



Audit Report



OIG-20-032

FINANCIAL MANAGEMENT

Management Letter for the Audit of the Bureau of Engraving and Printing's Financial Statements for Fiscal Years 2019 and 2018

April 20, 2020

Office of Inspector General
Department of the Treasury

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OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

April 20, 2020

**MEMORANDUM FOR LEONARD R. OLIJAR, DIRECTOR
BUREAU OF ENGRAVING AND PRINTING**

FROM: James Hodge /s/
Director, Financial Audit

SUBJECT: Management Letter for the Audit of the Bureau of Engraving
and Printing's Financial Statements for Fiscal Years 2019 and
2018

We hereby transmit the attached subject management letter. Under a contract monitored by our office, KPMG LLP (KPMG), a certified independent public accounting firm, audited the financial statements of the Bureau of Engraving and Printing as of September 30, 2019 and 2018, and for the years then ended. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, *Financial Audit Manual*.

As part of its audit, KPMG LLP issued the attached management letter dated April 16, 2020, that discusses matters involving deficiencies in internal control over financial reporting that were identified during the audit. These matters relate to the following areas:

- entity level controls;
- property, plant, and equipment;
- inventory;
- human resources;
- journal entries;
- financial reporting; and
- expenditures.

In connection with the contract, we reviewed KPMG's management letter and related documentation and inquired of its representatives. KPMG is responsible for the letter and the conclusions expressed in the letter. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards with respect to this letter.

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If you wish to discuss this report, please contact me at (202) 927-0009, or Shiela Michel, Manager, Financial Audit, at (202) 927-5407.

Attachment



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

April 16, 2020

The Deputy Inspector General, U.S. Department of the Treasury
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, 2019, in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, we considered the Bureau'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 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 operational efficiencies and are summarized in Exhibit B 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 weakness 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 outlined in Exhibit B. 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

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Entity Level Controls

B.1 Deficiencies noted in OGE-450 and OGE-278 Filing Requirements

On an annual basis, certain the Bureau officials are responsible for filing confidential disclosure reports in the executive branch and for filing public reports of their finances as well as other interests outside the Government.

During testing of the financial disclosure forms OGE-450 or OGE-278 for FY 2019, the following exceptions were noted:

- Two employees did not submit their OGE-450 within the timeframe specified by the Office of the Government Ethics and did not receive an extension.
- One employee did not submit their OGE-278 within the timeframe specified by the Office of Government Ethics and did not receive an extension.

Recommendation

We recommend that Bureau’s Office of Chief Counsel develop processes and procedures to track employees’ compliance with financial disclosure filing deadlines and extensions.

B.2 Management’s Response

NFR No.	Description	Management’s Response
03	Deficiencies noted in OGE-450 and OGE-278 Filing Requirements	Concur

Property, Plant and Equipment

C.1 Controls over Fixed Asset Inventory Should be Strengthened

The Bureau maintains a significant amount of fixed assets in its production of currency. The Bureau’s fixed assets are subject to physical inspection on an annual basis using a sampling approach. In order to perform the annual fixed asset inventory, the fixed asset accountant:

1. Obtains the most recently reconciled FA009 Fixed Assets Report, which contains fixed assets on the books;
2. Manually filters the fixed asset report to meet specific criteria per the Bureau Financial Policy Manual, Part VI Section 2 Accounting for Assets – Property & Equipment; and
3. Selects samples from the report and performs the annual inventory.

Note that the accuracy of the report may be impacted by changes to fixed asset holdings subsequent to the monthly reconciliation such as additions and disposals.

During our testwork over fixed asset inventory we noted the following:

1. The fixed asset accountant does not document procedures performed to verify the completeness of the reconciled report.
2. The filtered population is not reviewed for appropriateness of the applied filtering prior to sampling. Although the final memorandum, reflecting the results of the physical inventory, is reviewed, there is a timing concern considering the performance of the control can take up to a few months and needs to be completed in its entirety by year-end.
3. The criteria of excluding items older than 10 years and items valued less than \$100,000 are not appropriate.

4. The physical count listing that is used during the physical inventory does not include all relevant criteria to be validated.

Recommendations

We recommend the Bureau management update and follow policies and procedures to include:

1. Procedures over the completeness of the population to be sampled.
2. Documentation that the sampling should be performed over the entire universe of fixed assets or documented rationale for items taken out.
3. If the population is altered before sampling, procedures over the completeness of the population after altering.
4. Documentation noting all relevant criteria to be validated on the physical count.

