Performance and Accountability Report

Fiscal Year 2006

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Performance and Accountability Report Fiscal Year 2006 3

Message from the Director of the Institute of Museum and Library Services..... 3

I. Management Discussion and Analysis 5

Organizational Structure and Mission 5
Organizational Structure 5
Mission: Connecting People to Information and Ideas 5
Competitiveness Depends Upon Lifelong Learning 6
What We Do 6
Goal One: Advance Excellence in Museum and Library Management through Strategic Planning, Evaluation, and the Delivery of Public Value 7
Goal Two: Develop National Models and Support Research 8
Goal Three: Build Workforce Capacity in Libraries and Museums 10
Goal Four: Improve Library and Museum Service for Tribal Communities 11
Goal Five: Preserve Cultural Heritage 11
Goal Six: Increase effectiveness and efficiency of internal operations 12
President's Management Agenda 13
Budget and Performance Integration 13
Strategic Management of Human Capital 14
Competitive Sourcing 16
E-Government 17
Financial Management 18
Brief Analysis of Financial Statements 20
Management Assurances 21

II. Performance and Results 24

Process 24
Goal One: Advancing Strategic Planning; Delivering Public Value 25
Objective 25
Strategy 25
Grant Making 25
Goal Two: Developing National Models and Supporting Research 27
Objective 27
Strategy 27
Measuring Impact 28
Research 28
Showcasing Best Practices 29
Grant Making 29
Goal Three: Building Workforce Capacity in Libraries and Museums 30
Objective 30
Strategy 30
Special Initiatives 31
Grant Making 31
Goal Four: Improving Museum and Library Service for Tribal Communities 33
Objective 33
Strategy 33
Grant Making 34
Goal Five: Preserving Cultural Heritage 35
Objective 35
Strategy 35
Grant Making 35
Goal Six: Increase Efficiency and Effectiveness of Internal Operations 36
Objective 36
Strategy 36

Summary 36

Financial Section 37

Message from the Senior Financial Officer 37
Limitations of Financial Statements 38
Attachments:
Independent Auditor's Report (Leon Snead & Co.)
Management's Response to Audit Report
Financial Statement and Notes

Performance and Accountability Report Fiscal Year 2006

Message from the Director of the Institute of Museum and Library Services.

On behalf of the Institute of Museum and Library Services (IMLS), I am pleased to present the agency's Performance and Accountability Report for fiscal year 2006. The report sets forth the agency's goals and objectives, and highlights our related performance and accomplishments – programmatically, operationally, and financially -- for the past year.

The Institute of Museum and Library Services, an independent federal agency, helps create strong libraries and museums that connect people to information and ideas. The Institute works at the national level and in coordination with state and local organizations to enhance learning and innovation; sustain heritage, culture and knowledge; and support professional development.

The Institute supports the full range of museums, including zoos, art, history, science and technology, children's, and natural history museums; historic houses, nature centers, and botanical gardens; and all types of libraries, including public, school, academic, research and archival. Our capacity for research, evaluation, policy analysis, grant making, and partnerships help make it possible for libraries and museums to be leaders in their communities.

Since taking office in March 2006 I have made implementation of the President's Management Agenda my top priority. And I am pleased that we have many significant accomplishments to report. Of central importance are changes to our accounting and financial systems that will make it possible for the Institute to track and report on its financial performance with confidence. In addition we have clarified the agency's mission and performance goals so that the Institute will be able to more consistently integrate performance and budget.

In 2006 we launched a new program authorized by Congress to build the capacity of African American museums; introduced a significantly updated version of our Web site; released important research on the condition of library and museum collections in the United States and on the use of technology and digitization; pursued a study that will help libraries and museums use their resources more effectively to prepare youth for college, work and life; and entered into noteworthy partnerships with our sister agencies, the National Endowment for the Arts and the National Endowment for the Humanities, that will strengthen library and museum service.

We are also engaged in an important repositioning of the agency's role as we carry out budget policy to streamline and ultimately strengthen the federal government's support for library services by consolidating library statistics, policymaking, and grant making --currently the responsibility of three different federal agencies-- into the Institute.

This year the agency carried out specific strategies to advance the following goals:

- Advance Excellence in Museum and Library Management through Strategic Planning, Evaluation, and Delivering Public Value
- Develop National Models and Support Research
- Build Workforce Capacity in Libraries and Museums
- Improve Library and Museum Service for Tribal Communities
- Preserve Cultural Heritage

I am pleased to affirm that the performance and financial data contained in this report is, to the best of my knowledge, reliable and complete**.**

Anne-Imelda M. Radice, Ph.D.
Director

I. Management Discussion and Analysis

Organizational Structure and Mission

This Performance and Accountability Report demonstrates that the Institute of Museum and Library Services continues to build upon the objectives, strategies, and programs of the Museum and Library Services Act, the National Museum of African American History and Culture Act, and the President's Management Agenda.

Organizational Structure

The Institute of Museum and Library Services, an independent federal agency established by Congress in 1996, brings together federal library programs that were first established in 1956 and federal museum programs that were initiated in 1976. The agency supports library and museum service in the United States through a combination of a state formula grants for libraries and peer-reviewed competitive discretionary grants, cooperative agreements, and partnerships that support both libraries and museums and the development of effective museum and library services.

The Institute is led by a Director who is a Presidential appointee confirmed by the Senate and advised by the National Museum and Library Services Board. The National Museum and Library Services Board (NMLSB) is a twenty-four-member advisory body that includes the Director and Deputy Directors of the Institute, the chair of the National Commission on Libraries and Information Science, and twenty Presidentially appointed and Senate-confirmed members of the general public who have demonstrated expertise in, or commitment to, library or museum services. Informed by its broad collective knowledge and experience, the NMLSB advises the IMLS Director on general policy and practices. The Board also provides critical input on selections for the National Awards for Museum and Library Services.

The organization of the Institute consists of offices for Museum Services, Library Services, Administration, Budget and Finance, Research and Technology, Public and Legislative Affairs, General Counsel, and Strategic Partnerships. An organizational chart is included in this report.

Mission: Connecting People to Information and Ideas

The Institute builds the capacity of libraries and museums to promote and support lifelong learning. To remain competitive, our citizens learn continually, adapt to change readily, and evaluate information critically. The nation's122,000 libraries and 17,500 museums play a fundamental role in creating vibrant, energized communities that help us do just that.

As stewards of cultural heritage, museums and libraries have traditionally helped us to experience, explore, discover, and make sense of the world. Today these institutions are using the tools of the knowledge age to connect people to information and ideas like never before. Using new technology, creating strong partnerships with community organizations,

business and educators, and tapping into the latest research about learning makes it possible for libraries and museums to offer unprecedented value to the public, fueling knowledge sharing and energizing our economy, creativity, and competitiveness.

Respected in their communities, libraries and museums hold the public trust and play an important role in our democracy by helping to create an informed citizenry. Our role at the Institute is to provide libraries, museums, and policymakers with the resources they need, leadership, data, analysis, and funding, to ensure that the American ideal of open access to information and ideas flourishes.

Competitiveness Depends Upon Lifelong Learning

In postindustrial America, lifelong learning is fundamental to our nation's competitiveness. For Americans to remain competitive we must recognize that formal schooling is only one part of the learning continuum. The brilliant variety of libraries and museums that support leaning in school, out of school, and from infancy to old age is one of the hallmarks of American education.

Museums and libraries are America's leading public institutions, making knowledge available to millions at little or no cost. To do this they must be supported by a strong and resilient network of public, private, and earned revenue sources. As public institutions, libraries and museums must meet a very high threshold of mission accountability and must demonstrate that they use resources wisely for the public good.

Through grants and information resources, we annually reach thousands of museums and libraries in myriad ways --from providing much needed technical assistance for small institutions to establishing national and replicable models, strengthening state networks, and supporting professional development. To aid institutions in program design, we also provide tools for strategic planning and evaluation. Funding from the Institute helps museums and libraries to operate effectively and give value to their communities.

What We Do

Through its grant making, conferences, research, and publications, the Institute builds the capacity of museums and libraries nationwide to provide leadership and services that sustain heritage, culture, and knowledge; enhance learning and innovation; and improve professional development.

- **Sustaining culture, heritage, and knowledge:** The collections in libraries and museums connect people to the full spectrum of human experience: culture, science, history, and art. These collections increase Americans' global awareness and understanding. By preserving and conserving books, artworks, and other cultural artifacts, libraries and museums provide a tangible link with humankind's history. Now, with the digitization of collections, educational resources can be seamlessly

shared worldwide. One vital way we provide leadership is by helping institutions identify the best ways to create and provide access to their digital resources.

- **Enhancing learning and spurring innovation:** Success in today's society requires information literacy, a spirit of self-reliance, and a strong ability to collaborate, communicate effectively, and solve problems. Combining strengths in traditional learning with robust investment in modern communication infrastructures, libraries and museums are well equipped to build the skills Americans need in the twenty-first century. Libraries and museums bring tremendous assets to communities engaged in a wide range of concerns, from workforce issues and parenting concerns to cross-cultural understanding and student achievement. As partners in the exercise of civic responsibility, libraries and museums are part of larger efforts to weave a stronger community fabric.
- **Professional development:** The need for lifelong learning applies to the staff of museums and libraries as well as their users. The Institute places a priority on building leadership capacity by supporting the development of a highly skilled workforce in libraries and museums. The Institute helps to spur innovation, support diversity, and build traditional library and museum service expertise**.**

While the preceding section focused on what we do -- our grants, communications, and research -- this section looks at the strategies and infrastructure development that IMLS supports to bring about systemic change in the way museums and libraries provide services to the public. Under each goal, we cite a number of examples of Institute programs, initiatives, focus areas, and products. These are examples, not a comprehensive list of IMLS activities. Additional information is provided below in the Performance and Results section of the report.

Goal One: Advance Excellence in Museum and Library Management through Strategic Planning, Evaluation, and the Delivery of Public Value

Objective: Libraries and museums develop and deliver a diverse range of services that meet recognized community needs and support their strategic plans to deliver public value to the community.

Outcomes Measurement: Seeding Systemic Change

Delivering public value means being accountable. Outcomes-based planning and evaluation are important tools for accountability. They help institutions to identify needs and improve performance, and help to inform decisions about program and funding priorities. IMLS remains one of the few federal funding agencies that provide technical assistance and training for grantees in these areas. By convening grantees for workshops in Washington, DC, and developing online planning and evaluation courses and tools, the Institute is seeding change in the library and museums fields. At the workshops, grantees develop tools for planning and evaluating their own programs so that results can be measured. Reports from the workshops demonstrate that practitioners are expanding their knowledge and use of planning and evaluation.

We have seen indicators that the focus on planning for results is being integrated into the library community. In 2005 the Public Library Association published the first guide to outcomes measurement for public libraries, *Demonstrating Results: Using Outcome Measurement in Your Library*. The author, Rhea Joyce Rubin, identifies the Institute of Museum and Library Services as a key influence. In 2006 the Western Council of State Libraries formally adopted common core competencies to underlie library staff development in its twenty-one member states. In 2005 Simmons University offered the first doctorate in library management leadership; this is also the first library curriculum based on clearly defined outcomes. Finally, the American Library Association has developed Certified Public Library Administrator standards based on clearly defined skills and knowledge. There was very little concrete precedent for these initiatives before IMLS began its outcomes initiative in 1998.

