



G A O

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United States General Accounting Office
Washington, DC 20548

April 29, 2002

The Honorable Richard J. Durbin
Chairman
The Honorable Robert F. Bennett
Ranking Minority Member
Subcommittee on the Legislative Branch
Committee on Appropriations
United States Senate

The Honorable Vernon J. Ehlers
Chairman
The Honorable Christopher J. Dodd
Vice Chairman
Joint Committee on the
Library of Congress

Subject: Library of Congress: Status of Retail Activities

The Senate Committee on Appropriations directed us to evaluate the viability of using profits from the Library of Congress' retail activities to support other Library activities.¹ Specifically, we were asked to evaluate the (1) potential for generating profits from Library retail activities and (2) policies and procedures for the control of products, licensing agreements, and use of the Library's logo. Also, we were asked to work in consultation with the Library to evaluate options and alternatives for generating profits from retail activities.

During the preliminary stages of our study, we determined that the Library's planning activities were in a very preliminary state. Therefore, we agreed with your staff on the following objectives for our work: (1) determine the status of the Library's plans to achieve the goal of operating these retail activities for profit, including whether it has developed business plans, implemented accounting procedures, conducted marketing studies, and developed pricing policies for its retail operations, (2) identify the Library's current policies and procedures for the control of products, licensing agreements, and use of the Library's logo, and (3) analyze past financial performance of Library retail activities for profit potential.

In February and March, 2002, we briefed staff of the Subcommittee on the Legislative Branch, Senate Committee on Appropriations, and the Joint Committee on the

¹ Senate Report 107-37, accompanying Public Law 107-68, Legislative Branch Appropriations Act, 2002.

Library of Congress on the results of our review. This letter transmits our final briefing document, which is presented as enclosure I, and the Library comments which are reprinted in enclosure II.

Based on our review, we determined that the Library (1) has not yet developed an overall plan, specific business plans, pricing policies, or the accounting procedures that it would need to achieve the goal of generating profits to support other Library activities and (2) while it has policies and procedures to control the use of its logo, the Library has not yet developed policies and procedures covering the scope and mission of the retailing functions, control of products, or licensing agreements.

Over the past 5 years, the Library's three major retail activities, the Photoduplication Service, the Gift Shop, and the Audio Video Laboratory, have not consistently generated profits or covered all costs. In each case, the activity's total expenses for the 5-year period, exceeded its total revenues for the period.

We concluded that the Library lacks the basic business plans and accounting procedures for evaluating its current retail operations and measuring costs and profitability. Such information would serve as the basis for developing the Library's plans for identifying opportunities and alternatives for how it would achieve the goal of generating profits to support other activities. Because of the above factors, the Library is not yet in a position to conduct a study to evaluate the viability of generating profits from the Library's retail activities to support other Library activities or evaluate options.

In order to develop the information and tools needed for evolving from its current retail operations to one that will generate profits to support other Library activities, we recommend that the Librarian of Congress

- develop an overall plan for generating profits from retail activities to support other Library activities,
- develop business plans for the operations of its current and future retail activities,
- develop accounting procedures to measure cost and profitability for its retail activities,
- establish pricing policies,
- develop overall policies defining the scope and mission of the its retail activities, and
- conduct marketing studies or analyses to identify markets and products that will help it achieve the goal of generating profits from its retail sales to support other Library activities.

We provided the Associate Librarian for Library Services a draft of our briefing document for review and comment. The Associate Librarian, in his written comments on the draft (see enclosure II) concurred with our recommendations, which he characterized as needed to enhance the business foundation of the Library's retail operations prior to embarking on a program of growth in the its retail operations. The Associate Librarian also expressed concern that our report did not give more attention to the actions that the Library has taken to date to set the stage

for the development of its retail enterprises. He listed the following six actions the Library has taken to date:

- realigning the expense base to secure a sound financial footing for the Photoduplication Service and Retail (Gift) Shop by eliminating 34 positions within the past 9 months,
- completing the first draft of a business planning and marketing strategy for the Photoduplication Service,
- establishing a full-time position of Marketing Services Coordinator,
- dedicating two senior staff members and designating five transition working groups to the process of business planning and transition,
- beginning discussions with an outside consultant experienced in launching e-commerce enterprises, and
- developing a preliminary e-commerce strategy including initiating a relationship with Treasury in order to establish a sound mechanism for on-line payments.