C.2 Management’s Response

NFR No.	Description	Management’s Response
13	Controls over Fixed Asset Inventory Should be Strengthened	Concur

Inventory

D.1 Ineffective Implementation of Spare and Repair Parts Cycle Counts

The Bureau carries a substantial inventory of spare and repair parts to ensure the upkeep of the equipment and machinery used for currency production. On a daily basis, these spare and repair parts are blindly counted and input into the BEN-MSS system.

During testing of the spare and repair parts cycle counts control, it was noted that the control was not properly implemented through September 4, 2019. During the Eastern Currency Facility (ECF) count, policies and procedures to conduct the cycle count were not being followed. Cycle counters conducted an informal discussion with the approver, relaying the results of their count before entering their results from the count into BEN-MSS. The approver, who has access to the control sheet for the count, provided count information that allowed the same cycle counter to know whether or not they needed to go back in order to recount parts. The discussion and recount before data entry were not documented and the separation of duties between the counter and approver was compromised. In addition, we noted that an individual from the Office of Manufacturing Support, Warehouse Materials & Distribution Division (WMDD) did not conduct the recount with the counter to resolve discrepancies.

We also noted that the process over the classification of parts for cycle counts was not implemented properly, as key personnel did not review the classification of parts after they were entered into BEN-MSS. Furthermore, justification for deviations to a part’s required inventory frequency were not documented by the Office of Compliance. The classification provides the basis for conducting cycle counts. The individual performing the classification update sent the listing to the Office of Acquisition to make changes to certain item’s classifications. However the justification for each anomaly was not documented.

Recommendations

We recommend the Bureau management:

1. Continue to train and develop personnel to ensure that cycle counters and approvers perform their role in spare parts counts in accordance with the Bureau’s policies and procedures.
2. Develop policies and procedures for spare part classification to include the responsibilities of specific personnel and what documentation should be maintained.

D.2 Inventory Receipts Exceptions

The Bureau receives a lot of inventory as a manufacturer of currency. Upon receiving a shipment the Shipping & Receiving Materials Handler compares the goods received against the packing slip to ensure that they agree. The Shipping & Receiving Materials Handler will sign the delivery slip to indicate that the amounts being off-loaded are the same as the amounts on the packing slip. The Materials Handler will enter the purchase order number into the MSS and the parts received will be matched to the open purchase order information on the system. The approval generates a traveler receipt number, which the Shipping & Receiving Materials Handler uses to generate the Receiving Traveler. For goods received that are raw materials or spare parts the clerk will deliver the parts to the store room for inspection and comparison of item received against the packing slip and purchase order. Once the inspection is complete, the storeroom handler will sign the Receiving Traveler as evidence of their review and that the item matched the purchase order.

During the test of operating effectiveness of the controls over receipt of goods, we noted that out of a sample selection of 45 receipts of goods, support of receipt could not be provided for three samples.

Recommendations

We recommend that the Bureau management:

1. Reassess its existing packing slip retention and maintenance process to ensure that all receiving documents are maintained and stored; and
2. Ensure that the necessary information to allow for acceptance is properly communicated to the vendor to ensure that all relevant information is included upon delivery of goods.

D.3 Management's Response

NFR No.	Description	Management's Response
04	Ineffective Implementation of Spare and Repair Parts Cycle Counts	Concur
18	Inventory Receipts Exceptions	Concur

Human Recourses

E.1 Controls over the Review of the Department of Labor Chargeback Report Should Be Strengthened

On a quarterly basis, the Department of the Treasury receives the department-wide chargeback report from the Department of Labor (DOL) and allocates out the employees noted in the report to the individual Treasury agencies. To ensure the chargeback report is accurate the Workers Compensation group in the Bureau performs a review of the report. General case management such as resolving discrepancies in the case file, obtaining documentation from the appropriate parties and reviewing the DOL case notes and documentation are necessary to validate the claim for medical expenses or compensation reimbursements.

During the test of design and implementation over the DOL chargeback report, we noted that the analysis of personnel on the chargeback is performed as a part of the quarterly chargeback report review, but it is not documented.

Recommendation

We recommend the Bureau Office of Workers' Compensation Programs follow the updated policies and document the review of the quarterly chargeback report.

