



DATE: January 15, 2009

REPLY TO

ATTN OF: Inspector General

SUBJECT: Report on the Consolidated Financial Statement Audit of the Government Printing Office for Fiscal Years Ended September 30, 2008 and 2007
Report Number 09-06

TO: Public Printer

This report contains the audit of the annual consolidated financial statements of the Government Printing Office (GPO) as of the fiscal years (FY) ended September 30, 2008 and 2007. We contracted with the independent public accounting firm of KPMG LLP (KPMG) to audit the consolidated balance sheet; statement of revenue and expenses; and statement of cash flows for the years then ended. The audits were conducted in accordance with auditing standards generally accepted in the United States; and the standards applicable to financial audits contained in *Government Auditing Standards (GAS)*, issued by the Comptroller General of the United States.

Results of Independent Audit

KPMG expressed an unqualified opinion on the GPO consolidated financial statements as of the FYs ended September 30, 2008, and 2007, by concluding that the GPO financial statements were fairly presented, in all material respects, in conformity with generally accepted accounting principles (GAAP).

KPMG's consideration of internal control over financial reporting resulted in the following three significant deficiencies,¹ one of which, Financial Reporting Controls, is considered by KPMG to be a material weakness.² Details on these three deficiencies are as follows:

¹ A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the GPO's ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP such that there is more than a remote likelihood that a misstatement of the GPO's consolidated financial statements that is more than inconsequential will not be prevented or detected by the GPO's internal control over financial reporting.

² A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the GPO's internal control.

1. Financial Reporting Controls

Due to improperly functioning management internal controls, KPMG concluded that the following significant deficiencies related to financial reporting controls, when viewed in the aggregate, constitute a material weakness:

- GPO recorded additions to General Property, Plant and Equipment (PP&E) in its subsidiary ledger and general ledger based on when cash disbursements were made for the assets instead of when it was received and accepted by GPO. In addition, GPO's controls over the recording of internal use software need to be improved. Specifically, auditors identified several invoices that were improperly expensed rather than capitalized.
- GPO is recording an estimated product warranty for e-Passports despite not having experienced a claim for spoilage since the inception of the e-Passport program in 2007.
- GPO improperly recorded passport work-in-process inventory as unbilled receivables.³
- GPO's existing process for compiling its consolidated financial statements is complex and difficult to review and there are no written procedures documenting how GPO's consolidated financial statements are compiled. Management review of the consolidated financial statements needs to be strengthened.
- Key reconciliations in the areas of Fund Balance with Treasury, accounts payable, payroll, and expenses were not always performed timely and when performed, differences noted were not consistently investigated and resolved in a timely manner.

2. Controls over Processing Human Resource Information

KPMG reported that there is no application control to prevent Human Capital (HC) Assistants and Specialists from making changes to their own personnel files. In addition, there is no supervisory review of personnel action changes to ensure accuracy and completeness prior to being uploaded into the National Finance Center's (NFC) Entry, Processing, Inquiry, and Correction System (EPIC). Further, for those employees whose pay rates do not follow the General Schedule, HC Assistants/Specialists have the ability to allow EPIC to bypass the NFC payroll system's edit checks with no compensating review.

³ Although GPO was required to make an adjustment to properly reflect the work-in-process inventory in the balance sheet as of September 30, 2008, this adjustment did not affect the Consolidated Statements of Revenue, Expenses and Changes in Retained Earnings or the Consolidated Statements of Cash Flows.

3. Information Technology (IT) General Controls

Although GPO continued to make progress in addressing IT general control weaknesses identified in prior years, deficiencies in the design and/or operation of controls continue to exist in the areas of entity-wide security, access controls, system software, and service continuity.

KPMG disclosed no instances of noncompliance with certain provisions of laws, regulations and contracts or other matters that are required to be reported under GAS.

Material Weakness Corrective Action Plan

Appendix A, "Internal Control over Financial Reporting," of the Chief Financial Officer's Council's Implementation Guide for OMB Circular A-123, "Management's Responsibility for Internal Control,"⁴ (Guide) explains that a comprehensive corrective action plan (CAP) lists the detailed actions that agency personnel must perform to resolve the weakness. The Guide also describes the basic elements of a comprehensive CAP as including:

- A summary description of the deficiency.
- The year the deficiency was first identified.
- The targeted corrective action date (the date of management follow-up).
- The agency official responsible for monitoring progress.
- The indicators, statistics, or metrics used to gauge resolution progress (in advance of audit follow-up) to validate the resolution of the deficiency.
- The quantifiable target or otherwise qualitative characteristic (e.g., milestone) that reports how resolution activities are progressing.

While GPO is not required to follow OMB Circular A-123, the Circular is considered to contain policy related to internal controls that we consider to be a Federal Government best practice. As such, GPO should prepare a CAP to address the deficiencies associated with financial reporting controls that were identified during the audit. CAPs are the mechanism whereby management presents the procedures the agency will follow to resolve deficiencies.

Recommendation

We recommend that GPO prepare a comprehensive CAP to address the material weakness described above. The CAP should include measurable indicators of compliance and resolution to assess and validate progress throughout the resolution cycle. GPO should closely monitor and update the CAP periodically.

⁴ July, 2005 version.

Evaluation and Monitoring of Audit Performance

We reviewed the KPMG audit of the GPO consolidated financial statements by:

- Evaluating the independence, objectivity, and qualifications of the auditors and specialists.
- Reviewing the approach of and planning for the audit.
- Attending key meetings with auditors and GPO officials.
- Monitoring the audit progress.
- Examining audit documentation.
- Reviewing the auditors' reports.
- Reviewing the financial statements and associated footnotes.

KPMG is responsible for the attached reports dated January 14, 2009, and the conclusions expressed in the reports. Our review, as differentiated from an audit in accordance with GAS, was not intended to enable us to express, and accordingly we do not express, an opinion on GPO's financial statements, the effectiveness of internal controls, or compliance with laws and regulations. However, our monitoring review, as limited to the procedures listed above, disclosed no instances in which KPMG did not comply, in all material respects, with GAS.

If you have any questions or comments about this report, please do not hesitate to contact me, or Mr. Kevin Carson, Assistant Inspector General for Audits and Inspections, at (202) 512-2009 or through email at kcarson@gpo.gov.



J. Anthony Ogden
Inspector General

Attachment

cc:

Deputy Public Printer
Chief Management Officer
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