Goal Two: Develop National Models and Support Research

Objective: Libraries and museums improve their ability to meet the needs of their communities by adopting and having access to models that have national impact and by incorporating research findings to improve practice

Research

Museums and Libraries Engaging America's Youth
At the White House Conference on Helping America's Youth in September 2005, the President and Mrs. Bush called upon community and cultural organizations to take part in helping our youth succeed in school and in life. In October 2005 the National Museum and Library Services Board launched the Institute's Museums and Libraries Engaging America's Youth initiative. This initiative builds upon past support in this area, which has included research, conferences, publications, and over $240 million in grants over the past six years. The initiative focuses primarily on young people aged 9 – 19 and is examining what works, sharing best practices, encouraging more effective programming, and building bridges among libraries, museums, and public policymakers.

Throughout FY 06 and continuing in FY 07 the Institute is analyzing its past grant making; developing case studies to explore best practices; providing monthly updates with project profiles, resources, and tips on its Web site; and encouraging the development of new models through its National Leadership Grant program. The initiative will culminate with a national conference and the publication of the results of its analyses and case studies.

Status of Technology and Digitization in the Nation's Museums and Libraries
Released in February 2006, this study compares the 2004 status of technology and digitization at museums and libraries to baseline data from 2001. The study reveals that using technology to enhance library and museum services for all Americans and digitizing collections to provide them broader access to the nation's rich holdings is prevalent among our cultural institutions, with small institutions showing a dramatic increase in this area. The 2004 survey

was conducted among five groups: museums, public libraries, academic libraries, archives, and state library administrative agencies. Below are highlights of some of the key findings about technology.

- The percentage of small museums with Web sites grew from the first survey's 40 percent to 78 percent.
- 84.5 percent of small museums now use e-mail, up from only 53.1 percent in 2001.
- 70 percent of small public libraries have an online catalogue of library or other collections.

Analysis of Museum Statistics Program

In acknowledgement of the increasing need for sound data about the nation's museums and in response to the stated expectation from the museum field for IMLS to take a leadership role, IMLS will work with museum leaders, researchers, and statisticians to analyze potential strategies for a museum statistics program.

Digital Technology

The Institute has supported, through grants and cooperative agreements, important research that will influence sound policy decisions at all levels of the public and private sector and impact museum and library practices. Two highlights of this year's work involve the role of digital technology in libraries and museums. Digital technology enables the full range of holdings in our museums, libraries, and archives—audio, video, print, photographs, artworks, artifacts, and other resources—to be cataloged, organized, combined differently, and made accessible to audiences in new ways. Funding from the Institute has supported the digitization of many museum and library collections. Working with library and computer science experts at the University of Illinois at Urbana Champaign, the Institute is supporting research that will enhance the development of a collections registry that will enable the public to search all of these collections simultaneously.

National Models

National Awards for Museum Services and for Library Service

In 2006, IMLS awarded the National Award for Museum Service to three exceptional museums and the National Award for Library Service to three outstanding libraries that demonstrate extraordinary and innovative approaches to public service, reaching beyond the expected levels of community outreach and core programs.

Partnership for the Big Read

The Big Read is a new national reading program designed to revitalize the role of reading in America. The Institute contributed $1 million in the first year of the national program and cast America's libraries and librarians in a central role to encourage community participation. The Institute's participation helped to leverage additional financial support for the Big Read and will lead to the growth of this initiative from ten pilot sites to 150 communities and military bases throughout the nation.

National Book Festival Pavilion of the States
For the fifth consecutive year, IMLS hosted the Pavilion of the States at the annual National Book Festival on the National Mall. The Book Festival is a national model with representatives from state libraries and Centers for the Book throughout the country. The State Pavilion promotes reading and the literary traditions of all 50 states, the District of Columbia, and the U.S. territories. The National Book Festival, which is free and open to the public, is sponsored by the Library of Congress and hosted by First Lady Laura Bush.

Goal Three: Build Workforce Capacity in Libraries and Museums

Objective: Museum and library staffs build their capacity to meet the demands and pressures of rising community expectations, evolving technological applications, increasing diversity, emerging legal issues, and expanding responsibilities for leadership.

Rebuilding Gulf Coast Library Services
IMLS contributed $500,000 to a joint effort with the Bill & Melinda Gates Foundation's effort to help staff temporary facilities in Mississippi and Louisiana. Staffing of temporary facilities while heavily damaged or destroyed libraries are rebuilt is a significant challenge. The Institute for Museum and Library Services grant will help support initial staffing needs until additional resources are secured. The $12.2 million Gates Foundation grant will help libraries establish up to 22 temporary facilities in Mississippi and Louisiana so community members can access books and computer and Internet services.

Training the Next Generation
Since the inception of the Laura Bush 21st Century Librarian Program in 2003, this program has funded 1,898 master's degree students, 145 doctoral students, 949 pre-professional students, and 3,579 continuing education students. In its first two years, the Institute's 21st Century Museum Professionals program has made 13 awards that will benefit hundreds of museum staff and contribute significantly to the body of knowledge about professional development and leadership in museums.

African American History and Culture Grants
In 2006 the Institute made its first grants under the authority provide by the National Museum of African American History and Culture Act. Eight grants, totaling $803,230 will provide opportunities for the staff of African American museums across the country to gain knowledge and abilities in the areas of management, operations, programming, collections care, and other museum skills.

Museum Grants for African American History and Culture are intended to build professional capacity in the African American museum community. They provide opportunities for African American museums to design projects that will enhance institutional capacity and sustainability through professional training, networking and mentoring opportunities, technical assistance, outside expertise, and other tools.

The agency received 44 applications requesting over $3.9 million.

Partnership – Building Alliances to Meet Community Needs
With its special mandate to encourage partnership among museums, libraries, and other educational and community organizations, the Institute has an important leadership role in encouraging collaborations to meet community needs.

To encourage such partnerships among museums, libraries, and public broadcasters, the Institute has worked collaboratively with the Corporation for Public Broadcasting through the "Partnership for a Nation of Learners" initiative to provide professional development opportunities for museum, library, and public broadcasting staff, including a Web site that provides tips and tools for partnerships.

Designs for Productive Aging
As the first of the baby boomers turn 60**,** public libraries are preparing to offer creative alternatives to retirement to a generation well known for its idealism and activism. A report from Americans for Libraries Council (ALC) and the Institute of Museum and Library Services (IMLS) describes this demographic revolution and offers guidance and examples of model programs to public libraries interested in connecting these active older adults to new opportunities for learning, work, and community service. This report addresses a primary goal of the Institute of Museum and Library Service's Laura Bush 21st Century Librarian program: preparing librarians to engage all Americans, including older adults.

Goal Four: Improve Library and Museum Service for Tribal Communities

Objective: Tribal libraries and museums will address essential community needs made more challenging by geographic barriers of remote or rural locations, challenges to an endangered culture, and strains on limited resources.

New Grant Program for Tribes' Museum Service
For many years, IMLS has provided financial assistance to Native American Tribes and organizations that primarily serve and represent Native Hawaiians to support library services. In 2003 Congress passed legislation creating a new program of support to the tribes for museum services. In its second year, 2006, the Institute awarded 23 grants in this new category. These awards support a variety of activities and services, including those that advance the educational mission of museums; build the skills and knowledge of individuals who provide museum services; or improve museum services, such as disaster preparedness, strategic planning, improvement of technology and other resources, collections care and management, and hiring of staff.

Goal Five: Preserve Cultural Heritage

Objective: The urgent need for this federal assistance was recently underscored by the Heritage Health Index, the first comprehensive survey ever conducted of the conditions and preservation needs of our nation's collections. Conducted by Heritage Preservation in partnership with IMLS, the Heritage Health Index found that immediate action is needed to

prevent the loss of millions of irreplaceable artifacts. Without these collections important ideas about science, history, art and culture will be lost to future generations.

A Public Trust at Risk: The Heritage Health Index Report on the State of America's Collection

Through a cooperative agreement with the Institute, Heritage Preservation Inc. undertook a nationwide survey and published the first comprehensive study that examines the state of collections in the nation's libraries, museums, and other collecting institutions. The report notes that roughly 190 million objects held by archives, historical societies, libraries, museums, and scientific organizations are in need of conservation treatment. The report found that immediate action is needed to prevent the loss of millions of irreplaceable artifacts. It calls on individuals in the private sector and at all levels of government to assume responsibility for providing support that will allow collections to survive. It also calls on institutions to develop emergency plans to protect collections, to give priority to providing safe conditions for collections, and to assign responsibility for collections care to staff members.

Goal Six: Increase effectiveness and efficiency of internal operations

During Fiscal Year 2006, IMLS engaged in a comprehensive review of its financial management process and enhanced its financial infrastructure to ensure timely, complete, and accurate financial reports and to further integrate financial information into the agency's strategic planning and measurement of performance. In addition to implementing an inter-agency agreement with the Department of Transportation (DOT) to provide the agency with accounting services and an Office of Federal Financial Management-compliant financial management system, the agency hired its first Senior Financial Officer to provide day-to-day supervision of the agency's finances and guidance on the financial aspects of the agency's operations.

This year, the agency also made significant progress on its initiative to implement consistent grants administration procedures for its previously separately-administered museum and library programs, and to make agency materials more accessible to the public. To this end, the agency redesigned all of its grant application materials to ensure greater consistency from program to program and to promote ease of use. The launch of a new Web site this fiscal year – with special components designed for grant applicants and recipients – also provides greater access for the public to information about grant opportunities and funded projects.

Strengthening Internal Management

IMLS has made significant accomplishments in implementing sound financial business processes and improving and expanding internal controls. The Institute's management position has strengthened substantially under the administration of the new director. IMLS plans to continue to improve the agency's management with strategic human resource management. IMLS will increase its workforce to maintain improvements, prepare for growth in responsibilities, and address workforce deficiencies.

Consolidation of Library Statistics and Policy into IMLS
IMLS solicited comments from stakeholder communities on the consolidation plan. Commenters expressed keen interest in seeing that the Institute receives the budget, resources, and legislative authority necessary to fully engage in data collection and policy activities. Overall, commenters felt that combining data collection, policy, and grant making in one agency would result in stronger federal support for library data collection and information policy. The value of the data collections was repeatedly underscored. The respondents urged the Institute to maintain the highest standards of statistical integrity and expressed support for continuation of the voluntary federal-state cooperative and steering committee systems. Commenters expressed enthusiasm for new product development as well as better marketing of existing products. IMLS will continue the collaborative work with NCES, NCLIS, and the Census Bureau to move information policy responsibilities and the public and state library statistics program to IMLS for a completed transition by the beginning of FY 08.

Technical Assistance Conference Calls to Help Applicants Prepare Proposals
To help museums, libraries, and other eligible organizations throughout the country learn more about how IMLS programs can help advance their institutions' missions and strategic goals, the Institute scheduled several technical assistance conference calls over the years.

These activities are described in detail in the Performance and Results section of this report**.**

President's Management Agenda

The Institute supports the President's Management Agenda (PMA), a comprehensive strategy for improving the management and performance of the federal government. The PMA contains five government-wide goals to improve federal management and deliver results that matter to the American people:

- Budget and Performance Integration
- Strategic Management of Human Capital
- Competitive Sourcing
- Improved Financial Performance
- Expanded Electronic Government

IMLS activities in each of the PMA areas are described below.

Budget and Performance Integration
IMLS has an integrated approach to budgeting and long-range planning. Responsibility for development, coordination, and innovation in General Performance and Results Act activities resides with the Office of Research and Technology, which coordinates with all of the other offices of the agency in developing and implementing the budget.

