U.S. GOVERNMENT PRINTING OFFICE
OFFICE OF INSPECTOR GENERAL

MANAGEMENT LETTER
REPORT NUMBER 13-10

MANAGEMENT ADVISORY COMMENTS IDENTIFIED IN THE ENGAGEMENT TO AUDIT THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2012

March 20, 2013

Date

March 20, 2013

To

Acting Public Printer

From

Inspector General

Subject

Management Advisory Comments
Report Number 13-10

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, 2012. In connection with the audit engagement, KPMG also considered 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. 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

MICHAEL A. RAPONI
Inspector General

Attachment

cc:

Assistant Public Printer, Operations
General Counsel
Chief Financial Officer

KPMG

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Independent Auditors' Report

The Public Printer
United States Government Printing Office

Office of the Inspector General
Untied States Government Printing Office:

We have audited the accompanying consolidated balance sheets of the United States Government Printing Office (GPO) as of September 30, 2012 and 2011, and the related consolidated statements of revenues, expenses, and changes in retained earnings and cash flows (hereinafter referred to as "consolidated financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2012 audit, we also considered GPO's internal control over financial reporting and tested GPO's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these consolidated financial statements.

Summary

As stated in our opinion on the consolidated financial statements, we concluded that GPO's consolidated financial statements as of and for the years ended September 30, 2012 and 2011, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal control over financial reporting resulted in identifying certain deficiencies that we consider to be a material weakness and other deficiencies that we consider to be a significant deficiency, as defined in the Internal Control over Financial Reporting section of this report, in the following areas:

- Controls over Financial Reporting (Material Weakness)
- Processing and Maintenance of Human Resource and Payroll Information (Significant Deficiency)

The results of our tests of compliance with certain provisions of laws, regulations, and contracts disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards,* issued by the Comptroller General of the United States.

The following sections discuss our opinion on GPO's consolidated financial statements; our consideration of GPO's internal control over financial reporting; our tests of GPO's compliance with certain provisions of applicable laws, regulations, and contracts; and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of the United States Government Printing Office as of September 30, 2012 and 2011, and the related consolidated statements of revenues, expenses, and changes in retained earnings and cash flows for the years then ended.

KPMG

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the United States Government Printing Office as of September 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the Management's Discussion and Analysis section is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Internal Control over Financial Reporting

Our consideration of internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, in our fiscal year 2012 audit, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in Exhibit I to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Exhibit II to be a significant deficiency.

Exhibit III presents the status of prior year significant deficiencies.

We noted certain additional matters that we will report to management of GPO in a separate letter.

Compliance and Other Matters

The results of our tests of compliance as described in the Responsibilities section of this report disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*.

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Responsibilities

Management's Responsibilities. Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, and contracts applicable to GPO.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2012 and 2011 consolidated financial statements of GPO based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in *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 consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GPO's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2012 audit, we considered GPO's internal control over financial reporting by obtaining an understanding of GPO's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GPO's internal control over financial reporting.

As part of obtaining reasonable assurance about whether GPO's fiscal year 2012 consolidated financial statements are free of material misstatement, we performed tests of GPO's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to GPO. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

GPO's written responses to the findings identified in our audit and presented in Exhibits I and II were not subjected to the auditing procedures applied in the audit of GPO's consolidated financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of GPO's management, GPO's Office of Inspector General, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 25, 2013

Exhibit I

Fiscal Year 2012 Material Weakness

Controls over Financial Reporting

During fiscal year 2012 (FY12), we noted several matters that highlighted the need for improved internal controls over financial reporting in all key process areas relating to the preparation, review and posting of journal entries and the review and approval of account reconciliations. We also noted that manager and supervisor reviews were not performed timely or at a precision level that would detect and correct a material misstatement. Collectively, these matters are considered to be a material weakness in internal controls over financial reporting. Specifically, we noted the following:

- One accounts payable year end entry for $12.2 million was recorded incorrectly and was not identified during management's review, resulting in a $24.4 million misstatement of accounts payable. In addition, the same entry for $12.2 million was not supported by documentation but rather $9 million was the correct amount that should have been recorded. Management subsequently recorded entries to correct the errors as of September 30, 2012 (12-NFR-13).

