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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON REGIONAL OFFICE
FIFTH FLOOR
803 WEST BROAD STREET
FALLS CHURCH, VIRGINIA 22046

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AUG 9 1976

Mr Seymour Berry
Assistant Director (Administration)
Bureau of Engraving and Printing
Washington, D C. 20228

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Dear Mr. Berry:

We have completed our work on the [examination of the financial statements of the Bureau of Engraving and Printing Fund, for fiscal years 1974 and 1975] and our report to Congress is being prepared. We believe it would be useful to summarize for you certain matters noted during our review which will not be discussed in our report to the Congress, but which we feel warrant your attention. These matters have been discussed with members of your staff

INVENTORY MANAGEMENT

During our observation of the physical count of selected inventory on June 30, 1975, and December 2, 1975, we noted that the opportunity exists to improve the Bureau's procedures in the inventory management area. Our thoughts on this matter are detailed in the following sections

Need to improve inventory layout

Good physical layout of inventory is essential for assuring proper inventory counts, minimizing time required to locate and transport needed items, and minimizing loss from easily damaged stock. During the inventory taking, we noted that in many instances Bureau stock was stored in more than one location, and locator cards were unreliable. We could not have counted some items without a Bureau employee being present who could find the stock and, even then, there was no assurance that all locations had been identified. For example, for one item we were told the count was complete and later found additional stock.

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We also observed that easily damaged items, such as dry inks, were stored in overcrowded areas. Several of the bags had been broken with contents spilled and damaged.

We believe that the problem could be minimized through implementation of sound inventory management standards which would include procedures for layout, accountability, and control. We suggest that these procedures be incorporated into an inventory management manual for use by the inventory personnel.

Improvement needed in
recordkeeping procedures

Accurate perpetual cards are essential to strong internal control and facilitate determining reorder points. In our observations and tests of inventory, we noted discrepancies between our counts and the cards for 45 of the 82 raw materials and store items counted. There were also differences between records maintained by the Stock Control Branch and the Supply Branch.

The Bureau internal auditors have recommended in prior reports that Supply Branch cards and Stock Control cards be reconciled periodically. We concur with the recommendation, and encourage its early implementation.

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The Bureau currently keeps perpetual inventory records of all raw materials and stores, regardless of dollar value. A recent study done by your office revealed that many items are very low dollar value. For example, of 7,474 items valued at \$684,857 in the machine storeroom, 3,604 items valued at \$97,837 had unit values of \$5 or less. Accounting Principles and Standards for Federal Agencies issued by the Comptroller General of the United States, Section 12.5 (d), contains the following:

"The use of dollar minimums for some kinds of property is a practical device that may be used to avoid unnecessarily detailed property accounting for items that are too small to warrant such accounting. No uniform minimum is prescribed for Federal agencies. This method should not be applied to property items which constitute a significant segment of the total investment in property or where the aggregate cost of such items is substantial."

We suggest that consideration be given to eliminating low dollar value items from perpetual records. Such a procedure would reduce the clerical time required to keep records up-to-date.

ENHANCEMENT OF FINANCIAL STATEMENTS

In reviewing the 1975 financial statements, we noted certain aspects of the statements which, if revised, would further enhance the quality of the financial data presented. These are summarized below:

1. Footnotes supplementing the financial statements should be presented in accordance with Accounting Principles Bulletin No 22, which suggests that all important accounting principles be represented as note 1 or unnumbered but preceding the footnotes. Your statements currently present the policies throughout the footnotes, however, we revised the presentation for the GAO report.

2. The Statement of Income and Expense could be improved by changing your presentation of shop costs capitalized and "minus" income and expense accounts. Shop costs capitalized should be excluded from the cost of sales, thus, eliminating the need to subtract these amounts as line items on the statement. These represent items which are in essence fixed assets and should be treated accordingly.

Presenting items such as Losses on Sales of Fixed Assets as deductions from income accounts also can be confusing to financial statement readers. Such amounts should be treated as nonoperating revenue.

3. Presentation of the Provision for Capital Improvements should be shown in two separate accounts "Pending" and "Authorized" as outlined in your booklet "Financing Capital Improvements." We also suggest that a footnote be included to analyze, in detail, the activity of the accounts, including accumulated amount collected and disbursed, and current year amounts collected and disbursed and the nature of the expenditure.

We understand that many of the above reporting practices are followed in order to comply with internal Treasury requirements. Although the practices may be appropriate for those purposes, we believe the revisions should be made to the financial statements published externally.

PREPARATION AND APPROVAL
OF JOURNAL VOUCHERS

While tracing recorded transactions to supporting documentation, we noted many instances where the same individual prepared and approved the journal vouchers. This procedure is a weakness in internal control and has been brought to your attention in Internal Audit reports. We concur with their recommendation that action be taken to separate the duties of preparation and approval of journal vouchers.

We would appreciate your comments on the aforementioned matters and your advice as to any action taken or contemplated. The courtesies extended to us during the audit were most appreciated.

Sincerely yours,

A handwritten signature in cursive script, appearing to read 'D. Sorando', with a small 'for' written below the main signature.

David P. Sorando
Regional Manager



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Mr Jay Esserman
Chief, Internal Audit
Bureau of Engraving and Printing
Washington, D C 20228

Dear Mr Esserman

Enclosed for your information and use is a copy of our management letter to Mr Berry. The letter highlights some issues which have been included in past internal audit reports.

We would like to take this opportunity to express our appreciation for the many courtesies extended to us during the audit.

Sincerely yours,


David P Sorando
Regional Manager

Enclosure