

# SAFETY, HEALTH AND ENVIRONMENTAL MANAGEMENT



The Bureau continues to pursue its goal of environment, health, and safety (EHS) excellence. The Office of Environment and Safety (OES) manages programs that protect workers from injuries and minimize the Bureau's impact on the environment. The Bureau's goals are to maintain occupational injury and illness rates in a downward trend and to minimize the impact that its air emissions, wastewater discharge and solid waste have on the environment.

In order to demonstrate our commitment to EHS excellence, the Bureau continues to pursue ISO 14001 registry and designation and an Occupational Safety and Health Administration (OSHA) Voluntary Protection Program (VPP) site.

## Improving Worker Health and Safety

The Bureau continues to focus on reducing injuries, illnesses, and lost workdays. The Joint Occupational Safety, Health, and Environment Committee (JOSHEC) successfully transformed input and ideas from the labor force into risk reducing solutions by designing and fabricating material handling equipment, purchasing customized joggers, and improving the way flammable liquids are dispensed. The Bureau's injury prevention efforts in 2005 once again resulted in a safer, more healthful workplace, as indicated by the following year-end results:

- Lost workdays decreased 4%.
- The number of lost workday injuries declined 7% to a rate of 2.0 injuries per 100 employees. Most significantly, the Bureau's rate is below historical average rates for the printing industry.
- In addition, the Bureau rates exceeded the injury and illness goals set for all Department of the



\$10 United States Note, Series 1901, back

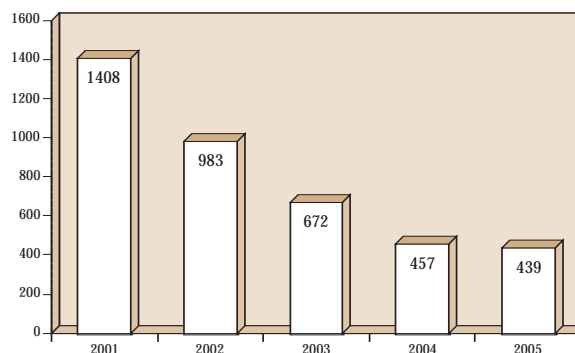
Treasury Bureaus under President Bush's Safety, Health, and Return to Employment (SHARE) initiative.

## Protecting the Environment

In 2005, both the Washington, DC and Fort Worth, TX facilities implemented an Environmental Management System (EMS) which is the centerpiece of ISO 14001. The Bureau's EMS has already paid dividends in minimizing environmental impacts, as well as employee injury risks as follows:

- The use of lead-containing solder in the currency printing plate manufacturing process was eliminated.
- The wastewater recycling technical team made significant progress in developing a method to recycle millions of gallons of wastewater annually at the Washington facility.

## Lost Work Days (Days Lost Due to Injury)



- The Fort Worth facility reduced water consumption by 1.7 million gallons annually by better monitoring water use, maintenance and water re-use.
- Wiper solution and rinse water use in the currency printing presses was decreased by instituting process controls of these materials based on analysis of use patterns over time.
- An EMS technical group is researching alternatives to the use of chrome in the manufacture of currency printing plates.

### Employee Recognition Awards

Employee involvement in the EHS process was evident in 2005 as the Bureau's Greenback and BSAFE

Awards were won by a total of seven employees. Nominations are made to the JOSHEC for a quarterly and annual winner in each category. The Annual Award winners were as follows:

BSAFE Award: Brian Glotfelty, Office of Facilities Support. Brian designed and fabricated two material handling devices that will significantly contribute to the reduction of occupational injuries at the Bureau.

Greenback Award: James Thompson, George Woodworth, and Robert McFall, Office of Engraving. These employees spearheaded an effort to eliminate the use of potentially hazardous substances and eliminated the use of lead-containing solder from the currency printing plate making process.



Annual Greenback and BSAFE Award winners: James Thompson (l), Bob McFall, Brian Glotfelty, and George Woodworth.



The vision guiding the Bureau's Strategic Plan is to be "a world-class securities printer providing our customers and the public superior products through excellence in manufacturing and technological innovation." A copy of the Bureau's current Strategic Plan can be viewed online by clicking "About the Bureau" on the Bureau's web site: [www.moneyfactory.gov](http://www.moneyfactory.gov).

The Bureau has identified five goals in its Strategic Plan that focus on investment in people, products and processes.

**Customer Satisfaction:** Satisfy the Federal Reserve Board and the public by providing responsive service and quality products.

**Quality Manufacturing:** Manufacture state-of-the-art currency of consistently high quality while improving productivity and cost performance.

**Counterfeit Deterrence:** Produce state-of-the-art currency that deters counterfeiting, contributes to public confidence, facilitates daily commerce and extends the useful life of notes in circulation.

**Security and Accountability:** Ensure an environment of comprehensive security and accountability for the Bureau's personnel, facilities and products.

**Resource Management:** Manage Bureau resources to increase internal efficiency and effectiveness in support of the other strategic goals.

The Bureau of Engraving and Printing is the Government's security printer. Its customers and stakeholders expect the highest degree of security in its products. The Bureau seeks to maintain the highest levels of security by incorporating



\$10 Demand Note, 1861, face.

counterfeit deterrent features into currency as well as maintaining a secure physical environment at its two facilities.

The Bureau also provides services directly to the public. The Bureau processes claims for redemption of damaged paper currency at no cost to the public.

