



U.S. GOVERNMENT PUBLISHING OFFICE

OFFICE OF INSPECTOR GENERAL

**MANAGEMENT LETTER
REPORT NUMBER 19-03**

**Management Letter
FY 2018 Financial Statements**

January 31, 2019



U.S. GOVERNMENT PUBLISHING OFFICE

OFFICE OF INSPECTOR GENERAL

Date

January 31, 2019

To

Acting Deputy Director, U.S. Government Publishing Office

From

Acting Inspector General

Subject:

Management Letter — FY 2018 Financial Statements
Report Number 19-03

In connection with the audit of the U.S. Government Publishing Office's FY 2018 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 Mr. Freddie Hall, Assistant Inspector General for Audits and Inspections at (202) 512-1597 or me at (202) 512-1512.

A handwritten signature in black ink, appearing to read 'J. Ives', written over a circular stamp or seal.

JAMES R. IVES
Acting Inspector General

Attachment

cc:

Acting Chief Financial Officer, GPO

Acting Chief of Staff, GPO

Acting General Counsel, GPO



UNITED STATES GOVERNMENT PUBLISHING OFFICE

**NON-INFORMATION TECHNOLOGY
MANAGEMENT LETTER
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

United States Government Publishing Office

**Non-Information Technology
Management Letter**

For the Year Ended September 30, 2018

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

December 14, 2018

Acting Deputy Director
United States Government Publishing Office

Office of the Inspector General
United States Government Publishing Office:

In planning and performing our audit of the financial statements the United States Government Publishing Office (GPO), as of and for the year ended September 30, 2018, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we considered the 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and/or significant deficiencies and therefore, material weaknesses and/or significant deficiencies may exist that were not identified. In accordance with *Government Auditing Standards*, we issued our report dated December 14, 2018 on our consideration of GPO's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. During our audit we noted deficiencies in internal control related to Non-Information Technology which are described in Appendix A of this letter. Deficiencies in internal control related to Information Technology will be presented in a separate letter addressed to you. Appendix B presents the status of prior year Non-Information Technology findings.

The purpose of this letter is solely to describe the deficiencies in internal control identified during our audit. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP

Non-Information Technology Comments and Recommendations

A. Processing of Personnel Actions (18-NFR-01)

During our testwork over new hire, termination and other employees' actions, we noted that GPO's controls over the processing of the Standard Form 52, *Request for Personnel Action* (SF-52) and Standard Form 50, *Notice of Personnel Action* (SF-50) were not operating effectively. Specifically we noted the following:

1. For 6 of the 30 new hire and termination actions tested, the SF-50 was approved before the review and approval of the SF-52.

We noted that despite these inappropriate approvals, these employees were properly hired or terminated and did not receive pay before their hire date or after their separation date.

2. For 1 of the 45 other employees' actions tested, the SF-50 and SF-52 authorizing the employee's shift change was approved after the effective date of the action.

We noted that despite the untimely processing of the action, the employee was paid correctly based on their shift change.

The Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*, Principle No. 10, *Design Control Activities*, states:

Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks. As part of the control environment component, management defines responsibilities, assigns them to key roles, and delegates authority to achieve the entity's objectives. As part of the risk assessment component, management identifies the risks related to the entity and its objectives, including its service organizations; the entity's risk tolerance; and risk responses. Management designs control activities to fulfill defined responsibilities and address identified risk responses.

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.

Human Capital personnel do not have adequate knowledge of the specific GPO policies and procedures over the review and approval of the SF-52s and SF-50s.

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Without proper internal controls in place to ensure that personnel actions are approved on or before their effective dates of the action or that information used to prepare the SF-52 is reviewed and approved prior to the processing of the SF-50, personnel files could contain errors which could lead to misstatements in personnel and benefit expense reported in GPO's consolidated financial statements.

We recommend that GPO strengthen their internal controls in place over the review and approval of personnel actions by ensuring that the SF-52 is reviewed and approved prior to the approval of the SF-50. Additionally, we recommend that GPO ensure that both the SF-50 and SF-52 are approved on or before their effective dates.

