Audit Report

OIG-19-030

FINANCIAL MANAGEMENT

Management Letter for the Audit of the Bureau of Engraving and Printing's Financial Statements for Fiscal Years 2018 and 2017

December 20, 2018

Office of Inspector General
Department of the Treasury

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 20, 2018

**MEMORANDUM FOR LEONARD R. OLIJAR, DIRECTOR
BUREAU OF ENGRAVING AND PRINTING**

FROM: James Hodge /s/
Director, Financial Audit

SUBJECT: Management Letter for the Audit of the Bureau of Engraving and Printing's Financial Statements for Fiscal Years 2018 and 2017

I am pleased to transmit the attached subject management letter. Under a contract monitored by our office, KPMG LLP (KPMG), a certified independent public accounting firm, audited the financial statements of the Bureau of Engraving and Printing as of September 30, 2018 and 2017, and for the years then ended. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements,* and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, *Financial Audit Manual.*

As part of its audit, KPMG LLP issued the attached management letter dated December 19, 2018, that discusses matters involving deficiencies in internal control over financial reporting that were identified during the audit. These matters relate to the following:

- ineffective review of open purchase orders;
- removal of access to the Local Area Network/ Wide Area Network and Oracle Financials Manufacturing Support System for terminated individuals;
- system access recertification;
- inappropriate configuration of the Selected Payment Review Report;
- ineffective controls over invoice review and approval;
- ineffective controls over the review of the non-GAAP analysis;
- ineffective controls over journal entry segregation of duties; and
- ineffective controls surrounding the non-stock accounts payable accrual.

In connection with the contract, we reviewed KPMG's management letter and related documentation and inquired of its representatives. KPMG is responsible for the letter and the conclusions expressed in the letter. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards with respect to this letter.

Should you have any questions, please contact me at (202) 927-0009, or Shiela Michel, Manager, Financial Audit, at (202) 927-5407.

Attachment

THE DEPARTMENT OF THE TREASURY

BUREAU OF ENGRAVING AND PRINTING

MANAGEMENT LETTER
FOR THE YEAR ENDED SEPTEMBER 30, 2018
DECEMBER 19, 2018

BUREAU OF ENGRAVING AND PRINTING
MANAGEMENT LETTER
FOR THE YEAR ENDED SEPTEMBER 30, 2018

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KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

December 19, 2018

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

In planning and performing our audit of the financial statements of the Bureau of Engraving and Printing (the Bureau), as of and for the year ended September 30, 2018, 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 Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements,* we considered the Bureau's 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. In conjunction with our audit of the financial statements, we also examined management's assertion that the Bureau maintained effective internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

During our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. 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 and are summarized in Appendix A to this report.

Our audit procedures are designed primarily to enable us to form opinions on the financial statements and on management's assertion on the effectiveness of internal control over financial reporting 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 any time.

The Bureau's responses to the deficiencies identified in our audit are described in Appendix A. The Bureau's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

The purpose of this letter is solely to describe comments and recommendations intended to improve internal control or result in other operating efficiencies. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP

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firm of the KPMG network of independent member firms affiliated with
KPMG International Cooperative ("KPMG International"), a Swiss entity.

A-1. Ineffective Review of Open Purchase Orders

On a monthly basis, the Bureau performs a review of active purchase orders related to inventory items that are currently in "open" status for the month under review. The Bureau then researches the purchase order and determines whether or not the purchase order is still valid and should remain open or whether or not the purchase order is no longer outstanding and needs to be closed.

During our review of a sample of open purchase orders from May, 2018, we noted that the Bureau had not completed their review in a timely manner and as a result, follow up actions to close the purchase orders did not occur timely.

Recommendation
We recommend that management develop and implement policies and procedures to ensure that the monthly review of open Purchase Orders is completed timely by establishing a timeliness threshold. Furthermore, we recommend that management document their review and subsequent follow up actions to demonstrate that the review was complete and accurate.

Management's Response
Management concurs with the findings and recommendations.

A-2. Terminated Individual's access to the LAN/WAN and Oracle MSS was not disabled or removed.

The Bureau's policy requires system accounts to be properly removed or disabled in a timely manner when it is identified that access is no longer required. Three the Bureau employees and two contractors were identified as active within the Oracle Financials Manufacturing Support System (MSS) after their respective termination dates. Additionally, the Bureau management did not remove one employee's access to the LAN/WAN by midnight on the day of the employee's departure as required by the Bureau Local Area Network (LAN)/ Wide Area Network (WAN) System Security Plan (SSP).

Recommendation
We recommend that the Bureau management:

1. Perform an enforcement process to ensure that terminated users are removed from the system in accordance with the Bureau Policy.
2. Remove the access of the terminated user from the LAN/WAN and perform an assessment to confirm that other terminated users had been properly removed.
3. Remove the access of the five accounts of the terminated users in MSS and perform an assessment to confirm that other terminated users had been properly removed.
4. Implement procedures to review and end-date the user MSS accounts of terminated employees and/or contractors in accordance with the Bureau Policy.)

Management's Response
Management concurs with the findings and recommendations.