The Bureau also offers free public tours of its facilities. The public tour at the Western Currency Facility in Fort Worth, TX began in 2004. The tour of the Bureau's Washington, DC facility and the Visitor's Center are among the most popular attractions in the Nation's Capital.

While manufacturing currency and other printed securities is the core business of the Bureau, the production operations are highly dependent on the effectiveness of support processes such as security, procurement, information systems, financial management, product accountability, human resources management, engineering, research, product development, and maintenance. Only when these processes work in concert can the Bureau be responsive to the needs of its customers.





Unveiling of the \$1 note bearing the signature of the Anna Escobedo Cabral (top left), 42nd Treasurer of the United States.



# FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT PLANS AND ACCOMPLISHMENTS



The Federal Managers' Financial Integrity Act (FMFIA), which was passed in 1982, requires agencies to perform regular evaluations of internal controls and financial management systems to protect against fraud, waste, and abuse. The subsequent passage of the Chief Financial Officers Act and the Federal Financial Management Improvement Act further increased the government's internal control requirements.

The Bureau has a history of strong internal controls and an aggressive monitoring program. Key elements of this program include comprehensive financial management controls, personnel security controls, production and quality controls, computer security and information resources management programs, and strong physical security and product accountability functions to safeguard products and assets. The Bureau's Strategic Plan reflects this emphasis. Security, accountability, and resource management are major strategic goals.

To maintain and enhance product accountability, the Bureau maintains an Accountability Help Desk at its facilities in Washington, DC and Fort Worth, Texas. The Help Desks are staffed with personnel knowledgeable in all aspects of the Bureau's accountability system. They provide training and day-to-day assistance to accountability system users to prevent, minimize, or resolve product accountability issues. In addition, they review and update existing accountability procedures and reports to provide the controls needed to properly track and account for Bureau securities.

Ongoing efforts to improve internal controls include compliance reviews and an active internal control awareness program. The Bureau's Compliance Review Teams (CRTs) in both facilities promote



\$10 Federal Reserve Note, Series 1914, back.

compliance with Bureau operating policies and procedures by performing unannounced reviews in production and storage areas that have custody of security items. During 2005, the CRTs performed 343 unannounced reviews. The results of the reviews were reported to office chiefs, supervisors and managers responsible for enforcing policies and procedures, and implementing corrective actions. The Internal Control Awareness Program is used to promote the visibility and understanding of internal control issues, objectives and requirements. Internal review personnel conduct management and organizational reviews at both facilities to strengthen the Bureau's internal controls, ensure compliance with existing policies and procedures, and safeguard Bureau assets. The Bureau's quality management system for the production of U.S. currency has been registered as ISO 9001 compliant for five years. The internal review staffs support the maintenance and continuous improvement of the Bureau's quality management system by conducting internal quality audits throughout the Bureau.

During FY 2005, the Bureau reconstituted its Internal Control Policy Committee. The committee provides overall guidance and coordination to the internal control program and fosters an environment in which accountability for results and cost effective controls are maintained to ensure the reliability of financial reporting, effectiveness of operations, and compliance with applicable laws and regulations. The committee is comprised of senior level executives that reports to the Director.



The accompanying financial statements and annual audit are important elements in the stewardship of the Bureau's revolving fund. For the 21st consecutive year, the Bureau has received an unqualified opinion on its financial statements from an independent, certified public accounting firm. The Bureau also received an unqualified opinion from the auditors on management's assessment that the Bureau maintained effective internal control over financial reporting as of September 30, 2005, based on criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework) and the applicable requirements of Appendix A of Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control." The unqualified audit opinion; the unqualified opinion on the internal control over financial reporting; and the FMFIA review process help to ensure the integrity of the revolving fund and the reliability of financial data used for managerial decision-making.

During the FY 2005 audit, our auditors noted that a depository account maintained by the Bureau had not been approved by the Department of Treasury's Financial Management Service (FMS). The use of an unauthorized depository account resulted in a reportable condition under the FMFIA reporting

guidelines. This account was opened in 1995 and, subsequent to 1997, was used to secure daily cash receipts from sales to the public from the Bureau's Visitor Center gift shop and, more recently, was also used to receive wire transfers for orders received through the Internet. Beginning in FY 2005, the number and dollar amount of the transactions in this account increased due to additional activity from a new customer. The Bureau transferred funds from this account to our approved revolving fund account monthly. At September 30, 2005, the balance remaining in the account and public sales activity during the year was appropriately recorded on the financial statements. In addition, a review of past activity in this account revealed no unauthorized withdrawals or indications of fraud.

This situation may have resulted in non-compliance with certain laws and regulations. The Bureau was unable to locate documentation from FMS for authorization to designate the holder of the account as a depository and financial agent of the federal government, at times did not transfer funds from the account timely, and maintained balances in the account exceeding the insured threshold of \$100,000 without obtaining the required collateral security. There was also one person with signatory authority on the account who left the Bureau in 1997. The



WebTA Implementation Team. From left to right: Joshua Stauder, Robert Deans, Parraize Butler, Denise Fludd, Stacy Cason, Mona Clay, Cheryl Watkins, Dorothy Harris, Robert Walsh Sr., and Matthew Govern.



Bureau has determined the issues related to this depository account to be a reportable condition based on standards generally accepted in the United States as established by the American Institute of Certified Public Accountants.

