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**Highlights**

Highlights of [GAO-08-401](#), a report to the Subcommittee on Domestic and International Monetary Policy, Trade, and Technology, Committee on Financial Services, House of Representatives

**Why GAO Did This Study**

Federal Reserve Banks fulfill the coin demand of the nation’s depository institutions—which include commercial banks, savings and loan associations, and credit unions—by ordering new coins from the U.S. Mint and managing coins held in inventory at the Reserve Banks and in coin terminals. Reliably estimating the demand for coins and efficiently managing the inventory of circulated coins is important to ensure that depository institutions have enough coins to meet the public’s demand and to avoid unnecessary coin production costs. Since late 2006, rising metal prices have driven the costs of producing pennies and nickels above the face values of the coins. This report addresses (1) the Reserve Banks’ process for ordering and distributing coins to the nation’s depository institutions and (2) the extent to which this process meets depository institutions’ demand for coins.

GAO interviewed officials responsible for coin distribution at each of the 12 Reserve Banks and met with representatives of 4 large operators of Federal Reserve coin terminals, 2 banking associations, the U.S. Mint, and the nation’s largest coin recycling company. GAO also analyzed Reserve Bank data for fiscal years 1993 through 2007.

Federal Reserve and U.S. Mint officials generally agreed with GAO’s findings in the report and provided technical comments, which were incorporated as appropriate.

To view the full product, including the scope and methodology, click on [GAO-08-401](#). For more information, contact Susan Fleming at (202) 512-2834 or [flemings@gao.gov](mailto:flemings@gao.gov).

**U.S. COINS**

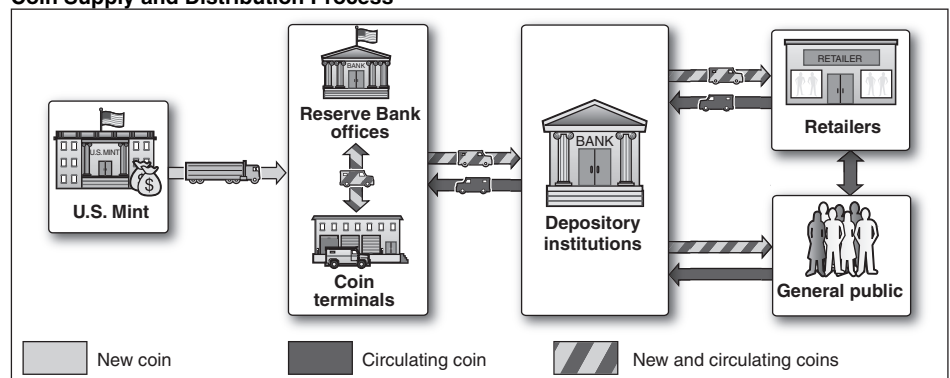
**The Federal Reserve Banks Are Fulfilling Coin Demand, but Optimal Inventory Ranges Are Undefined**

**What GAO Found**

The Reserve Banks’ process for ordering and distributing coins uses new coins ordered from the U.S. Mint, circulated coins in inventory, and transfers of circulated coins to meet depository institutions’ demand for coins. New coin orders begin each month with a recommendation generated by a forecasting tool. Each Reserve Bank office then refines this recommendation in light of its current inventory holdings and its knowledge of local factors that may affect demand, such as changes in a transit authority’s use of coins. Each office next submits a request for coins to the Reserve Banks’ national Cash Product Office (CPO). CPO seeks to fill the request with transfers of circulated coins from other offices before it consolidates the requests and submits a monthly order for new coins to the U.S. Mint. In fiscal years 2006 and 2007, CPO used transfers to reduce its new coin orders by approximately 10 percent.

The Reserve Banks’ process for ordering and distributing coins has met depository institutions’ demand since fiscal year 2000, but the process does not define optimal coin inventory ranges. Currently, each Reserve Bank office sets and manages its own inventory levels, resulting in varying levels of inventory held relative to demand. Overall, inventory levels for most denominations have generally been decreasing since fiscal year 2001, yet inventory levels are more likely to be high than low relative to demand, because, for the Reserve Banks, the risk of not meeting depository institutions’ demand for coins far exceeds the risk of holding too many coins in inventory. However, holding coins in inventory that could be used to fulfill demand elsewhere can be inefficient, resulting in new coin production costs that could have been avoided if coins held in inventory had been used instead. To increase the efficiency of the Reserve Banks’ process, CPO plans this year to begin implementing a new approach to inventory management that it piloted in 2006 and found effective. Under this approach, CPO will determine the number of circulated and new coins each district will receive monthly and will be responsible for ensuring that the Reserve Bank offices maintain appropriate inventory levels.

**Coin Supply and Distribution Process**



Source: GAO.