Although the above actions on the part of the Library of Congress are related to its retail activities, in our opinion, they represent preliminary efforts involving specific aspects of those activities. The Associate Librarian agrees that the Library still needs to develop the fundamental business plans; policies and procedures, including accounting procedures; and marketing studies described in our recommendations to provide the basis it needs for identifying and evaluating alternatives and options as well as operating its activities to generate profits that could be used to support other library activities.

In conducting our study, we interviewed Library officials responsible for each of the Library's three major retail activities and officials from Library Services, the Library's Office of General Counsel, and the Library's Financial Management Services, and we reviewed related documents, including agency memorandums, financial data, business planning documentation and studies, Library policies and procedures, and Library inspector general audit reports. We conducted our study in accordance with generally accepted government auditing standards.

We are sending copies of this letter to the chairmen and ranking minority members of the House Committee on Government Reform, the Senate Committee on Governmental Affairs, and the Subcommittee on Legislative, House Committee on Appropriations. We are also sending it to the Librarian of Congress. This letter will also be available on GAO's home page at <http://www.gao.gov>.

If you or your staff have any questions concerning this letter or the briefing, please contact me at (202) 512-9471, or by e-mail at franzelj@gao.gov, or Ben Smith, Project Manager at (202) 512-9196 or by e-mail at smithbw@gao.gov. Key contributors to this report were Robert P. Preshlock Jr. and Jacquelyn N. Hamilton.

A handwritten signature in cursive script that reads "Jeanette M. Franzel". The signature is written in black ink and is positioned above the typed name.

Jeanette M. Franzel
Acting Director
Financial Management and Assurance

Enclosures



Financial Management and Assurance Team

Library of Congress: Status of Retail Activities

Briefing for the Subcommittee on the Legislative
Branch, Senate Committee on Appropriations, and
the Joint Committee on the Library of Congress

- Background
- Objectives
- Scope and Methodology
- Results in Brief
- Results
- Conclusions
- Recommendations
- Agency Comments

- The Library of Congress operates its three major retail activities as revolving funds, which generate revenue, in part, by selling goods and services to the public.
- According to Library officials the Photoduplication Service, the Gift Shop, and the Audio Video Laboratory are the Library's three major retail revolving fund activities.
- The Photoduplication Service provides microfilming, photographic, photocopy, and digital services and products for the Library and the general public.

- The Gift Shop purchases and develops products that are related to the Library or its collections and sells these products through its store(s) to patrons of the Library.
- The Audio Video Laboratory assists in the replication and conservation of recorded sound and moving images for the Library and the public.

- For these activities,
 - fees charged for goods and services are deposited into their respective revolving funds,
 - receipts must be used for the purposes for which the funds were established, and
 - each revolving fund is expected to break even over time, meaning it could have profits or losses in any given year, but is expected to break even in the long run.

- The Library has in the past requested authority to use profits from its retail activities for other Library activities.
- The use of profits from retail sales for other Library activities could require new legislative authority.
- The Senate Committee on Appropriations directed us to evaluate the viability of using profits from the Library's retail sales activities to support other Library activities. (See Senate Report 107-37 accompanying Public Law 107-68, Legislative Branch Appropriations Act, 2002.)

Specifically, in the Senate report, GAO was directed to

- evaluate the potential for generating profits from Library retail activities;
- evaluate the policies and procedures for the control of products, licensing agreements, and use of the Library's logo; and
- work in consultation with the Librarian of Congress in evaluating options and alternatives.