The Bureau has taken steps to remediate the above situation, by notifying appropriate personnel, including the FMS, the Treasury Office of Inspector General, and the Bureau's Chief Counsel. In addition, management has discontinued the process of depositing public sales receipts in the account, and is closing the account. Sales receipts are deposited daily into an approved account, and proceeds from sales to the new customer that led to the more significant activity in this account are now wired directly to an authorized account. Additional action will be taken as necessary to address this condition.

Despite the Bureau's strong organizational emphasis on controls, the Bureau detected a suspected theft at the Western Currency Facility in Fort Worth, Texas in October 2004. At that time, the Bureau notified the United States Secret Service and the Department of the Treasury Office of Inspector General, which began an investigation into this matter. During the course of this investigation, it was determined that a trusted employee was potentially responsible for this theft. The employee subsequently confessed to the theft, plead guilty and was sentenced to more than 3 years in prison.

When the potential theft was detected, the Bureau immediately performed an internal review of the controls over the printing, processing, verification, and destruction of currency notes. The results of the review disclosed that certain controls needed strengthening and 23 recommendations were made to correct these deficiencies at the Washington, DC and Western Currency facilities. In addition, the Bureau implemented procedures to strengthen controls over currency production and verification to minimize any exposure to potential future misdeeds. Also, the Bureau commissioned an independent consultant to perform a comprehensive review of controls and all aspects of the security printing and destruction operations. This review was completed on August 18, 2005. The Bureau is in the process of implementing



Michael Pate from Currency Offset (Simultan) Printing Division checking for color quality, registration and counterfeit deterrent security features.

the consultant's recommendations. The Bureau's Internal Control Policy Committee is monitoring the implementation of these recommendations and associated corrective actions.

In 2005, the Bureau's Chief Information Officer (CIO) continued to emphasize increased security and accountability, standardization of Bureau hardware, software, and information technology (IT) related processes and enhanced governance of the IT program and resources. The Bureau continued to refine its Enterprise Architecture not only to address Federal Enterprise Architecture reference models as they are initially released and updated, but also to address the specific needs of the Bureau relative to the documentation and modeling of manufacturing and administrative processes, legacy asset portfolios, and the development of performance metrics associated with assets included in legacy portfolios. Analysis of these processes has led to the identification and documentation of the Bureau's "to-be" architecture. This architecture is also in use for the review of current and proposed IT assets.

In IT security, all of the Bureau's major applications and general support systems have been certified and accredited as meeting stringent federal requirements for ensuring the security of information systems. Systems and applications that were not certified and accredited during the year underwent independent program review using methodology developed by the National Institute of Standards Technology.





Internal Control Review Team. From left to right: Tom Liebrand, Sharilyn Cook, Deborah Jones, Linda Avery, Ariana Young, Ev Totten, Susan Polinski, Gwen House, and John Montgomery.

The CIO Directorate maintains a strong Computer Security Incident Response Capability, which meets the requirements of the Departments of the Treasury and Homeland Security. The CIO Directorate continues to refine policy and procedures for ensuring the adequacy of management controls throughout the life cycle of hardware and software. During fiscal year 2005, the CIO participated in the review of financial, FISMA, and support IT systems as part of the Bureau's first Sarbanes-Oxley Act type audit, which supports the annual audited financial statements. The CIO Directorate continues to be an active participant in Department of the Treasury Critical Infrastructure Protection Planning efforts, including testing of Continuity of Operation Planning (COOP) response through exercise Forward Challenge in May 2005. The Bureau continues to refine Continuity of Operation Plans for its FISMA systems. Regular and thorough biannual tests are held of the COOP plans for the Bureau's mainframe computer, enterprise management information system, and public sales support systems.

As part of the Bureau's emphasis on governance, configuration management (CM) policy and processes continue to be developed and a formal program, which includes implementation of CM software, has

been established. This software will provide detailed tracking of software, hardware, and system configuration changes, as well as the reasons for and impact of these changes. Phase one of the configuration management software is complete and changes to core Bureau functions such as manufacturing and finance are under automated CM control. Phase two is in progress and will include installation of the CM tool in the Oracle environment, as well as the implementation of a process flow tool to monitor projects as they move through the systems development life cycle and capture necessary approvals to support the more rigorous governance and CM requirements similar to those set by the Sarbanes-Oxley Act. In addition, a patch management process was implemented in 2005. Implementation of the CM tool across all CIO Directorate supported platforms is expected by the end of fiscal year 2006.

The Bureau's Capital Planning and Investment Control Process has been implemented, and included the creation of IT and non-IT Investment Review Committees. The IT Architecture and Security Subcommittee, which membership represents IT Security, Enterprise Architecture, and Technical Security, reviews business cases and statements of work, which pertain to IT or to IT-embedded capital assets.





### Assurance Statement Fiscal Year 2005

As required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982, the Bureau of Engraving and Printing (Bureau) evaluated both its internal controls and financial management systems for fiscal year 2005. The results of these evaluations provided reasonable assurance that the internal controls (Section 2) and the financial management systems (Section 4) are in overall compliance with standards prescribed by the Comptroller General of the United States and guidance issued by the Office of Management and Budget. In addition, the Bureau had no instances of material internal control weakness and no material nonconformances outstanding as of September 30, 2005. However, the Bureau had a reportable condition as of September 30, 2005 as described in the Federal Managers' Financial Integrity Act Plans and Accomplishments Section.