E.2 Controls over Timecard Certification Needs Strengthened

Within the WebTA system, each employee or timekeeper and supervisor must electronically sign the timecard before the card is transmitted to the Administrative Resource Center (ARC). The employee

“validates” their timecard thus, disallowing further changes at this point. If an employee is unable to validate their timecard, the assigned timekeeper validates their timecard for them. After validation, the supervisor certifies that, to the best of their knowledge, the number of hours that the employee listed and their absences are accurate and the accounting string used is correct.

A lack of segregation of duties existed during our testing of timecard certification. Specifically, we noted five out of a sample of 45 timecards were both validated and certified by the same timekeeper. The control is in place to ensure the accuracy of the time input by employees, which was compromised.

Recommendation

We recommend that the Bureau management monitor segregation of duties between timekeepers and certifiers for the new webTA system.

E.3 Controls over Personnel Action Review Need to be Strengthened

When employees complete an action within the Bureau (hire, promotion, separation, etc.), it is the Bureau's responsibility to ensure that the information input from the SF-50 onto the SF-52 by the Bureau of Fiscal Service, is complete and accurate.

During our testing of personnel actions, two instances, out of a sample of 45, were identified where management could not provide the Standard Form 50 and Standard Form 52. In addition, two employees were coded as hourly employees but should have been coded as salaried employees per the prevailing wage rate table.

Recommendations

We recommend that the Bureau management:

1. Comply with the Treasury document retention policy;
2. Reconcile the master data to prevailing rates tables to ensure its accuracy; and
3. Train and develop staff to properly perform the control.

E.4 Management’s Response

NFR No.	Description	Management’s Response
05	Controls over the Review of the Department of Labor Chargeback Report Should Be Strengthened	Concur
20	Controls over Timecard Certification Needs Strengthened	Concur
22	Controls over Personnel Action Review Need to be Strengthened	Concur

Journal Entries

F.1 Journal Entry Segregation of Duties Timeliness Exception

Controls over journal entries are required to maintain the integrity of the general ledger. Within the Bureau’s Oracle-MSS system, individuals with the role of “accounting Manager” and “Assistant Accounting Manager” have the ability to both create and post journal entries. Typically, this only would occur if someone were out of the office and the entry needed to be posted in a timely manner. Quarterly, the financial systems group obtains the entire journal entry population for the period and reviews for any entries that were created and posted by the same individual. If any entries are identified as having the same preparer and reviewer, the Senior Systems Accountant will request support from the Accounting Manager or Assistant Accounting Manager for review.

Recommendations

We recommend that the Bureau management:

1. Arrange for the availability of adequate resources to perform the process timely; and
2. Utilize newly developed Standard Operating Procedures (SOPs).

F.2 JV Review and Approval Needs Strengthened

All journal vouchers (JVs) are prepared by individual Accountants/Analysts within the various offices in the Office of Financial Management (OFM). Once JVs have been entered into BEN (Oracle), the respective supervisor overseeing the Accountant/Analyst reviews each journal entry and the attached support.

During testing of the review of journal entries, we noted the control was not operating effectively throughout the fiscal year; however the control was operating effectively as of year-end. As of year-end management made the appropriate correcting entries to reflect the correct balances in the corresponding General Ledger (GL) accounts. Throughout the fiscal year we noted the following:

- Two months of recurring journal entries related to costs associated with miscellaneous services used the wrong GL account.
- During testing of imputed financing, a miscalculation was identified in the support documentation related to pension expenses.
- Management booked an entry to the non-stock accrued liability account not reflective of management's estimate calculation, which adjusted the account in the opposite direction.

Recommendations

We recommend the Bureau management:

1. Provide adequate training, develop policies, and reinforce policies related to reviewing journal entries; and
2. Create a desk guide for reviewers of journal entries.

F.3 Ineffective Controls over the Completeness of Journal Vouchers

During our review of the June trial balance, we identified balances inconsistent with expectations in general ledger (GL) accounts and inquired with the Bureau personnel about the abnormal balances to obtain a better understanding. Specifically, we noted that the balance for worker's compensation expense account (GL 65234) did not change and remained a negative balance from March 31, 2019 to June 30, 2019. The Bureau personnel informed us that a JV was not posted to record the expense in the month of June. Based on the timing of the discovery of the error, management chose to post a journal voucher at year end to correct the account.

During our testing of the Federal Employees' Compensation Act (FECA) actuarial liability, it was noted that entries were not made throughout the year and that an incorrect amount was used for the DOL and Treasury allocation of the liability at year end. A correcting entry was made to adjust the GL account at year end.

