note 9. <u>Other Liabilities</u>

Other liabilities consist of funds collected in advance from the program participants and unearned for indirect expenses (overhead) associated with the administration of the program. The unearned funds are available for obligation upon receipt of the advance. The advances are accompanied by an order profile from the participating institution. If a program participant cancels an order, these amounts are immediately recognized as revenue and are not refunded.

Note 10. <u>Intra-governmental Activities</u>

The financial activities of the CAPRF interact with and depend on the services of the U.S. Air Force (for military postal service postage) and the Department of State for administrative support. The Department of State's International Cooperative Administrative Support Services (ICASS) system is used to allocate costs to the Library's six overseas field offices.

Note 11. <u>Earned Revenues</u>

Revenues are recognized as earned based on (1) actual expenses incurred for materials, binding, and shipping; and (2) CAPRF overhead applied according to the overhead rate applicable for each field office. The CAPRF overhead rates are updated each year according to an overhead model consistent with the concept of full cost described in SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government." The driver for the CAPRF overhead rates is the direct cost of materials.

Note 12. **Library Overhead Costs Included in Program Costs and Imputed Financing Sources**

Certain Library overhead costs were included in the program costs for each field office. In compiling the CAPRF's fiscal year 1998 financial statements, the Library allocated Library-wide overhead costs to the CAPRF using the direct method of allocating service department costs. The four types of Library-wide overhead costs are costs associated with the Financial Services Directorate, Information Technology Services, Integrated Support Services, and Office of the Librarian/Human Resources Directorate. These overhead costs were further allocated to the six field offices of the CAPRF using various cost drivers. The total amount of overhead allocated over the six field offices was $145,152. Of this amount, $37,248 was charged to the field offices through the Library's administrative working funds. A corresponding imputed financing source for $107,904 was recognized for the unreimbursed portion of the allocated Library overhead.

Note 13. **Budgetary Resources Obligated for Undelivered Orders at September 30, 1998**

Budgetary resources obligated for undelivered orders at September 30, 1998, for each of the six field offices are as follows:

Jakarta, Indonesia	$ 11,383
Nairobi, Kenya	55,544
Cairo, Egypt	28,180
Rio de Janeiro, Brazil	22,240
New Delhi, India	189,732
Islamabad, Pakistan	68,910
Total	$375,989

Note 14. **Total Cost and Earned Revenue by Budget Functional Classification**

A. **Total Cost by Functional Classification**

Function Classification	Amount
Education, Training, Employment and Social Services	$1,535,996

B. **Total Earned Revenue by Budget Functional Classification**

Function Classification	Amount
Education, Training, Employment and Social Services	$1,511,528

Note 15. Schedule of Financing

Resources that Fund Net Cost Of Operations:	
Budgetary:	
Obligations incurred, new	$1,815,614
Less: spending authority from receipts and adjustments	2,709,059
Net budgetary resources used to finance activities	(893,445)
Financing imputed for cost subsidies	107,904
Total Resources used to fund net cost of operations	**($785,541)**
Resources Used But Not part of Net Cost of Operations:	
Decrease in budgetary resources obligated to order goods and services not yet received or benefits not yet provided	($375,989)
Decrease in revenue collected in advance as offsetting collection	1,197,533
Costs capitalized on the balance sheet	(11,535)
Total resources used not part of the net cost of operations	**810,009**
Net Cost of Operations	**$24,468**

COOPERATIVE ACQUISITIONS PROGRAM REVOLVING FUND
Supplemental Schedule of Program Costs
For the Year Ended September 30, 1998

Net Costs (Production Costs) by Program Area:	Program Segment Field Office Totals
Jakarta, Indonesia:	
Intragovernmental	$ 43,441
Public	321,126
Total Program Costs	364,567
Nairobi, Kenya:	
Intragovernmental	25,339
Public	96,713
Total Program Costs	122,052
Cairo, Egypt:	
Intragovernmental	7,474
Public	272,644
Total Program Costs	280,118
Rio de Janeiro, Brazil:	
Intragovernmental	76,650
Public	62,482
Total Program Costs	139,132
New Delhi, India:	
Intragovernmental	26,558
Public	364,739
Total Program Costs	391,297
Islamabad, Pakistan:	
Intragovernmental	45,987
Public	192,843
Total Program Costs	238,830
Totals:	
Intragovernmental	225,449
Public	1,310,547
Total Program Costs	$ 1,535,996

The accompanying notes are an integral part of these statements.