Also, based on Office of Management and Budget (OMB) guidance, OMB Bulletin 01-02 (Audit Requirements for Federal Financial Statements), the Bureau can state that it is in substantial compliance with the applicable provisions of the Federal Financial Management Improvement Act of 1996. Further, the Bureau has active programs in place to provide reasonable assurance that programs achieve their intended results; resources are used consistent with the Bureau's overall mission; programs and resources are free from waste, fraud, and mismanagement; laws and regulations are followed; controls are sufficient to minimize any improper or erroneous payments; performance information is reliable; systems security is in substantial compliance with all relevant requirements; continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels; and financial management systems are in compliance with federal financial systems standards.



### Summary of Office of Inspector General and Government Accountability Office Audits

The Bureau began 2005 with seven open audit recommendations issued by the Office of Inspector General (OIG). These recommendations pertained to program issues. During 2005, the Bureau received 11 additional recommendations in eight OIG audit reports. Six recommendations resulted from audits requested by Bureau contracting officers and pertained to contract issues. Five recommendations were the result of OIG initiated audits of the Bureau's security over its network and computer systems, and computer security incident response capability. Two of the recommendations from the contract-type audit reports were implemented or addressed in 2005 resulting in monetary benefits of about \$695 thousand. In addition, ten recommendations from program-type audit reports were implemented or addressed in 2005. The remaining recommendations will be addressed as appropriate. In addition, the Bureau received two recommendations in one Government Accountability Office audit report concerning currency paper procurement issues. One recommendation was implemented in 2005. The remaining recommendation will be addressed as appropriate.





Installation and training on the Bureau's newest technology – computer to intaglio plate (CTIP) making equipment.



# CUSTODY OF ASSETS



In addition to the main-line production of currency and postage stamps, the Bureau has many high-value items that are used for various purposes, such as research, product testing and historical reference. Consequently, the Bureau of Engraving and Printing has a unique fiduciary responsibility to the American public with respect to the custody and safeguarding of its assets and high-value items.

Currency products and other items used in test, experimental, research and other off-line activities normally are expensed immediately and are not carried as assets in the Bureau's financial statements. While the costs expensed may be immaterial to the financial statements, many of these items have high intrinsic value. Therefore, the Bureau ensures that adequate controls are in place to properly safeguard these items. The Bureau also has display areas at each of its facilities and maintains historical collections at its headquarters in Washington, DC. The displays and historical collections include valuable artifacts related to currency and postage stamp operations, as well as other securities produced by the Bureau. While these collections are not included in the inventory balances as reported in the financial statements, appropriate custodial records and controls are maintained. Physical inventories are performed regularly to ensure accountability for these collections.

Although the Bureau does not hold title to any land or facilities, it maintains custodial control over the buildings occupied in Washington, DC and Fort Worth, Texas. In 1999, the Bureau began a multi-year project to substantially renovate the buildings in Washington, DC. This renovation includes roof replacement and power system upgrades, as well as significant maintenance to the buildings' exteriors and



\$10 National Bank Note, 3rd Charter Period, Series 1902, back.

ventilation systems. In 2003, an expansion of the production area was completed in Fort Worth, Texas and a public tour opened in 2004.

In order to effectively manage its fiduciary and custodial responsibilities, the Bureau has implemented effective internal control and security systems. To ensure that these systems are functioning properly, management has institutionalized an organizational focus on the safeguarding and accountability of all assets. This focus is reflected in the Bureau's organizational structure. Reporting to the Associate Director (Chief Financial Officer), who has oversight responsibility with respect to internal controls, is the Office of Management Control. This office evaluates and monitors internal control systems and maintains a comprehensive product accountability system. Also, reporting to the Associate Director (Chief Financial Officer) is an Assistant Chief Financial Officer at the Western Currency Facility who is responsible for monitoring internal control responsibilities at that facility. The Office of Security, which reports to the Associate Director (Management), plans, administers and monitors the Bureau's security programs. These programs include personnel, physical and operational security as well as securities destruction. Through this structure, individual unit managers are held accountable and responsible for maintaining proper custody and safeguarding of all assets under their control. To further reinforce the internal control and security structure, a security and internal control



element is included in each employee's performance plan. Employees are rated annually regarding their performance with respect to this element.

Although the Bureau has a strong organizational emphasis on controls, the Bureau detected and reported a suspected theft of currency in 2005. These notes, while scheduled for destruction, had high intrinsic value in that they could be passed as

legitimate currency. As a result, the Bureau implemented procedures to strengthen controls over currency production and verification to minimize any exposure to potential future misdeeds and ensure that currency and currency-like products are properly safeguarded throughout the manufacturing process. In addition, the Bureau had a reportable condition as a result of its use of an unauthorized depository account.



Young visitors learn about the evolution of mediums used as money through the course of history from the "What is Money?" exhibit on the Western Currency Facility tour.



Dennis Grubby, plate printer, demonstrates the turn-of-the-century spider press in the Fort Worth Visitor Center.





# PROGRAM PERFORMANCE MEASURES



The Bureau measures the efficiency and effectiveness of its overall organizational performance by using program performance measures. Standards are developed annually and approved by senior executive staff based on past year's performance, contracted price factors, and anticipated productivity improvement. Actual performance against standard depends on the Bureau's ability to meet annual spoilage, efficiency and capacity utilization goals estimated for each product line.

The Bureau does not receive Federal appropriations; operations at the Bureau are financed by a revolving fund that is reimbursed through product sales.



