



U.S. GOVERNMENT PUBLISHING OFFICE  
OFFICE OF INSPECTOR GENERAL

**AUDIT REPORT  
REPORT NUMBER 16-10**

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**Procurement of End Sheets Used in the Production of  
U.S. Passports**

**March 30, 2016**

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U.S. GOVERNMENT PUBLISHING OFFICE

OFFICE OF INSPECTOR GENERAL

**Date**

March 30, 2016

**To**

Chief, Acquisition Services

**From**

Inspector General

**Subject**

Final Report—Procurement of End Sheets Used in the Production of U.S. Passports  
Report Number 16-10

Enclosed please find the subject final report. Please refer to the “Results in Brief” for the overall audit results. Our evaluation of your response has been incorporated into the body of the report. We consider management’s comments responsive to the recommendation. The recommendation is resolved and will remain open for reporting purposes pending completion of the proposed actions.

We appreciate the courtesies extended to the staff during our review. If you have any questions or comments about this report, please do not hesitate to contact Mr. Phillip M. Faller, Assistant Inspector General for Audits and Inspections at (202) 512-2009 or me at (202) 512-0039.

A handwritten signature in dark ink that reads "Michael A. Raponi".

MICHAEL A. RAPONI  
Inspector General

**Attachment**

cc:

Director, GPO

Deputy Director, GPO

General Counsel

Chief of Staff

Managing Director, Security and Intelligent Documents

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# **Office of Inspector General**

**Report Number 16-10**

**March 30, 2016**

## **Procurement of End Sheets Used in the Production of U.S. Passports**

### **Introduction**

The Office of Inspector General (OIG) assessed the steps GPO took in procuring end sheets—the inside front and back cover of the finished U.S. passport.

To accomplish our audit objective, we reviewed applicable policies and procedures, met with officials to gain an understanding of procurement actions taken, and examined available contract documentation to determine whether steps were sufficiently performed as prescribed by policy. We conducted this audit from October 2015 through March 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that will provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Details of our objective, scope, and methodology are in Appendix A.

### **Results in Brief**

GPO has established a framework for administering acquisitions through its Materials Management Acquisition Regulation (MMAR),<sup>1</sup> which establishes policies and procedures covering acquisitions including interagency agreements. However, GPO did not always follow the established policies. Since Fiscal Year (FY) 2012, GPO has purchased or transferred approximately \$5 million to the Bureau of Engraving and Printing (BEP) for printed end pages without an executed interagency agreement. Management could not, however, demonstrate it conducted an analysis that would have determined whether the “use of an interagency acquisition is in the best interest of the Government,” as Subpart 17.503 of the MMAR requires. GPO’s acquisition staff stated they could not locate the interagency acquisition file or key documents associated with current activities or prior interagency end sheet acquisitions. Missing documentation creates uncertainties, including whether proper procedures were followed and whether the purchases resulted in the best value to the Government.

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<sup>1</sup> GPO Publication 805.33, *Materials Management Acquisition Regulation (MMAR)*, dated May 15, 2003.

## **Recommendations**

We recommend the Chief, Acquisition Services finalize and if appropriate execute an interagency acquisition agreement to ensure all aspects of the end sheet procurement are performed and documented, as the MMAR requires.

## **Management's Response**

Management concurred with the recommendations and has planned corrective actions. The complete text of management's response is in Appendix C.

## **Background**

By agreement with the U.S. Department of State (State), GPO manufactures blank U.S. passport books. U.S. passports are official documents used to demonstrate the bearer's identity and citizenship for international travel and reentry into the United States. Among the many components used to manufacture passport books are the end sheets. End sheets are the inside front and back cover of the finished passport book.