- As we began our work, we discovered that the Library's planning activities for generating profits from its retail activities were in a very preliminary state. Therefore, we agreed with the committee staff on the following objectives for our work:
 - determine the status of the Library's plans to achieve the goal of generating profits from its retail activities to support other Library activities, including whether the Library has developed business plans, implemented cost accounting procedures, conducted marketing studies, and developed pricing policies for its retail operations;



- identify current policies and procedures for the control of products, licensing agreements, and use of the Library's logo; and
- analyze the financial performance of selected Library retail activities to determine if, in the past, they have demonstrated a potential for profit.



In conducting our study, we

- interviewed Library officials responsible for each of the Library's three major retail activities and officials from Library Services, the Library's Office of General Counsel, and the Library's Financial Management Services and
- reviewed related documents, including agency memorandums, financial data, business planning documentation and studies, Library policies and procedures, and Library inspector general audit reports.

- We conducted our work from October 2001 through March 2002 in accordance with generally accepted government auditing standards.

- **Status of Library's Plans:** The Library has not yet developed an overall plan, specific business plans, pricing policies, or the business tools it needs to achieve the goal of generating profits to support other Library activities.
- **Policies and Procedures:** The Library has not developed policies and procedures covering the scope and mission of the retailing functions, control of products, or licensing agreements. The Library does have policies and procedures to control the use of its logo.

- **Financial Performance:** Over the past 5 years, the three major retail activities we reviewed have not consistently generated profits or covered all costs over time.
- **Recommendations:** We are making recommendations to help ensure that the Library develops the information and tools needed to (1) evaluate current retail operations and (2) plan for generating profits from these operations to support other Library activities.

Agency comments: The Associate Librarian for Library Services, in responding to a draft of our briefing document

- stated that he concurred with our recommendations, which he characterized as needed to enhance the foundation of the Library's retail operations prior to embarking on a program of growth for its retail activities, and
- expressed concern that we did not give more attention in our briefing to actions taken to date to set the stage for the development of the Library's retail enterprises.

- In our view, the Library's actions taken to date represent preliminary efforts involving specific aspects of its retailing. The Associate Librarian agreed that the Library still needs to develop the fundamental policies, procedures, and plans for developing its retail operations.



- The Library has not fully developed a plan for achieving the goal of generating profits from its retail activities to support other Library activities. For example, Library management has not determined (1) the range of products that potentially could be sold, (2) whether such retail activities would sell products at no profit or even at a loss for purposes of promoting certain Library events or activities, and (3) if greater emphasis would be placed on the most profitable products or expanding product lines and markets.



- The Library has not prepared basic business plans for its current and future retail operations.
- The Library has not fully developed accounting procedures to collect and analyze cost and profitability information for the retail activities in our study.
- The Library has not conducted marketing studies to identify markets and products to help achieve the above goal.



- The Library has not developed pricing policies that consider expanded markets for specific products and services and their associated costs.
- Also, the Library, in considering the use of e-commerce to expand its retail sales operations, identified similar challenges, such as the need for mission realignment of its revenue-generating activities and the lack of a shared accounting system, and the need for marketing studies.



- Current retail operations lack overall policy guidance defining the scope and mission of the Library's retailing functions.
- The Library has not fully developed policies and procedures for the control of products.



- The Library does not have overall policies or procedures governing licensing agreements. According to the Library, such agreements are contractual and specific to given vendor relationships. All contracts are reviewed by the Library's general counsel.
- The Library has developed policies and procedures for the use of its logo.



