Audit Report

OIG-10-006

Management Letter for Fiscal Year 2009 Audit of the Bureau of Engraving and Printing's Financial Statements

November 10, 2009

Office of Inspector General

Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 10, 2009

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

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Management Letter for Fiscal Year 2009 Audit of the Bureau of Engraving and Printing's 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) Fiscal Year 2009 financial statements. Under a contract monitored by the Office of Inspector General, KPMG LLP, an independent certified public accounting firm, performed an audit of the financial statements of BEP as of September 30, 2009, and for the year then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended; and the *GAO/PCIE Financial Audit Manual*.

As part of its audit, KPMG LLP 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 audit reports.

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

Should you have any questions, please contact me at (202) 927-5789 or a member of your staff may contact Shiela Michel, Manager, Financial Audits, at (202) 927-5407.

Attachment

THE DEPARTMENT OF THE TREASURY

BUREAU OF ENGRAVING AND PRINTING

MANAGEMENT LETTER

FOR THE YEAR ENDED SEPTEMBER 30, 2009

OCTOBER 30, 2009

THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING
MANAGEMENT LETTER
FOR THE YEAR ENDED SEPTEMBER 30, 2009

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

October 30, 2009

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

We have audited the financial statements of the Bureau of Engraving and Printing (the Bureau), as of and for the year ended September 30, 2009, and have issued our report thereon dated October 30, 2009. In planning and performing our audit of the financial statements of the Bureau, we considered 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. We have also examined management's assertion that the Bureau maintained effective internal control over financial reporting as of September 30, 2009, and have issued our report thereon dated October 30, 2009.

During our audit, we noted matters related to internal control and other operational matters that are presented for your consideration in an appendix to this report. 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. Management's response to these comments and recommendations are included in the appendix. We did not audit the Bureau's responses and, accordingly, we do not express an opinion on them.

Our audit procedures were designed primarily to enable us to form an opinion on the financial statements and to form an opinion on management's assertion 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 your request.

This report is intended solely for the information and use of the Department of the Treasury's Office of Inspector General and management of the Bureau, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

COMMENTS AND RECOMMENDATIONS

2009-01 *Lack of Proper Documentation for Procurement Approvals (NFR 09-02)*

During our test work over the procurement process in FY 2009, we noted the following exceptions in the execution of the Bureau of Engraving and Printing's (the Bureau) internal controls over the procurement process:

- For 1 of 58 items selected for testing the Purchase Order was not signed by a Budget Analyst to indicate funds were available.
- For 1 of 58 items selected for testing an invoice was paid for the incorrect amount. The vendor submitted an incorrect invoice to the Bureau. The Contracting Officer's Technical Representative (COTR), identified the issue and calculated a different amount to pay. However, this calculation was incorrect and resulted in an underpayment to the vendor.

Each exception related to a different control in the procurement process and were from different sample items.

Without proper written authorization of procurement contracts and agreements, the agency increases the risk of improper payments, and disbursements of Federal funds. In addition, without a proper authorization for payment and proper review of mathematical accuracy, the Bureau may make payments to vendors for incorrect amounts, or for work that has not been completed.

The Bureau failed to consistently execute the controls established within the procurement process, which requires authorized individuals to sign off on various documents evidencing that it has been properly reviewed and approved. BEP also failed to ensure that the COTR determined payment amount was properly reviewed.

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, in the introduction section notes the requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982: "The agency head must establish controls that reasonably ensure that …iii. Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets."

In addition, U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1) (the Standards) states: "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 Standards also provides examples of control activities, which include "reviews by management at the functional or activity level."

We recommend that the Bureau management reinforce the importance of procedures regarding the proper review and approval of purchase orders and invoices. Management should also ensure that proper controls exist to ensure that review procedures are consistently executed.

Management Response:

BEP management concurs with the finding and recommendation. Management is fully aware of the importance of consistently executing controls established for various procurement processes; and therefore, intends to initiate plans to re-enforce compliance with established policies and procedures designed to avoid such incidents.

2009-02 ***Errors in the Calculation of Accrued Interest for Prompt Pay Act (NFR 09-03)***

During our test work over the Bureau's compliance with the Prompt Payment Act, KPMG noted two instances out of 58 tested where the interest penalty payments were made for the incorrect amounts. Specifically, we noted one instance where interest was paid in the amount of $3.14 and should have been $3.44, and a second instance where interest was paid in the amount of $5.07 and should have been $4.29.

The Bureau's information system automatically calculates interest penalty payments based on a comparison of the invoice payment date and the invoice due date. Per initial discussions with the Bureau, the error was due to the interest rate in the system not being updated on a timely basis. However, when KPMG recalculated the interest penalty using the prior period's interest rate, there was still a $0.48 net difference between our recalculated amount and what was paid.

It should be noted that total interest penalty payments made for all of FY 2009 amounted to $1,520.72.

The Prompt Payment Act (5 CFR 1315) requires Federal agencies to pay their bills on time, pay interest penalties when payments are made late, and take discounts only when payments are made within the discount period and are advantageous to the government. The Prompt Payment Act provides that agencies make payments as close as possible to, but no later than, the due date or, if appropriate, the discount date. Payments will be based upon the receipt of "proper invoices" and "satisfactory performance" of contract items. Interest penalties should be promptly paid when agencies fail to make timely payments or when discounts are taken after the expiration of the discount period. Agencies must absorb interest penalty payments out of their operating funds.

The calculation of the amount of interest should be in accordance with 5 CFR 1315.10 which states "Interest will be calculated from the day after the payment due date through the payment date at the interest rate in effect on the day after the payment due date."

We recommend that the Bureau determine what is causing the system to incorrectly calculate interest penalty payments. We also recommend the Bureau implement internal controls to correctly update the system interest rate on a timely basis.

Management Response:

BEP management concurs with the finding and recommendation. Our analysis determined that there were two factors in the inaccurate calculation of Prompt Payment interest on late invoice payments.

1. *Timing difference* - the effective interest rate issued by Treasury is not always updated in BEPMIS in a timely manner.

2. *Rounding* - a quotient within the formula is being rounded to two places to the right of the decimal whereas the Prompt Payment Rule for calculating interest does not include a provision for rounding prior to the final result.

We will correct these two issues as follows:

1. *Timing difference* - FMS does not issue notifications when the interest rate is updated every six months. Therefore, the Bureau has established a notification reminder in Outlook.

2. *Rounding* - the Bureau will submit a request for IT to modify the program to stop rounding the quotient.