Printing the end sheets is a complicated process. The inner front cover end sheet has an image of Old Glory in the background in offset print, and Francis Scott Key and words from the National Anthem in intaglio printing, including "USA" in green-to-gold color-shifting ink. The sheets also contain random fibers that fluoresce under ultraviolet light. The inside back cover end sheet has images of the earth, the moon, and the Voyager spacecraft in intaglio printing. Latent images of "USA" and the "UNITED STATES OF AMERICA" become apparent when the page is viewed at an oblique angle. End sheet production, among other methods, uses the intaglio method of printing. In the intaglio method of printing, the image is hand cut or engraved into the surface of a master die and transferred to a steel print cylinder or plate. During the printing process, the cylinder or plate is coated with ink to fill the recesses, and the surface is wiped clean so that only the recesses remain inked. The cylinder or plate is then applied to paper under great pressure, and the ink is pulled from its engraved recesses, creating a raised image on the surface of the paper. The resulting highly detailed textured product is difficult to reproduce and, therefore, difficult to counterfeit.

BEP, a bureau of the Department of the Treasury, is GPO's sole provider of end sheets. Crane & Company, Inc. (Crane) is the sole provider of stock paper used to print the end sheets.

### Authority for Interagency Acquisitions

The authority for Federal agencies to obtain goods and services from each other is derived from various statutes. In the absence of specific statutory authority, the Economy Act (subsection 1535, title 31 of the United States Code [31 U.S.C. §§ 1535]) provides general authority for interagency acquisitions. More specific authorities include: the Government Employees Training Act (under 5 U.S.C. Chapter 41), which allows agencies to obtain training and related assistance from other Government agencies and the Office of Personnel Management; the Clinger-Cohen Act of 1996, which authorizes information technology purchases; and 40 U.S.C. § 501, which relates to services for executive agencies granted to the Administrator of General Services.

### Prior Related Audit Work

In March 2015, OIG reported<sup>2</sup> that the documentation needed in support of support key procurement decisions for U.S. Passport Visa Paper was missing. In August 2014, OIG reported<sup>3</sup> that GPO could not demonstrate through documented actions that key evaluation factors were consistently performed when it procured U.S. Passport eCovers. In March 2014, OIG reported<sup>4</sup> contract files did not contain key planning documents that would support an overall strategy for managing the acquisition of professional services.

### Responsibilities

GPO policy states that the Chief Acquisition Officer is responsible for ensuring all contracts, including interagency agreements, are made in accordance with applicable laws, regulations, and directives.<sup>5</sup>

GPO's Security and Intelligent Documents (SID) business unit is responsible for producing secure Government documents for a wide variety of applications including passports.

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<sup>2</sup> Audit Report Number 15-09, *Improved Contract Administration Needed for the Acquisition of U.S. Passport Paper (VISA)*, dated March 25, 2015.

<sup>3</sup> Audit Report Number 14-14, *Acquisition of U.S. Passport eCovers*, dated August 1, 2014.

<sup>4</sup> Audit Report Number 14-08, *Information Technology Professional Services—Oracle Software*, dated March 25, 2014.

<sup>5</sup> GPO Instruction 110.5D, *Acquisition Authority, Policies, and Responsibilities*, dated March 19, 2004.

## Results and Recommendations

GPO established a framework for obtaining goods and services from other, non-GPO entities, including other Federal agencies. Although a framework was established, management controls could be strengthened over the execution of interagency acquisition and maintaining a Government contract file that includes key documentation. Our analysis is detailed below.

### Interagency Acquisition Agreement

In June 2006, GPO and BEP entered into an Interagency Acquisition Agreement to establish the terms and conditions under which BEP prints end sheets used in the production of U.S. passports. The period of agreement was not to exceed 5 years.

Since FY 2012, and after the June 2006 agreement expired, GPO purchased end sheets and transferred funds to BEP without an executed interagency agreement. GPO provided the following financial information pertaining to Intra-governmental Payment and Collection (IPAC) transfers as well as two outstanding purchase orders made to BEP. IPAC is the system used by most Federal agencies for interagency disbursements and funds transfers.