Over the past year, IMLS has put considerable effort into the development of its strategic goals and performance measures. The agency's Board and staff recognize the vital

importance of building the capacity of libraries and museums to connect people to information and ideas. This requires a strategic approach so that limited federal dollars can be effectively used to achieve the best in library and museum services for the American people. To ensure that this is accomplished, the Director has articulated the objectives of the President's Management Agenda and the requirements of the Performance and Accountability Report to all IMLS staff; sought their collaborative input by dedicating time to an off-site meeting to develop and refine the agency's strategic goals – taking into consideration the agency's authorizing legislation and the PMA – and actively sought the broad and diverse expertise of the Board. Not only has this furthered the agency's performance and measurement efforts, it has helped to enhance staff understanding of the importance of an effective management control environment.

During this year, the agency also implemented a series of efforts to strengthen its ability to measure results, including the following:

- "Museums and Libraries Engaging America's Youth" – an initiative to analyze the agency's grant making, since 1998, focuses on youth development programs. This initiative will result in a report on the standards for effective youth development programs in libraries and museums and will share best practices.
- Common Outcomes: IMLS has engaged the states in an analysis of common elements of continuing education and effective summer reading programs, two areas that are supported by the Institute's Grants to States program.

The Institute seeks to fund programs that work or demonstrate the promise of future effectiveness, and continues to seek to reform or eliminate programs that do not show results. The agency's administrative allocations are linked to its Strategic Plan to ensure that high-priority activities are funded and will have standard, integrated budget, performance, and accounting information systems at the program level that will provide accurate and timely feedback for management.

For FY 2006 and FY 2007, IMLS reorganized the agency's programs to support five strategic planning goals to strengthen performance reporting. Our performance plan identifies specific performance areas by project type against which we will develop performance metrics.

IMLS continues to include high-quality outcome measures and accurately monitor the performance of programs. This enables the Institute to maintain control over resources used and better establish accountability for results.

Strategic Management of Human Capital

Human capital is a valuable asset that needs to be managed strategically. During fiscal year 2006, the agency reorganized staff in order to realign programs and operations to more effectively carryout the agency's core mission of maximizing the nation's investment in museum and library services.

In addition to appointing a Chief of Staff, responsible for managing the agency's leadership workflow to ensure performance and accountability, the Director appointed a Counselor to the Director to analyze and refine the Institute's internal systems for maximum administrative efficiency and effectiveness. An additional Counselor to the Director focuses on special projects, including advising the Director on general issues relating to the African American and Native American museum communities. A Senior Financial Officer has oversight of the agency's day-to-day financial management and accounting and provides guidance on the financial aspects of recruitment, retention, and succession planning.

Building on the framework of Equal Employment Opportunity Management Directive 715 and relevant Office of Personnel Management directives, IMLS has implemented an agency-wide "Workplace Culture Initiative," which includes several complementary components:

- **An "Employer/Employee Empowerment" team brings together program officials with the Chief of Staff, Director of Administration, Senior Financial Officer, EEO Officer, General Counsel, Chief Information Officer, and Human Resources Officer, to review and enhance, when necessary, agency-wide policies and practices affecting the workplace**.

  This group, which includes management officials with responsibility for strategic planning and agency administration, works to ensure that the agency's human capital strategy is aligned with the mission, goals, and organizational objectives of the agency. The team, in general, works to ensure fairness, equity, consistency, transparency, and inclusion in all agency practices. These values are reflected in the agency's management controls. The team has been updating the agency's training policies and recruitment, evaluation, award directives, and personnel policies and procedures. The agency recently enhanced its award and recognition program, and implemented a more robust time and attendance system to enhance access to useful and reliable information.

- **A "Communications and Outreach" team from throughout the agency to enhance interaction and understanding among employees and access to agency information.**

  During the reporting period, this group enhanced the agency's intranet site to provide greater access to agency policies and procedures and information to facilitate the work of the Institute. New additions include expanded IT resources and information. The intranet site requires continual review and updating as the agency moves forward on several of its program and administrative initiatives. Communication is also facilitated by biweekly meetings of the agency's management staff and a monthly all staff meeting in which the director frequently takes part.

- **A "Learning Organization" team from throughout the agency to develop colloquia and other staff development activities that address employee needs and advance professional practice.**

This has been a particularly successful program, bringing together staff from throughout the agency in a comfortable setting to explore common issues and learn from one another. Recent symposia have focused on the Institute's State Grants Programs, E-Government Initiatives, and an internal "Big Read" (read one book) program.

During the prior reporting period, the United States Office of Government Ethics (OGE) completed a comprehensive audit of the Institute's ethics program as carried out during the past five years. As part of the audit, OGE reviewed how IMLS screens for and resolves potential conflicts of interest involving reviewers to maintain the integrity of our peer review process. OGE concluded that IMLS has a sound ethics program, and that our program particularly excelled in the areas of training and education. In its final audit report, OGE made no formal recommendations for improvement of the agency's ethics program and the agency received an award this year for the management of its program.

IMLS continually works to sustain a high-performing workforce that understands the special roles and functions of federal service and that carries out the agency's work with efficiency integrity, and accountability.

Competitive Sourcing

Competitive sourcing is a process to ensure that the government acquires services at the best value for the taxpayer, regardless of whether the service provider is a public entity (agency or other agency staff) or private entity (contractor staff).

IMLS recognizes that competition promotes innovation, efficiency, and greater mission effectiveness. The agency evaluates, on an ongoing basis, its core competencies and decides where to build internal capacity and when to contract for services from the private sector. Some agency operations require a combination of both. For example, the agency's information technology infrastructure is managed by a small internal staff that is responsible for policy development and general system oversight with federal contractors who help develop and operate on a day-to-day basis the agency's IT systems.

As the Institute integrates the NCLIS and NCES functions into its organization, existing contractual arrangements will be rebid not only among private sector companies but also federal government entities, including Institute staff. Additionally, a new review of the inherent governmental tasks will be performed to identify those areas that may be candidates for competitive sourcing.

During 2006, the agency contracted with the Enterprise Services Center of the Federal Aviation Agency to provide IMLS with an Office of Management and Budget (OMB)/Office of Federal Financial Management (OFFM)-compliant Delphi financial management system. The Institute is continually searching for opportunities to increase efficiencies and reduce costs by leveraging other governmental Centers of Excellence in areas such as payroll, e-travel, and grants.

E-Government

IMLS is expanding its electronic government capabilities consistent with the goals of the President's Management Agenda and is committed to leveraging technology to minimize the burden on grantees and increase efficiencies agency-wide.

IMLS presently delivers a number of services electronically and will be enhancing and expanding these services. In addition to the IMLS Web site, which provides application guidelines, publications, and other information, IMLS continues to serve as a partner to other federal agencies with respect to Regulations.gov and the federal Grants.gov portal.

Grants Management

IMLS actively participates in government wide progress to streamline the federal grantmaking process. The agency's Chief Information Officer is a member of the federal Grants Executive Board and the agency participates in the Grants.gov User Group.

- **Pre-Award.** In Fiscal Year 2006, **IMLS published 100 percent of its grant programs on the Grants.gov portal**, exceeding OMB's target of 75 percent. The agency used the Grants.gov portal to receive grant applications in two programs this year and will add its other programs in Fiscal Year 2007. An internal "Grants.gov team" worked together this year to streamline and standardize online application forms and instructions.

- **Post-Award.** IMLS is coordinating its internal operations with the evolution of the "Grants Management Line of Business." The ultimate goal of these activities is to enhance the efficiency of post-award grant management activities. During Fiscal Year 2006, the agency completed a comprehensive review of its grant application materials to enhance consistency and efficiency in its museum and library programs. This agency-wide effort to standardize application materials across IMLS programs will position the agency to take full advantage of the government-wide consortium model of grants management. The agency's E-Government Officer participated in the Grants Executive Board Selection Committee for grants management consortia leaders.

- **Annual Reports.** IMLS is in the final phase of implementing a Web-based annual reporting system that all State Library Administrative Agencies have been using since October 2003 to provide information regarding the Grants to States Program. Successful strategies for this pilot reporting process will shape reporting for other IMLS programs.

- **Peer Review Process.** An important element of the Institute's e-government plan is to incorporate online application review into the agency's overall grants management process. Electronic peer review has been embraced by IMLS reviewers in recent years and is expected to reduce the workload for both reviewers and staff, making feedback to applicants more efficient. IMLS will continue its successful implementation of electronic review.

- **Project Planning**. In addition to the use of technology to advance application and award management, IMLS is developing assistance to help potential applicants develop better projects. A self-paced, Web-based course in project planning was launched in May 2003. The Institute has also developed and begun implementing a full suite of Web-based tools in outcomes-based evaluation.

Agency Communications

During this year, the agency launched a redesign of its Web site. The new site is designed to raise awareness about the role of libraries and museums in American society. It is a resource for information about trends as well as a gateway to IMLS services. To ensure that the site met the needs of IMLS constituents the agency received input throughout the process from agency staff and external users including museums, libraries, service organizations, congressional staff, and media representatives.

The new site has improved navigation to assist grant applicants, grant reviewers, and grant recipients. It highlights a grantee each month, providing an in-depth profile about a project that has made a difference. The new site provides a useful portal to IMLS-produced planning and evaluation tools. It also links users to publications and online resources.

The Institute places a high priority on public communication; it produces a free monthly electronic newsletter which currently reaches about 10,000 subscribers. The agency also produces regular press releases and has recently established a RSS feed.

Information Technology

In 2006, IMLS continued to strengthen its information technology practices and network architecture to best serve the needs of its constituents and employees. Last year, IMLS enhanced the agency's core network infrastructure with more robust and scalable servers to facilitate more efficient and effective information technology services. The enhanced infrastructure supports more efficient file sharing within offices and across the agency, incorporates a better security configuration for the general support system, and facilitates compliance with e-government initiatives. This fiscal year, IMLS has continued to develop protocols to protect the security of its systems. This year, 100 percent of the Institute's staff received IT security awareness training.

As the Institute integrates the NCLIS and NCES functions into its organization, the Institute will revisit its IT hardware and software infrastructure and search for areas of necessary modifications and improvement. The agency will update its short and long range IT plan to incorporate the impact of the additional responsibilities. The Institute will be participating in the e-travel module being implemented by its service provider, the FAA's Enterprise Services Center.

Financial Management

This year, the Institute engaged in a high-level effort to strengthen its capacity to carry out its federal financial management responsibilities. Since the merger of federal museum and library programs, the agency has grown from a staff of 25 in 1996 to a staff of approximately

sixty and from a budget of approximately $25 million to $280 million. In the past, the agency relied heavily on accounting and financial management services provided by the National Endowment for the Humanities (NEH). As discussed below, NEH experienced difficulties in its own transition to an Oracle-based financial management, which affected its ability to provide timely and accurate information to IMLS. For FY 2005, Leon Snead & Company, the agency's independent auditor, was required to issue a disclaimer to its opinion of the agency's financial statements.

Through an interagency agreement, IMLS initiated a new relationship with the FAA's Enterprise Service Center for accounting services, effective Fiscal Year 2006. The Enterprise Service Center was recently designated a "Center of Excellence" by the Office of Management and Budget. IMLS is the first agency to receive comprehensive accounting services from the Center – and has been pleased to work with ESC in establishing an effective workflow. In 88 days (May 5 through August 1), a team comprised of IMLS employees, ESC staff, RWC consultants and a former CFO of the U.S. Department of Agriculture, reviewed over 2,500 grant files and researched three years of vendor files to establish FY06 beginning balances. Beginning balance financial data at the transaction level were entered into the ESC's Delphi accounting system and verified. Fiscal Year 2006 transactions through June 30, 2006 were also entered into Delphi. Account balances, including cash, obligations, and payables, were reconciled and validated. OMB and Treasury third-quarter reports and financial statements were prepared and submitted timely. Carry forward balances from FY05 were apportioned by OMB on August 1st. The beginning balance methodology was audited with no exceptions noted. The FY06 interim audit disclosed no audit adjustments and only one exception related to documentation. The partnership with the ESC has been enormously beneficial. It affords IMLS access to timely reporting and accounting services, and with the financial information necessary to make strategic agency and programmatic decisions.

