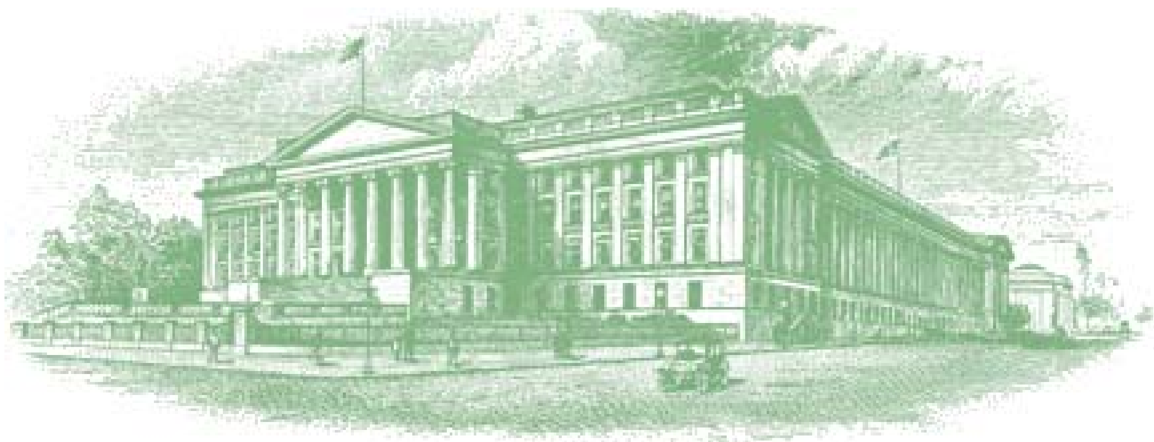
Audit Report



OIG-12-032

Management Letter for the Audit of the Bureau of Engraving and Printing's Fiscal Years 2011 and 2010 Financial Statements

December 19, 2011

Office of Inspector General

Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 19, 2011

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

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Management Letter for the Audit of the Bureau of Engraving and Printing's Fiscal Years 2011 and 2010 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 Years 2011 and 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, 2011 and 2010, and for the years 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, 2011

DECEMBER 14, 2011

BUREAU OF ENGRAVING AND PRINTING
MANAGEMENT LETTER
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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

December 14, 2011

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, 2011, and have issued our report thereon dated December 14, 2011. 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, 2011, and have issued our report thereon dated December 14, 2011.

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

Untimely Reconciliation of National Finance Center (NFC) Records to Payroll Records

The Bureau has an unwritten policy to perform and approve reconciliations between both the hours worked and accrued leave processed by NFC and the amount of hours worked and accrued leave reflected in the Bureau's payroll records for a random sample of 25 employees each pay period. Additionally, the unwritten policy also has the Bureau's reconciliation reviewed by supervisory personnel. Bureau personnel responsible for performing the reconciliation for the pay period ending October 9, 2010 did not bring to a final resolution differences noted for two of 25 employees sampled by the Bureau. Further, the reconciliation was not signed by the preparer until January 20, 2011. The primary employee responsible for performing the supervisory review of the reconciliation was out of the office due to a long-term illness. In addition, Bureau supervisory personnel responsible for reviewing the October reconciliation did not complete the reconciliation of the two employees in question and their review of the reconciliation until July 27, 2011.

Office of Management and Budget (OMB) Circular No. A-123, *Management Accountability and Control, Section II: Establishing Management Controls*, states the following: "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 Bureau does not have formal policies and procedures for completing reconciliations over payroll data submitted to the NFC and related supervisory reviews in a timely manner. The untimely review and reconciliation of timesheets between the Bureau and the NFC affects the ability of the Bureau to have reliable and timely information over its payroll expenses. The inability to accurately determine if payments made to employees are correct, could lead to a potential misstatement of payroll expense.

We recommend the Bureau develop and implement written policies and procedures to ensure that timely reconciliations are performed over payroll data submitted to the NFC. Additionally, the Bureau should ensure that these reconciliations are reviewed and that there are individuals designated and trained to perform this reconciliation in case the primary employee responsible for performing the control is absent.