The Cooperative Acquisitions Program Revolving Fund
Supplemental Schedule of Participants by State
For the Year Ended September 30, l998

Arizona
- Arizona State University
- University of Arizona

California
- Hoover Institute
- Ligmincha Institute
- Los Angeles Public Library
- Stanford University
- Tibetan Language Institute
- U.C., Berkeley
- U.C., Los Angeles
- U.C., San Diego
- U.C., Santa Barbara
- U.C., Santa Cruz
- University of Southern California

Connecticut
- Yale University

District of Columbia
- Department of the Treasury
- Georgetown University
- Johns Hopkins University

Florida
- Sky Dancer Press
- University of Florida

Georgia
- Emory University
- University of Georgia

Hawaii
- University of Hawaii

Illinois
- Center for Research Libraries
- Northern Illinois University
- Northwestern University
- University of Chicago
- University of Illinois

Indiana
- Earlham College
- Indiana University
- University of Notre Dame

Iowa
- University of Iowa

Kansas
- University of Kansas

Louisiana
- Tulane University

Maryland
- National Agricultural Library
- National Library of Medicine
- University of Maryland

Massachusetts
- Boston Public Library
- Boston University
- Harvard University

Michigan
- Detroit Public Library
- Michigan State University
- University of Michigan

Minnesota
- University of Minnesota

Missouri
- St. Louis University
- Washington University

New Jersey
- Princeton University

New Mexico
- University of New Mexico

New York
- Columbia University
- Cornell University
- Institute for Advanced Studies of World Religions
- New York Public Library
- New York University
- Open Society Institute
- St. Lawrence University
- Skidmore University
- SUNY, Binghamton
- SUNY, Purchase
- Syracuse University

North Carolina
- Duke University
- North Carolina State University
- University of North Carolina

Ohio
- Cleveland Public Library
- Ohio State University
- Ohio University

Oregon
- Portland State University
- University of Oregon

Pennsylvania
- La Roche College
- Pennsylvania State University
- Temple University
- University of Pennsylvania
- University of Pittsburgh

Rhode Island
- Brown University

Tennessee
- University of Tennessee
- Vanderbilt University

Texas
- University of Texas

Utah
- Brigham Young University
- University of Utah

Virginia
- University of Virginia

Washington
- University of Washington
- Western Washington University

Wisconsin
- University of Wisconsin

Non-U.S. Libraries

Canada
- McGill University (Québec)
- University of British Columbia
- University of Toronto (Ontario)

Other Foreign Libraries
- American University, Cairo (Egypt)
- Arab League (Egypt)
- Ibero-Amerikanisches Institut (Germany)
- Institute for Southeast Asian Studies (Singapore)
- Institute of Commonwealth Studies (U.K.)
- National Diet Library (Japan)
- National Library of Australia
- State Library of South Africa
- United Arab Emirates University (U.A.E.)
- University of Essex (U.K.)
- University of Glasgow (U.K.)

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Independent Auditor's Report

To the Inspector General
Library of Congress, and
Cooperative Acquisitions Program Revolving Fund

We have audited the accompanying balance sheet of the Cooperative Acquisitions Program Revolving Fund (CAPRF) as of September 30, 1998, and the related statements of net costs, changes in net position, and budgetary resources for the year then ended. These financial statements are the responsibility of the CAPRF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the second following paragraph, we conducted our audit in accordance with generally accepted auditing standards, 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 98-08, "*Audit Requirements for Federal Financial Statements.*" These 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.

These financial statements were prepared on the basis of accounting described in Note 1 to the financial statements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

We were unable to confirm with participants in the program the CAPRF's reported amount for Advances from Others (a liability representing unearned revenue) stated at $1,139,534 as of September 30, 1998, nor were we able to satisfy ourselves with the balances of such advances by other auditing procedures.

In our opinion, except for the effect of such adjustments, if any, as might have determined to be necessary had we been able to confirm or examine other evidence supporting Advances from Others, the financial statements referred to above present fairly, in all material respects, the financial position of the CAPRF at September 30, 1998, and the net cost of operations, changes in net position, and budgetary resources for the year then ended in accordance with the accounting policies described in Note 1.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in *Management's Discussion and Analysis* (MD&A) of the CAPRF is not a required part of the basic financial statements. We assessed whether this information (supplemental schedule and MD&A) is materially consistent with the information, and the manner of its presentation, in the CAPRF's financial statements. However, we did not audit any of the aforementioned information and express no opinion on it.