The transition to the Oracle system, as well as the challenges in closing out the agency's Fiscal Year 2005 financial data, highlighted the need for IMLS to maintain in-house technical financial management and accounting expertise. For this reason, the agency created and filled a Senior Financial Officer position. In-house expertise is necessary to ensure that IMLS can timely recognize potential financial issues, communicate with its service providers about transactions with significant financial implications, and take the appropriate actions on behalf of the agency. We are pleased to benefit from the expertise of the Institute's new financial officer.

Brief Analysis of Financial Statements

Underlying the agency's many programmatic achievements is our commitment to organizational excellence and sound financial management, consistent with the President's Management Agenda.

Since its inception, IMLS has contracted with the NEH for full accounting services, including maintenance of IMLS's chart of accounts and Treasury symbols as well as preparation of financial reports and statutory reporting requirements. NEH experienced tremendous challenges during the FY 2004 transition from the WANG-based accounting program that supported the activities of both agencies to the web-based Oracle Federal Financial system. Although NEH anticipated that it would be able to comply fully with all audit requirements and prepare the agency's financial reports, the challenges were too great, and NEH was unable, in a timely and accurate fashion, to close out FY 2004 or FY 2005 for IMLS.

Because of these ongoing problems, IMLS made a management decision to transition to a new accounting service provider – the Enterprise Service Center (ESC) within the Federal Aviation Administration. Since October 1, 2005, the ESC has been providing accounting services to IMLS. As discussed above in the Financial Management section, a team comprised of IMLS employees, ESC staff, RWC consultants and a former CFO of the U.S. Department of Agriculture, reviewed over 2,500 grant files and researched three years of vendor files to establish FY06 beginning balances. Beginning balance financial data at the transaction level were entered into the ESC's Delphi accounting system and verified. Fiscal Year 2006 transactions through June 30, 2006 were also entered into Delphi. Account balances, including cash, obligations, and payables, were reconciled and validated. OMB and Treasury third-quarter reports and financial statements were prepared and submitted timely.

As a result of this effort, carry forward balances from FY05 were apportioned by OMB on August 1st. Also, the Institute's FY06 financial statements are auditable as evidence by the unqualified opinion rendered by its auditors for FY06. Additionally, no material weaknesses were identified by the Institute's auditors.

Due to the failed system conversions for FY04 and FY05, the Institute requested and was granted a waiver for the requirement of presenting comparative financial statements. Therefore, only FY06 financial statements are presented in this report. Based on the work performed to establish beginning balances for FY06, the Institute will be able to present comparative financial statements starting in FY07.

Two material weaknesses reported by Leon Snead for FY05 have been resolved.
In FY05, IMLS and its accounting service provider had no process in place to estimate grant liabilities in accordance with federal accounting standards. In addition, IMLS had no method to ensure that advances to grantees are identified and recorded in accordance with generally accepted accounting principles. The audit recommended that IMLS develop a methodology against which these grant liabilities could be reported.

IMLS has implemented a methodology as of September 30, 2006 for estimating grant liabilities and for recording grant advances (prepayments). Therefore, both grant liabilities and grant advances are included in the September 30, 2006 financial statements.
The Institute has long relied on outside service providers for accounting services and compliance with federal financial reporting requirements. The agency has not had its own finance or accounting officer to provide in-house expertise in accounting and financial management. In the transition from its previous accounting services provider to the FAA/ESC, and during its recent office move, IMLS recognized that the agency requires technical in-house expertise to lead, develop, and manage accounting and financial management issues at every level. A similar conclusion was reached by the auditors, who reflected this as a material weakness.

IMLS concurred with this finding and, as stated above, engaged a team of financial consultants advise and implement sound financial management processes and procedures. Effective August 20, 2006, the Institute also employed its first Senior Financial Officer who provides the required in-house technical financial management and accounting expertise for the Institute.

Management Assurances

The Institute of Museum and Library Services is cognizant of the importance of establishing and maintaining adequate controls over its programs and administrative functions. Management continues to evaluate and modify existing controls – and establish new ones as appropriate – to ensure accountability of federal funds and resources. IMLS also recognizes the importance of using technology to enhance effectiveness and efficiency, as well as to ensure an adequate degree of internal control and compliance with applicable laws and regulations.

During Fiscal Year 2006, the agency benefited from several opportunities to review its internal controls and make needed improvements. Leon Snead, which was engaged by the agency to conduct IMLS's audit, reviewed the agency's management controls. During the initial assessment phase of the audit, Leon Snead undertook a comprehensive evaluation of our systems and procedures, noting one exception with respect to updating documentation for the agency's procurement activities. The agency is currently evaluating all its procedures in this area to publish an updated agency directive in early 2007.

A second assessment of the agency's internal controls occurred in connection with IMLS's review of its operations and procedures to identify possible deficiencies in management controls. A Senior Assessment Team, now chaired by the Senior Financial Officer, was established by the Director this year to consider accountability and controls annually within the broader context of agency operations. This year, the team, along with an independent consultant engaged by the agency and the agency's accounting service provider, initiated a comprehensive evaluation of the agency's financial operations and control environment. The Assessment Team reviewed the agency's financial management, grants management, contracting and procurement, and human resources activities.

In addition, pursuant to the Federal Managers' Financial Integrity Act of 1982 (FMFIA), the IMLS Task Force asked the agency's offices to conduct an internal review of their respective activities to identify possible deficiencies in management controls. Mindful of the Administration's continuing emphasis on management accountability for effective and efficient performance, as well as the need to direct limited resources to their best use, IMLS managers were asked to exercise close scrutiny over all operations when conducting the reviews and to provide written statements of their findings.

Numerous actions were taken with respect to the review and follow-up, including the development of enhanced financial and personnel processes. The review also identified areas that require additional focus in the coming fiscal year, including the agency's contracting procedures and further enhancement of IMLS's information technology infrastructure. As part of the assessment, the agency reviewed all of its contracts and contracting procedures, and made modifications to the processes where necessary and appropriate. The Institute is now in the process of updating its contracting directives to reflect these modifications. During this period, the agency has also worked to update its IT infrastructure to conform to the requirements set out in the Federal Information Systems Management Act. The agency previously contracted through an interagency agreement for these services and complied with NEH's protocols and procedures. During Fiscal Year 2006, IMLS expanded its staff and in-house expertise in this area and has developed agency-specific policies and procedures. As reflected in a recent FISMA audit, the agency continues to make substantial progress in this area.

The work of the Senior Assessment Team and the agency's offices serve as the primary basis for the IMLS's reasonable assurance that management controls are adequate and effective. Together, the statements cover programmatic, administrative, IT and financial functions. The statements are consolidated, and reviewed by the Director.

The results of IMLS's assessment are reported here, within the agency's *FY 2006 Performance and Accountability Report*, consistent with the provisions of the Reports Consolidation Act of 2000. Based on the review process described above, IMLS provides the following assurances:

The Institute of Museum and Library Services management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). The Institute conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, the Institute can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2006 was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

In addition, the Institute conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations. Based on the results of this evaluation, the Institute can provide reasonable assurance that its internal control over financial reporting as of September 30, 2006 was operating effectively, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

Anne-Imelda M. Radice, Ph.D.
Director

II. Performance and Results

IMLS has structured its activities, grant making, research, convening, and publications to accomplish the agency's mission of connecting people to information and ideas.

Currently, the primary way in which the agency assesses its progress on its performance goals is through grant making. The Institute administers a variety of grant programs. each with specific purposes drawn from the enabling legislation, to address the broad needs of museums, libraries, and related organizations.

The management of each grant program is structured to ensure that activities are carried out by eligible private and public non-profit agencies, primarily libraries, museums, universities, and service organizations to meet the agency's mission and the program purpose.

Process

Grant applicants submit proposals that are reviewed internally for eligibility and appropriateness. Applications are then assessed by expert peer-reviewers who are not Institute employees. The Institute's well-respected peer review process is central to the agency's grant-making function. The success of grant programs is due largely to the contributions of peer-reviewers, who dedicate their time and expertise to advance the highest professional practices in the field. Library and museum professionals who know the needs of communities, can share promising practices, and are well versed in the current issues and concerns of museums and libraries review all competitive proposals. Peer-reviewers help to ensure that financial assistance is provided for projects that are appropriate to the applicant's capacity and meet overall program and agency goals. Requirements for reviewers are published annually. Reviewers come from museums and libraries of all sizes, disciplines, and types, and represent a broad cross-section of the country.

Following external peer review, IMLS program managers analyze project budgets and negotiate as necessary. The IMLS Director makes awards after reviewing recommendations. Successful applicants provide assurances that they will comply with applicable federal laws, regulations, and circulars. IMLS informs each grant recipient of the terms and conditions of an award. Each grant recipient files regular performance and financial reports. Grants management staff and program officers review and approve, with amendments if necessary, all reports to ensure compliance with terms and conditions. They also review performance reports to ensure the grant activities are carried out in accordance with the approved proposal.

Goal One: Advancing Strategic Planning; Delivering Public Value

Objective

Libraries and museums develop and deliver a diverse range of services that meet recognized community needs and support their strategic plans to deliver public value to the community.

Strategy

IMLS will create and sustain nationally significant technical assistance and grant-making programs to help museums and libraries fulfill their mission of delivering public value by implementing their strategic planning goals.

Technical Assistance

- **Outcome Based Evaluation**: Through workshops and online resources the Institute helps library and museum applicants and grantees plan for results and evaluate programs.
    - **Achievements**:
        - In FY 2006, 11 workshops served 231 participants from 89 projects and their partner institutions.
        - Development of online tools that help all grant applicants as well as grantees plan and evaluate and an online course in planning for results in development.
        - Intensive work with states to develop consistent measures for impact of summer reading programs.

- **State Programs Conference:** Every year the Institute convenes a national conference with representatives from the states and territories. The conference is an opportunity to provide technical assistance to individuals with responsibility for administering federal grant funds and to enable the states to share best practices.
    - **Achievements:**
        - 100 percent participation of states in annual conference.

Grant Making

- **Grants to States** (State Library Administrative Agencies): The formula-based Grants to States is the largest program administered by IMLS. States develop five-year plans to address high priority needs within the framework of the Library Services and Technology Act.
    - **Achievements**
        - In 2006 the program supported 3,434 library projects (one-third of these are statewide projects designed to benefit all libraries in the state.) All projects strengthen services and use technology to share resources and improve practice.

- Analysis of the states' five-year evaluations in 2003 identified two key trends in library service that are facilitated by IMLS funds.
    - **Libraries are information brokers**, providing the means for information acquisition and acting as a conduit through which information is identified and retrieved. In essence, they are helping to make information and services that are often prohibitively expensive more readily available.
    - **Libraries are promoters of information literacy**, training patrons and staff to use available technology tools to access and evaluate information.
- All grantees use online reporting system launched in 2005.

- **Museums for America:** The goal of Museums for America is to strengthen museums as active resources for lifelong learning and greater quality of life. Successful applicants show evidence of institutional strategic planning and the relationship between the requested funding and the institution's plan. Projects must be investments for the future, not one-time activities with short-term institutional impact.