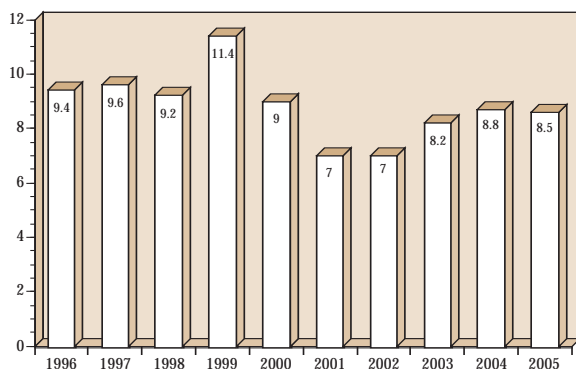
\$10 Silver Certificate, Series 1878, face.

Customer billings are the Bureau's only means of recovering the costs of operations and generating funds for capital investment. Billing rates are based on established cost standards, which are predicated on historical costs, and factors such as changes in labor, material and overhead costs. To ensure that sufficient cash is provided for operations the Bureau must perform to these standard costs.

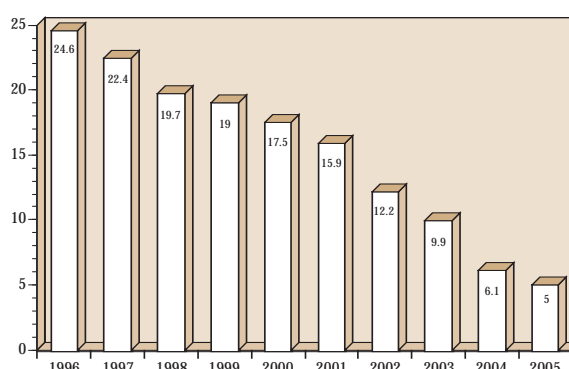
	<u>2005 Standard</u>	<u>2005 Actual</u>
1. Federal Reserve Notes (Cost Per Thousand Notes)	\$29.17	\$29.01
2. 100 Stamp Coil (PSA) (Cost Per Thousand Stamps)	\$2.09	\$1.93
3. Federal Reserve Notes Delivered (Billions)	8.6	8.5
4. Postage Stamps Delivered (Billions)	5.0	5.0
5. Overall Productivity Change 2004 to 2005	-8.6%	-3.9%
a. Currency Productivity Change 2004 to 2005	-5.8%	-1.8%
b. Postage Productivity Change 2004 to 2005	-38.1%	-28.1%
6. Currency Spoilage	4.9%	4.3%
7. 100 Stamp Coil Spoilage	8.0%	6.5%



### Currency Deliveries (Billions of Notes)



### Postage Deliveries (Billions of Stamps)



Currency (Cost per Thousand Notes) Federal Reserve Notes	2005 Standard	2005 Actual
	\$29.17	\$29.01

The actual production cost per thousand currency notes, which includes direct labor and materials and applied manufacturing overhead, was about 1% below standard in 2005. This was due to lower than anticipated spoilage, improved ink mileage at the Western Currency Facility and better than planned productivity for the entire program.

Postage (Cost per Thousand Stamps) 100 Stamp Coil	2005 Standard	2005 Actual
	\$2.09	\$1.93

The actual production cost per thousand stamps for the 100 Stamp Coil with pressure-sensitive adhesive (PSA) was approximately 8% below standard in 2005. Reduced spoilage, improved productivity, and lower labor and material costs all contributed to this superior performance. Postage stamp production at the Bureau ended this past summer; however, distribution of stamps to the U.S. Postal Service will continue in 2006.

Product Deliveries	2005 Order	2005 Delivery
Federal Reserve Notes (Billions)	8.6	8.5
Postage Stamps (Billions)	5.0	5.0

In 2005, the Bureau delivered 8.5 billion Federal Reserve Notes to the Federal Reserve System and 5

billion postage stamps to the U.S. Postal Service. In 2004, the Bureau delivered 0.1 billion notes from the 2005 order. Deliveries and billings are based on orders received from customers. Customer agencies submit their requirements to the Bureau on an annual basis and indicate expected product volume. In some years, actual production does not equal the order because production and delivery of the subsequent year's order may start before the new year.

Postage Productivity Change	2005 Standard	2005 Actual
Overall Productivity	-8.6	-3.9
Currency Productivity	-5.8	-1.8
Postage Productivity	-38.1%	-28.1%

Productivity is calculated based on units of output per labor hour. In 2005, overall productivity decreased by 3.9%. A decrease was anticipated due to the reduction in currency and postage stamp orders.

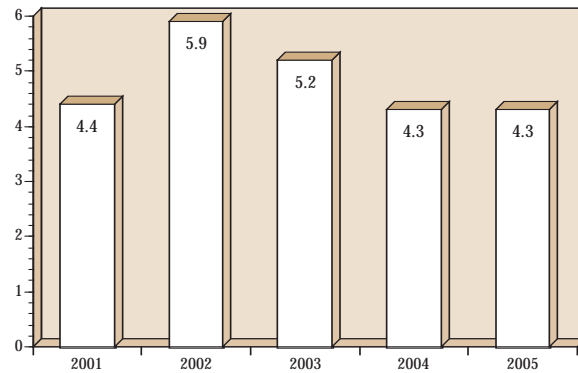
Staffing levels (apprenticeship and training programs) continued to focus on projected, long-term demand, demand trends and preparations necessary for the production of the next denomination of redesigned currency, not fluctuations in year-to-year orders. During 2005 there was a significant reduction in staffing at the Bureau as about 100 employees took advantage of retirement incentives offered in conjunction with the phase-out of the postage stamp program.