- As noted in figures 1 through 3, over the last 5 years, the financial performance of the Library's retail activities has been mixed and has not demonstrated the potential for generating profits or covering costs on a consistent basis over time.
 - In total, for the 5 years ending September 30, 2001, the Photoduplication Service reported losses of about \$2.2 million, the Gift Shop reported losses of about \$200,000, and the Audio Video Laboratory reported losses of about \$120,000.
 - Also, during this period only the Gift Shop included an allocation for the Library's administrative overhead costs in its operating costs.
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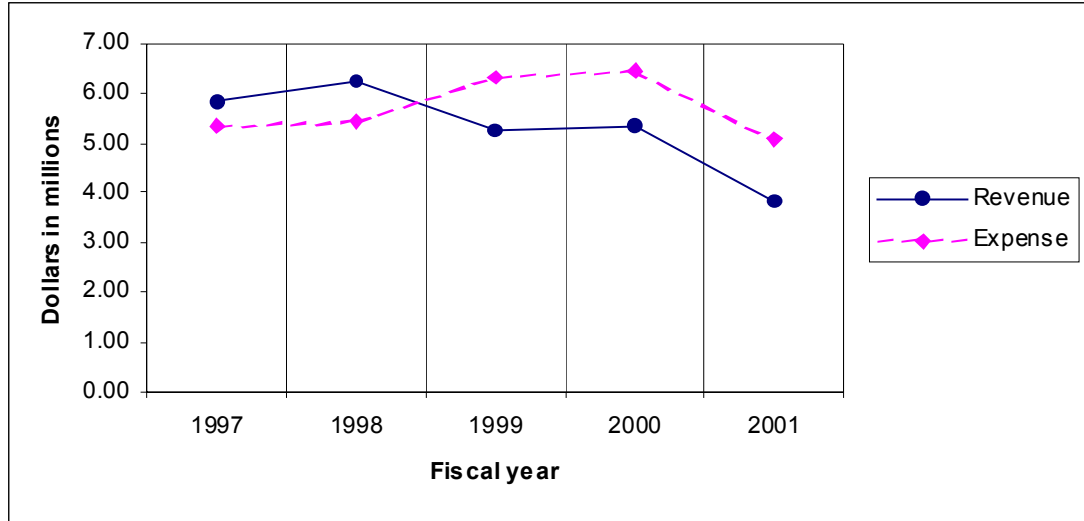


Photoduplication Service

- Although the Photoduplication Service reported revenues in excess of expenses for 1997 and 1998, it has reported losses over the last 3 years as the Library has used contractors to meet its internal microfilming needs. (See figure 1.) These reported losses do not include an allocation of the Library's overhead costs.



Figure 1: Photoduplication Service Revenue and Expenses



Source: Library of Congress unaudited financial data.

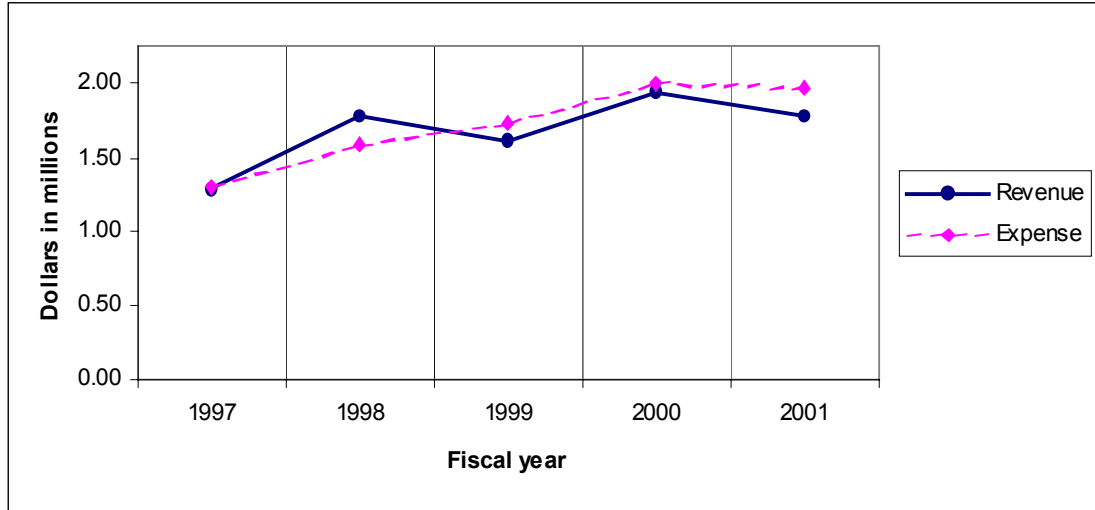


The Gift Shop

- Although the Gift Shop reported that it broke even in 1997 and had revenue in excess of expenses in 1998, it also reported that it failed to break even over the last 3 years and has had to close one of its stores in an effort to reduce expenses following the events of September 11, 2001. (See figure 2.)



