Audit Report

OIG-15-022

Management Letter for the Audit of the Bureau of Engraving and Printing's Fiscal Years 2014 and 2013 Financial Statements

December 12, 2014

Office of Inspector General

Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 12, 2014

MEMORANDUM FOR LARRY R. FELIX, DIRECTOR
BUREAU OF ENGRAVING AND PRINTING

FROM: Michael Fitzgerald
Director, Financial Audit

SUBJECT: Management Letter for the Audit of the Bureau of Engraving and Printing's Fiscal Years 2014 and 2013 Financial Statements

I am pleased to transmit the attached management letter in connection with the audit of the Bureau of Engraving and Printing's (BEP) financial statements for fiscal years 2014 and 2013. Under a contract monitored by the Office of Inspector General, KPMG LLP (KPMG), an independent certified public accounting firm, performed an audit of the financial statements of BEP as of September 30, 2014 and 2013, and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

As part of its audit, KPMG issued, and is responsible for, the accompanying management letter that discusses other matters involving internal control over financial reporting and its operations that were identified during the audit but were not required to be included in the auditors' reports.

In connection with the contract, we reviewed KPMG's letter and related documentation and inquired of its representatives. Our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards and OMB Bulletin No. 14-02.

Should you have any questions, please contact me at (202) 927-5789 or a member of your staff may contact Ade Bankole, Manager, Financial Audit, at (202) 927-5329.

Attachment

THE DEPARTMENT OF THE TREASURY

BUREAU OF ENGRAVING AND PRINTING

MANAGEMENT LETTER

FOR THE YEAR ENDED SEPTEMBER 30, 2014

DECEMBER 9, 2014

BUREAU OF ENGRAVING AND PRINTING
MANAGEMENT LETTER
FOR THE YEAR ENDED SEPTEMBER 30, 2014

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

December 9, 2014

The Inspector General, Department of the Treasury and
The Director of the Bureau of Engraving and Printing, Department of the Treasury:

In planning and performing our audit of the financial statements of the Bureau of Engraving and Printing (the Bureau), as of and for the year ended September 30, 2014, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements,* we considered the Bureau'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 financial statements. In conjunction with our audit of the financial statements, we also examined management's assertion that the Bureau maintained effective internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

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.

Our audit procedures are designed primarily to enable us to form opinions on the financial statements and on management's assertion on the effectiveness of internal control over financial reporting and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. We aim, however, to use our knowledge of the Bureau'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 Bureau's responses to the deficiencies identified in our audit are described in Appendix A. The Bureau's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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

Deficiencies in Internal Control Related to the Disposal of Capitalized Property

When the Bureau disposes of capitalized property, a Form 8540: *Report of Excess Property* is required to be completed.

During our fiscal year 2014 audit, we noted that the Bureau could not provide Form 8540 for 247 fixed assets that were removed from service during the current fiscal year.

The Bureau Financial Policy Manual, Version 2.2 (October 2013) states that, "Personal property that no longer meets the operational requirements of the Bureau shall be disposed of in accordance with established policy utilizing BEP Form 8540, Report of Excess Property."

The Bureau Office of Facilities Support Standard Operating Procedures for Personal Property Management (SOPPPM) states that, "[The Program Manager] forwards the BEP Form 8540 to Office of Financial Management (OFM) for adjustment of financial records."

The 1992 version of the Committees of Sponsoring Organizations Internal Controls Integrated Framework, states the following, "Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties."

OMB Circular No. A-123, Management Accountability and Control, Section II: Establishing Management Controls, states the following: "Transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination."

The Bureau's program officials do not consistently monitor employees' compliance with the Bureau's policies and procedures that require completing Form 8540 timely to report asset disposals. The 247 fixed assets that were removed from service during the current fiscal year had a gross value of $56,956,767 and a net value of $634,044. The lack of timely completion of Form 8540 increases the risk that gross capital asset and accumulated depreciation balances could be overstated.

We recommend that the Bureau reinforce, through additional training, the policy in the SOPPPM which requires Bureau employees to timely complete and submit Form 8540 to ensure that fixed assets are removed timely from the accounting records.

<u>Management Response:</u>
Management concurs with the finding and will ensure that all program offices understand the significance of properly communicating the disposal of assets. The Accounting Division will work with the Office of Compliance (OC) and the Office of Facilities Support (OFS) in conducting a broad Lean Six Sigma (LSS) project across the entire Bureau to ensure the proper identification and communication of the disposal of assets.

Deficiencies in Internal Control over the Review of Roles Assigned to HRConnect Privileged Users

The Office of Human Resources (OHR) within the District of Columbia Facility (DCF) of the Bureau utilizes the HRConnect system, which is hosted by Departmental Operations within the Department of Treasury, to input and maintain salary and benefits information for the employees at DCF.

During our fiscal year 2014 audit, we noted that management did not have formal written account creation procedures for HRConnect, including a review of the roles assigned to HRConnect privileged users to determine whether the users are assigned a combination of roles that create segregation of duties conflicts. Accordingly, there is no evidence that adequate segregation of duties existed among those users with privileged roles and permissions.

National Institute of Standards and Technology (NIST) SP 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*, states, among other things, that an organization develops, documents, and disseminates an access control policy that addresses purpose, scope, roles, responsibilities, management commitment, coordination among organizational entities, and procedures to facilitate the implementation of the access control policy and associated access controls. NIST SP 800-53, Revision 4 also states that the organization separates, documents separation of duties of individuals, and defines information system access authorizations to support separation of duties.

There are no written policies that require Bureau management to establish a formal HRConnect account creation process including a review of the roles assigned to those users to determine whether Bureau HRConnect users are assigned a combination of roles that could create a segregation of duties conflict. The lack of a documented, structured account creation process over the HRConnect application increases the risk of users being assigned roles/privileges in excess of those needed to perform their job functions, thus increasing the risk of users violating established business rules.

We recommend that the Bureau (1) define and document HRConnect account creation procedures that include processes for requesting, approving, and establishing user accounts, (2) conduct a risk assessment of HRConnect's i) process for provisioning new users and ii) privileged roles and permissions, and document provisioning controls and incompatible roles and permissions in the HRConnect System Security Plan (SSP) or Standard Operating Procedures (SOPs), (3) develop a segregation of duties (SOD) matrix or policy, which complies with the IT security standards from Treasury and NIST for privileged HRConnect users and defines what specific roles and permissions should be assigned by job function when provisioning user accounts, (4) use the SOD matrix developed above to analyze existing HRConnect users with privileged roles and permissions and validate whether they are appropriate based on the SOD matrix, and (5) remove any inappropriate access that does not comply with the SOD matrix.

<u>Management Response:</u>
Management concurs with the recommendations and will take the necessary steps to implement policies and procedures related to the processes for requesting, approving, and establishing user accounts for HRConnect. Additional efforts related to the development of a risk assessment model and segregation of duties matrix will require cross-functional coordination between the Office of Critical Infrastructure and IT Security (OCIITS) and the OHR.