	2005	2005
<u>Currency Spoilage</u>	<u>Standard</u>	<u>Actual</u>
Federal Reserve Notes	4.9%	4.3%

Spoilage is an inherent result of any production process. The level of spoilage is an indicator of the overall effectiveness of the production process and quality of material inputs. As the Bureau's commitment to quality and its ISO certification requirements have become institutionalized, the overall level of currency spoilage has fallen for the past four years. Overall currency spoilage in 2005 was below standard as result of continued emphasis on quality.

Currency Spoilage  
(Percentage)



### Comparable Performance Measures for Three Years

	<u>2003</u>	<u>2004</u>	<u>2005</u>
1. Federal Reserve Notes (Cost Per Thousand Notes)	\$29.14	\$28.13	\$29.01
2. 100 Stamp Coil (PSA) (Cost Per Thousand Stamps)	\$1.51	\$1.62	\$1.93
3. Federal Reserve Notes Delivered (Billions)	8.2	8.8	8.5
4. Postage Stamps Delivered (Billions)	9.9	6.1	5.0
5. Overall Productivity Change	11.1%	5.8%	-3.9%
a. Currency Productivity Change	12.1%	7.4%	-1.8%
b. Postage Productivity Change	4.3%	-7.8%	-28.1%
6. Currency Spoilage	5.2%	4.3%	4.3%
7. 100 Stamp Coil (PSA) Spoilage	5.8%	5.7%	6.5%

For those performance measures that are comparable, the results of the past three years are presented. New cost and spoilage standards are developed annually for all product lines produced at the Bureau. Because performance to standard is a meaningful performance measure only in the applicable year, only actual manufacturing cost and spoilage data are presented.





Teach the Children to Save Day, an educational event for children held at the Bureau on April 26, 2005.



# MANAGEMENT DISCUSSION AND ANALYSIS



During 2005, the Bureau focused its resources and efforts on producing the most secure currency ever issued by the Federal Reserve. The Nation's new currency is enhanced by additional, advanced counterfeit deterrent features that are indicative of a world-class symbol of security and integrity.

When pricing the 2005 currency program, the Bureau anticipated incurring a loss. The Bureau included a surcharge in currency billing rates for the acquisition of capital assets for the start-up of the Western Currency Facility in the 1990s, resulting in revenue in excess of expenses. For 2005, the Bureau did not include the full amount of depreciation in its currency billing rates. Only the estimated amount of depreciation necessary to fund planned capital investments was included in the billing rates. However, the full cost of depreciation is included on the income statement, resulting in an excess of expenses over revenue.

During the year, the Bureau reduced billing rates to the Federal Reserve as a result of operating



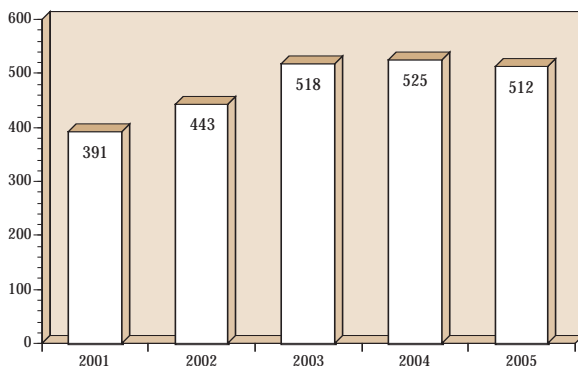
\$10 Silver Certificate, Series 1886, back.

efficiencies, cost savings as a result of staffing reductions and lower than anticipated capital expenditures. The net effect of the billing rate change was a \$20 million reduction in income from currency sales to the Federal Reserve. Nonetheless, the Bureau remains well capitalized with respect to working capital and funds for anticipated capital acquisitions in 2006.

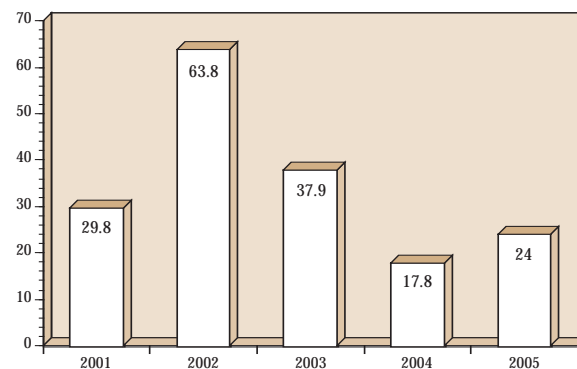
## Cash, Accounts Receivable and Cash Flow

Cash increased \$14 million in 2005, while accounts receivable decreased by \$2.5 million in 2005. The increase in cash was a result of the Bureau's cost reduction efforts and lower than expected capital expenditures.

Total Revenue  
(Millions of Dollars)



Annual Investment in  
Property and Equipment  
(Millions of Dollars)



### Inventories

Inventories decreased from \$103 million in 2004 to \$75 million in 2005. This was primarily due to a decrease in work in process and raw materials due to the lower production levels of currency. In addition, there were no stamp inventories at year end as 2005 was the final year of stamp production at the Bureau.

### Property and Equipment

Net property and equipment decreased from \$261 million in 2004 to \$249 million in 2005. This net decrease was due to depreciation in excess of the addition of new property and equipment, as well as idle stamp production equipment and spare parts that were fully depreciated in 2005.

### Other Assets

Other assets remained relatively unchanged in 2005.

