U.S. GOVERNMENT PUBLISHING OFFICE
OFFICE OF INSPECTOR GENERAL

MANAGEMENT LETTER
REPORT NUMBER 15-04

MANAGEMENT LETTER COMMENTS
FY 2014 Independent Auditor's Report

February 13, 2015

GOVERNMENT PUBLISHING OFFICE
OFFICE OF INSPECTOR GENERAL

Date

February 13, 2015

To

Director, U.S. Government Publishing Office

From

Inspector General

Subject:

Management Letter Comments
Report Number 15-04

In connection with the audit of the U.S. Government Publishing Office's FY 2014 financial statements, KPMG LLP (KPMG), provided the attached letter to describe comments and recommendations intended to improve internal controls or other operating efficiencies.

KPMG is responsible for the attached management letter comments. However, in connection with the contract, we reviewed KPMG's management letter 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.

We appreciate the courtesies extended to KPMG and to our audit staff. 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:
Deputy Director, U.S. Government Publishing Office
General Counsel
Chief of Staff
Chief Financial Officer

KPMG

UNITED STATES GOVERNMENT PRINTING OFFICE

MANAGEMENT LETTER

FOR THE YEAR ENDED SEPTEMBER 30, 2014

United States Government Printing Office

Management Letter

For the Year Ended September 30, 2014

Table of Contents

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

February 2, 2015

Director
United States Government Publishing Office

Office of the Inspector General
United States Government Publishing Office:

In planning and performing our audit of the consolidated financial statements of the United States Government Printing Office (GPO), as of and for the year ended September 30, 2014, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered GPO's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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, are intended to improve internal control or result in other operating efficiencies and are summarized in Appendix A to this report. Appendix B presents the status of prior year findings.

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.

The purpose of this letter is solely to describe 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

Comments and Recommendations

A. Processing of Personnel Actions (14-NFR-01)

During our testwork of 27 payroll samples, we noted the following:

- For one sample item, the Standard Form 52, *Request for Personnel Action* (SF-52) was initiated and reviewed by the same Human Capital Specialist.
- For one sample item, a Human Capital Specialist certified and approved the SF-52. However, they did not have the authority to approve the SF-52.
- For one sample item, there was no evidence of review documented on the SF-52 and the Human Capital Specialist did not have the authority to approve the SF-52.

In addition, for the instances noted above where the Human Capital staff did not have the authority to approve the SF-52s, GPO did not provide documentation to support that the Chief of Human Capital Operations delegated the authority to approve the SF-52s to these individuals.

The above issues occurred because there are no adequate controls in place to ensure that Human Capital personnel are in compliance with GPO's policies and procedures over the review and approval of the SF-52s.

In each of these instances, even though the SF-52 did not have the appropriate review or approval documented, the corresponding Standard Form 50, *Notification of Personnel Action* SF·50, was properly approved by Chief of Human Capital Operations.

The lack of adequate controls over the review and approval of the SF-52s, increases the risk that payroll expense and related benefits reported in GPO's consolidated financial statements could be materially misstated.

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

- Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks. As part of the control environment component, management defines responsibilities, assigns them to key roles, and delegates authority to achieve the entity's objectives.
- A deficiency in the implementation of a control exists when a properly designed control is not implemented correctly in the internal control system.
- Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them,

reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

- Effective documentation assists in management's design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel. Documentation also provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel, as well as a means to communicate that knowledge as needed to external parties, such as external auditors.

The Office of Personnel Management (OPM) Guide to Processing Personnel Actions states the following:

- An appointing officer is an individual in whom the power of appointment is vested by law or to whom it has been legally delegated. Only an appointing officer may sign and date the certification in Part C-2 of the Standard Form 52 or blocks 50 and 49 of the Standard Form 50 to approve an action.
- Under 5 U.S.C. 302, the head of an agency may delegate appointing authority to subordinates. Such delegations are generally made to the agency's director of personnel who then re-delegates the authority to other members of the personnel staff, as necessary. A delegation of appointing authority may be made to a specific individual or to the incumbent of a specific position. The delegation must be in writing and define clearly the extent of the authority being granted, for example, authority to approve all within-grade increase actions

We recommend that GPO develop and implement procedures to ensure that GPO's Human Capital personnel are in compliance with GPO's policies and procedures related to the review and approval of the SF-52s. Such policies and procedures should include procedures to ensure that proper segregation of duties are in place and that delegation of authority to review and approve the SF-52s is done in writing.

