

FINANCIAL YEAR IN REVIEW



2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report

The Public Printer:

We have audited the accompanying consolidated balance sheets of the United States Government Printing Office (the GPO) as of September 30, 2000 and 1999, and the related consolidated statements of revenues and expenses and cash flows for the years then ended. We have also examined management's assertions, included in the statement of assurance to us dated January 26, 2001 at page 44, regarding the effectiveness of the GPO's internal controls over financial reporting that were in place as of September 30, 2000. The objective of our audits was to express an opinion on the fair presentation of the GPO's consolidated financial statements. The objective of our examination of management's assertions regarding internal controls over financial reporting was to express an opinion on management's assertions. In connection with our audits, we also tested the GPO's compliance with certain provisions of applicable laws and regulations.

In our opinion:

- The GPO's consolidated financial statements as of September 30, 2000 and 1999, and for the years then ended, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America; and
- The GPO management has fairly stated, in all material respects, its assertions that internal controls over financial reporting in place as of September 30, 2000, provide reasonable assurance that transactions are properly recorded, processed, and summarized to permit the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and the safeguarding of assets against loss from unauthorized acquisition, use, or disposition; and transactions are executed in accordance with: (a) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the consolidated financial statements, and (b) any other laws and regulations or government-wide policies that entity management, or the Inspector General have identified as being significant for which compliance can be objectively measured and evaluated.

We noted no instances of reportable noncompliance with laws and regulations we tested.

Our conclusions and the scope of our work are discussed in more detail below.



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Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of the GPO as of September 30, 2000 and 1999, and the related consolidated statements of revenues and expenses and cash flows for the years then ended. These consolidated statements are the responsibility of the GPO's management. Our responsibility is to express an opinion on these consolidated statements based on our audits.

In our opinion, the accompanying 2000 and 1999 consolidated financial statements present fairly, in all material respects, the financial position of the United States Government Printing Office as of September 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the GPO's consolidated financial statements taken as a whole. The consolidating and supplemental information on pages 34 through 43 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. This information has not been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, accordingly, we express no opinion on it.

The information contained in the performance measures section has not been audited and, accordingly, we express no opinion on it.

Opinion on Management's Assertions About the Effectiveness of Internal Controls Over Financial Reporting

We have examined management's assertions included in its statement of assurance to us dated January 26, 2001, that internal controls designed by management provide reasonable, but not absolute, assurance that as of September 30, 2000, the following objectives were met:

- Transactions are properly recorded, processed, and summarized to permit the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and the safeguarding of assets against loss from unauthorized acquisition, use, or disposition; and
- Transactions are executed in accordance with: (a) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the consolidated financial statements, and (b) any other laws and regulations or government-wide policies that entity management, or the Inspector General have identified as being significant for which compliance can be objectively measured and evaluated.

Although internal controls should be improved as discussed below, in our opinion, management's assertions that internal controls in place as of September 30, 2000, provide reasonable assurance that transactions are properly recorded, processed, and summarized to permit the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and the safeguarding of assets against loss from unauthorized acquisition, use, or disposition; and transactions are executed in accordance with: (a) laws governing the use of budget authority and other laws and regulations

or government-wide policies that entity management, or the Inspector General have identified as being significant for which compliance can be objectively measured and evaluated, are fairly stated in all material respects, based upon criteria established under OMB Circular A-123, *Management Accountability and Control* (Revised, June 1995).

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls over financial reporting that, in our judgment, could adversely affect the GPO's ability to record, process, summarize, and report financial data consistent with the assertions of management in the consolidated financial statements. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the consolidated financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted certain matters involving the internal controls over financial reporting that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants.

Our consideration of the internal controls over financial reporting would not necessarily disclose all internal control matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we do not consider the reportable condition described below to be a material weakness. Deficiencies in the design and or operations of the GPO's EDP general controls are considered a reportable condition. This condition has been previously reported to management in prior years' audit reports.

The recurring reportable condition on the GPO's EDP general controls relates to the following areas:

■ **Access Controls**

- Certain access controls require modification in order to provide a more secure environment. Access controls should provide reasonable assurance that computer resources (data files, application programs, and computer-related facilities and equipment) are protected against unauthorized modification, disclosure, loss, or impairment. These controls include controls over physical access to computer resources, and controls that prevent unauthorized access to sensitive files.

Examples of weaknesses include:

- A centralized security manager has not been assigned to coordinate security activities between the mainframe, database, and network security administrators.
- GPO management has not established and implemented a network-wide security plan.
- Controls related to GPO's corporate database (ADABAS) need to be strengthened.

■ **Application Change Control and Systems Development**

- Certain controls over the modification of application software programs are deficient. These controls should be designed to ensure that only authorized programs and modifications are implemented. Without proper controls, there is a risk that security features could be inadvertently or deliberately omitted or "turned off" or that processing irregularities or malicious code could be introduced.

