



U.S. GOVERNMENT PUBLISHING OFFICE

OFFICE OF INSPECTOR GENERAL

**MANAGEMENT LETTER
REPORT NUMBER 17-04**

**Management Letter
FY 2016 Financial Statements**

January 19, 2017



Date

January 19, 2017

To

Director, U.S. Government Publishing Office

From

Inspector General

Subject:

Management Letter—FY 2016 Financial Statements
Report Number 17-04

In connection with the audit of the U.S. Government Publishing Office's FY 2016 financial statements, the Office of Inspector General (OIG) is providing the attached letter to describe comments and recommendations intended to improve internal controls or other operating efficiencies associated with financial accounting. The findings and recommendations are detailed in the attached management letter.

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.

A handwritten signature in black ink that reads '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

UNITED STATES GOVERNMENT PUBLISHING OFFICE

**MANAGEMENT LETTER
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

United States Government Publishing Office

Management Letter

For the Year Ended September 30, 2016

Table of Contents

Management Letter	1
Appendix A: Comments and Recommendations	A-1
A. Improper recording of fixed assets disposals (16-NFR-02).....	A-1
B. Insufficient control activities and review within acquisition services (16-NFR-03)	A-1
C. Processing of personnel actions (16-NFR-04)	A-3
D. Insufficient controls over inventory held by others (16-NFR-06)	A-4
E. Insufficient controls over financial reporting (16-NFR-07)	A-4
Appendix B: Status of Prior Years' Audit Findings	B-1



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

December 15, 2016

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 Publishing Office (GPO), as of and for the year ended September 30, 2016, 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. Comments involving internal control and other operational matters pertaining to the audit procedures performed over GPO's general and application controls over information technology systems that support the consolidated financial statements were communicated to you in a separate letter dated December 15, 2016.

In addition, we communicated to you in our *Independent Auditors' Report* dated December 15, 2016 a deficiency in internal control that we consider to be a significant deficiency.

Our audit procedures are designed primarily to enable us to form an opinion on the 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. Improper recording of fixed assets disposals (16-NFR-02)

During our testwork over capital asset disposals we noted that GPO needs to strengthen their internal controls over the timely removal of capital assets from the financial records. Specifically we noted that, one asset totaling \$43,007 was scrapped in November 2015 but not removed from the general ledger until March 2016.

The Materials Management group is responsible for approving the disposal method of assets and then providing the approved Return to Stores Forms to the Financial Reporting group to remove the asset from the financial records. The Materials Management group is not providing these forms to the Financial Reporting group in a timely manner, thus causing delays in removing the items from the general ledger.

Without proper controls in place to ensure the general ledger is updated timely for the disposed assets, there is an increased risk that capital assets and accumulated depreciation reported in the general ledger may be misstated.

The Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (the Standards), states, "Transaction control activities are actions built directly into operational processes to support the entity in achieving its objectives and addressing related risks. "Transactions" tends to be associated with financial processes (e.g., payables transactions), while "activities" is more generally applied to operational or compliance processes. For the purposes of this standard, "transactions" covers both definitions. Management may design a variety of transaction control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities."

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

1. Disposed assets are timely and accurately removed from the general ledger.
2. Fully depreciated items are appropriately reviewed and evaluated for removal from the general ledger.

B. Insufficient control activities and review within acquisition services (16-NFR-03)

We noted that Acquisition Services is not following GPO's internal policies and procedures over the review and approval of procurements. Specifically, we noted the following:

- Eight out of 30 purchase orders (PO) tested related to fixed assets provided by Acquisition Services were not signed by the contracting officer.
- One out of 51 purchase requisitions (PR) tested related to fixed assets was not signed by the Acting Chief of Acquisitions even though it was above the \$25,000 threshold requiring this approval.
- One procurement sample in the amount of \$1,583,489 was not properly reviewed and approved by three members of the Contract Review Board (CRB).

