



Audit Report



OIG-11-020

Management Letter for Fiscal Year 2010 Audit of the
Bureau of Engraving and Printing's Financial Statements

November 12, 2010

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 12, 2010

**MEMORANDUM FOR LARRY R. FELIX, DIRECTOR
BUREAU OF ENGRAVING AND PRINTING**

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Management Letter for Fiscal Year 2010 Audit of the
Bureau of Engraving and Printing's Financial Statements

I am pleased to transmit the attached management letter in connection with the audit of the Bureau of Engraving and Printing's (BEP) Fiscal Year 2010 financial statements. Under a contract monitored by the Office of Inspector General, KPMG LLP, an independent certified public accounting firm, performed an audit of the financial statements of BEP as of September 30, 2010, and for the year then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended; and the *GAO/PCIE Financial Audit Manual*.

As part of its audit, KPMG LLP issued, and is responsible for, the accompanying management letter that discusses other matters involving internal control over financial reporting and its operations that were identified during the audit but were not required to be included in the audit reports.

In connection with the contract, we reviewed KPMG LLP's letter and related documentation and inquired of its representatives. Our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789 or a member of your staff may contact Shiela Michel, Manager, Financial Audits, at (202) 927-5407.

Attachment



THE DEPARTMENT OF THE TREASURY

**BUREAU OF ENGRAVING AND
PRINTING**

**MANAGEMENT LETTER
FOR THE YEAR ENDED SEPTEMBER 30, 2010
NOVEMBER 9, 2010**

**BUREAU OF ENGRAVING AND PRINTING
MANAGEMENT LETTER
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

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KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

November 9, 2010

The Inspector General, Department of the Treasury and
The Director of the Bureau of Engraving and Printing, Department of the Treasury:

We have audited the financial statements of the Bureau of Engraving and Printing (the Bureau), as of and for the year ended September 30, 2010, and have issued our report thereon dated November 9, 2010. In planning and performing our audit of the financial statements of the Bureau, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. We have also examined management's assertion that the Bureau maintained effective internal control over financial reporting as of September 30, 2010, and have issued our report thereon dated November 9, 2010.

During our audit, we noted matters related to internal control and other operational matters that are presented for your consideration in Appendix A to this report. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies. Management's response to these comments and recommendations are included in Appendix A. We did not audit the Bureau's response and, accordingly, we do not express an opinion on them.

Our audit procedures were designed primarily to enable us to form an opinion on the financial statements and to form an opinion on management's assertion and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. We aim, however, to use our knowledge of the Bureau's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at your request.

This report is intended solely for the information and use of the Department of the Treasury's Office of Inspector General and management of the Bureau, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

2010-01 *Lack of Documentation for a Spare Part Issuance*

The Bureau of Engraving and Printing (the Bureau) was not able to provide documentation to support one spare part issuance. Management stated that the supporting transfer/delivery ticket for the issuance of this spare part was accidentally disposed of. OMB Circular No. A -123, *Management Accountability and Control*, Section II: Establishing Management Controls, states, “Transactions should be promptly recorded, properly classified, and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions management controls, and other significant events must be clear and readily available for examination.” The amount of the spare part for which supporting documentation was not retained was \$834. Without adequate documentation supporting transactions, expenses may be overstated and inventory may be understated. In addition, lack of documentation related to spare parts issuances increases the risk of misstatement due to misappropriation of assets.

We recommend that the Bureau review policies and procedures in place over spare parts issuances and ensure that they include documentation retention guidelines. The Bureau should also ensure the policies are being implemented properly and consistently by monitoring their operation.

Management Response:

Management concurs with the finding and recommendation. Due to the uniqueness of this inventory item; internal records are maintained to monitor consumption rates and to determine re-order points, not to document usage, which is done by the meter on the tank. Management anticipates that the implementation on the Manufacturing Support Suite (MSS) portion of BEN in October 2011, will reduce the reliance on manual records to support the transactions relating to this inventory item.

2010-02 *Ineffective Monitoring of the Security Hotline*

During our test work over the Bureau’s security hotline in FY2010, we called the security hotline as a test and after receiving no response for six days called a second time. An inspector responded after an additional six days of our second call. Upon meeting with the inspector we requested to review the hotline call logs and were informed that no logs were retained from October 1, 2009 through December 31, 2009. In addition, we noted that our initial call to the hotline was not recorded on the log for that day; however our second call was recorded. The Bureau failed to consistently execute the controls established for the security hotline, which requires daily, regular monitoring. The Bureau also failed to ensure that calls to the hotline were returned in a prompt and timely manner and that call log documentation was retained. Management explained that this was due to changes in personnel as well as changes in voice-mail providers. OMB Circular No. A-123, *Management’s Responsibility for Internal Control* states “The agency head must establish controls that reasonably ensure that ...ii. assets are safeguarded against waste, loss, unauthorized use or misappropriation”. In addition, the *COSO Internal Control Integrated Framework* recommends that “alternative communication channels also should exist for reporting sensitive information such as illegal or improper acts. Findings of enterprise risk management deficiencies usually should be reported not only to the individual responsible for the function or activity involved, but also to at least one level of management above that person.” Without proper hotline monitoring, the agency increases the risk of

undetected fraud or security violations. In addition, without proper monitoring of the hotline, the agency may overlook important and relevant security or ethics information, for which corrective action is needed.