B. Commercial Printing Contract Review Board Actions (18-NFR-02)

During our testwork over 28 Commercial Printing Contract Review Board (CRB) Actions and 52 commercial printing expenses, we noted the following:

1. For one CRB action for a contract in the amount of \$60.7 million we noted the CRB action memo did not note whether the Contracting Officer obtained documentation to ensure that the vendor had adequate financial resources, or the ability to obtain adequate financial resources to perform the contract. The Contracting Officer relied on the past performance of the vendor. We further noted that per review of the CRB action memo provided for this same CRB action, one bidder was permitted to correct errors in their bid. The procurement documents did not include sufficient information about the factors considered by the Contracting Officer and the CRB to support their conclusion that the errors are apparent clerical errors and there is no need to submit the procurement documents to the Managing Director, Customer Services, or delegate, as required by the Purchasing Procurement Regulations (PPR). This contract has since been terminated.
2. For two CRB actions, in the amounts of \$918 and \$6.7 million, we noted the Authorizing Signature Request memo, (indicating authorization to sign the Printing and Binding Requisition (SF-1)), was dated after the SF-1 was signed.
3. For one commercial printing expense sample item totaling \$2 thousands, we noted the Agency Authorization Form Template (indicating authorization to sign the Printing and Binding Requisition (SF-1)), was not appropriately signed.

The Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (the Standards) requires the following:

- Management should implement internal controls through policies.
- Management should design control activities to achieve objectives and respond to risks.
- Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

The PPR I-10 section 5, *Actions Requiring Referral to the Managing Director, Customer Services, the CRB Chairperson, and/or Other Managing Director's Designee*, states the following:

(a) For other than apparent clerical mistakes, any claimed mistake in bid, which is identified either prior to or following an award, must be referred to the Managing Director, Customer Services, for a decision on how the claimed mistake in bid is to be processed. The Managing Director may delegate this deciding official authority to the CRB Chairperson, and/or to another designee.

(b) PPR XII-6, *Mistakes in Bid*, CRB Directive 910.1B, and its successor directives provide comprehensive guidance on process and documentation requirements for any mistake in bid.

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For finding No. 1 above related to permitting one of the bidders to correct errors in their bid, the Contracting Officer and the CRB considered the errors made by the bidder to be clerical errors that the bidder is allowed to correct pursuant to GPO's policies and the related procurement documents are not required to be submitted to the Managing Director, Customer Services, or delegate. For all the other findings above, there were no adequate controls in place to ensure that the Contracting Officers complied with the applicable GPO procurement requirements prior to the issuance of purchase orders.

Without adequate controls in place to ensure that procurement actions are in compliance with GPO's procurement policies, there is an increased risk that procurement actions are completed could occur without completing all of the appropriate reviews and/or obtaining the required approvals.

We recommend that GPO strengthen its internal controls to ensure that:

1. All the supporting documentation and approvals required by GPO policies to ensure procurement actions are properly supported and approved are obtained prior to issuance of the purchase orders.
2. All procedures for correcting errors in bids are completed in accordance with GPO's policies and the results are properly documented and maintained.

C. Review and Approval Controls within Acquisition Services (18-NFR-03)

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

- For one of our samples tested in relation to the CRB review, one of the individuals that approved the procurement action as a part of the CRB review, also signed the contract on behalf of the Contracting Officer in their absence although prohibited by GPO's policies.
- During our contractual services expense testing, we noted that for 1 out of 11 expenses tested, the dollar value of the hard copy purchase order provided (PO No. 3030095 in the amount of \$750 thousand) exceeded the correct amount of \$325 thousand. Acquisition Services added a second line to correct the errors in the first line and to move the funds to that line. However, both lines remained on the purchase order so Oracle recognized the purchase order amount as \$750 thousand instead of \$325 thousand.
- During our fixed asset additions testing, we noted that for 2 out of 8 fixed asset additions tested, although the purchase requests were properly approved, the funds were expended before the purchase orders were approved and executed. These two purchase orders totaled \$1.6 million.

The GAO Standards for Internal Control in the Federal Government, Principle No. 10, *Design Control Activities*, states:

Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks. As part of the control environment component, management defines responsibilities, assigns them to key roles, and delegates authority to achieve the entity's objectives. As part of the risk assessment component, management identifies the risks related to the entity and its objectives, including its service organizations; the entity's risk tolerance; and risk responses. Management designs control activities to fulfill defined responsibilities and address identified risk responses.