- The year-end salary payable reconciliation was not properly prepared or reviewed as of September 30, 2012. Specifically, we noted that the original reconciliation provided did not agree to the general ledger by $5.9 million. After bringing this to management's attention, we subsequently received three more incorrect reconciliations before receiving one that agreed to the general ledger within an immaterial difference (12-NFR-12).

- We selected and tested a sample of 15 advance billing (deferred revenue) transactions and determined that 12 of the sample items tested, totaling $862,319, were recorded incorrectly as advanced billings. Because of the results of our audit work, management performed an analysis of the unbilled accounts receivables and determined further adjustments were required. The adjustments related to transactions recorded in FY12 and in prior years. In summary, management identified overstatements of $5.1 million related to 2012 transactions and $1.4 million related to prior fiscal years. Management recorded all adjustments in the FY12 financial statements. The opening balance of advance billings was overstated by approximately $1.4 million as a result of errors made in prior years. However, we determined that the consolidated financial statements were not materially misstated as of September 30, 2011 (12-NFR-16).

- We tested a sample of 35 unbilled accounts receivable transactions recorded in FY 12 totaling $11,194,359 and determined that:

    - 4 transactions totaling $374,061 were for projects completed in a prior year and no further billings were anticipated. Therefore, the billing variance should have been recorded in the prior fiscal year and not in FY 12, thus overstating revenue and accounts receivable in FY12.
    - For 1 transaction totaling $30,298, an expenditure was recorded twice that resulted in the unbilled amount and thus overstated revenue and accounts receivable.

Fiscal Year 2012 Material Weakness

Because of the results of our audit work, management performed an analysis of the unbilled accounts receivables and determined further adjustments were required. The adjustments related to transactions recorded in FY12 and in prior years. In summary, management identified overstatements of $2.7 million related to FY12 transactions and $2.4 million related to prior fiscal years. Management recorded all adjustments in the FY12 financial statements. The opening balance of unbilled accounts receivable was overstated by approximately $2.4 million as a result of errors made in prior years. However, we determined that the consolidated financial statements were not materially misstated as of September 30, 2011 (12-NFR-18).

- We selected and tested a sample of 35 accounts payable transactions and determined that the accrued amount for 7 items differed from the actual amount by more than $200,000, resulting in inaccurate accruals as of September 30, 2012. We determined that the Office of Finance and Administration did not review the estimates or true them up once invoices were received prior to making payments. Because of the results of our audit work, management performed an analysis of the accrued expenses and determined further adjustments netting to $2.3 million overstatement were required. Management identified an overstatement of $5.8 million due to incorrect accrual estimates by the regional office personnel and an understatement of $3.5 million because freight had been incorrectly excluded from the accrual estimate. Management recorded all adjustments in the FY12 financial statements (12-NFR-15).

- The Government Printing Office (GPO) did not record contingent liabilities in accordance with the Financial Accounting Standards Board Accounting Standards Codification (ASC) No. 450, *Loss Contingencies*. ASC 450 requires that an estimated loss from a loss contingency shall be accrued by a charge to income if the loss is both "probable" (the future event or events are likely to occur) and can be reasonably estimated. However, only a disclosure of the contingency shall be made if a loss does not meet the two conditions of "probable" but are at least "reasonably possible" (the chance of the future event or events occurring is more than remote but less than likely). GPO erroneously accrued items that were assessed as "reasonably possible," which resulted in an over-accrual of $210,000 at September 30, 2012 (12-NFR-14). GPO subsequently corrected this over accrual.

- During our inventory observation of management's year-end inventory counts at GPO's Central Warehouse, we noted that 4 of 25 selected items had been scrapped prior to the inventory count but no entry had been made to remove them from the general ledger. In addition, we identified two of five adjustments made by management were recorded incorrectly, and we determined that GPO had improperly classified passport test items held at an off-site location as inventory instead of a pre-paid expense. These errors resulted in an adjustment of $919,214 recorded by management as of September 30, 2012 (12-NFR-08).

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* requires the following:

- Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives, such as the process of adhering to requirements or budget

Fiscal Year 2012 Material Weakness

development and execution. They help ensure that actions are taken to address risks. Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results.

- Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes.

- Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

The conditions above were caused by deficiencies in internal controls over financial reporting regarding timely and appropriate management review to ensure all information processed was properly prepared, documented, and reviewed for accuracy and reasonableness. We also noted for these deficiencies that GPO staff did not always possess sufficient, appropriate understanding of the subsidiary ledgers or reports used in the reconciliations, including controls to ensure the completeness and accuracy of subsidiary ledgers.

Recommendations:

We recommend that GPO strengthen its controls over the timely and accurate preparation and review of reconciliations, journal entries, and other adjustments as follows:

1. Develop and implement policies and procedures to ensure that transactions recorded in accounts are appropriate throughout the year.
2. Provide training to personnel to increase their understanding of the subsidiary ledgers and reports used in the reconciliation process.
3. Require that reconciliation preparers ensure the completeness and accuracy of information prior to performing the reconciliations.
4. Perform reviews of reconciliations in a timely manner and at a monetary precision level that would detect and correct material errors.

Management Response:

Management concurs with these recommendations.

Fiscal Year 2012 Significant Deficiency

Processing and Maintenance of Human Resource and Payroll Information

We noted the following areas where the Government Printing Office (GPO) needs to improve its internal controls over processing and maintenance of human resource and payroll information:

- GPO uses Web Time & Attendance (WebTA), a web-based time and attendance program which employees use to enter and keep track of their hours worked and leave used. We selected a sample of 80 balances to test and identified 19 sample items where the annual leave balance recorded in WebTA did not agree to the annual leave balance reflected on the employee's Statement of Earnings and Leave (SE&L) prepared by the National Finance Center (NFC), GPO's payroll/personnel service provider. Management corrected the errors once brought to their attention.

- We selected a sample of 120 WebTA sheets to test and determined that 14 sample items were certified by a person not included on the list of approved supervisors. Additionally, no evidence was provided to verify that the individuals who certified the timesheets had been delegated that authority by an approved supervisor or that the supervisor had reviewed the timesheet in the following period for reasonableness.

- We selected a sample of 74 personnel files to test and identified 13 sample items with pay plan discrepancies. For 12 of these sample items, the GPO payment plan description reflected on the Standard Form (SF)-50, *Notification of Personnel Action,* did not agree to the GPO payment plan reflected on the SE&L prepared by the NFC. In addition, for 4 sample items (3 included the 12 sample items previously noted), the GPO payment plan description reflected on the SF-50 did not agree to the GPO payment plan description reflected on the SF-52, *Request/or Personnel Action,* maintained in the employee's personnel file. However, we noted that in each of these instances the employee's rate of pay reflected on the SF-50 and SF-52 were in agreement with the amount processed by NFC for the pay period tested.

- In our testwork over the GPO's Financial Accounting and Reporting Branch bi-weekly payroll accuracy review, we selected and tested a sample of 20 employees. We identified 2 instances where the review was not performed at the designed level of precision. Specifically, in 1 instance the control owner did not obtain supporting documentation for a step-increase, and in the other instance the control owner did not investigate a difference.

- We selected a sample of 74 employees and noted 1 instance where an employee was not paid the correct amount because certain hours worked were not properly coded on the timesheet.

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* requires the following:

- Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives, such as the process of adhering to requirements or budget development and execution. They help ensure that actions are taken to address risks. Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results.

Fiscal Year 2012 Significant Deficiencies

- Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes.

- Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

The conditions above were caused by deficiencies in internal controls to ensure all information processed is properly reviewed for accuracy and reasonableness.

Recommendations:

We recommend that GPO strengthen its controls over the processing and maintenance of human resource and payroll information as follows:

1. Perform a review of all information uploaded to NFC to verify that the upload was successful and accurate.

2. Develop and implement policies and procedures for employees and supervisors to reconcile annual leave balances and timely inform payroll personnel of any corrections that need to be made to ensure accurate leave balances are maintained.

3. Improve communication with NFC to ensure that: a) the GPO payment plan information reflected on the SF-50s maintained in employee personnel files is accurate; and b) employee pay plans provided to NFC agree with employee actions and their personnel file.