End Sheet Transfers and Purchases—FY 2012 through March 2016	
Fiscal Year	Transfer/Purchase Amount
2012	\$519,864
2013	\$1,016,720
2014	\$1,391,000
2015	\$799,722
Total Transfers to BEP	\$3,727,306
Plus FY 2015 Purchases	\$298,000
Plus FY 2016 Purchases	\$1,013,200
Total Transfers and Purchases	<u>\$5,038,506</u>

Source: GPO's Office of Finance

As of March 15, 2016, GPO has not made payment toward the two outstanding purchase orders identified above.

Appropriations law requires obligations to be adequately documented before an obligation is recorded in the financial accounting system.

31 U.S. Code § 1501—Documentary evidence requirement for Government obligations states: (a) An amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of—

(1) a binding agreement between an agency and another person (including an agency) that is—

(A) in writing, in a way and form, and for a purpose authorized by law; and



(B) executed before the end of the period of availability for obligation of the appropriation or fund used for specific goods to be delivered, real property to be bought or leased, or work or service to be provided.

### Determination and Findings

GPO's SID business unit provided a copy of a previous Interagency Agreement executed in June 2006. The agreement states it was entered into under the authority of the Economy Act, 31 U.S.C. § 1535, as amended, as well as the MMAR subpart 17.5, "Interagency Acquisitions under the Economy Act."

MMAR subpart 17.503 states that each Economy Act order shall be supported by a Determination and Finding (D&F). The D&F shall states that—

- (1) Use of an interagency acquisition is in the best interest of the Government; and
- (2) The supplies or services cannot be obtained as conveniently or economically by contracting directly with a private source.

Officials stated they could not locate the D&F because the file and documentation related to the acquisition of end sheets could not be located. Acquisition Services did not have an explanation for the absence of the file and documents.

### Maintaining Government Contract File

While GPO policies require that significant events be clearly documented and documentation should be readily available for examination, the contract file and key documents were missing. Without those items officials cannot demonstrate that required procedures were followed.

GPO policy requires<sup>6</sup> that GPO maintain effective systems of accounting and management control. The policy states that internal controls are the organization, policies, and procedures used to reasonably ensure that:

- Programs achieve intended results.
- Resources are used consistent with agency mission.
- Programs and resources are protected from waste, fraud, and mismanagement.
- Laws and regulations are followed.
- Reliable and timely information is obtained, maintained, reported, and used for decision making.

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<sup>6</sup> GPO Instruction 825.18A, *Internal Control Program*, dated May 28, 1997.

According to Subpart 4.801 (b) of the MMAR, documentation in files must be sufficient to constitute a complete history of the transactions for the purpose of—

- (1) Providing a complete background as a basis for informed decisions at each step of the acquisition process;
- (2) Supporting actions taken;
- (3) Providing information for reviews and investigations; and
- (4) Furnishing essential facts in the event of litigation or congressional inquiries.

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, December 21, 2004 (Circular A-123), requires that managers develop and maintain effective internal controls. Effective internal controls provide assurance that significant weaknesses in the design or operation of internal controls that could adversely affect an agency's ability to meet its objectives would be prevented or detected in a timely manner. As a legislative branch agency, GPO is not required to follow OMB Circulars, including Circular A-123. However, because the Circular provides a sound basis for internal controls for any organization, GPO has incorporated the major requirements of Circular A-123 in its directives.

## **Recommendations**

We recommend the Chief, Acquisition Services finalize and if appropriate execute an interagency acquisition agreement to ensure all aspects of the end sheet procurement are performed and documented, as required under the Materials Management Acquisition Regulation.

## **Management's Response**

Management concurred with the recommendations and has planned corrective actions. The complete text of management's response is in Appendix C.

## **Appendix A – Objective, Scope, and Methodology**

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We performed fieldwork from October 2015 through March 2016 at the GPO Central Office in Washington, D.C. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that will provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **Objective**

OIG conducted an audit to assess the steps GPO took in procuring end sheets. End sheets are the inside front and back cover of the finished U.S. passport.