We recommend that the Bureau reinforce procedures regarding proper monitoring of the hotline. Management should also establish controls to ensure that review of existing procedures is properly executed.

Management Response:

Management concurs with the finding and recommendation. Management has determined that the Bureau Security Hotline is no longer needed as the Department of Treasury's Office of Inspector General Hotline is available and fulfills the intended purpose of the agency's hotline. Management intends to rescind Circular 71-00.62 "Bureau of Engraving and Printing Security Hotline", and, as of December 31, 2010, discontinue its use of the hotline.

2010-03 *Failure to Record a Fixed Asset Disposal*

During our test work over fixed asset disposals in FY2010, the Bureau did not properly monitor and retire a fixed asset disposal. Specifically, we identified an asset which was physically disposed of in January 2010, which was not communicated to the Bureau's Office of Financial Management (OFM) or removed from the Bureau's fixed asset subsidiary ledger or general ledger as of September 30, 2010. The proceeds from the sale of the fixed asset, which amounted to \$9,000 were not deposited on a timely basis. The Bureau failed to consistently execute controls established within the fixed asset process, which requires all disposals be communicated to and reviewed by OFM immediately after approval. OMB Circular No. A-123, *Management's Responsibility for Internal Control* states "The agency head must establish controls that reasonably ensure that ...ii. assets are safeguarded against waste, loss, unauthorized use or misappropriation." It also states, "information should be communicated to relevant personnel at all levels within an organization. The information should be relevant, reliable, and timely." The asset that was disposed of that was not recorded properly in the Bureau's general ledger had a net book value of \$35 thousand at the time of disposition. As a result, the Bureau's assets and cumulative results were overstated by \$26 thousand and cash was not recorded in the amount of \$9 thousand as of September 30, 2010. Without proper fixed asset disposal controls, the agency increases the risk of overstating assets and cumulative results of operations.

We recommend that the Bureau implement internal controls to monitor and record the disposal of fixed assets. Management should also require all disposals be communicated to and reviewed by the appropriate OFM personnel immediately after approval, and establish proper controls to ensure such notifications are occurring timely.

Management Response:

Management concurs with the finding and recommendation. The implementation of the Maximo 7.1, an asset management tool, will assist the stakeholders in the management of assets across the assets' entire lifecycle while standardizing the process across facilities. Management anticipates that real-time reporting of transactions will reduce the likelihood of possible waste, loss, and unauthorized use or misappropriation of Bureau assets. Implementation is expected in October 2011; as an interim remedy, management will take steps to disseminate information on the

agency's policies and procedures related to disposal of Fixed Assets with an emphasis on the timely coordination with the Office of Financial Management.

2010-04 ***Lack of Acknowledged Receipt of Code of Conduct***

During our test work over the Bureau code of conduct in FY2010, we selected a sample of 50 employees hired in D.C. and Ft. Worth during the fiscal year and requested documentation that the employee had received and acknowledged the code of conduct. The Bureau was unable to locate 5 of 39 acknowledgement forms for selected D.C. new hires and was unable to locate 11 of 11 acknowledgment forms for selected Ft. Worth new hires. The Bureau failed to consistently execute the control established over employee acknowledgment of the code of conduct which requires written acknowledgement of the code of conduct be obtained from each new employee. Management explained that this was due to the division of this responsibility between multiple employees as well as unclear document retention policies. The *COSO Internal Control Integrated Framework* requires ongoing monitoring of the control environment. In evaluating the environment COSO recommends management consider "...whether personnel are asked periodically to state whether they understand and comply with the entity's code of conduct and regularly perform critical control activities. For example, consider whether personnel are required periodically to acknowledge compliance with the code of conduct." Without proper distribution of the code of conduct, the agency increases the risk that an employee will not comply with or understand the Bureau's policies.

We recommend that the Bureau develop policies and procedures regarding employee receipt and acknowledgment of the code of conduct. Management should also establish controls to ensure that files are properly maintained to include employee acknowledgements of the code of conduct and any subsequent updates to the previously employee acknowledged code of conduct.

Management Response:

Management concurs with the finding and recommendation. Currently, a checklist is utilized to track the completion of documents distributed to new employees during New Employee Orientation sessions. This checklist includes documentation of the employee's receipt of the BEP Employee Handbook which includes a section on the code of conducts. The Office of Human Resources (OHR) intends to issue additional procedures to ensure that all required documentations are completed, and accounted for during the New Employee Orientation sessions.

STATUS OF PRIOR YEAR’S RECOMMENDATIONS

Recommendation	Status
<i>Lack of Proper Documentation for Procurement Approvals</i>	
We recommend that the Bureau management reinforce the importance of procedures regarding proper review and approval of purchase orders and invoices. We also recommended that management ensure that proper controls exist to ensure that review procedures are consistently executed.	Management was able to provide the requested procurement documentation. The comment is closed.
<i>Errors in the Calculation of Accrued Interest for Prompt Pay Act</i>	
We recommend that the Bureau determine what is causing the system to incorrectly calculate interest penalty payments. We also recommend the Bureau implement internal controls to correctly update the system interest rate on a timely basis.	No Prompt Payment Act exceptions were identified in current year testing. This comment is closed.