Fiscal Year	Applications	Actual Awards	Budget Authority
2005	543	169	$16,864,000
2006	448	177	$16,955,577

  - **Achievements**
    - 73 museums used awards to carry out projects that **support lifelong learning**. These projects include exhibitions, working with schools to develop curriculum and programs, family and adult programs, and Web site content development and implementation.
    - 36 museums used awards to advance museums' role as a center of **community engagement**. These projects include public programs, visitor experience improvements, and increased access and inclusion.
    - 68 museums used awards to support projects that **sustain cultural heritage**. These include collections management; scholarly and popular publications; and exhibit planning, design, and implementation.

- **Museum Assessment Program** The purpose of the Museum Assessment Program (MAP) is to provide grants of technical assistance to help institutions assess their strengths and weaknesses and plan for the future. This program is especially targeted to small museums. IMLS estimates that 75 percent of the nation's museums identify themselves as small institutions, with annual budgets less than $250,000. MAP is carried out through a cooperative agreement with the American Association of Museums. Recently, IMLS made changes to this program to allow greater participation of small museums and streamline administration of the program.

Fiscal Year	Applications	Actual Awards	Budget Authority
2005	177	159	$446,000
2006	N/A	116	$442,000

- **Achievements**
  - 48 museums received an **institutional assessment,** a review of the management and operations of the entire museum, helping the museum set priorities, prepare for strategic planning, and operate more efficiently, thereby improving its services to the community and increasing its base of support.
  - 33 museums received a **collections management assessment**, a review of collections use, planning, and policies and procedures in the context of overall museum operations.
  - 28 museums received an assessment of their **public dimension,** an evaluation of the way in which the museum serves its community and audiences through exhibits, programs, and other services; and how it communicates with its audience through public relations, planning, and evaluation.
  - 7 museums received an assessment of their **governance,** an examination of the roles, responsibilities, and performance of governing authorities and advisory boards. This assessment improves the ability of the museum's governing authority to fulfill its stewardship responsibilities and contribute to the success of the organization.

Goal Two: Developing National Models and Supporting Research

Objective

Libraries and museums improve their ability to meet the needs of their communities by adopting and having access to models that have national impact and by incorporating research findings to improve practice.

Strategy

IMLS will support grant making, special recognition activities, research and partnerships to enable organizations to undertake activities that have broad beneficial impact for libraries, museums, and the communities they serve. These projects address issues and problems common to the museum or library community at large or to a significant segment of the community.

IMLS will support analysis and reporting on the impact of library and museum services by working in consultation with the museum and library communities to identify important

issues and trends for analysis and reporting the findings. (As described in Section 210 of the Museum and Library Services Act.)

Measuring Impact

In 2005, IMLS launched its Nation of Learners Series. The series is intended to examine the public impact of library and museum services. The series will include an analysis of grants in a selected area, the publication of a report, and activities to share best practices.

- **Achievement**
  - The first in this series was announced in September, 2005. **"Museums and Libraries Engaging America's Youth"** will build upon past support in this area, which has included research, conferences, publications, and over $240 million in grants over the past six years. It will examine what works, share best practices, encourage more effective programming, and build bridges among libraries, museums, and public policymakers.

Research

The Institute offers grants to support research activities in libraries and museums and also supports research through contracts and cooperative agreements. These studies inform library and museum practice in the United States as well as policy at the Institute. The following are some achievements in the area of contract and cooperative agreements.

- **Achievements**
  - **Museum Data Collection.** Good data informs good practice and helps museums and policymakers. An analysis of the status of data collection in the museum community yielded both good and bad news. There are many sources of data, and the Internet makes data more accessible and easier to collect. However, there are challenges as well; this report documents the lack of common data elements and definitions, and the lack of the habit of data collection in museums.
  - **Technology and Digitization**. In 2001, the Institute conducted the first-ever study of the status of new technology adoption and digitization in the nation's museums and libraries. The second study completed in 2005 digs deeper and find out more about how and why our cultural institutions use technology and digitize their collections.
  - **Heritage Health Index.** Through a cooperative agreement with the Institute, Heritage Preservation Inc. published the first comprehensive study that examines the state of collections in the nation's libraries, museums and other collecting institutions. The result, *A Public Trust at Risk*, is sobering. The report concluded that sixty-five percent of collecting institutions have experienced damage to collections due to improper storage; eighty percent of U.S. collecting institutions do not have an emergency plan that includes collections, with staff trained to carry it out;

and forty percent of institutions have no funds allocated in their annual budgets for preservation/conservation.

Showcasing Best Practices

- **Achievements**
  - **National Award for Museum and Library Service**: Three museums and three libraries were awarded the nation's highest honor for outstanding library and museum service at the White House. The award winners have demonstrated a long-term commitment to public service through innovative programs and community partnerships.
  - **Coming Up Taller:** Through a partnership with the other federal cultural agencies, the Institute recognized fifteen outstanding out-of-school and after-school cultural programs.
  - **WebWise** is a signature initiative of the Institute of Museum and Library Services. Each year it brings together representatives and thought leaders from museums, libraries, archives, systems science, and other fields interested in the future of high-quality online content for inquiry and education. The focus of each annual conference is on sharing the latest research and newest innovations in digital technology, exploring their potential impacts on library and museum services, and on promoting effective museum and library collaborations in the digital environment. The conference also provides IMLS grant recipients the opportunity to showcase exemplary projects.

    The 2006 WebWise Conference was held February 16-17 in Los Angeles, California. The conference theme was "Inspiring Discovery: Unlocking Collections." Sessions explored current and emerging practices for information discovery as well as promising innovations that could revolutionize the ways in which information seekers find digital content. Projects featuring museum and library resources, and the paths to their discovery, were featured in plenary sessions and demonstrations.

Grant Making

National Leadership Grants for Museums and Libraries
National Leadership Grants support leading-edge projects to enhance library and museum services nationwide. They enable libraries and museums to address current problems in creative ways, develop and test innovative solutions, and expand the boundaries within which our cultural heritage institutions operate. The results of these projects—whether new tools, research, models, services, practices, or alliances—will help shape tomorrow's libraries and museums.

Fiscal Year	Applications	Actual Awards	Budget Authority
2005	274	49	$19,840,000
2006	253	52	$17,417,363

- **Achievements**
  - 10 awards for national models that support **learning communities.** These awards help libraries and museums to engage with other educational and community organizations to mutually support the educational, economic and social needs of learners of all ages. Learning communities can be established without regard to geographic boundaries; they can exist virtually or in a particular place or places.
  - 11 awards for national models that **build digital resources.** These awards support the creation, use, preservation, and presentation of significant digital resources as well as the development of tools to manage digital assets.
  - 18 awards for **research and demonstration.** These awards help libraries and museums increase their impact on learning by supporting research on issues of national concern and demonstration of new solutions to real-world problems. Research projects, both basic and applied, gather and analyze data in order to investigate specific questions and then evaluate and disseminate the results. Demonstration projects test potential solutions to problems in library and museum services.
  - 13 awards for **partnerships** among museums, libraries, and public broadcasters were also made in this category. See explanation in Goal Three, below.

Goal Three: Building Workforce Capacity in Libraries and Museums

Objective

Museum and library staffs build their capacity to meet the demands and pressures of rising community expectations, evolving technological applications, increasing diversity, emerging legal issues, and expanding responsibilities for leadership.

Strategy

IMLS will create and sustain nationally significant programs that respond to the need for ongoing improvement of professional capacity for the museum and library workforce by providing direct support to the organizations that deliver educational content and to organizations that need more highly qualified staff.

Special Initiatives

The Partnership for a Nation of Learners is a leadership initiative of the Corporation for Public Broadcasting and the Institute of Museum and Library Services. It encourages libraries, museums and public broadcasters to work collaboratively to address local needs, increase civic engagement and improve the quality of life in communities across the country. Through workshops, videoconferences, Web-based resources, and competitive grants, PNL helps local organizations to strengthen relationships and begin active collaborations.

- **Achievements**
  - Awarded 13 grants for partnerships. (See National Leaderships Grants above.)
  - 76 public broadcasting stations hosted libraries and museum colleagues for a national video conference on partnerships that reached over 1500 people.
  - Launched an interactive Web site with tips and tools for partnership development.
  - Hosted a series of six Web casts to provide professional development opportunity.

National Book Festival. To encourage careers in libraries and librarianship, the Institute supports the Library of Congress's National Book Festival, which was initiated by First Lady Laura Bush. Through a cooperative agreement with the Chief Officers of State Library Agencies the Institute supports the Pavilion of the States which highlights literacy activities across the United States.

- **Achievements**
  - In 2006 all fifty states participated in the Pavilion.
  - Eleven authors made special appearances at the Pavilion and met with representatives of their home states.

Grant Making

Laura Bush 21st Century Librarian Program

The purpose of the Laura Bush 21st Century Librarian Program is to increase the capacity of libraries to create and sustain a nation of learners by improving library staff knowledge and skills. The program supports efforts to recruit and educate the next generation of librarians and the faculty who will prepare them for careers in library science. It also supports grants for research related to library education and library staffing needs, curriculum development, and continuing education and training. Since the program's inception in 2003, this program has funded 1,898 master's degree students, 145 doctoral students, 949 pre-professional students, and 3,579 continuing education students.

Fiscal Year	Applications	Actual Awards	Budget Authority
2005	86	40	$22,816,000
2006	111	35	$20,869,145

- **Achievements**
  - 14 awards for **Master's-Level Programs.** These awards help to recruit and educate the next generation of librarians. In particular, they increase the number of students enrolled in nationally accredited graduate library programs preparing for careers in school, public, and academic libraries.
  - 3 awards for **Doctoral Programs.** These awards develop faculty to educate the next generation of library professionals and library leaders. In particular, increase the number of students enrolled in doctoral programs that will prepare them to teach master's students or to assume positions as library managers and administrators.
  - 4 awards for **Pre-professional Programs:** These awards help to attract promising junior high, high school, or college students to consider careers in librarianship through statewide or regional pilot projects employing recruitment strategies that are cost-effective and measurable.
  - 3 awards for **Research.** These awards provide the library community with information needed to support successful recruitment and education of the next generation of librarians. In particular they help to establish baseline data and evaluate current programs in library education for their capacity to meet the identified needs.
  - 4 awards for programs that **Build Institutional Capacity.** These awards develop or enhance curricula within graduate schools of library and information science. In particular, develop new courses and programs in critical areas such as leadership, research methods, and digital librarianship. Broaden the library and information science curriculum by incorporating perspectives from other disciplines and fields of scholarship.
  - 7 awards for programs of **Continuing Education.** These awards support model programs of continuing education and training in library and information science for current librarians and library staff. In FY 2006, IMLS began inviting proposals to develop or enhance programs of continuing education and training for librarians and library staff to improve library services to specialized audiences such as youth at risk, seniors, and those with ethnic, language, or other barriers to service. Also beginning this year, this priority will seek to develop or enhance programs to promote collaboration between educators and librarians employed in education institutions.

21st Century Museum Professionals

Museums play a critical role in the education of the public in the United States by preserving America's rich cultural heritage and helping to transmit it from one generation to the next. Museum professionals need high levels of knowledge and expertise as they help create public

value for both local and national communities. This program supports projects that address the preparation of museum professionals for the future by updating and expanding their knowledge and skills.

Fiscal Year	Applications	Actual Awards	Budget Authority
2005	55	4	$992,000
2006	52	9	$1,671,157

- **Achievements**
  - 9 awards that support a range of activities, including professional training, leadership development, and strategic planning.

African American History and Culture Grants
Museum Grants for African American History and Culture are intended to build professional capacity in the African American museum community. They provide opportunities for African American museums to design projects that will enhance institutional capacity and sustainability through professional training, networking and mentoring opportunities, technical assistance, outside expertise, and other tools.