### **Scope and Methodology**

To meet our objective, we assessed relevant policies and procedures, analyzed available documentation, and interviewed key officials from the Office of Acquisitions, Finance and Administration, and SID responsible for the acquisition.

### **Management Controls Reviewed**

We determined that the following internal controls were relevant to our audit objective:

Program Operations—Policies and procedures GPO management implemented to reasonably ensure contracts are properly awarded.

Compliance with Laws and Regulations—Policies and procedures that management implemented to reasonably ensure that resource use is consistent with laws and regulations.

The details of our examination of management controls, the results of our examination, and noted management control deficiencies are contained in the report narrative. Implementing the recommendations in this report should improve those management control deficiencies.

### **Computer-Generated Data**

We used computer-processed data extracted from GPO's Business Information System (GBIS). Although we did not independently verify the reliability of all of the information in GBIS, we compared that information with other available supporting documents to determine data consistency and reasonableness. In addition, we relied on data system assessments performed by GPO's Independent Public

Accountant in performing GPO's annual financial statement audit. As a result, we believe the information obtained was sufficient and reliable to support our findings, conclusions, and recommendations.

## **Appendix B – Acronyms and Abbreviations**

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BEP	Bureau of Engraving and Printing
D&F	Determination and Finding
FY	Fiscal Year
GBIS	GPO's Business Information System
GPO	Government Publishing Office
IMPAC	Intra-governmental Payment and Collection
MMAR	Materials Management Acquisition Regulation
OIG	Office of Inspector General
OMB	Office of Management and Budget
SID	Security and Intelligent Documents

## Appendix C – Management's Response

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ANDREW M. SHERMAN  
Chief of Staff



Date: March 29, 2016

To: Inspector General

Subj: Management Response to Draft Report #16– 10

From: Chief of Staff

Management has reviewed the subject report and concurs with the recommendation that the Chief of Acquisition Services execute an Interagency Acquisition Agreement (IAA) to ensure that all aspects of the end sheet procurement are performed and documented, as the MMAR requires.

The Chief of Acquisition Services has initiated an IAA and is awaiting signatures from the Bureau of Engraving and Printing. In addition, the Chief of Acquisition Services is conducting internal training to ensure full compliance with MMAR 17.503 and all established policies.

The Chief of Acquisitions Services has established a timeline of 60 days to create internal controls which will require all contract file cabinets to be locked and that all files will be checked in and out as necessary. Within the next 60 days the Chief of Acquisition Service will be conducting training on preparation and maintenance of contract files. Training will include files for IAA for Acquisition Services.

In accordance with MMAR 17.503 the Contracting Officer has prepared a determinations and findings document stating the following:

- (1) the use of the IAA is in the best interest of the Federal Government; and
- (2) the specified supplies and services cannot be obtained as conveniently or economically by contracting directly with private sources.

Acquisition Services is in the process of re-creating files and producing hard copies of all documents pertaining to the IAA for services obtained from the Bureau of Engraving and Printing. An expected completion date is May 2, 2016.

If you need additional information, please do not hesitate to contact me on 2-1100.

A handwritten signature in black ink that reads "Andrew M. Sherman".

ANDREW M. SHERMAN

cc: Director  
Deputy Director  
General Counsel  
Chief Administrative Officer  
Chief of Acquisitions Services

## **Appendix D – Status of Recommendations**

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<b>Recommendation</b>	<b>Resolved</b>	<b>Unresolved</b>	<b>Open/ECD*</b>	<b>Closed</b>
1	<b>x</b>		<b>May 30, 2016</b>	

\*Estimated Completion Date.

## **Appendix E – Report Distribution**

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Director, GPO

Deputy Director, GPO

General Counsel

Chief of Staff

Chief Administrative Officer

Managing Director, Security and Intelligent Documents



## **Major Contributors to the Report**

Patricia M. Bach, Senior Auditor