Figure 2: Gift Shop Revenues and Expenses



Source: Library of Congress unaudited financial data.

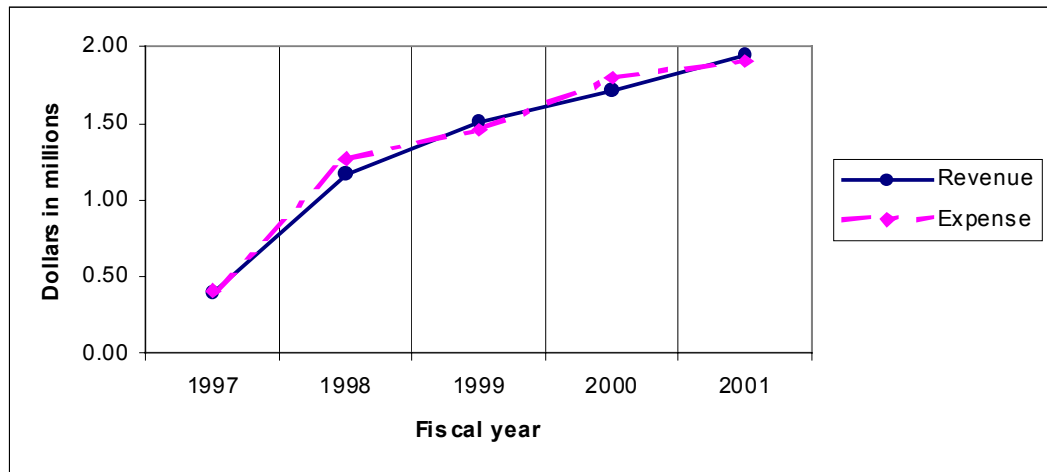


The Audio Video Laboratory

- Although the Audio Video Laboratory reported that its has broken even in 2 of the last 5 years, overall it has reported losses of about \$120,000 over the 5-year period. (See figure 3.)



Figure 3: Audio Video Laboratory Revenues and Expenses



Source: Library of Congress unaudited financial data.

- The Library lacks the basic business plans and accounting procedures for evaluating its current retail operations and measuring costs and profitability. Such information would serve as a basis for developing the Library's plans for identifying opportunities and alternatives for how it would achieve the goal of generating profits to support other Library activities.
- Due to the above factors, the plans and related information are not available at this time to conduct a study to evaluate the viability of generating profits from the Library's retail activities to support other Library activities or to evaluate options.

- Until the Library develops the information and business tools needed for evolving its current retail operations that are based on a break-even assumption into one that will generate profits to support other Library activities, the viability of generating profits will remain uncertain. Therefore, if the Librarian of Congress decides to pursue this objective, he should first do the following:
 - develop an overall plan for generating profits from retail activities to support other Library activities,



- develop business plans for the operations of its current and future retail activities,
- develop accounting procedures to measure cost and profitability for its retail activities,
- establish pricing policies,
- develop overall policies defining the scope and mission of its retail activities, and



- conduct marketing studies or analyses to identify markets and products that will help the Library achieve the goal of generating profits from its retail sales to support other Library activities.

We provided the Associate Librarian for Library Services a draft copy of our briefing document for comment. His comments and our response are discussed below.

- The Associate Librarian concurred with our recommendations, which he characterized as needed to enhance the business foundation of the Library's retail operations prior to embarking on a program of growth in its retail operations.
- However, the Associate Librarian also expressed concern that our report did not give more attention to the actions the Library had taken to date to set the stage for the development of retail enterprises.