Examples of weaknesses include:

- The System Development Life Cycle methodology has not officially been finalized and implemented.
- Standards and procedures for ADABAS program changes have not been formally documented.
- Full system reviews of application software and associated hardware have not been consistently conducted and documented.

■ **Service Continuity**

- Losing the capability to process, retrieve, and protect information maintained electronically can significantly impact an agency's ability to accomplish its mission. For this reason, an agency should have (1) procedures in place to protect information resources and minimize the risk of unplanned interruptions and (2) a plan to recover critical operations should interruptions occur.

Examples of weaknesses include:

- An enterprise-wide disaster recovery plan has not been completed.
- GPO's current off-site storage facility is not geographically segregated from the data processing center and the system and application documentation is not stored at the off-site facility.
- Tape backup and rotation standards have not been appropriately developed and documented.
- An un-interruptible power supply has not been implemented.
- Formal data center and network room emergency response and processing procedures have not been established.

■ **Entity-Wide Security Program**

- There are several areas regarding an enterprise-wide security program that are inadequate. The program should establish a framework for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of these procedures. Without a well designed program, security controls may be inadequate; responsibilities may be unclear, misunderstood, and improperly implemented; and controls may be inconsistently applied.

Examples of weaknesses include:

- A comprehensive data security plan with policies and procedures has not been finalized.
- Risk assessments have not been completed.
- Classification of information resources according to criticality and sensitivity by their system owners has not been established.

We again recommend that the GPO develop a formal action plan to review and revise its EDP general controls. This plan should address each of the four areas discussed above as well as any other areas that impact the general EDP control environment, set forth appropriate corrective action steps, assign responsibilities to employees, and establish target completion dates for each action. This plan should be adopted by the GPO and provide for periodic reviews of progress towards achievement of corrective actions.

This condition was considered in determining the nature, timing, and extent of the procedures to be performed in our audits of the GPO's consolidated financial statements.

We also noted other matters involving the internal controls and their operation that we do not consider to be reportable conditions. These matters, along with further technical details and related recommendations of the reportable condition, will be reported to the GPO's management in a separate letter.

Compliance with Laws and Regulations

As part of obtaining reasonable assurance about whether the GPO's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States.

Consistency of Other Information

The performance measures, the consolidating financial statements, and other supplemental information contain a wide range of data, some of which are not directly related to the consolidated financial statements. We do not express an overall opinion on this information. However, we compared this information for consistency with the consolidated financial statements. Based on this limited work, we found no material inconsistencies with the consolidated financial statements.

Responsibilities

Management's Responsibility. Management is responsible for:

- preparing the consolidated financial statements and supplemental schedules referred to above in conformity with accounting principles generally accepted in the United States of America, and for preparing the performance measures;
- maintaining adequate internal controls designed to fulfill control objectives; and
- complying with applicable laws and regulations.

Auditors' Responsibility. Our responsibility is to express an opinion on the consolidated financial statements, based on our audits. The standards, identified below, require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are reliable (free of material misstatement and presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America).

We are also responsible for expressing an opinion, based on our examination, on whether management's assertions regarding the effectiveness of internal controls over financial reporting are fairly stated, in all material respects, based on criteria established under OMB Circular A-123, *Management Accountability and Control* (Revised, June 1995).

As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we are also responsible for reporting any instances of material noncompliance with certain provisions of laws and regulations.

To fulfill these responsibilities, we:

- examined, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- assessed the accounting principles used and significant estimates made by GPO management;
- evaluated the overall financial statement presentation;
- assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements;
- obtained an understanding of the internal controls over financial reporting;
- tested and evaluated the design and operating effectiveness of relevant internal controls over significant cycles, classes of transactions, and account balances;
- tested compliance with certain provisions of laws and regulations that may materially affect the financial statements; and
- performed such other procedures as we considered necessary in the circumstances.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by OMB Circular A-123, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to those controls necessary to achieve the objectives outlined in our opinion on management's assertions about the effectiveness of internal controls. Because of inherent limitations in internal controls, fraud may occur and not be detected. Also projections of any evaluation of internal controls over financial reporting to future periods are subject to the risk that the internal control procedures may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We conducted our examination of management's assertions regarding the effectiveness of the GPO's internal controls over financial reporting in place as of September 30, 2000, in accordance with standards established by the American Institute of Certified Public Accountants. We believe that our audits and examination provide a reasonable basis for our opinions.

Agency Comments

GPO agrees with the recommendation and will develop a formal action plan.

Distribution

This report is intended solely for the information and use of the Public Printer, the Joint Committee on Printing, and the GPO management, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 26, 2001