GPO Directive 110.15C GPO Contract Review Board (CRB) section 9. "Composition", states that the CRB will consist of not less than three members. In addition it states "Contracting Officers who have

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made decisions regarding, or are required to sign, the award documents of a particular procurement shall not participate in that CRB action."

There are no adequate controls in place to ensure that procurement personnel comply with GPO policies and other applicable procurement requirements.

Without adhering to GPO's procurement policy there is an increased risk that services could be procured in an inappropriate manner. In addition, procurements requiring CRB approval may not be appropriately approved.

We recommend that GPO strengthens its controls to ensure the CRB and Contracting Officers follow GPO's policies and procedures.

D. Review of Invoices Related to Certain Expenses (18-NFR-04)

During our testing over other expenses, we noted the Examination & Billing Branch of the Procurement Accounting Division did not follow GPO's internal policies and procedures over the review of one of the selected invoices. Specifically, we noted that for invoice No. 0033 in the amount of \$35 thousand, although the services provided were for the period of Fiscal Year (FY) 2018 (November 1, 2018 through November 30, 2018), the vendor erroneously invoiced GPO against the previous option period (FY 2017). Per Acquisition Services, the invoice was paid against the FY 2017 purchase order instead of the FY 2018 purchase order, although the FY 2018 purchase requisition had been approved and the FY 2018 purchase order had already been executed. The invoice examiner did not note and correct the error during the examination process.

The GAO Standards for Internal Control in the Federal Government, Principle No. 10, *Design Control Activities*, states:

Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks. As part of the control environment component, management defines responsibilities, assigns them to key roles, and delegates authority to achieve the entity's objectives. As part of the risk assessment component, management identifies the risks related to the entity and its objectives, including its service organizations; the entity's risk tolerance; and risk responses. Management designs control activities to fulfill defined responsibilities and address identified risk responses.

The invoice examiner relied on the information provided by the vendor and did not independently verify the purchase order number referenced in the invoice.

Without adequate review of vendor invoices, there is an increased risk that invoices are not paid properly against the correct purchase orders.

We recommend that the Examination & Billing Branch within the Procurement Accounting Division implement controls to ensure that during the review of any invoice, invoice examiners verify that the vendor has included the correct purchase order number in the invoice.

E. Recording of Inventory Receipts (18-NFR-05)

During our testing over inventory, we noted that GPO's control to ensure that inventory receipts are entered into the system in a timely manner was not operating effectively. Specifically we noted for 3 of the 10 inventory receipt samples selected, the inventory was received in September 2018 but was not

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entered into GPO's system of record, Oracle, until October 2018. As such, these inventory items were not recognized in GPO's general ledger as of September 30, 2018.

The GAO *Standards for Internal Control in the Federal Government*, Principle No. 10, *Design Control Activities*, states:

Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks. As part of the control environment component, management defines responsibilities, assigns them to key roles, and delegates authority to achieve the entity's objectives. As part of the risk assessment component, management identifies the risks related to the entity and its objectives, including its service organizations; the entity's risk tolerance; and risk responses. Management designs control activities to fulfill defined responsibilities and address identified risk responses.

There are no controls in place to ensure all items received on or prior to September 30, 2018 are either received in Oracle or accrued in Oracle as of September 30, 2018.

Without proper internal controls in place to ensure that inventory receipts are entered into GPO's general ledger in a timely manner, inventory balance reported in GPO's consolidated financial statements could be misstated.

We recommend that GPO strengthen its controls over the recording of inventory receipts to ensure that receipts are recorded in a timely manner.

Appendix B

Status of Prior Year Non-Information Technology Findings

FY 2017 Comment Number	FY Comment Originated	Title	FY 2018 Status of Comment Reported in FY 2017
17-NFR-01	2013	Insufficient Control Activities and Review within Acquisition Services	Open. See 18-NFR-03.
17-NFR-02	2009	Processing of Personnel Actions.	Open. See 18-NFR-01.
17-NFR-03	2015	Validation and Certification of Timesheets	Closed
17-NFR-04	2012	Improper Recording of Fixed Asset Disposals.	Closed
17-NFR-05	2013	Unbilled Accounts Receivable	Closed