Management Response:

Management concurs with the recommendation. BEP Management will review its current policies and procedures and make adjustment, where necessary, to ensure the timely review of reconciliations performed over payroll data.

Unsupported Percentages Utilized in the Inventory Obsolescence Calculation

The Bureau calculates a provision for Inventory Obsolescence, for each type of raw material or spare part, based on the number of days since the specific spare part or raw material had been used. The Bureau applies percentages to the balance of each type of raw material or spare part in order to determine the provision for Inventory Obsolescence. The Bureau has not reassessed the accuracy of these percentages since fiscal year 2008 and could not provide documentation supporting the determination of the percentages used.

OMB Circular No. A-123, Management Accountability and Control, 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 Bureau does not have a policy or procedure in place to reassess the reasonableness of the obsolescence percentages being applied to the raw material and spare parts inventories on a periodic basis. Without periodically reviewing the reasonableness of these percentages, the Bureau may be applying inaccurate inventory obsolescence percentages which could result in a misstatement of inventory and expenses in the annual financial statements.

We recommend the Bureau develop and implement policies and procedures to reassess the obsolescence percentages applied to the raw material and spare part inventories on an annual basis, and ensure documentation is maintained to readily support the percentages used.

<u>Management Response:</u>

Management concurs with the recommendation. BEP management will evaluate, update, and document the obsolescence percentages applied to the raw material and spare parts inventories on a more frequent basis, as deemed necessary.

Criteria for Management's Review of Financial Statements is Undefined

The Bureau's control activities include a monthly review of the financial statements by managers within the Office of Financial Management and the Chief Financial Officer. In addition, the Bureau's annual financial statements are reviewed by the Accounting Manager, the Chief Financial Officer, and other senior members of management. During our audit we noted that Bureau personnel responsible for reviewing the financial statements on a monthly and annual basis do not have established criteria (e.g. dollars and/or percentage thresholds for investigating variances from expected balances) that are consistently followed when conducting such reviews. In addition, the Bureau currently does not have formal policies and procedures that provide guidance on the establishment of such criteria as well as the process for documenting the performance of this review.

OMB Circular No. A-123, Management Accountability and Control, Section II: Establishing Management Controls, states the following: "Management controls developed for agency programs should be logical, applicable, reasonably complete, and effective and efficient in accomplishing management objectives."

Without established criteria used to assess the reasonableness of financial statements prepared on a monthly and annual basis, a management review control over financial statements may not be designed effectively to detect and correct a material misstatement in the Bureau's financial statements. Additionally, without formal policies and procedures surrounding the performance of such management reviews, there is an increased risk that such reviews will not be consistently executed.

We recommend that the Bureau develop and implement policies and procedures over management's review of the Bureau's monthly and annual financial statements that describes the criteria used to assess the reasonableness of those financial statements.

Management Response:

On a monthly and annual basis BEP management reviews the financial statements. The previous review criteria were determined by the individual performing the review and their specific area of responsibility. To add rigor to this review and build a level of consistency, BEP management will review all un-natural balances and any variance in the financial statement line item balances that is greater than $10 million or 10% from the previous period. For balance sheet accounts this variance will be based on the current month to the prior month and current month to the same month in the prior year for income statement accounts.

STATUS OF PRIOR YEARS' RECOMMENDATIONS

Recommendation	Status
Lack of Documentation for a Spare Part Issuance	
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.	No exceptions related to spare part issuances were identified in current year testing. We consider this recommendation closed.
Ineffective Monitoring of the Security Hotline	
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 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. No Treasury Hotline exceptions were identified in current year testing. We consider this recommendation closed.
Failure to Record a Fixed Asset Disposal	
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.	No exceptions related to the disposal of assets were indentified in current year testing. Additionally, no unreported disposals were identified during our observation of fixed assets. We consider this recommendation closed.
Lack of Acknowledged Receipt of Code of Conduct	
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.	No exceptions related to acknowledgement of receipt of code of conduct for new hires were indentified in current year testing. We consider this recommendation closed.