

The GPO's consolidated financial statements as of and for the years ended September 30, 2002 and 2001, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;...

SECTION II

Independent Auditors' Report





2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Public Printer
United States Government Printing Office:

We have audited the accompanying consolidated balance sheets of the United States Government Printing Office (the GPO) as of September 30, 2002 and 2001, and the related consolidated statements of revenues and expenses and cash flows for the years then ended. We have also examined management's assertions, included in the statement of assurance to us dated February 7, 2003 at pages 56 and 57, regarding the effectiveness of the GPO's internal control over financial reporting that were in place as of September 30, 2002 and for the year then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. The objective of our examination of management's assertions regarding internal control over financial reporting was to express an opinion on management's assertions. In connection with our audits, we also tested the GPO's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its consolidated financial statements.

SUMMARY

As stated in our opinions on the consolidated financial statements and on management's assertions about the effectiveness of internal control over financial reporting, we concluded that:

- The GPO's consolidated financial statements as of and for the years ended September 30, 2002 and 2001, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America; and
- The GPO management has fairly stated, in all material respects, its assertions that internal control over financial reporting in place as of September 30, 2002 and for the year then ended, provide reasonable assurance that transactions are properly recorded, processed, and summarized to permit the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and transactions are executed in accordance with: (a) laws governing the use of budget authority, and (b) other laws and regulations that could have a direct and material effect on the consolidated financial statements, based upon criteria established under GPO Instruction 825.18A, *Internal Control Program*.



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Our consideration of internal control over financial reporting resulted in deficiencies in the design and/or operation of the GPO's Information Technology (IT) general controls and internal controls over its process for identifying obsolete or slow moving publications for sale inventory and estimating the year-end allowance for surplus publications being identified as reportable conditions. However, none of the reportable conditions are considered to be material weaknesses.

The results of our tests of compliance with laws and regulations disclosed no instances of non-compliance that are required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States.

The following sections discuss our opinion on the GPO's consolidated financial statements, our opinion on management's assertions regarding internal control over financial reporting, our tests of the GPO's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the GPO as of September 30, 2002 and 2001, and the related consolidated statements of revenues and expenses and cash flows for the years then ended.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of the United States Government Printing Office as of September 30, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the GPO's consolidated financial statements taken as a whole. The consolidating and supplemental information on pages 45 through 54 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. We did not audit this information, and accordingly, we express no opinion on it.

The information contained in the Management's Discussion and Analysis section has not been audited, and accordingly, we express no opinion on it.

OPINION ON MANAGEMENT'S ASSERTIONS ABOUT THE EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

We have examined management's assertions, included in its statement of assurance to us dated February 7, 2003, that internal controls designed by management provide reasonable, but not absolute, assurance that as of September 30, 2002 and for the year then ended, the following objectives were met:



- Transactions are properly recorded, processed, and summarized to permit the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and
- Transactions are executed in accordance with: (a) laws governing the use of budget authority, and (b) other laws and regulations that could have a direct and material effect on the consolidated financial statements.

In our opinion, management's assertions that internal controls in place as of September 30, 2002, and for the year then ended, provide reasonable assurance that transactions are properly recorded, processed, and summarized to permit the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and transactions are executed in accordance with: (a) laws governing the use of budget authority, and (b) other laws and regulations that could have a direct and material effect on the consolidated financial statements, are fairly stated in all material respects, based upon criteria established under GPO Instruction 825.18A, *Internal Control Program*.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the GPO's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted certain matters involving the internal control over financial reporting and its operation described below that we consider to be reportable conditions. However, none of the reportable conditions are believed to be material weaknesses.

IT General Controls

Deficiencies in the design and or operations of the GPO's IT general controls are considered a reportable condition. This condition, which has been previously reported to management in prior years' audit reports, relates to the following areas:

- **Entity-Wide Security Program**

There are several areas regarding an enterprise-wide security program that are inadequate. The program should establish a framework for assessing risk, developing and implementing



effective security procedures, and monitoring the effectiveness of these procedures. Without a well-designed program, security controls may be inadequate; responsibilities may be unclear, misunderstood, and improperly implemented; and controls may be inconsistently applied. Specifically, we noted the need for the GPO to establish an effective security management structure that provides a framework and continuing cycle of activity for managing risk, developing security policies, and monitoring the accuracy of computer security controls.

- **Access Controls**

Certain access controls require modification in order to provide a more secure environment. Access controls should provide reasonable assurance that computer resources (data files, application programs, and computer-related facilities and equipment) are protected against unauthorized modification, disclosure, loss, or impairment. These controls include controls over physical access to computer resources, and controls that prevent unauthorized access to sensitive files.