- Two out of 11 procurements related to other contractual services had differences between the amount in the PR and the PO. These variances exceeded GPO's allowable difference of 10%, therefore they should have been re-submitted to Finance and the Joint Committee on Printing (JCP) for approval. No such approval was received.
- One out of 11 procurements tested for other contractual services used memos in lieu of PR to increase the funding. However, as the procurement increased by more than \$50,000 in the aggregate, the increase should have been re-submitted to Finance and JCP for approval. No such approval was received.

There are inadequate controls in place to ensure that Contracting Officers are following GPO's procurement policies and procedures by performing the appropriate procedures to review and approve procurements before being issued.

Without adhering to GPO's procurement policy, there is an increased risk that unauthorized procurement of goods or services may occur without being detected.

The GAO Standards states, "Transactions are authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources are initiated or entered into. Management clearly communicates authorizations to personnel."

The GAO Standards also states, "Transaction control activities are actions built directly into operational processes to support the entity in achieving its objectives and addressing related risks. "Transactions" tends to be associated with financial processes (e.g., payables transactions), while "activities" is more generally applied to operational or compliance processes. For the purposes of this standard, "transactions" covers both definitions. Management may design a variety of transaction control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities."

GPO Directive 110.15C, U.S. Government Printing Office (GPO) Contract Review Board (CRB), states:

"9. The CRB will consist of not less than three members [...]

10. The CRB memorandum must be signed and dated by no fewer than three (3) CRB members, including the Chairperson, CRB. Concurrence or nonconcurrence of each CRB member must be indicated by his or her dated signature on the CRB memorandum, together with any reasons for nonconcurrence. The memorandum shall be included in the official contract file and shall be available for immediate review by any authorized person. In the event that one or more CRB members do not concur with the CO's proposed action, the Board members may consult jointly to ensure that all facts have been considered before returning the proposed action to the CO.

11. The actions cited below shall be referred to the CRB for its review. In preparing for Board submission, the factors set forth under the applicable action and any other appropriate information shall be addressed in addition to—not in lieu of—the requirements of Subsection 10.a above.

a. Prior to award

- (1) Proposed award over \$100,000 in total value or an award involving PII or other sensitive information, regardless of total dollar value."

GPO Directive 805.1F, Required Approvals of GPO Procurements and Other Actions by the Joint Committee on Printing, states:

"4. c. (2) Additional purchases, contracts, leases, and rentals where the cost exceeds \$50,000 must be submitted to the Strategic Investment Committee for review and approval. If the Committee approves the request, the Office of Congressional Relations will prepare a letter for the signature of the Public Printer to the JCP requesting the necessary approval."

We recommend that:

1. GPO implement internal controls that require a secondary review of new contracts and/or modifications to existing contracts that are over \$100,000 to ensure that such contracts and modifications are properly reviewed and approved by a minimum of three (3) members of the CRB, as required by GPO's policies.
2. GPO strengthens their monitoring controls over the procurement approval process to ensure Contracting Officers are following the policies and procedures in place regarding the review and approval of purchases.

C. Processing of personnel actions (16-NFR-04)

During our testwork over personnel terminations, we noted that GPO's controls over the processing of the Standard Form 52, *Request for Personnel Action* (SF-52), were not operating effectively. Specifically we noted that for two of the 25 employees selected for testing, the SF-52 was signed by someone other than a team lead or manager and who is not authorized to sign the SF-52.

Human Capital personnel have not been appropriately informed of GPO's policies and procedures over the review and approval of the SF-52s.

Without proper internal controls in place to ensure information processed is being reviewed and approved by the appropriate individuals, personnel files could contain incorrect information which may lead to misstatements in personnel and benefit expense reported in the general ledger.

The GAO Standards states, "Transactions are authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources are initiated or entered into. Management clearly communicates authorizations to personnel."