B. Recording of Fixed Assets Disposals (14-NFR-02)

During our testwork over capital asset disposals totaling $130,105 for FY 2014, we noted that there are inconsistent policies regarding when an asset can be removed from GPO's books. Per GPO directive 805.7B, an asset cannot be recorded as disposed until receipt of the approved UPR Routing Slip and the Report of Unserviceable or Surplus Property Memo, however the process owner indicated equipment is retired when the Return to Stores form is returned to Finance and the disposal section is filled out. Therefore, a conflicting understanding of the appropriate time to record asset disposals exists. Per further inquiry it was noted that there was also a delay in the process owner receiving the Return to Stores Forms timely from the Materials Management group, the group that is responsible for approving the method in which the asset is to get disposed of. As a result of these inconsistent policies, we noted the following during our testwork:

- Of a sample of three disposed assets selected for testing totaling $70,914, we noted that 1 asset in the amount of $26,595, was not properly approved before it was sold. Specifically, we noted that this fully depreciated asset was sold on 2/10/2014, 11 days prior to receipt of approval as documented on the Unserviceable Property Report (UPR) Routing Slip and the Report of Unserviceable or Surplus Property Memo.

- During our cut off testwork over disposals, we also identified one fixed asset with an acquisition value of $1,453,767 that was properly disposed of after receiving the approvals on the Return to Stores form, Unserviceable Property Report (UPR) Routing Slip and the Report of Unserviceable or Surplus Property Memo, however it was not properly removed from the FY 14 books. As a result, disposals and accumulated depreciation were no properly stated at September 30, 2014. As this asset was fully depreciated as of 9/30/14, it had not impact on the financial statements.

As there are multiple departments involved in the proper disposing of and recording of fixed assets, there are inconsistent policies and procedures in place as to when an asset can be and should be disposed of and removed from GPO's general ledger.

Without proper controls in place to ensure that assets are only sold after receipt of approval, fixed assets could be improperly disposed of by GPO employees. In addition, without proper controls in place to ensure the general ledger is updated timely for the disposed asset, and without all the relevant departments involved in the process having a clear understanding of the process, GPO's capital assets, accumulated depreciation and depreciation expense reported in GPO's consolidated financial statements could be misstated.

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

- 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.
- 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.

Directive 805.7B, *Return to Stores and Disposition and/ or Sale of Surplus Accountable Government Printing Office Property* states:

- Section 9. Nomination for Condemnation, subparts b and c:
  b. Review by Engineering Division. The UPR will be forwarded to the Director of Engineering Service for concurrence that all spare parts have been included, and the equipment should or should not be utilized for spare parts rather than being sold. The Engineering Division will return the UPR to Stores Division

for further processing. This concurrence will be required only for Production Equipment (Category C item records).

c. Review by the Board of Condemnation. The Chief, Stores Division, will forward all UPR's to the Board of Condemnation for signatures.

- Section 10. Board of Condemnation Action:
  The Board of Condemnation, authorized by 44 U.S.C. 313, is composed of the Deputy Public Printer (Chairman), Director of Production Services, and a designee of the Joint Committee on Printing. The Board shall consider items that have an original acquisition value of $2,500 or more, and shall approve/disapprove the recommendation and direct disposition of the surplus property. The Deputy Public Printer shall inform the Public Printer when condemnation involves property of substantial monetary value or is otherwise of a special or unique nature.

- Section 12. Disposition Action:
  Once a UPR has received all signatures from the Board of Condemnation or its Subboard, the UPR is forwarded to the Chief, Stores Division, for appropriate action. Only UPR's indicating "Sell or Trade-In" will be forwarded to Specialized Procurement and Sales Section for appropriate action. All "Scrap" items will be scrapped to the appropriate scrap contract.

- Section 13. Records:
  Upon completion of sale, trade-in, or scrap, the Chief, Stores Division, will sign the original UPR indicating final disposition action. The original UPR will be forwarded to the General Ledger and Property Section, Office of Financial Management.

We recommend that GPO develop and implement policies and procedures to ensure that:

1. The appropriate process for disposing of capitalized fixed assets is documented and disseminated to all employees involved in the process.
2. Disposed assets are timely and accurately removed from the general ledger.

C. Authorization for Purchase Requisitions (14-NFR-04)

During our testwork over a sample of 64 purchase requisitions (PR) related to non-commercial printing expenses and capital asset additions totaling $5,635,776.97 and $15,626,299, respectively, we noted that one PR was not properly authorized. According to GPO Procurement Policies, all changes to the purchase requisitions are required to be authorized by the appropriate officials within their authorized limits. The original PR was properly authorized, but then the amount of the PR increased by $2,479,637, which required an amended PR with additional approvals. There was no evidence of an amended PR in the file, thus the PR amount did not agree with the amount on the executed purchase order (PO). Although there was not an amended PR, we did obtain supporting documentation through letters, memorandums and emails, demonstrating that all required approvals were obtained with the exception of that of the Controller. Approvals by GPO's oversight committee were properly obtained.

GPO did receive all necessary approvals from the Joint Committee on Printing as the procurement action was greater than $50,000. However, GPO did not follow their procurement policy regarding internal approvals which requires that a purchase over $5,000 be approved by Budget Controller, Chief Financial Officer, Director of Acquisitions and the Deputy Public Printer. Acquisitions obtained all of the internal approvals except for the Controller; therefore, this purchase requisition was not properly approved.

