MANAGEMENT LETTER
REPORT NUMBER 12-07

MANAGEMENT ADVISORY COMMENTS IDENTIFIED IN THE ENGAGEMENT TO AUDIT THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2011

February 14, 2012

U.S. GOVERNMENT PRINTING OFFICE
OFFICE OF INSPECTOR GENERAL

Date

February 14, 2012

To

Acting Public Printer

From

Inspector General

Subject

Management Advisory Comments
Report Number 12-07

KPMG LLP (KPMG), under contract to the United States Government Printing Office (GPO), Office of Inspector General (OIG), was engaged to audit GPO's consolidated financial statements as of and for the year ended September 30, 2011. In connection with the audit engagement, GPO's internal controls over financial reporting and compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on the consolidated financial statements were also considered. Providing opinions on the effectiveness of GPO's internal control over financial reporting and on compliance with laws, regulations, and contracts was not an objective of the engagement, and accordingly, such opinions were not provided.

However, certain matters were noted during the course of the engagement. This report was prepared to provide information to management that could help in the development of corrective actions for the management advisory comments identified in the engagement. These findings and recommendations are presented in this report.

KPMG is responsible for the attached management advisory comments and the conclusions expressed in this report. However, in connection with the contract, we reviewed KPMG's management advisory comments and related documentation and inquired of its representatives. Our review disclosed no instances where KPMG did not comply, in all material respects, with contract requirements.

If you have any questions or comments about this report, please do not hesitate to contact me at (202) 512-0039.

Michael A. Raponi
Inspector General

Attachment

cc:
General Counsel
Chief Financial Officer

UNITED STATES GOVERNMENT PRINTING OFFICE

MANAGEMENT LETTER
FOR THE YEAR ENDED SEPTEMBER 30, 2011
JANUARY 20, 2012

UNITED STATES GOVERNMENT PRINTING OFFICE
MANAGEMENT LETTER
FOR THE YEAR ENDED SEPTEMBER 30, 2011

TABLE OF CONTENTS

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

January 20, 2012

The Acting Public Printer
United States Government Printing Office

In planning and performing our audit of the consolidated financial statements of the United States Government Printing Office (GPO), in accordance with auditing standards generally accepted in the United States of America, we considered GPO'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 consolidated financial statements but not for the purpose of expressing an opinion on the effectiveness of GPO's internal control. Accordingly, we do not express an opinion on the effectiveness of GPO's internal control.

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 as part of the Notification of Findings and Recommendations (NFR) process, are intended to improve internal control or result in other operating efficiencies and are summarized in Appendix A to this report. The current status of prior years' audit findings are summarized in Appendix B.

In addition, we identified certain deficiencies in internal control that we consider to be significant deficiencies and communicated them in writing to management and those charged with governance in our Independent Auditors' Report dated December 16, 2011, along with our recommendations and management's response. Such deficiencies have not been repeated in this report.

Our audit procedures are designed primarily to enable us to form an opinion on the consolidated financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of GPO'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.

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

Very truly yours,

KPMG LLP

NON-INFORMATION TECHNOLOGY RECOMMENDATIONS

A. Improvement of Controls over the review and implementation of the Code of Conduct (11-NFR-01)

During our review of GPO's entity level controls we noted that although GPO's Code of Conduct is comprehensive, it has not been updated since 1988. We noted that the Office of General Counsel has worked to update the Standards of Conduct during the current fiscal year, however, as of September 30, 2011, these standards are still in draft form and are not yet available to GPO employees.

Without having a complete and updated Code of Conduct, policies may have been added, removed or modified since 1988 and not been formally handled.

We recommend that GPO update and approve their Code of Conduct and distribute to their employees on a periodic basis

B. Strengthen Controls over Maintenance of Publications Sales Deposit Account (11-NFR-03)

During our testwork over Sales of Publications Accounts Receivable and Deposit Account balances, we noted for 2 of 5 deposit accounts reviewed that the deposit account had been inactive for greater than 8 years and GPO had no valid contact information for the deposit account holder. In fiscal year 2011 GPO conducted a review of deposit accounts and identified $220,053 of the account as inactive and without appropriate contact information. These accounts were identified in the RF2 deposit account system; however, no additional action has been taken on these accounts. Additionally, the 2 accounts identified by KPMG were not on the list of known identified accounts, indicating more accounts exist that are both inactive and without appropriate contact information than those known by GPO.