In accordance with *Government Auditing Standards* we have also issued reports dated June 4, 1999 on our consideration of CAPRF's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations.

Clifton Gunderson L.L.C.

Greenbelt, Maryland
June 4, 1999

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Independent Auditor's Report on Compliance with Laws and Regulations

To the Inspector General
The Library of Congress, and
The Cooperative Acquisitions Program Revolving Fund

We have audited the accompanying financial statements of the Cooperative Acquisitions Program Revolving Fund (CAPRF) as of and for the year ended September 30, 1998, and have issued our report thereon dated June 4, 1999. The report includes an explanatory paragraph describing a matter relating to a scope limitation on our opinion on the financial statements of the CAPRF at September 30, 1998. Except for the explanatory paragraph of our report on the financial statements, we conducted our audit in accordance with generally accepted auditing standards, 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. 98-08, "*Audit Requirements for Federal Financial Statements*."

The management of the CAPRF is responsible for complying with laws and regulations applicable to the CAPRF. As part of obtaining reasonable assurance about whether the CAPRF'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 98-08.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed the following instance of noncompliance with the laws and regulations described in the preceding paragraph that are required to be reported under *Government Auditing Standards* and OMB Bulletin 98-08.

- The audited financial statements and related reports for the CAPRF were not prepared and submitted to Congress by March 31, 1999. Title 2, Section 182 requires an annual audit report of the CAPRF to be submitted to Congress not later than March 31 of each year for the preceding fiscal year.

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 for the information of the management of CAPRF, the Library of Congress Office of the Inspector General, the management of the Library of Congress, others within the organization, and Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

Clifton Gunderson L.L.C.

Greenbelt, Maryland
June 4, 1999

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Independent Auditor's Report on Internal Controls

To the Inspector General
Library of Congress, and
The Cooperative Acquisitions Program Revolving Fund

We have audited the accompanying financial statements of the Cooperative Acquisitions Program Revolving Fund (CAPRF) as of and for the year ended September 30, 1998, and have issued our report thereon dated June 4, 1999. The report includes an explanatory paragraph describing a matter relating to a scope limitation on our opinion on the financial statements of the CAPRF at September 30, 1998. Except for the matter discussed in this explanatory paragraph of our report on the financial statements, we conducted our audit in accordance with generally accepted auditing standards, 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) Bulleting NO. 98-08, "*Audit Requirements for Federal Financial Statements*."

In planning and performing our audit, we considered the CAPRF's internal control over financial reporting by obtaining an understanding of the CAPRF's internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Consequently, we do not provide an opinion on internal controls.

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 CAPRF'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. However, we noted certain matters, discussed in the following paragraphs, involving the internal control and its operation that we consider to be reportable conditions and material weaknesses.

The consideration of internal control would not necessarily disclose all matters in internal control which might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we also considered to be material weaknesses as defined above. We have described the reportable conditions below; item #1 is considered a material weakness as defined above.

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MATERIAL WEAKNESSES

1. PARTICIPANT LIABILITY BALANCE RECONCILIATION, RECORD KEEPING AND ADEQUATE SUPPORTING DOCUMENTATION

The CAPRF calculated and reported an ending liability balance in the advances from others representing unearned revenue for funds collected in advance from program participants. The collections are for direct expenses, such as the cost of materials acquired on the participants' behalf. These funds are available for obligation upon receipt of the advance. If a program participant cancels the order or an order is not filled for some other reason, these amounts are either applied to subsequent orders or are refunded to the participant.

The amount reported by management at September 30, 1998 for advances from others is $1,139,534. As part of the audit procedures, we attempted to confirm with the participants the ending balance due them at September 30, 1998 and certain other activity for the year then ended. We were unable to obtain satisfactory response that the balances were correct. Additionally, CAPRF records were not available to permit the timely application of other auditing procedures to determine the adjustment needed, if any, to correct any potential error. As such, we have included a limitation of scope qualification in the independent auditor's report.

Other issues surrounding the participant balances which impact management's ability to reconcile and report the liability due participants on a timely basis are as follows:

Completing Reconciliations At September 30, 1998 - Our examination in 1998 found that the reconciliations of program participants' balances were not submitted and reconciled within the time frames as required by Financial Statement Directive (FSD) 97-6. The final adjustments and reconciliations of ending participant balances were not completed until April 1999.