Examples of improvements needed include:

- Utilizing independent risk assessments in order to properly classify computer information resources according to sensitivity and criticality.
- Reviewing access authorization listings and user account privileges for all of GPO's information systems to determine if access is still required and privileges are appropriate based upon job function.
- Improving logical security, configuration settings, and database permissions surrounding the general ledger and Probe databases.
- Improving internal network vulnerabilities for password administration, vendor patches, and vendor recommended enhancements.
- Enhancing employee checkout procedures.
- Improving physical access controls.

- **Application Change Control and Systems Development**

Certain controls over the modification of application software programs are deficient. These controls should be designed to ensure that only authorized programs and modifications are implemented. Without proper controls, there is a risk that security features could be inadvertently or deliberately omitted or "turned off" or that processing irregularities or malicious code could be introduced. As an example, the GPO needs to develop an entity-wide systems development methodology to encompass client/server and production environments.

- **Service Continuity**

Losing the capability to process, retrieve, and protect information maintained electronically can significantly impact an agency's ability to accomplish its mission. For this reason, an agency should have (1) procedures in place to protect information resources and minimize the risk of unplanned interruptions and (2) a plan to recover critical operations should interruptions occur. The GPO needs to establish a comprehensive, entity-wide business continuity and disaster recovery plans.



As noted in prior years, we strongly recommend that the GPO develop a formal action plan to review and revise its IT general controls in order to strengthen the internal control environment. This plan should address each of the areas discussed above as well as any other areas that impact the general IT control environment, set forth appropriate corrective action steps, assign responsibilities to employees, and establish target completion dates for each action. This plan should be adopted by the GPO and provide for periodic reviews of progress towards achievement of corrective actions.

Publications for Sale Inventory

We noted that the fiscal year end publications for sale inventory balance included a significant number of publications that are considered obsolete or slow moving as defined by GPO's policies. We also noted that the GPO Financial Accounting and Reporting Branch has developed its estimate for the allowance for surplus publications using a four year average ratio of surplus expense to total publications for sale inventory without taking into consideration the actual obsolete or slow moving items that existed as of fiscal year end as defined by GPO's policies. This resulted in an adjustment to the allowance and the surplus publications expense of approximately \$3 million at fiscal year end.

We recommend that (a) management ensure that the review of slow moving and obsolete products, as defined in GPO's policies, is performed efficiently on a periodic basis, and (b) the GPO Financial Accounting and Reporting Branch modify its methodology for estimating the allowance by taking into consideration the actual number of slow moving and obsolete items as of fiscal year end.

The fiscal year 2001 reportable condition related to GPO's process for estimating its workers' compensation liability has been satisfactorily addressed in 2002 and has not been repeated in this report. The only other fiscal year 2001 reportable condition related to deficiencies in the GPO's IT general controls, while certain improvements have been noted it is still considered a reportable condition and has been repeated in this report.

We also noted other matters involving internal control over financial reporting and its operation that we do not consider to be reportable conditions. These matters, along with further technical details and related recommendations of the reportable conditions, will be reported to the GPO management in a separate letter.

COMPLIANCE WITH LAWS AND REGULATIONS

Our tests of compliance with certain provisions of laws and regulations, as described in the Responsibilities section of this report, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.



RESPONSIBILITIES

Management's Responsibility

Management is responsible for:

- Preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, and for preparing the supplemental information and Management's Discussion and Analysis;
- Establishing and maintaining internal control over financial reporting; and
- Complying with laws and regulations.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements, due to error or fraud may nevertheless occur and not be detected.

Auditors' Responsibility

Our responsibility is to express an opinion on the fiscal year 2002 and 2001 consolidated financial statements of the GPO based on our audits. We conducted our audits 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*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

We are also responsible for expressing an opinion, based on our examination, on whether management's assertions regarding the effectiveness of internal control over financial reporting are fairly stated, in all material respects, based on criteria established under GPO Instruction 825.18A, *Internal Control Program*. We conducted our examination of management's assertions regarding the effectiveness of the GPO's internal control over financial reporting in place as of September 30, 2002, and for the year then ended, in accordance with attestation standards established by the American Institute of Certified Public Accountants.

We did not evaluate all internal control relevant to operating objectives as broadly defined by GPO Instruction 825.18A. We limited our internal control testing to those controls necessary to achieve the objectives outlined in our opinion on management's assertions about the effectiveness of internal control over financial reporting. Because of inherent limitations in internal control, fraud may occur and not be detected. Also projections of any evaluation of internal control over



financial reporting to future periods are subject to the risk that the internal control procedures may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

We believe that our audits and examination provide a reasonable basis for our opinions.

As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of the GPO's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct material effect on the determination of consolidated financial statement amounts. We limited our test of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the GPO. Providing an opinion on compliance with laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

DISTRIBUTION

This report is intended solely for the information and use of the Public Printer, the Joint Committee on Printing, the GPO management, and the GPO's Office of Inspector General, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 7, 2003