### Accounts Payable

Accounts payable decreased from \$19 million in 2004 to \$14 million in 2005. The primary cause of the decrease was the timing of cash disbursements for vendor payments and the decreased activity related to the end of postage stamp production.

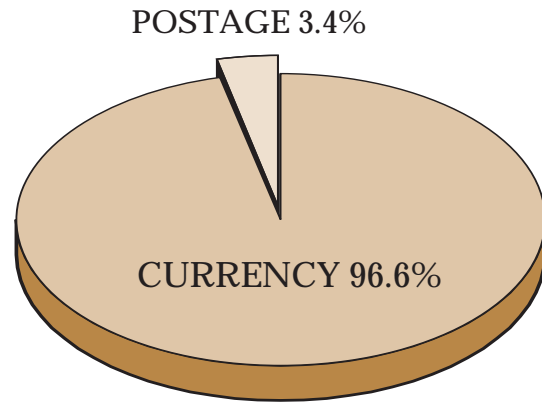
### Accrued Current Liabilities

Accrued current liabilities decreased from \$31 million in 2004 to \$28 million in 2005 primarily due to a small reduction in payroll accruals.

### Advances

Advances increased from \$500 thousand in 2004 to \$3 million in 2005 primarily due to an advance of \$2.5 million from the Department of Homeland Security.

### 2005 Revenue by Program

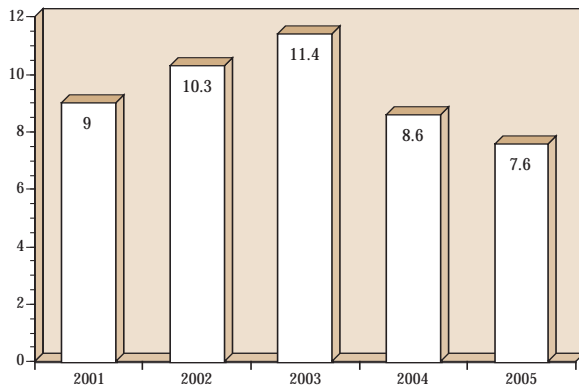


### Average Billing Rate for Currency

<u>Year</u>	<u>Rate Per Thousand Notes</u>	<u>Single Note</u>
1996	\$39.41	\$0.039
1997	\$37.40	\$0.037
1998	\$40.20	\$0.040
1999	\$44.36	\$0.044
2000	\$45.34	\$0.045
2001	\$46.64	\$0.047
2002	\$54.39	\$0.054
2003	\$57.16	\$0.057
2004	\$55.56	\$0.056
2005	\$56.08	\$0.056



### Research and Development Costs (Millions of Dollars)



### Workers' Compensation Liabilities

The actuarial workers' compensation liability decreased from \$62 million in 2004 to \$59 million in 2005. The decrease in the actuarial liability was

primarily a result of the Bureau's efforts to reduce workers' compensation cost over the past five years.

### Revenue from Sales

Overall sales revenue decreased by \$13 million in 2005 to \$512 million. This was due to the decreased currency and postage stamp deliveries in 2005.

### Cost of Goods Sold

Cost of goods sold decreased from \$493 million in 2004 to \$473 million in 2005 due to lower sales volume. As a percentage of sales revenue, cost of goods sold decreased from 94 percent to 92 percent. Consequently, gross margin as a percentage of revenue increased.

### Operating Costs

Operating costs remained relatively unchanged in 2005.



Andy Hom Loon Shu, Office of Engraving, using the new computer to intaglio plate (CTIP) technology.





### Limitations of the Financial Statements

The following financial statements are for the Bureau of Engraving and Printing, a component of the Department of the Treasury. As such, the statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. The principal financial statements have been prepared to report the financial position, results of operations and cash flows of the Bureau. They have been prepared from the Bureau's financial books and records maintained in accordance with private sector generally accepted accounting principles. These statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.





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# FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION



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HAMILTON

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

We, as management of the Bureau of Engraving and Printing, are responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. Internal control is designed to provide reasonable assurance to the Bureau's management regarding the reliability of financial reporting and the preparation of published financial statements. Because of inherent limitations in any internal control, no matter how well designed, misstatements due to error or fraud may occur and not be detected, including the possibility of circumvention or overriding of controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

The Bureau assessed its internal control over financial reporting as of September 30, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework) and the applicable requirements of Appendix A of Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control." Management's assessment included an evaluation of the design of the Bureau's internal control over financial reporting and testing of the operational effectiveness of those controls.

Based on this assessment, management has concluded that as of September 30, 2005, the Bureau's internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of published financial statements based on the specified criteria. No material weaknesses were found in the design or operation of the internal control over financial reporting.

Ernst & Young LLP, the independent public accounting firm that audited the Bureau's financial statements included in this report, has issued an attestation report on management's assessment of internal control over financial reporting, a copy of which is included herein.



*Thomas A. Ferguson*  
Director

*Gregory D. Carper*  
Chief Financial Officer

October 25, 2005  
Washington, DC



## REPORT OF INDEPENDENT ACCOUNTANTS

To the Inspector General, Department of the Treasury, and  
the Director of the Bureau of Engraving and Printing,  
Department of the Treasury

We have examined management's assertion, included in the accompanying "Management's Report on Internal Control Over Financial Reporting," that the Bureau of Engraving and Printing (Bureau), maintained effective internal control over financial reporting as of September 30, 2005, based on criteria established in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission and the applicable requirements of Appendix A of Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*. The Bureau's management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and, accordingly, included obtaining an understanding of the internal control over financial reporting, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Bureau management's assertion that the Bureau maintained effective internal control over financial reporting as of September 30, 2005 is fairly stated, in all material respects, based on criteria established in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission and the applicable requirements of Appendix A of Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*.