Additionally, when we were reconciling the payroll population for substantive testing, we identified a reconciling difference related to the bonus accrual. Specifically, the FY18 bonus accrual was not reversed when the bonus was paid out to their employees in December. The Bureau personnel was not aware of the oversight until we performed our inquiry. The overstatement was corrected in August. As such, we determined that the Bureau's controls over the completeness of journal vouchers were not operating effectively.

Recommendations

We recommend the Bureau management:

1. Hold individuals accountable for their internal control responsibilities through adequate training, development, and reinforcement of policies.
2. Revise the journal log to include a field to identify timing and frequency of the required journal vouchers.

F.4 Management’s Response

NFR No.	Description	Management’s Response
06	Journal Entry Segregation of Duties Timeliness Exception	Concur
14	Review and Approval Needs Strengthened	Concur
16	Ineffective Controls over the Completeness of Journal Vouchers	Concur

Financial Reporting

G.1 Controls over the Monthly Financial Reporting Fluctuations Review Should be Strengthened

During the test of design and implementation over the monthly financial reporting fluctuations review, we noted the June 2019 Financial Reporting Analytical Review coversheet referenced an overstatement to the invoice variance account and accounts payable account caused by a December 2018 credit memo. However, the overstatement was not identified and corrected until the completion of the June 2019 review, which occurred in August 2019.

Recommendation

We recommend the Bureau management adequately train and develop personnel to perform the financial reporting analytical review in a timely manner.

G.2 Technical Topic Review Needs Strengthened

A Technical Topic review is performed by a Systems Accountant on a monthly basis to stay up-to-date on any changes in accounting or audit standards and trending topics across government agencies. If significant trends or topics are identified as applicable to the Bureau, they are reviewed with management on a quarterly basis.

During our testing of this monthly control, we noted that management did not properly evaluate Financial Accounting Standards Board (FASB) standards. Specifically, although a monthly analysis was performed, we noted that management did not include or consider the impact of all FASB accounting standard updates in the monthly analysis.

Recommendations

We recommend the Bureau management:

1. Perform a thorough review of accounting standards and properly evaluate them to ensure all applicable standards are included in the monthly technical topic review; and
2. Develop policies and procedures for preparers and reviewers to utilize.

G.3 Management’s Response

NFR No.	Description	Management’s Response
02	Controls over the Monthly Financial Reporting Fluctuations Review Should be Strengthened	Concur
17	Technical Topic Review Needs Strengthened	Concur

Expenditures

H.1 Oracle General Ledger Account Code Validation was Circumvented

During the walkthrough over the approval of an invoice in Oracle by a Contracting Officer Representative (COR), we observed the approval on an invoice that matched to a valid and correct purchase order but to an incorrect and non-funded general ledger (GL) account code.

Recommendation

We recommend that the Bureau management work with their software vendor to develop and deploy a fix over the invoicing approval platform in the Oracle Expenditures module so that invoices are approved with valid and correct general ledger accounts.

H.2 Management’s Response

NFR No.	Description	Management’s Response
07	Oracle General Ledger Account Code Validation was Circumvented	Concur

List of Criteria

We used the following sources as criteria for the findings described within this document:

- Committee of Sponsoring Organizations of the Treadway Commission Integrated Framework
- United States Government Accountability Office, Standards for Internal Control in the Federal Government
- Code of Federal Regulations
- OMB Circular A-123, Management's Responsibility for Internal Control
- 5 U.S.C.
- Bureau of Engraving and Printing Financial Manual
- Bureau of Engraving and Printing Compliance Manual
- Bureau of Engraving and Printing Narratives

Exhibit D – Status of Prior Year Findings

Fiscal Year 2018 Management Letter Comments		Fiscal Year 2019 Status
NFR No.	NFR Name	
2018-01	Ineffective Review of Open Purchase Orders	Closed
2018-02	Terminated Individual's Access to the LAN/WAN and Oracle MSS was not Disabled or Removed	Reissued, 2019-08
2018-03	System Access Recertification	Reissued, 2019-08
2018-04	The Selected Payment Review Report was not Appropriately Configured	Closed
2018-05	Ineffective Controls over Invoice Review and Approval	Closed
2018-06	Ineffective Controls over the Review of the Non-GAAP Analysis	Closed
2018-07	Ineffective Controls over Journal Entry Segregation of Duties	Reissued, 2019-06
2018-08	Ineffective Controls Surrounding the Non-Stock Accounts Payable Accrual	Closed

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