# Audit Report

OIG-14-022

Management Letter for the Audit of the Bureau of Engraving and Printing's Fiscal Years 2013 and 2012 Financial Statements

January 28, 2014

# Office of Inspector General

## Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

January 28, 2014

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

**FROM:** Michael Fitzgerald
Director, Financial Audit

**SUBJECT:** Management Letter for the Audit of the Bureau of Engraving and Printing's Fiscal Years 2013 and 2012 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 2013 and 2012 financial statements. Under a contract monitored by the Office of Inspector General, KPMG LLP (KPMG), an independent certified public accounting firm, performed an audit of the financial statements of BEP as of September 30, 2013 and 2012, and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards and applicable provisions of Office of Management and Budget Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

As part of its audit, KPMG 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's letter and related documentation and inquired of its representatives. Our review disclosed no instances where KPMG 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 Audit, at (202) 927-5407.

Attachment

# THE DEPARTMENT OF THE TREASURY

# BUREAU OF ENGRAVING AND PRINTING

## MANAGEMENT LETTER

## FOR THE YEAR ENDED SEPTEMBER 30, 2013

## JANUARY 23, 2014

**BUREAU OF ENGRAVING AND PRINTING**
**MANAGEMENT LETTER**
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

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

January 23, 2014

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, 2013, 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. 14-02, *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 audits, we noted matters involving internal control that are presented for your consideration in Appendix A to this report. These comments and recommendations, have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies. Management's responses to these comments and recommendations are included in Appendix A. The Bureau's written responses to our comments and recommendations have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Our audit procedures were 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 your request.

The purpose of this letter is solely to describe these 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

KPMG LLP is a Delaware limited liability partnership,
the U.S. member firm of KPMG International Cooperative
("KPMG International"), a Swiss entity.

***Deficiencies in the Reconciliation of National Finance Center (NFC) Records to Payroll Records (Repeat Finding)***

The Bureau performs reconciliations between both the hours worked and accrued leave processed by the National Finance Center (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. (collectively referred to as the NFC to Payroll reconciliation). Additionally, this reconciliation is reviewed by supervisory personnel. Bureau personnel were unable to provide evidence that the NFC to Payroll reconciliation had been performed for three pay periods selected for testwork. Additionally, there was no evidence supervisory review had been performed over one additional NFC to Payroll reconciliation selected for testwork.

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 and approving NFC to Payroll reconciliations. Additionally, the Bureau has not implemented proper monitoring controls to ensure that the evidence of preparation and review of the NFC to Payroll reconciliation is maintained. The inability to accurately determine if payments made to employees are correct and that leave balances are accurate could lead to a potential misstatement of payroll expense and related accrued liabilities.

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 including provisions to ensure that records are maintained to evidence that the control is being performed and reviewed timely.

<u>Management Response:</u>

Management concurs with the recommendations and will take the necessary steps to implement policies and procedures to ensure a proper reconciliation and related supervisory review are performed over payroll data submitted to the NFC including provisions to ensure that records are maintained to evidence that the control is being performed and reviewed timely.

***Deficiencies in Internal Controls Related to the Disposal of Capitalized Property***

When the Bureau disposes of capitalized property, a Form 8540: *Report of Excess Property* is required to be completed. During our fiscal year (FY) 2013 audit, we noted that, out of five asset disposals tested, two assets were physically disposed of in a prior fiscal year; however, the assets were removed from the fixed asset ledger in FY 2013. Furthermore, a Form 8540 was not completed for these disposals. Through further investigation it was determined that 20 of the 27 disposals made in the fourth quarter of FY 2013 were physically disposed of in a fiscal year prior to FY 2013.

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 two deficiencies noted were related to Information Technology (IT) Software and Hardware. The disposal process for IT Software and Hardware differs from the disposal process for other property, plant and equipment, and the Office of Information Technology (OIT) is responsible for identifying IT Software and Hardware that are no longer being used and should be disposed of. OIT maintains the inventory of IT Software and Hardware in Remedy, a database used for tracking assets. However, OIT does not always contact the Office of Facilities Support or OFM when disposing of IT Software and Hardware to determine whether the disposals should be removed from the Bureau's fixed asset records. In addition, the Bureau program offices do not adequately review and provide timely feedback on the listing of assets within their offices distributed by the OFM on a quarterly basis. As a result, fixed assets, including IT Software and Hardware, no longer in use are not timely removed from the Bureau's capital asset records and the general ledger. However, this has minimal impact on the financial statements as capital assets are reported net of accumulated depreciation. For example, the net book value of the exceptions identified in our testwork was less than $4,000 at the date of disposal.

We recommend that the Bureau: (1) include IT Software and Hardware in the population of fixed assets from which it selects its annual sample for physical inventory observation; (2) have the OFM send its quarterly listing of active assets to OIT to review and update; (3) provide additional training to program offices regarding the importance of the quarterly inquiry of activated assets initiated by OFM and instruction on how to effectively respond to that inquiry.

<u>Management Response:</u>

Management concurs with the finding and OFM will ensure that all program offices understand the significance of properly communicating the activation and disposal of assets. The Accounting Department will coordinate quarterly reviews of active assets and task the Office of Facilities with monitoring the disposal of IT Software and Hardware.