- The Associate Librarian identified the following six actions the Library has taken to date:
 - realigning the expense base to secure a sound financial footing for the Photoduplication Service and Retail (Gift) Shop by eliminating 34 positions within the past 9 months,
 - completing the first draft of a business planning and marketing strategy for the Photoduplication Service,
 - establishing of a full-time position of Marketing Services Coordinator,

- dedicating two senior staff members and designating five transition working groups to the process of business planning and transition,
- beginning discussions with an outside consultant experienced in the launching e-commerce enterprises, and
- developing a preliminary e-commerce strategy, including initiating a relationship with Treasury in order to establish a sound mechanism for on-line payments.

- Although the above actions on the part of the Library are related to its retail activities, they represent preliminary efforts involving specific aspects of those activities.
- The Associate Librarian agrees that the Library still needs to develop the fundamental business plans; policies and procedures, including accounting procedures; and marketing studies described in our recommendations to provide the basis it needs for identifying and evaluating alternatives and options as well as operating its activities to generate profits that could be used to support other Library activities.

Enclosure II: Comments from the Library of Congress



THE LIBRARY OF CONGRESS
101 INDEPENDENCE AVENUE, S.E.
WASHINGTON, D.C. 20540-4000

OFFICE OF THE ASSOCIATE LIBRARIAN
FOR LIBRARY SERVICES

March 25, 2002

Dear Ms. Franzel:

I appreciate the opportunity to comment on your draft briefing document, *Library of Congress Retail Activities*, and to have worked with you and your staff over the course of this highly collegial effort.

For more than a decade, the Library of Congress has sought authorization to provide better support for and development of our fee-service activities in order to achieve the goal shared by Sen. Durbin and the Library of making our collections better known and used, by generating revenue for support of those collections through expanded retail marketing operations.

However, it was not until this fiscal year (2002) that we were at last authorized to establish new statutory revolving funds to support achievement of this goal. This was a critical first step toward finally achieving the goal shared by Sen. Durbin and the Library of developing fee activities that may generate revenues to supplement the Library's traditional resource base.

We see significant potential for these revolving funds, which the Library has put in place this year, to increase the Library's capabilities to serve Congress and continue building comprehensive research collections. We welcome the intent of the Senate to encourage and reinforce this direction.

I very much regret that the draft report pays scant attention to the energetic efforts the Library has undertaken since the Senate first authorized the Library to move in this direction less than a year ago. Nevertheless, my colleagues and I concur in your recommendation that the Library should enhance the business foundation of the retail operations before embarking on a program of growth by developing an overarching business strategy, scope definition, business plans, more precise cost accounting and pricing parameters, and a marketing program.

Our primary goal *this year* has been to complete the revolving fund transition, an effort now well underway. But, we also have initiated a number of actions to set the stage for the development of the retail enterprises, including:

– realignment of the expense base to secure a sound financial footing for the Photoduplication Service and Retail Shop, two operations hit hard over the recent past by reduced market demand, by elimination of 34 positions within the past nine months;

– completion of the first draft of a business planning and marketing strategy for the Photoduplication Service;

– establishment of a full-time position of *Marketing Services Coordinator*;

– dedication of two senior staff members and designation of five transition working groups to the processes of business planning and transition;

commencement of discussions with an outside consultant experienced in the launch of e-commerce enterprises; and

– development of a preliminary e-Commerce strategy, including initiation of a Library of Congress relationship with the Department of Treasury's *Pay.gov* program for the establishment of a sound mechanism for online payments.

The Library's revolving fund regulation requires that the retail divisions operate on a break-even basis. We intend to invest in these enterprises and expand their capabilities through a dynamic process that will take several years to implement prudently. To ensure success, we will need to develop the policies and business plans that you suggest. We will also likely need to consolidate our financial, marketing, and order processing operations to capitalize on the unique opportunities the Senate's interest offers for realizing mission-consistent profit in our retail programs..

My colleagues and I appreciate the work you and your team have done on our behalf since we first met in October. We look forward to working with you as well as our colleagues in the Congress as we continue to develop more robust and businesslike retail marketing operations while also performing our core functions in a highly effective manner.

Sincerely,



Winston Tabb
Associate Librarian for Library Services

Ms. Jeanette M. Franzel
Acting Director, Financial Management and Assurance
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