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

"-The SF-52 is used by supervisors and managers to request position actions, employee actions, and actions involving both a position and an employee, such as the establishment and filling of a position. Employees may also use the form to notify the agency of their resignation or retirement, to request Leave without Pay (LWOP) and to request a name change. The personnel office uses the form to record staffing, classification, and other personnel determinations, and then uses the information to prepare the SF-50.

-Most personnel actions must be approved by the appointing officer on or before their effective dates. 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 block 50 and 49 of the Standard Form 50 to approve an action."

We recommend that GPO strengthen their internal controls in place over the review and approval of personnel actions to ensure that the delegation of authority is limited to appropriate personnel.

D. Insufficient controls over inventory held by others (16-NFR-06)

During our testwork over inventory, we noted that GPO did not have adequate controls in place to ensure that inventory activities with a third party are properly accounted for and reported in the general ledger. Specifically, we noted that certain blank papers were not being properly reduced from the inventory held by others account balance when the third party returns the processed blank paper to GPO. This resulted in an overstatement of the inventory account balance of \$1,115,473.

The GAO Standards states, "Transaction control activities are actions built directly into operational processes to support the entity in achieving its objectives and addressing related risks. "Transactions" tends to be associated with financial processes (e.g., payables transactions), while "activities" is more generally applied to operational or compliance processes. For the purposes of this standard, "transactions" covers both definitions. Management may design a variety of transaction control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities."

We recommend that management strengthen their policies and procedures over inventory held by others to ensure that inventory items are appropriately identified, reconciled and recorded in the general ledger on a timely basis.

E. Insufficient controls over financial reporting (16-NFR-07)

Based on our testwork over the financial reporting process, we noted improvements in controls over the monthly account reconciliations process. However, we continue to note that monthly account reconciliations performed by accounting and finance staff over various process areas were not reviewed at an appropriate precision level that would detect certain misstatements in the financial statements. Specifically, we noted the following:

- For the Annual Allowance for Doubtful Accounts Calculation as of September 30, 2016, GPO did not review the account balance prior to closing the year end general ledger to ensure the correct adjustment was made. This resulted in approximately a \$14,000 overstatement of the Allowance for Doubtful Accounts Receivable balance.
- For the commercial printing lag factor accrual, GPO made several mathematical errors in their calculation that was not detected by management's review, resulting in differences of approximately \$109,000.

As a result of continued reorganization of duties in various GPO departments, management reviews were not performed to the precision level in which they are designed to be performed.

Without adequate management review designed with a precision detailed enough to detect errors, there is an increased risk that GPO account balances reported in the general ledger may be misstated.

The GAO Standards states, "Transaction control activities are actions built directly into operational processes to support the entity in achieving its objectives and addressing related risks. "Transactions" tends to be associated with financial processes (e.g., payables transactions), while "activities" is more generally applied to operational or compliance processes.

Appendix A

For the purposes of this standard, “transactions” covers both definitions. Management may design a variety of transaction control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities.”

We recommend that GPO management continue to improve the controls in place over the preparation and review of periodic reconciliations and accrual calculations, including the level of precision, to ensure that such reconciliations and accrual calculations are adequately prepared and reviewed.

Appendix B

Status of Prior Years' Audit Findings			
FY 2015 Comment Number	FY Comment Originated	Title	FY 2016 Status of Comment Reported in FY 2015
15-NFR-02	2012	Untimely Recording of Fixed Assets Disposals and Lack of Adequate Supporting Documentation	Open. See 16-NFR-02.
15-NFR-03	2013	Lack of Contract Review Board Approval	Open. See 16-NFR-03.
15-NFR-04	2013	Inadequate Controls Over Financial Reporting	Open. See 16-NFR-07.
15-NFR-07	2009	Inadequate Review of Personnel Action Forms	Open. See 16-NFR-04.
15-NFR-08	2015	Misclassification of Inventory	Closed.
15-NFR-09	2013	Customers' Billing Process for Goods and Services Provided Needs Improvement	Closed.