Fiscal Year	Applications	Actual Awards	Budget Authority
2005	NA		
2006	44	8	$1,671,157

- **Achievements**
  - 8 awards will benefit African American museums nationwide and close to 100 staff members, from interns to museum directors, who will gain expertise in audience and exhibition development, educational programming, adopting technology, management and marketing, and more.

Goal Four: Improving Museum and Library Service for Tribal Communities

Objective
Tribal libraries and museums will address essential community needs made more challenging by geographic barriers of remote or rural locations, challenges to an endangered culture, and strains on limited resources.

Strategy
IMLS will create and sustain national programs to help address basic museum and library services for tribal communities and prepare these organizations for providing improved services.

Grant Making

Native American/Native Hawaiian Museum Services Grants
Native American/Native Hawaiian Museum Services Grants enable Native American tribes, Alaska Native villages or corporations, and organizations that primarily serve Native Hawaiians to benefit their communities and audiences through strengthened museum services. IMLS launched this program in Fiscal Year 2005.

Fiscal Year	Applications	Awards	Budget Authority
2005	47	45	$843,000
2006	43	23	$974,317

- **Achievements**
  - 23 awards to tribes that supported museum related programs, professional development and management activities.

Native American/Native Hawaiian Library Services Grants
Native American/Native Hawaiian Library Services Grants support improved access to library services for Native Americans, Alaska Native Villages, and Native Hawaiians. The grants address the information needs of people who typically live in remote areas or in communities where technology resources are scarce. These funds help extend library hours, purchase educational materials, implement literacy programs, provide professional advice to tribal library personnel, provide community service information, and provide Internet connections and other services for individuals in these communities.

Fiscal Year	Applications	Actual Awards	Budget Authority
2005	272	244	$3,472,000
2006	283	240	$3,638,000

- **Achievements**
  - 224 awards to American Indian tribes and Alaska Native Villages to support a basic level of library services.
  - 15 competitive awards to enhance library services in Native communities.
  - One competitive award for library services to Native Hawaiians to preserve and increase access to and use of Hawaiian languages resources, improve children's reading skills, and help Native Hawaiians acquire literacy, computer, and employment skills.

Goal Five: Preserving Cultural Heritage

Objective

The urgent need for this federal assistance was recently underscored by the Heritage Health Index, the first comprehensive survey ever conducted of the conditions and preservation needs of our nation's collections. Conducted by Heritage Preservation in partnership with IMLS, the Heritage Health Index found that immediate action is needed to prevent the loss of millions of irreplaceable artifacts. Without these collections important ideas about science, history, art and culture will be lost to future generations.

Strategy

IMLS will create and sustain nationally significant programs and activities for museums' and libraries' continued preservation, interpretation, access, and development of the nation's cultural heritage.

Museums and libraries are inherently the stewards of heritage, as represented in their collections of documents, art, and artifacts. The preservation of these resources is the foundation for their significant contribution to learning.

Grant Making

The Conservation Project Support program awards matching grants to help museums identify conservation needs and priorities and perform activities to ensure the safekeeping of their collections. Conservation Project Support grants help museums develop a logical, institution-wide approach to caring for their living and nonliving collections. Applicants apply for the project that meets the institution's highest conservation needs. This program also funds exceptional projects with far-reaching effects that benefit multiple institutions. Such projects may cut across collections categories. Additional funding may be awarded to successful applicants who incorporate an educational component to their project.

Fiscal Year	Applications	Actual Awards	Budget Authority
2005	194	49	$2,788,000
2006	144	40	$2,772,000

- **Achievement**
  - 40 awards were made to museums to care for their collection.

The Conservation Assessment Program (CAP) assists small museums in laying the groundwork for effective collections management. The program provides professional assistance in analyzing all aspects of care, assessing current practices, and recommending actions to be taken. The assessment combines self-study with a technical on-site review by an appropriately matched consultant from the conservation or architectural profession. The resulting report identifies collections care issues that the museum faces, empowering the

individual institutions to prioritize conservation needs and develop long-range plans for preserving its collections.

Fiscal Year	Applications	Actual Awards	Budget Authority
2005	170	118	$813,000
2006	N/A	110	$820,000

- **Achievement**
  - 110 museums received general conservation surveys or assessments.

Goal Six: Increase Efficiency and Effectiveness of Internal Operations

Objective

IMLS manages effective and efficient operations to enable the agency to carry out its statutory mandate.

Strategy

Invest in administrative and managerial improvements that will enhance the Institute's efficiency and effectiveness in grant making, support its accountability and performance as a federal agency, and enable it to recruit and retain a skilled and dedicated staff.

Summary

A top priority this year was to enhance the Institute's financial infrastructure to ensure complete and accurate financial reports and to further integrate financial information into the agency's strategic planning and measurement of performance. In addition to implementing an interagency agreement with the Department of Transportation (DOT) to provide the agency with accounting services and an Office of Federal Financial Management-compliant financial management system, the agency hired its first Senior Financial Officer to provide day-to-day supervision of the agency's finances and guidance on the financial aspects of the agency's operations.

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Financial Section

Message from the Senior Financial Officer

As the newly designated Senior Financial Officer of the Institute of Museum and Library Services (Institute), I am proud to join the Institute's Director, Dr. Anne-Imelda M. Radice, in presenting the Institute's *FY2006 Performance and Accountability Report.* This report is an integrated presentation of our programmatic and management achievements over the past year and presents/reflects our financial status as of September 30, 2006.

I am pleased to report that the agency has received an unqualified, "clean", opinion for FY2006. The audit includes only one reportable condition and no material weaknesses. The reportable condition involves documentation of the Institute's newly implemented contracting and procurement procedures designed to ensure accountability and management approval. The auditors found that the Institute's newly implemented procedures were being followed; however, the agency needed to complete interim testing and finalize its updated procurement directive. The agency is engaged in this process.

Due to failed systems conversion in FY2005 and 2004, the Institute received a disclaimer of opinion for FY2005. However, the Institute performed extensive analysis and reconciliation to produce reliable balances for fiscal year 2006, and auditable financial statements supported at the transactional level. As a result of this reconstruction and reconciliation, the financial data reported this year is considerably different than the financial data reported last year. To avoid misleading comparisons and reference to incorrect data, the agency requested and received a waiver from preparing and submitting comparative financial statements for fiscal years 2005 and 2006. The Institute's auditors issued an unqualified opinion on the agency's fiscal year 2006 financial statements, which will serve as the baseline for future comparisons.

The Institute will aggressively pursue resolution of the reportable condition and continue financial management improvements to effectively and efficiently manage public funds and to build a legacy of excellence.

I want to extend my sincere appreciation to all the dedicated Institute staff whose hard work and attention to detail made the FY2006 unqualified opinion possible. During FY2007, I anticipate another productive year, continuing to build on the significant progress achieved in FY2006.

Wayne C. Morlier, CPA/CGFM
Senior Financial Officer

Limitations of Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the entity in accordance with GAAP for federal entities and the formats prescribed by OMB,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.

These statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

LEON SNEAD
& COMPANY, P.C.

Certified Public Accountants
& Management Consultants

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Director, Institute of Museum and Library Services

Independent Auditor's Report

We have audited the balance sheet of the Institute of Museum and Library Services (the Institute) as of September 30, 2006, and the related statements of net cost, changes in net position, budgetary resources, and financing (the financial statements) for the year then ended. The objective of our audit was to express an opinion on the fair presentation of those financial statements. In connection with our audit, we also considered the Institute's internal control over financial reporting and tested the Institute's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

SUMMARY

As stated in our opinion on the financial statements, we found that the Institute's financial statements as of and 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 would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. However, our testing of internal control identified no material weaknesses in financial reporting.

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 and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*.

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

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying balance sheet of the Institute as of September 30, 2006, and the related statements of net cost, changes in net position, budgetary resources, and financing for the years then ended.

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

As discussed in Note 13, during fiscal year 2006, the Institute completed a project to restate and reconcile the 2006 beginning balances in its general ledger accounts. For the previous year, we reported that we were unable to form, and did not form, an opinion on the Institute's financial statements as of and for the year ended September 30, 2005. The correction and restatement of the Institute's 2006 beginning balances had no effect on our report on the 2005 financial statements; however, as a result of the Institute's correction and restatement of beginning 2006 balances, as stated in the preceding paragraph, we were able to form an opinion that the fiscal year 2006 financial statements were fairly stated in all material respects in conformity with applicable accounting principles.

The information in the Management's Discussion and Analysis section is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Circular A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of Institute management regarding the methods of measurement and presentation of the supplementary information and analysis of the information for consistency with the financial statements. However, we did not audit the information and express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. 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 agency'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 caused by error or fraud 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. However, we noted one matter, discussed in the following paragraphs, involving internal control and its operation that we consider to be a reportable condition.

1. The Institute did not have updated, permanent procedures in place to ensure that vendor procurements and disbursements were necessary, met Institute program goals and were conducted in accordance with existing laws and regulations.

   The Institute's Procurement Procedures, issued in April 2003, stated that it is Institute policy to fully comply with all of the requirements of the Federal Acquisition Regulations including the preparation of obligating documents such as contracts and purchase orders. The Government Accountability Office (GAO) has also recognized that controls are necessary over sensitive payments (GAO/AFMD-8.1.2 Sensitive Payment Controls). The GAO report stated: "Sensitive Payments have long been a subject of concern because senior executives may have the opportunity to bypass internal controls in these areas. Although the dollar amounts involved are usually not large enough to materially affect the fair presentation of financial statements, public disclosure of improper payments may result in significant criticism of the entity…"

   Until May 2006, Institute procurement and disbursement controls for non-grant activities were the responsibility of one person, the Director of Administration. During that time, non-grant disbursements appear to have been made without obligating documents; sole source procurements were awarded to former employees without maintaining a signed contract that reflected higher management approval, and the agency did not maintain records that linked supporting documentation to specific entries on credit card statements. For example:

   - Thirty-eight of the 93 disbursements we tested were paid without a formal obligating document such as a purchase order.
   - Several purchase orders were issued to former employees to provide services after they no longer worked for the Institute. For example, one employee received a contract to provide grants management service after her retirement. While there was a statement of work and a sole source justification, the agency did not maintain a signed contract with the former employee and the procurement was reviewed and approved solely by the former contracting officer.
   - On November 10, 2005, the Institute paid $16,279 for the balance on the 2005 Citibank Purchase Card statement. The prior year balance was not supported by any documentation such as what was purchased, why it was purchased, or how much the item(s) cost. The prior year carryover was paid out of fiscal year 2006 funds.

   New Institute administrative management, working with staff throughout the agency, has initiated controls that include interim procedures for non-grant procurements. The Institute now requires that employees complete a form, the Purchase Request and Tracking Sheet, for all non-grant purchases. The form requires approval at several levels including program head, Chief of Staff, and Counselor to the Director.

Recommendation

We recommend the Institute finalize and document the interim Purchase Request and Tracking Sheet procedures. In addition, we recommend that the Institute develop procedures for dealing with sensitive payments, including procurements from related third parties, particularly former employees and board members. In addition, we recommend that all sole source procurements be reviewed and approved by Institute management at a level above the contracting officer.

Management Response

The Institute concurred with the recommendations above. In the past six months, the agency has engaged in a comprehensive review of its procurement procedures and open contracts. The Institute has modified its procedures to establish more comprehensive management controls. The agency is still testing its interim procedures and plans to finalize its new procurement directive in the beginning of calendar year 2007. Some of the issues described above were exacerbated by the dispersed way in which the Administrative Office maintained procurement records. The agency is addressing these issues through the development of an enhanced records organizational system.

