Audit Report

OIG-13-025

Management Letter for the Audit of the Bureau of Engraving and Printing's Fiscal Years 2012 and 2011 Financial Statements

December 17, 2012

Office of Inspector General

DEPARTMENT OF THE TREASURY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 17, 2012

**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 2012 and 2011 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 2012 and 2011 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, 2012 and 2011, 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, 2012

DECEMBER 14, 2012

BUREAU OF ENGRAVING AND PRINTING
MANAGEMENT LETTER
FOR THE YEAR ENDED SEPTEMBER 30, 2012

TABLE OF CONTENTS

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

December 14, 2012

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, 2012, 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. 07-04, *Audit Requirements for Federal Financial Statements,* as amended, 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 but not for the purpose of expressing an opinion on the effectiveness of the Bureau's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bureau's internal control.

During our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration in Appendix A. 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. The Bureau's responses to these comments and recommendations are included in Appendix A. We did not audit the Bureau's responses and, accordingly, we do not express an opinion on them. Appendix B presents the status of the prior year management letter comments.

In addition, we identified certain deficiencies in internal control over financial reporting that we consider collectively to be a significant deficiency, and communicated them in writing in Exhibit I to the Independent Auditors' Report on Internal Control Over Financial Reporting to management and those charged with governance on December 14, 2012.

Our audit procedures were designed primarily to enable us to form an opinion on the financial statements 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 communication 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

Deficiencies in the Reconciliation of National Finance Center (NFC) Records to Payroll Records and the Leave Balance Carryover

The Bureau performs 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, this reconciliation is reviewed by supervisory personnel. Bureau personnel that performed and reviewed the reconciliation for the pay period ending November 23, 2011 did not discover a discrepancy in the leave balance between the NFC records and the payroll records for one of 25 employees sampled by the Bureau. Additionally, for one individual selected during our testwork, the individual's carryover leave balance of 252.5 hours exceeded the maximum allowable amount of 240 hours for that individual.

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 U.S. Office of Personnel Management (OPM) has set an annual leave carryover ceiling of 30 days (240 hours) for federal employees stationed within the United States.

The Bureau does not have formal policies and procedures for completing and approving reconciliations. The annual leave reconciliation performed was not always effective and thus did not discover a difference in leave hours for one individual. Additionally, the supervisory review of the reconciliation was not designed to detect instances where the initial reconciliation failed to recognize a difference in leave hours as supervisory personnel only investigate differences found by the initial reconciliation. A failure to detect a difference in leave hours carried over or accrued could lead to a potential misstatement of the amount accrued as a payroll liability for leave hours.

We recommend the Bureau develop and implement written policies and procedures to ensure a proper reconciliation and related supervisory review are performed over payroll data submitted to the NFC.

Management Response:

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

Documentation Related to Goods Received is Not Maintained

A Shipping & Receiving Materials Handler will sign the delivery slip and verify that the amounts for the goods received agree to the accompanying packing slip. The packing slip received with the goods will reference a Bureau Purchase Order number. The Materials Handler will enter the Purchase Order number into the Manufacturing Support Suite (MSS), which is a component of the Bureau of Engraving and Printing Enterprise (BEN), and the goods received will be matched to the open Purchase Order information in the MSS. A Purchase order will remain open until all goods are received. The clerk does not upload the packing slip into MSS, but instead files the receiving document by receipt date in binders that are maintained in the receiving department. Packing slips could not be provided for six of twenty-nine cash disbursements selected for testing in which goods were received. For these six items, an entry in BEN by the receiving department indicated the items had been received.

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 an adequate filing system in place for packing slips and was not able to locate the packing slips sampled. As a result, actual receipt of the goods for the six items identified indicated in BEN could not be verified. If receiving documents do not exist for goods marked as received within BEN, expenses and inventory could be overstated and payments for the goods could be issued prematurely.

We recommend that the Bureau reassess its existing packing slip retention and maintenance process to ensure that all receiving documents are maintained and stored in a secure location.

<u>Management Response:</u>

Management concurs with the recommendation and will re-emphasize the retention policy to the receiving department.

Deficiency in the Quarterly Review of Inactive Assets

During our tests of the status of inactive (reported as Construction-in-Progress or CIP) assets as of September 30, 2012, we noted two projects amounting to approximately $15.4 million that were classified as CIP that should have been reclassified as active fixed assets in 2012. The reclassification error was a result of deficiencies in the design and operating effectiveness of BEP's quarterly review of the status of inactive CIP projects. Additionally, the fourth quarter inactive asset review took an exceptionally long time to complete based on key personnel within the process being out of the office during different times in the month of October.

OMB Circular No. A-123, Management Accountability and Control, Section III: Integrated Internal Control Framework, states the following: "It is management's responsibility to develop and maintain effective internal control. As agencies develop and execute strategies for implementing or reengineering agency programs and operations, they should design management structures that help ensure accountability for results. As part of this process, agencies and individual Federal managers must take systematic and proactive measures to develop and implement appropriate, cost-effective internal control."

CIP was overstated by approximately $15.4 million, Machinery and Equipment was understated by $10.5 million, and IT Equipment and Software was understated by approximately $4.9 million, respectively, in BEP's draft financial statements as of September 30, 2012. In addition, depreciation expense and accumulated depreciation were also understated by approximately $1.5 million. BEP management subsequently recorded an adjustment to correct the error in the draft financial statements as of and for the year ended September 30, 2012.

We recommend BEP (1) enhance its quarterly review of inactive assets by developing a template project managers must complete to ensure all necessary information is obtained to make an informed decision regarding the status and classification of the project as of the assessment date, and (2) strengthen the management review of the quarterly assessment.

<u>Management Response:</u>

Management concurs with the recommendations and will develop a project manager template to provide the appropriate information to support the status and classification for projects on a quarterly basis. Additionally, the Bureau will implement a follow-up process to ensure the timely receipt of project related information.

STATUS OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

Comments and Recommendations	Status
Untimely Reconciliation of National Finance Center (NFC) Records to Payroll Records	
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.	This comment has been partially repeated in the current year. See Appendix A.
Unsupported Percentages Utilized in the Inventory Obsolescence Calculation	
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.	We noted that BEP implemented a written policy explaining the calculation of obsolescence percentages applied to spare parts. We consider this comment closed.
Criteria for Management's Review of Financial Statements is Undefined	
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.	We determined the BEP has implemented formal review procedures over monthly financial statements, including required explanations for variances larger than a specific percentage or dollar amount. We consider this comment closed.