4. Develop and implement policies and procedures over the maintenance of authorized and approved Web Time & Attendance certifiers. Policies and procedures should be established to prevent inappropriate delegations of certifying authority. In addition, all approved delegates should be properly trained and able to determine the reasonableness of hours and/or expenses they are certifying.

5. Strengthen internal controls over supervisors' and timekeepers' review and reconciliation of employee's time sheets at an appropriate level of precision to ensure that employees are recording their time correctly to get paid accurately based on their pay rate and job classification.

6. Ensure that policies and procedures are followed within their precision guidance to allow for controls to operate effectively and at the precision necessary to detect and/or correct errors.

Fiscal Year 2012 Significant Deficiencies

Management Response:

Management concurs with these recommendations and has already worked to implement a corrective action plan.

Fiscal Year 2012 Significant Deficiencies

Prior Year Condition	Prior Year Recommendation	Status as of September 30, 2012
	Significant Deficiencies	
A. Controls over Processing and Maintenance of Human Resources and Payroll Information		
	We recommended that the U.S. Government Printing Office (GPO) strengthen its internal control over the processing and maintenance of human resource and payroll information as follows: 1. Perform a review of all information uploaded to the National Finance Center (NFC) to verify that the upload was successful and accurate. 2. Develop and implement policies and procedures for payroll personnel to reconcile annual leave balances per WebTA to NFC to ensure that leave hours are properly accrued and that the annual leave balance is correct at the end of each pay period. 3. Improve communication with NFC to ensure that: a) the GPO payment plan information reflected on the SF-50s maintained in employee personnel files are accurate; and b) employee pay plans provided to NFC agree with employee actions and their personnel file. 4. Develop and implement policies and procedures over the maintenance of authorized and approved Web Time & Attendance certifiers. Policies and procedures should be established to prevent inappropriate delegations of certifying authority. In addition, all approved delegates should be properly trained and able to determine the reasonableness of hours and/or expenses which they are certifying.	**Repeated in FY 2012, see Exhibit II.**

Fiscal Year 2012 Significant Deficiencies

Prior Year Condition	Prior Year Recommendation	Status as of September 30, 2012
B. Information Technology General and Application Controls		
1. Security Management	We recommended that GPO ensure that a. GPO documents systems security plans and risk assessments in detail sufficient to plan system security controls for general support systems and major applications that are equivalent to the National Institute of Standards and Technology Special Publication 800-53 high-impact baseline controls. b. Security assessment testing used to support decisions to authorize systems for operation covers all planned system security controls at the point of initial authorization and at least once every three years thereafter, and includes descriptions of the test procedures performed and the results obtained. c. The General Business Information System (GBIS) application is re-authorized to operate.	**Closed**
2. Access Controls	We recommended that GPO management ensure that: a. The sign out process for removing system access from separated personnel be evaluated, revised as necessary, and formally documented to help ensure that system access is removed at the time personnel leave GPO. b. Procedures for periodically reviewing and recertifying access to GPO systems are evaluated, revised as necessary, and formally documented to help ensure that access is reviewed on a periodic basis and that the review is documented.	**Management Letter Comment** This finding has been partially repeated in FY 2012 but is no longer considered a Significant Deficiency.

Exhibit III

Fiscal Year 2012 Significant Deficiencies

Prior Year Condition	Prior Year Recommendation	Status as of September 30, 2012
3. Segregation of Duties	We recommended that GPO management revise procedures for maintaining segregation of duties within GBIS so that the procedures include sufficient detail to identify conflicting roles within GBIS.	**Management Letter Comment** This finding has been partially repeated in FY 2012 but is no longer considered a Significant Deficiency.
4. Configuration Management	We recommended that GPO management ensure that Information Technology and Systems should continue to centrally manage desktop and laptop patch management to help ensure that security patches are deployed to desktops and laptop computers in a timely manner.	**Management Letter Comment** This finding has been partially repeated in FY 2012 but is no longer considered a Significant Deficiency.
5. Contingency Planning	We recommended that management: a. Finalize and approve the contingency plan for GPO General Support System. b. Periodically perform contingency plan testing and document the test plans and the results for GPO General Support System.	**Management Letter Comment** Management has drafted the required documents and they are waiting on approval.