COMPLIANCE WITH LAWS AND REGULATIONS

The results of our tests of compliance with certain provisions of laws and regulations, as described in the Responsibilities section of this report, disclosed no instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 06-03.

RESPONSIBILITIES

Management Responsibilities

Management of the Institute is responsible for: (1) preparing the financial statements in conformity with generally accepted accounting principles; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act (FMFIA) are met; and (3) complying with applicable laws and regulations. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies.

Auditor Responsibilities

Our responsibility is to express an opinion on the fiscal year 2006 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial

audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 06-03. 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 (1) examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) 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 planning and performing our audit, we considered the Institute's internal control over financial reporting by obtaining an understanding of the agency'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 our 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 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by FMFIA. Our procedures were not designed to provide assurance on internal control over financial reporting. Consequently, we do not express an opinion thereon.

As required by OMB Bulletin No. 06-03, with respect to internal control related to performance measures determined to be key and reported in Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and significant provisions of contracts, 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 No. 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 Institute. Providing an opinion on compliance with certain provisions of laws, regulations, and significant contract provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 06-03, auditors are generally required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level specified in the Federal Financial Management Improvement Act of 1996 (FFMIA). However, the

Accountability of Tax Dollars Act, which requires the Institute to prepare and submit audited financial statements to Congress and the Director of OMB, did not extend to the Institute the requirement to comply with FFMIA. Consequently, we did not test, nor are we reporting on, the Institute's compliance with FFMIA.

AGENCY COMMENTS AND AUDITOR EVALUATION

In commenting on the draft of this report, management of the Institute concurred with the facts and conclusions in our report. A copy of management's response, which includes discussion of actions planned or taken to correct the reported deficiencies, accompanies this report.

DISTRIBUTION

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

Leon Snead & Company, P.C.
Leon Snead & Company, P.C.
October 13, 2006

Leon Snead & Company
416 Hungerford Drive, Suite 400
Rockville, Maryland 20850

Dear Mr. Snead:

Thank you for managing the audit of the Institute of Museum and Library Services' fiscal year 2006 financial statements and related review of our internal controls and compliance with laws and regulations, as required by the Accountability of Tax Dollars Act of 2002.

We were pleased to receive your opinion that our financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles; that your testing of internal control identified no material weaknesses in the agency's financial reporting; and that the results of your tests of compliance with certain provisions of laws and regulations disclosed no instances of noncompliance with laws and regulations that are required to be reported under Government Auditing Standards and OMB Bulletin No. 06-03.

Your findings helped validate the success of our efforts this year to enhance the agency's financial management systems. Throughout its history, the Institute has relied on outside service providers to account for its financial conditions. While this has generally served the agency well, the Institute experienced enormous repercussions when our former service provider reduced its accounting staff and experienced two failed conversions when migrating to a new financial system. As our agency has grown and taken on additional statutory responsibilities, the need for in-house expertise in finance and accounting services has become increasingly evident.

To assist the agency in enhancing its financial management systems and to ensure sound financial practices were in place, the agency engaged financial management consultative services. In addition to implementing a cross-service agreement with the Enterprise Service Center of the U.S. Department of Transportation for accounting services and the development of a financial management information system, the Institute hired its first Senior Financial Officer to provide guidance on the financial implications of day-to-day agency activities. The results have been remarkable.

The auditors' report contained one recommendation; on behalf of the agency, I am pleased to respond: The auditors recommended that IMLS finalize its interim purchase procedures and enhance agency processes surrounding sensitive payments. IMLS concurs with this recommendation. Indeed, in the past six months, the agency has engaged in a comprehensive review of its procurement procedures and open contracts. IMLS is now completing the testing of its interim procedures and, as per the recommendation, will finalize its updated directive.

We appreciate the time and effort committed by you and your colleagues who worked on the audit. We take our financial accounting and reporting responsibilities seriously, and truly welcome your recommendations of ways to continue to strengthen our financial systems.

Sincerely,

Anne-Imelda M. Radice
Director

INSTITUTE OF MUSEUM AND LIBRARY SERVICES
BALANCE SHEET
As of September 30, 2006
(in dollars)

	2006
Assets:	
Intragovernmental :	
Fund balance with Treasury (Note 2)	$ 354,012,410
Total intragovernmental	354,012,410
General property, plant and equipment, net (Note 3 and 7)	719,175
Other - Grant Advances (Note 4)	2,915,653
Total assets	$ 357,647,238
Liabilities:	
Intragovernmental :	
Other (Note 6)	$ 80,827
Total intragovernmental	80,827
Accounts payable	2,385,404
Benefits due and payable (Note 5)	349,478
Other (Note 6)	917,640
Other - Grant Accrual (Note 6)	36,910,995
Total liabilities	40,644,344
Commitments and contingencies	
Net position:	
Unexpended appropriations - other funds	314,403,505
Cumulative results of operations - earmarked funds (Note 8)	36,626
Cumulative results of operations - other funds	2,562,763
Total net position	317,002,894
Total liabilities and net position	$ 357,647,238

The accompanying notes are an integral part of these statements.

INSTITUTE OF MUSEUM AND LIBRARY SERVICES

STATEMENT OF NET COST

For the Year Ended September 30, 2006

(in dollars)

Program costs: (Note 9, 10 and 11)	**2006**
Gross Costs	$ 247,374,723
Less: Earned Revenue	1,664,850
Net Program Costs	245,709,873
Net cost of operations	$ 245,709,873

The accompanying notes are an integral part of these statements.

INSTITUTE OF MUSEUM AND LIBRARY SERVICES
STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2006
(in dollars)

	2006		
	Earmarked Funds	**All Other Funds**	**Consolidated Total**
Cumulative Results Of Operations:			
Beginning Balances	$ 22,904	$ 1,449,864	$ 1,472,768
Budgetary Financing Sources:			
Appropriations Used	-	246,439,185	246,439,185
Donations of Cash and Cash Equivalents	21,750	-	21,750
Other Financing Sources (Non-Exchange):			
Imputed financing	-	375,559	375,559
Total Financing Sources	21,750	246,814,744	246,836,494
Net Cost of Operations	8,028	245,701,845	245,709,873
Net Change	13,722	1,112,899	1,126,621
Cumulative Results Of Operations	**$ 36,626**	**$ 2,562,763**	**$ 2,599,389**
Unexpended Appropriations:			-
Beginning Balance	$ -	$ 315,688,316	$ 315,688,316
Budgetary Financing Sources:			
Appropriations Received		249,640,000	249,640,000
Other Adjustments		(4,485,626)	(4,485,626)
Appropriations Used	-	(246,439,185)	(246,439,185)
Total Budgetary Financing Sources	-	(1,284,811)	(1,284,811)
Total Unexpended Appropriations	-	314,403,505	314,403,505
Net Position	**$ 36,626**	**$ 316,966,268**	**$ 317,002,894**

The accompanying notes are an integral part of these statements.

INSTITUTE OF MUSEUM AND LIBRARY SERVICES

STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2006
(in dollars)

	2006 Budgetary
Budgetary Resources:	
Unobligated balance, brought forward, October 1:	$ 15,550,749
Recoveries of prior year unpaid obligations	2,127,223
Budget authority	
Appropriation	249,640,000
Spending authority from offsetting collections:	
Earned	
Collected	3,477,825
Change in receivables from Federal sources	(1,405,000)
Subtotal	2,072,825
Permanently not available	(4,485,627)
Total Budgetary Resources	$ 264,905,170
Status of Budgetary Resources:	
Obligations incurred:	
Direct	$ 243,203,703
Reimbursable	1,664,850
Subtotal	244,868,553
Unobligated balance:	
Apportioned	17,346,167
Unobligated balance not available (Note 2)	2,690,450
Total status of budgetary resources	$ 264,905,170
Change in Obligated Balance:	
Obligated balance, net	
Unpaid obligations, brought forward, October 1	$ 332,860,921
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(1,405,000)
Total unpaid obligated balance, net	331,455,921
Obligations incurred, net	244,868,553
Less: Gross outlays	(241,626,458)
Less: Recoveries of prior unpaid obligations, actual	(2,127,223)
Change in uncollected customer payments from Federal sources	1,405,000
Obligated balance, net, end of period	
Unpaid obligations	333,975,793
Total, unpaid obligated balance, net, end of period	$ 333,975,793
Net Outlays:	
Gross outlays	$ 241,626,458
Less: Offsetting collections	(3,477,825)
Net outlays	$ 238,148,633

The accompanying notes are an integral part of these statements.

INSTITUTE OF MUSEUM AND LIBRARY SERVICES
STATEMENT OF FINANCING
For the Year Ended September 30, 2006
(in dollars)

	2006
Resources Used to Finance Activities:	
Budgetary Resources Obligated	
Obligations incurred	$ 244,868,553
Less: Spending authority from offsetting collections and recoveries	(4,200,048)
Obligations net of offsetting collections and recoveries	240,668,505
Other Resources	
Imputed financing from costs absorbed by others	375,559
Net other resources used to finance activities	375,559
Total resources used to finance activities	241,044,064
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	4,657,082
Resources that fund expenses recognized in prior periods	(37,823)
Budgetary offsetting collections and receipts that do not affect the net cost of operations	
Other	(21,749)
Resources that finance the acquisition of assets	(24,594)
Total resources used to finance items not part of the net cost of operations	4,572,916
Total resources used to finance the net cost of operations	245,616,980
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:	
Components not Requiring or Generating Resources:	
Depreciation and amortization	92,893
Net Cost of Operations	$ 245,709,873

The accompanying notes are an integral part of these statements.

INSTITUTE OF MUSEUM AND LIBRARY SERVICES
NOTES TO THE FINANCIAL STATEMENTS
As of September 30, 2006
(in dollars)

Note 1 Significant Accounting Policies

The Financial Statements are presented in accordance with the accounting principles, reporting standards, and circulars of the principal central agencies of the Department of Treasury (Treasury); the Government Accountability Office (GAO); and the Office of Management and Budget (OMB).

A. Basis of Presentation

The financial statements have been prepared to report the financial position and results of operations of the Institute of Museum and Library Services (IMLS) as required by the Accountability of Tax Dollars Act of 2002 (ATDA), Public Law No. 107-289. The statements have been prepared from the books and records of IMLS in accordance with the form and content for entity financial statements, as specified by OMB Circular A-136, *Financial Reporting Requirements*, and IMLS accounting policies, which are summarized in this note. These statements differ from agency financial management reports also prepared by IMLS pursuant to OMB directives that are used to monitor and control IMLS' use of budgetary resources.

B. Reporting Entity

The Institute is the primary source of federal support for the nation's 122,000 libraries and 17,500 museums. Its mission is to grow and sustain a "Nation of Learners" because life-long learning is essential to a democratic society and individual success. Through its grant making, convenings, research and publications, the Institute empowers museums and libraries nationwide to provide leadership and services to enhance learning in families and communities, sustain cultural heritage, build twenty-first century skills, and increase civic participation.

The activities of IMLS are authorized by Chapter 72 of Title 20 of the U.S. Code (20 USC Section 9101 *et seq*.), which codifies the Museum and Library Services Act, as amended, as well Section 80r-5(b) of Title 20 of the U.S. Code (20 USC Section 80r-5(b)), which codifies the National Museum of African American History and Culture Act.

As a federal agency administering discretionary federal programs, IMLS receives its funding through the indefinite appropriation process. It is one of several independent agencies whose spending limits each year are established in the Labor, Health and Human Services, Education, and Related Agencies Appropriations Act.