Without proper controls in place and adherence to the GPO's procurement policy, GPO's funds may be obligated for unauthorized purchases.

The GAO *Standards for Internal Control in the Federal Government* states:

- 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.
- 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.

The Government Printing Office's Materials Management Acquisition Regulations **13.305-4 (a)** states:

> each purchase using imprest funds or third party drafts shall be based upon an authorized purchase requisition, contracting officer verification statement, or other agency approved method of ensuring that adequate funds are available for the purchase.

We recommend that GPO strengthen their controls to ensure they follow their procurement policy as it relates to the proper authorization of the purchase requisitions and to properly maintain supporting documentation.

D. Accrued Annual Leave Estimate (14-NFR-05)

During Fiscal Year 2014, we noted that GPO did not take into consideration certain key assumptions that resulted in an understatement of $148,368 in the accrued annual leave liability estimate. Specifically we noted the following:

- GPO used a leave liability report generated from the National Finance Center (NFC), based on a calendar year and not a fiscal year to compute the annual leave liability estimate. Accordingly, GPO based their calculation on the first 18 pay periods (nine months) in calendar year 2014 and did not document the rationale for why not considering these three months is reasonable and would not materially impact their calculation.
- The Productivity Reporting for Operations, Budgeting and Expenditures (PROBE) report that GPO used to determine the leave used to date only included the leave used by production employees, and did not include the leave used by non-production employees.

GPO did not properly document the process for calculating the accrued annual leave liability estimate, including the key assumptions and other inputs used in the calculation.

Without properly documenting the process for calculating the accrued annual leave liability estimate and adequate review of the calculation, there is an increased risk that accrued annual leave liability reported in GPO's consolidated financial statements could be misstated.

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

- 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.
- 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.

We recommend that GPO develop and document detailed procedures over the preparation of the accrued annual leave liability estimate, including the identification of the assumptions and other inputs used and the sources for such information.

E. Annual Leave Discrepancies (14-NFR-06)

During our fiscal year 2014 test work over GPO's employee annual leave, we noted that GPO did not consistently reconcile the annual leave balances in WebTA to the balances recorded by

NFC and reflected on the employee's Statement of Earning and Leave (SE&L). Additionally, GPO did not consistently review year-end carry over balances to ensure that they were in line with GPO policies.

Specifically, we noted that for 1 of the 27 annual leave balances selected for testing, the WebTA leave balance did not agree to the annual leave balance recorded by NFC on the SE&L. Although GPO was able to provide supporting documentation for the leave changes sent to NFC, which agreed to the leave balance per NFC and the SE&L, these changes were not reflected in WebTA. GPO subsequently corrected the error in WebTA.

In addition, for 1 of the 27 annual leave balances selected for testing, the maximum annual leave accrual was set above GPO's limit. The employee, who transferred to GPO in 2010, was allowed a leave accrual maximum of 286 hours, which is 46 hours greater than the 240 maximum allowed by GPO. GPO subsequently corrected the error with NFC and in WebTA.

The GPO payroll department responsible for making corrections in WebTA did not consistently enter corrections in WebTA and did not consistently perform a reconciliation of data between WebTA and NFC. In addition, GPO's payroll department did not consistently ensure that employee's leave accruals adhered to GPO policy.

The lack of adequate controls over the reconciliation and input of annual leave data in WebTA and NFC increases the risk that payroll and benefit expenses reported in GPO's financial statements could be materially misstated.

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

> 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 its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.

We recommend that GPO:

1. Develop and implement standard operating procedures detailing how to correctly enter leave adjustments in the WebTA system and the NFC mainframe.
2. Develop and implement policies and procedures for the GPO payroll department personnel to consistently reconcile annual leave balances and other payroll information per WebTA to NFC to ensure that the payroll information, including the number of hours accrued per pay period, are properly recorded in the general ledger and that any differences are investigated and resolved timely.

Status of Prior Years' Audit Findings

FY 2013 Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2013	FY 2014 Status of Comment Reported in the FY 2013
13-NFR-01	2009	Processing and Maintenance of Human Resources Data	Open. See 14-NFR-01
13-NFR-02	2009	Annual Leave Discrepancies	Open. See 14-NFR-06
13-NFR-05	2012	Improper Authorization of Purchase Orders	Closed.
13-NFR-06	2012	Deposit Accounts Maintenance	Closed.
13-NFR-08	2013	Missing Documentation to Support RF2 P&B Costs	Closed.
13-NFR-11	2013	Improper Authorization for Purchase Requisitions	Open. See 14-NFR-04.
13-NFR-12	2013	Completeness of the New Hires and Terminations Listing	Closed.
13-NFR-13	2012	Untimely Recording of Disposed Assets	Open. See 14-NFR-02
13-NFR-14	2013	Validity of Accrued Annual Leave Estimate	Open. See 14-NFR-05.