A-3. System Access Recertification

The Bureau management did not perform the semi-annual privileged user and annual non-privileged user access review process for HRConnect, and semi- annual privileged user access review process for the National Finance Center (NFC) systems as required by Treasury Information Technology Security

Program (TD P) 85-01 and the National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53.

Recommendation
We recommend that the Bureau management:
1. Develop an enforcement process to ensure that periodic user access reviews are completed for HRConnect and NFC as required by TD P 85-01 and NIST SP 800-53.
2. Ensure that HRConnect semi-annual privileged user and annual unprivileged user access reviews are consistently completed and adjust or remove unauthorized access.
3. Ensure that NFC semi-annual privileged user access review is consistently completed and adjust or remove unauthorized access.

Management's Response
Management concurs with the findings and recommendations.

A-4. The Selected Payment Review Report was not Appropriately Configured

The Selected Payment Review Report (AP008) is used by the Bureau to review and investigate unmatched invoices. Multiple configuration errors were identified that impact the completeness and accuracy of the report including duplicate transactions and incomplete data.

Recommendation
We recommend that the Bureau management:
1. Appropriately configure the Selected Payment Review Report (AP008) to completely and accurately represent the financial data contained within the report.
2. Perform a root cause analysis on why the Selected Payment Review Report (AP008) failed and develop procedures to remediate the root cause.

Management's Response
Management concurs with the findings and recommendations.

A-5. Ineffective Controls over Invoice Review and Approval

During a review of a sample of Accounts Payable transactions, we noted one sample item that was incorrectly accrued as a payable for equipment that had not yet been received. Upon further investigation, it appeared that the invoice had been erroneously approved and the agency lacked formalized policy regarding requirements for invoice review and approval.

Recommendation
We recommend that management develop and implement policies and procedures around Contracting Officer requirements and controls to ensure invoice approvals are complete and accurate.

Management's Response
Management concurs with the findings and recommendations.

A-6. Ineffective Controls over the Review of the Non-GAAP Analysis

The Bureau has consistently used the Department of Labor (DOL) computed actuarial liability in the preparation of its financial statements. Since the Department of Labor computation is prepared in accordance with Federal Accounting Standards Advisory Board (FASAB) and the Bureau's financial statements are prepared in accordance with Financial Accounting Standards Board (FASB), the Bureau performs a non-GAAP analysis to determine what the liability should be per FASB and demonstrate the impact.

During our review of the Bureau year-end non-GAAP analysis, we noted controls over the review and approval were not operating effectively. Specifically, we noted the Bureau calculated the non-GAAP comparison of the actuarial liabilities incorrectly. Furthermore, we noted the inaccurate data caused the Workers' Compensation Liability footnote disclosure to be misstated.

Recommendation
We recommend that management establish and implement policies, procedures, and controls to ensure that the proper inputs are used to create the Bureau's non-GAAP analysis as well as the review of the non-GAAP analysis.

Management's Response
Management concurs with the findings and recommendations.

A-7. Ineffective Controls over Journal Entry Segregation of Duties

Within the Bureau's Oracle-MSS system, individuals with the role of "Accounting Manager" and "Assistant Accounting Manager" have the ability to both create and post journal entries. Typically, this only would occur if someone were out of the office and the entry needed to be posted in a timely manner. Bi-annually, the financial systems group obtains the entire journal entry population for the period and reviews for any entries that were created and posted by the same individual. If any entries are identified as having the same preparer and reviewer, the Senior Systems Accountant will request support from the Accounting Manager or Assistant Accounting Manager for review.

For the period ending September 30, 2018, the Bureau did not have formal policies and procedures in place regarding journal entry segregation of duties controls. As such, the Bureau did not perform a review of the journal entry population for entries with the same preparer and reviewer.

Recommendation
We recommend that management establish and implement policies, procedures, and controls to ensure that the Bureau performs a timely, documented, review of the journal entry population for entries with the same preparer and reviewer.

Management's Response
Management concurs with the findings and recommendations.

A-8. Ineffective Controls Surrounding the Non-Stock Accounts Payable Accrual

Historically, the Accounting Manager creates an accrual model annually which estimates the un-invoiced A/P amount as of year-end. The model utilizes the AP009 report, Year End Invoice Accrual Report-Analysis. The non-stock accrual is prepared using the current twelve-month average by vendor of all invoices that are not subject to capitalized assets, training activity, or otherwise non-recurring in nature. The Bureau will perform a look-back analysis of recurring and nonrecurring vendors after year-end to assess the accuracy of the non-stock accrual. BEP evaluates the October AP009 report to validate their accrual for the prior year.

During FY 2018, BEP departed from their accounting practices and made the accrual estimate using an average of the previous three fiscal year accruals. We determined that the assumptions used by BEP were not reasonable as contracts change year over year. Additionally, the non-stock accrual lookback analysis was not performed sufficiently to identify potential variances.

Recommendation
We recommend that management implements a formal written policy for computing the non-stock accrual estimate. Furthermore, management should perform a detailed review of any new policy or procedure before implementing.

Management's Response
Management concurs with the findings and recommendations. Furthermore, management acknowledges their departure from their policy and noted deadlines and resource constraints were contributing factors.

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