C. Budgets and Budgetary Accounting

The activities of IMLS are authorized by Chapter 72 and Section 80r-5(b) of Title 20 of the U.S. Code. As a federal agency that administers discretionary programs, IMLS is funded through the indefinite appropriations process. IMLS's function is to support museum and library services. The agency also receives funds pursuant to reimbursable agreements from the National Park Service, as part of the Save America's Treasures Program, the National Science Foundation, and the Corporation for Public Broadcasting.

D. Basis of Accounting

Transactions are recorded on an accrual accounting basis and budgetary basis. 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. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

E. Fund Balance with Treasury and Cash

Cash receipts and disbursements are processed by the U.S. Department of the Treasury. IMLS does not maintain cash in commercial bank accounts. Funds with Treasury are available to pay current liabilities and finance authorized purchase obligations.

F. Non-Entity Assets and Liabilities

Non-entity assets are defined as those assets that are held and managed by IMLS but that are not available to finance IMLS operations. An amount equal to the non-entity assets is recognized as an entity liability under Other Liabilities. IMLS did not have any non-entity assets as of September 30, 2006.

G. General Property, Plant and Equipment

IMLS' policy is to depreciate property, plant and equipment using the straight-line method over the estimated useful life of the asset. IMLS' capitalization threshold is $5,000 for individual purchases and $50,000 for aggregate purchases with a minimum $2,500 per item. Estimated useful lives by asset class are as shown below:

Asset Class	Useful Life
Computer equipment & software	3 years
Office equipment	5 years
Furniture	7 years
Leasehold improvement	Lease Term

H. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes available, which could impact the amounts reported and disclosed herein.

I. Commitments and Contingencies

There were no commitments or contingencies that required disclosure as of September 30, 2006.

Note 2 Fund Balance with Treasury

	2006		
Intragovernmental:	**Entity**	**Non-Entity**	**Total**
Trust Fund	$ 36,626	–	$ 36,626
Annual Appropriated Funds	14,359,081	–	14,359,081
No Year Appropriated Funds	339,616,703	–	339,616,703
Total	$354,012,410	–	$354,012,410

Note 2 Fund Balance with Treasury (continued)

Status of Fund Balance with Treasury:	**2006**
Unobligated Balance	
Available	$ 17,346,167
Unavailable – No Year / Administrative	222,999
Unavailable – No Year / Program	864,208
Unavailable – Annual Funds	1,603,243
Obligated Balance Not Yet Disbursed	333,975,793
Total	$354,012,410

The difference between the general ledger cash and Fund Balance with Treasury is a result of the 2001 cancelling funds in the amount of $1.9 million dollars. This amount is being returned to Treasury and will be reflected in Treasury's post closing balance.

Note 3 General Property, Plant & Equipment

	2006		
Major Class	**Acquisition Value**	**Accumulated Amortization**	**Net Book Value**
Leasehold Improvements	$782,914	$117,437	$665,477
Equipment	23,081	3,297	19,784
Asset Under Capital Lease	45,219	11,305	33,914
Total PP&E	$851,214	$132,039	$719,175

The leasehold improvement is the portion of the building lease recorded as a capital lease. The amount capitalized represents the present value of monthly lease payments for the improvements of $8,120.67 over 120 months, or 10 years. The imputed interest cost used in calculating the net present value of the lease payments was based on OMB Circular A-94, *Discount Rates for Cost Effectiveness, Lease Purchase, and Related Analysis*, which listed Treasury's 2005 nominal interest rate for a 10-year period as 4.6%.

The equipment is furniture with a useful life of 7 years. The acquisition cost of $23,080.80 over 7 years calculates monthly depreciation to be $274.77.

Note 3 General Property, Plant & Equipment (continued)

The asset under capital lease is a photo copier under a 48 month lease-to-own agreement with a monthly cost of $1,032.16. The imputed interest cost used in calculating the net present value of the lease payments was based on OMB Circular A-94, *Discount Rates for Cost Effectiveness, Lease Purchase, and Related Analysis*, which listed Treasury's 2006 nominal interest rate as 4.75%.

IMLS' capitalization policy is to depreciate property, plant and equipment over the estimated useful life of the asset. IMLS' capitalization threshold changed from FY 2005 in FY 2006 to be $5,000 for individual purchases and $50,000 for aggregate purchases with a minimum $2,500 per item.

Note 4 Other Assets

	2006
Intragovernmental	$ –
Grant Advances	2,915,653
Total Other Assets	$2,915,653

Grantees are authorized by OMB to request advances toward grant awards. IMLS policy states that advances for less than $25,000 must be expended within ninety days, while advances in the amount of $25,000 or more must be expended within thirty days. The amount of Other Assets represents the total amount of advances requested and paid to grantees as of September 30, 2006.

Note 5 Liabilities Not Covered by Budgetary Resources

	2006
Intragovernmental:	
Accounts payable	$ –
Other	–
Total intragovernmental	–
Accounts payable	–
Accrued unfunded leave	349,478
Federal employee and veteran benefits	–
Other	–
Total liabilities not covered by budgetary resources	349,478
Total liabilities covered by budgetary resources	40,294,866
Total liabilities	$ 40,644,344

Note 6 Other Liabilities

	2006		
	Non-Current	Current	Total
Intragovernmental			
Employer Contrib.& PR Tax	$ –	$ 80,827	$ 80,827
Public:			
Accrued Pay and Benefits	–	198,576	198,576
Capital Leases	719,064	–	719,064
Grant Accrual	–	36,910,995	36,910,995
Total Other Liabilities	$ 719,064	$37,190,398	$ 37,909,462

Note 7 Leases

Capital Leases:	2006
Summary of Assets Under Capital Lease:	
Leasehold Improvements	$ 782,914
Accumulated Amortization	117,437
Net	$ 665,477
Equipment	$ 23,081
Accumulated Amortization	3,297
Net	$ 19,784

Description of Lease Arrangements:

In fiscal year 2005, IMLS entered into a 10-year occupancy agreement with the U.S. General Services Administration (GSA) to lease office space. Part of the monthly lease payment for the premises is allocable to leasehold improvements. This portion of the rent has been recorded as a capital lease in an amount representing the present value of all future lease payments. The sum of the monthly payments for leasehold improvements is $974,480. The present value was calculated using an interest rate of 4.6%, obtained from OMB Circular A-94, *Discount Rates for Cost Effectiveness, Lease Purchase and Related Analysis*.

The equipment capital lease is a photocopier that is under a lease-to-own agreement.

Note 7 Leases (continued)

Future Payments Due:

	Asset Category	
Fiscal Year	Leasehold Improvements	Equipment
2007	$ 97,448	$ 12,386
2008	97,448	12,386
2009	97,448	12,386
2010	97,448	–
2011	97,448	–
After 5 years	341,068	–
Total Future Capital Lease Payments	828,308	37,158
Less: Imputed Interest	143,812	2,590
Net Capital Lease Liability	$ 684,496	$ 34,568
Lease liabilities covered by budgetary resources	$ 684,496	$ 34,568

Operating Leases:

IMLS has an occupancy agreement with GSA for office space occupied by the Institute. The term of the lease is from April 1, 2005, through March 31, 2015.

IMLS leases two photocopiers and a postage meter. The lease term for the photocopiers is 60 months ending February 2008. The lease term for the postage meter is 48 months ending July 2010.

Future Payments Due:

	Asset Category	
Fiscal Year	Office Space	Equipment
2007	$ 1,990,052	$ 23,027
2008	2,012,332	11,533
2009	2,035,280	3,324
2010	2,058,917	2,493
2011	2,083,212	–
After 5 years	7,502,277	–
Total Future Lease Payments	$ 17,682,070	$ 40,377

Note 8 Earmarked Funds

IMLS is authorized to solicit, accept, receive, and invest in the name of the United States, gifts, bequests, or devises of money and other property or services from the public and to use such property or services in furtherance of the functions of the Institute. These funds are accounted for in accordance with Federal accounting standards, specifically, Statement of Federal Financial Accounting Standards (SFFAS) 27, *Identifying and Reporting Earmarked Funds*.

The donations from the public that IMLS receives are earmarked funds, as defined by SFFAS 27, because they are financed by specifically identified revenues which remain available over time. These donated revenues are required by statute to be used for designated mission related activities, benefits or purposes, and must be accounted for separately from the Government's general revenues.

	59X8080 Fund
Balance Sheet as of September 30	
ASSETS	
Fund balance with Treasury	$ 36,626
Total Assets	$ 36,626
LIABILITIES and NET POSITION	
Cumulative Results of Operations	$ 36,626
Total Liabilities and Net Position	$ 36,626
Statement of Net Cost For the Period Ended September 30	
Program Costs	$ 8,028
Less Donations Received	(21,750)
Excess of Donations Received Over Costs Incurred	$ (13,722)
Statement of Changes in Net Position For the Period Ended September 30	
Net Position Beginning of Period	$ 22,904
Change in Net Position	13,722
Net Position End of Period	$ 36,626

Note 9 Intragovernmental Costs and Exchange Revenue

Program Costs	
Intragovernmental costs	$ 5,927,377
Public costs	241,447,346
Total Program costs	$ 247,374,723
Intragovernmental earned	$ 1,314,850
Public earned revenue	350,000
Total Program earned revenue	$ 1,664,850

Note 10 Suborganization Program Costs/Program Costs by Segment

Programs:	
Library	$ 191,195,170
Museum	43,242,625
Administration	12,936,928
Total Program Costs	$ 247,374,723
Less: Earned revenues	1,664,850
Net Cost of Operations	$ 245,709,873

Note 11 Exchange Revenue

IMLS enters into reimbursable agreements with other entities which include both administrative costs and grants. As of September 30, IMLS has generated revenue from the following entities:

National Park Service	$ 1,269,850
Corporation for Public Broadcasting	350,000
National Science Foundation	45,000
Total Earned Revenue	$ 1,664,850

Note 12 Apportionment Categories of Obligations Incurred

The amount of direct and reimbursable obligations incurred against amounts apportioned under Category A, Quarterly, Category B, Annual, and Exempt from Apportionment as of September 30, 2006:

	No Year	Annual	Total
Obligations Incurred:			
Category A, Direct Obligations	$ 12,022,432		$ 12,022,432
Category B, Direct Obligations	231,086,789	71,686	231,158,475
Category B, Reimbursable	1,664,850		1,664,850
Exempt from Apportionment	22,796		22,796
Total obligations incurred	$ 244,796,867	$71,686	$ 244,868,553

Note 13 Adjustments to Beginning Balances of Budgetary Resources

Because of failed system conversions by IMLS's previous accounting service provider, the agency reviewed, analyzed and reconciled its balances at the transactional level to construct and restate the agency's FY 2006 beginning balances.

Note 14 Explanation of Differences Between the SBR and the Budget of the US Government

The President's Budget, which includes actual numbers for fiscal year 2006, has not been published. Actual numbers for fiscal year 2006 will be included in the President's Budget for fiscal year 2008, which will be published in February 2007, and will be available at http://www.whitehouse.gov/omb.

Note 15 Undelivered Orders at the End of the Period

Undelivered orders as of September 30, 2006:

Administrative	$ 2,354,365
Program	294,242,214
Total undelivered orders	$ 296,596,579

Note 16 Explanation of Differences Between Liabilities Not Covered by Budgetary Resources and Components Requiring or Generating Resources in Future Periods

Components that comprise liabilities not covered by budgetary resources represent the cumulative balance of the liability. By contrast, components requiring or generating resources in future periods included in the Statement of Financing represent the change in the liability created in the current year.