Financial Statement Directive (FSD) 97-6 "Guidelines for Financial System Reconciliations", was issued and effective on September 1, 1997. This directive requires that the reconciliation report be due by the 15th of the third month following each accounting period (e.g., the September 30th report due on December 15th). Timely preparation of financial statements depends upon timely completion of the required reconciliations.

Issuance of a Status of Participant Account Balance – We found that the CAPRF was not providing all its participants with a status of their balances. Sound internal controls dictate that participant balances be maintained, as well as distributed to the participants, in an effort to resolve any disagreements on ending balances or other activity during the year.

Required Reconciliations - Financial Statement Directive (FSD) 97-6 "Guidelines for Financial System Reconciliations", was issued and effective on September 1, 1997. This directive requires quarterly reconciliations between the participants' balances in the general ledger and the detail subsidiary records. The directive does not require regular reconciliations between the expenditures recorded in the general ledger and the detail subsidiary records. Expenditure reconciliations were performed during fiscal year 1998; however, they were not performed on a regular basis, or as a requirement of the directive. Due to the nature to of the fund, regular expenditure reconciliation could be useful in assisting in the overall reconciliation of activity by participant and reduce the likelihood of errors or mispostings.

Access by Field Offices to Information for Required Reconciliations - The detail expenditure transactions are entered into a database system, then summarized and entered into the general ledger. The field offices receive copies of reports from the database for review and reconciliation. The detail of expenditures is not currently entered into the general ledger system, nor do the field offices have direct access to reports available from the general ledger.

The field offices have difficulty reconciling because they have to rely on e-mails and faxes of database generated reports. The field office can not obtain a detail listing from the general ledger of all the transactions at any given time.

Providing the detail in the general ledger, and providing access to the general ledger reports system, will allow the field offices to generate numerous reports, aiding the reconciliation process.

Negative Participant Balances - At September 30, 1998 twenty participants in the CAPRF had negative balances totaling $27,773. Amounts were collected subsequent to year-end. However, as of June 4, 1999 $13,548 in negative balances were outstanding. Deposits should be received from participants in advance of obligating funds.

The participant balances for direct costs are monitored by the field offices using spreadsheets and IODA, a PC-based data base system. These systems do not prevent the obligations of funds in excess of the participants' existing balances. There is an increased risk for uncollectible funds from participants when direct costs are incurred prior to receiving payments of deposits from the participants.

Recommendations:

We recommend the following:

- Develop procedures to insure timely performance of required quarterly reconciliations of program participants' accounts.

- Prepare and send a Status of Participant Account on a quarterly basis to each participant. The Status of Participant Account should include the budget, payment processed, unliquidated obligations, net obligations, and the ending balance for materials. The report should also show the budget, expenditures to date, and the ending balance for shipping and binding. This report should be sent along with the IODA report #2, which is currently being sent to the participants.

- That FSD 97-6 be amended to require quarterly reconciliations between the general ledger and the detail subsidiary records for not only the participants' balances, but also for the program expenditures.

- The detail of expenditures, currently maintained in a database system, also be maintained in the general ledger in detail form, rather than summary form. We also recommend that the field office be provided with access to the general ledger reporting system, and with training in using the reporting system to aid in preparing reconciliations.

- Establish an internal control system of reviewing the participants' balances on a regular basis to determine if the balances are sufficient to cover expected orders of materials and other direct costs.

REPORTABLE CONDITIONS

2. TIMELY SUBMISSION OF FINANCIAL STATEMENTS

The financial statements for the CAPRF were not prepared and submitted to Congress by March 31. Title 2, section 182 that the CAPRF requires an audited annual report to be submitted not later than March 31 of each year for the preceding fiscal year. Fiscal year ending September 30, 1998 was the first year the revolving fund was established. Additional time was required in order to prepare the financial statements, in part due to the conditions noted above.

Recommendation:

- We recommend that the CAPRF establish internal control procedures, including those recommend above to assist in the timely preparation and submission of financial statements.

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In addition to the reportable conditions and material weaknesses described above, we noted certain matters involving internal control and its operations that we reported to the management of the CAPRF in a separate letter dated June 4, 1999.

The conditions discussed above were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 1998 financial statements, and this report does not affect our report dated June 4, 1999 on these financial statements.

Relevant comments from the CAPRF's management responsible for addressing these internal control matters are provided as an attachment to this report.

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

Clifton Gunderson L.L.C.

Greenbelt, Maryland
June 4, 1999