Without proper mechanisms in place to ensure customer information is properly updated GPO has no means of determining the appropriate action for these deposit accounts which could lead to a misstatement in the deposit account balance.

KPMG recommends that GPO continue to conduct periodic assessments of all inactive deposit accounts to determine the appropriate actions for these accounts. Additionally, we recommend that GPO improve its internal controls and system of record to ensure that: 1) customer information is appropriately retained and updated periodically and 2) customers are contacted after a specified period of inactivity to determine if deposits should be returned.

C. Strengthen Controls over Paper Inventory and Recording Inventory (11-NFR-04)

During our inventory count over Paper Inventory on September 21, 2011, at GPO's DC Central Warehouse (Building 4), we identified 2 of 20 items counted (value of $1,731) where GPO had not recorded disposal entries in a timely manner. Both items had been scrapped prior to the inventory count date but the entry had not yet been made to remove the item from inventory. In addition we noted that adjusting entries were needed for 9 of the 20 items counted totaling $99,965 (net of increases of $104,176 and decreases of $4,210) in order to properly state inventory.

Without adequate internal controls over the timely recording and accounting for inventory, required adjustments may not be made, or made incorrectly, which could result in inventory balances being misstated.

KPMG recommends that GPO strengthen its internal controls surrounding the timely and accurate recording of inventory transactions. In addition, we also recommend that GPO train its employees to make necessary adjustments to the inventory as part of their inventory count process including making related adjustments and accounting for disposals.

D. Strengthen Controls over the Government AR Reconciliation (11-NFR-08)

GPO performs a monthly reconciliation between the Government Accounts Receivable balance reflected in the general ledger and the balance reflected in the subsidiary ledger. However, we noted that in lieu of the actual subsidiary ledger generated by Oracle, GPO was using a manually reconstructed subsidiary. The reconstructed subsidiary ledger was compiled from the ending balance reflected in the legacy subsidiary ledger as of April 30, 2009 and manually adjusted for activities in subsequent months to arrive at a month end balance for comparison to the general ledger at the end of any given month. The reconstructed subsidiary ledger does not have transaction level detail available and cannot be used to review the accounts receivable balance at an invoice level basis.

KPMG compared the subsidiary ledger generated by Oracle (referred to as the 7 buckets report) to the general ledger as of September 30, 2011, and noted a difference of approximately $445,207.

Without using a proper subsidiary ledger to reconcile to the general ledger, erroneous differences could be identified leading to improper adjustments and could cause both Government Accounts Receivable and related revenues to be misstated in the consolidated financial statements.

KPMG recommends that GPO identify and use an accurate subsidiary ledger when performing reconciliations or analyzing accounts. In addition, we recommend that GPO improve its monitoring controls over the monthly Government Accounts Receivable reconciliation process to ensure that all differences identified during the monthly reconciliation process are investigated and resolved in a timely manner.

E. Improvement of Controls over Calculation of Allowance for AR (11-NFR-09)

GPO prepares an annual calculation to reserve for transactions that might become uncollectible (in relation to Commercial AR, Government AR and Intra-governmental Payment and Collections (IPAC) Chargebacks) to properly state their Revenue at year end. In reviewing the accounts receivable allowance calculation prepared by management, we noted that management did not include general ledger account number 1214, IPAC Bulk File Errors, in its calculation for the reserve over IPAC Chargebacks. The balance of this account as of September 30, 2011 was $5,416,650 and includes transactions charged back to GPO. This account is similar in nature to account 1212, IPAC Chargebacks, and therefore should have been considered in conjunction with that account balance when calculating the reserve, as not all items in the population are current or guaranteed to be collectable. Although the exclusion of this balance did not result in a material error during FY11, the exclusion of this balance resulted in an understatement of the allowance as of September 30, 2011, of approximately $662,000.

Without properly subjecting all appropriate account balances to the allowance calculation, GPO could be incorrectly recording their allowance resulting in a misstatement in both accounts receivable and revenue.

KPMG recommends that GPO identify all accounts receivable accounts and ensure they are all appropriately subjected to the allowance calculation. If GPO identifies any AR accounts that should not be subjected to the allowance calculation they should document the rationale as to why the account was excluded.

F. Strengthen Controls over the Disposal of Fixed Assets (11-NFR-10)

During our testwork over fixed asset disposal controls, of the 5 disposal records we reviewed, we noted 2 disposed assets were not recorded timely. Although the assets were fully depreciated and the disposal had no net impact on the financial statements, we noted that both fixed assets and accumulated depreciation were overstated for the intervening period between when the item was physically scrapped and disposed of and when it was removed from the general ledger.

Without proper internal controls surrounding the recording of asset disposals, fixed assets could be misstated at year end.

KPMG recommends that GPO strengthen their internal controls over the disposal process. We also recommend that GPO ensure that all appropriate employees are properly informed and trained on how to properly complete the Return to Stores Form and the deadline in which it needs to be returned to Financial Accounting and Reporting Branch (FARB) after approval.

G. Ensure Controls over Adherence to Non-GAPP Thresholds for Contingent Liabilities operate effectively (11-NFR-11)

GPO accrues for any contingent liability over $25,000 individually or in the aggregate with other like cases. However, two cases that were individually or in the aggregate greater than the $25,000 threshold were identified as reasonably possible and not properly disclosed in the financial statements. Management obtained and reviewed the legal letter from their in house General Counsel. However, due to management's oversight, they did not adhere to their internal policies/procedures for accruing or disclosing for contingent liabilities.

Without adhering to current policy and procedures, contingent liabilities could be materially misstated or not properly disclosed.

KPMG recommends that GPO more carefully and thoroughly review the legal representation letter they receive from legal counsel to ensure all relevant items are properly identified, recorded and disclsoed.

H. Strengthen Controls over Billings (11-NFR-12)

During our testwork over internal controls surrounding commercial billings and Intra-governmental Payment and Collections (IPAC) system chargebacks, we noted that out of 30 items tested 12 were charged back more than once due to the necessary line of accounting not being included with the billing information needed to process the IPAC. Of these 12 transactions, 9 were to the same customer. At GPO, the Customer Services business unit is responsible for entering in the line of accounting, when required, at the time the order is received.

Without internal controls in place to ensure that all required and necessary information is being captured before a bill is processed, GPO can incur unnecessary chargebacks which will result in a delay of cash receipts and could potentially lead to the forfeit of the revenue should the appropriation year expire.

KPMG recommends that GPO more carefully review the information needed to process bills. In addition, once the chargeback team resolves an issue, it should be communicated to the billing department so they are aware of the error and can avoid making the same mistakes and, consequently, future chargebacks from the same customer.

Status of Prior Years' Audit Findings

Fiscal Year 2010 Management Letter Finding	Fiscal Year First Reported	Title	Status As of September 30, 2011
A: 10-NFR-10	2009	Controls over the review of inventory allowance should be improved	Closed
B: 10-NFR-14	2010	Controls over paper inventory should be strengthened	Open. See 11-NFR-04.
C: 10-NFR-04	2010	Controls over Legacy Commercial Unbilled Accounts Receivable needs improvement	Closed.
D: 10-NFR-03	2008	Reconciliation controls should be strengthened	Closed.
E: 10-NFR-05	2010	Reconciliation controls over Deposit Accounts should be Strengthened	Open. See 11-NFR-03.
F: 10-NFR-08	2010	Reconciliation controls over Accounts Receivable should be strengthened	Open. See 11-NFR-08.
G: 09-NFR-10	2009	Policies and Procedures over Code of Conduct need Improvement	Open. See 11-NFR-01.
H: 10-NFR-13	2010	Controls over review of the Financial Statements need Improvement	Closed.
I: 10-NFR-06	2010	Journal Entry Jacket should be Properly Safeguarded	Closed.