Our examination identified the need to improve certain internal controls over financial reporting, as discussed in the accompanying "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements in Accordance with *Government Auditing Standards*," dated October 25, 2005.

*Ernst & Young LLP*

October 25, 2005  
Washington, DC



## REPORT OF INDEPENDENT AUDITORS

To the Inspector General, Department of the Treasury, and  
the Director of the Bureau of Engraving and Printing,  
Department of the Treasury

We have audited the accompanying balance sheets of the Bureau of Engraving and Printing (Bureau), a bureau of the Department of the Treasury, as of September 30, 2005 and 2004, and the related statements of operations and cumulative results of operations, and cash flows for the fiscal years then ended. These financial statements are the responsibility of the Bureau's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as applicable. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bureau of Engraving and Printing at September 30, 2005 and 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2005 on our consideration of the Bureau's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

*Ernst & Young LLP*

October 25, 2005  
Washington, DC



**THE DEPARTMENT OF THE TREASURY  
BUREAU OF ENGRAVING AND PRINTING**

**BALANCE SHEETS**

	September 30	
	2005	2004
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Cash (Note 3)	\$183,250	\$168,928
Accounts receivable (Note 4)	42,038	44,607
Inventories (Note 5)	75,246	103,391
Prepaid expenses	3,675	3,148
Total current assets	304,209	320,074
Net property and equipment (Notes 2 and 6)	249,403	261,042
Other assets, principally machinery repair parts and tools (Note 2)	17,322	16,593
Total assets	\$570,934	\$597,709
<b>Liabilities and equity</b>		
Current liabilities:		
Accounts payable	\$13,564	\$19,267
Accrued liabilities (Note 7)	27,815	30,980
Advances	3,881	461
Total current liabilities (Note 7)	45,260	50,708
Workers' compensation liability (non-actuarial) (Note 8)	5,690	5,593
Workers' compensation actuarial liability (Note 2)	59,407	62,304
Total liabilities	110,357	118,605
<b>Equity</b>		
Invested capital	32,435	32,435
Cumulative results of operations	428,142	446,669
Total equity	460,577	479,104
Total liabilities and equity	\$570,934	\$597,709

See accompanying notes.





**THE DEPARTMENT OF THE TREASURY  
BUREAU OF ENGRAVING AND PRINTING**

**STATEMENTS OF OPERATIONS AND  
CUMULATIVE RESULTS OF OPERATIONS**

	Year Ended September 30	
	2005	2004
	<i>(In Thousands)</i>	
Revenue from sales <i>(Note 9)</i>	\$512,064	\$524,752
Cost of goods sold	<u>472,478</u>	<u>493,255</u>
Gross margin on operations	39,586	31,497
Operating costs:		
General and administrative	50,465	51,739
Research and development	<u>7,648</u>	<u>8,564</u>
	<u>58,113</u>	<u>60,303</u>
Excess of expenses over revenues resulting from operations	(18,527)	(28,806)
Cumulative results of operations at beginning of year	<u>446,669</u>	475,475
Cumulative results of operations at end of year	<u>\$428,142</u>	<u>\$446,669</u>

*See accompanying notes.*



**THE DEPARTMENT OF THE TREASURY  
BUREAU OF ENGRAVING AND PRINTING**

**STATEMENTS OF CASH FLOWS**

	Year Ended September 30	
	2005	2004
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Excess of expenses over revenues	(\$18,527)	(\$28,806)
Adjustments to reconcile excess of expenses over revenues to net cash provided (used) by operating activities:		
Depreciation and amortization	34,618	40,997
Loss on disposal of property and equipment	993	78
Changes in assets and liabilities:		
Accounts receivable	2,569	717
Inventories	28,145	(8,720)
Prepaid expenses	(527)	1,390
Other assets	(729)	(1,877)
Accounts payable	(5,703)	5,405
Accrued liabilities	(3,165)	2,068
Advances	3,420	(1,238)
Workers' compensation costs	(2,800)	1,115
Net cash provided by operating activities	<u>38,294</u>	<u>11,129</u>
<b>Investing activities</b>		
Additions to property and equipment	(23,972)	(17,814)
Net cash (used in) investing activities	<u>(23,972)</u>	<u>(17,814)</u>
Net increase (decrease) in cash	14,322	(6,685)
Cash at beginning of year	<u>168,928</u>	<u>175,613</u>
Cash at end of year	<u>\$183,250</u>	<u>\$168,928</u>

*See accompanying notes.*



**THE DEPARTMENT OF THE TREASURY  
BUREAU OF ENGRAVING AND PRINTING**

**NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

***1. Reporting Entity***

***Basis of Presentation***

The Bureau of Engraving and Printing (the Bureau), a component of the Department of the Treasury, is the U.S. Government's security printer. The Bureau designs and produces United States currency, postage stamps and other United States securities. The Bureau also advises and assists Federal agencies in the design and production of other Government documents.

The Bureau operates under basic authorities conferred by the Act of July 11, 1862 (12 Stat. 532; also, 31 U.S.C. 5114) and other Acts. In accordance with the provisions of Public Law 81-656, effective August 4, 1950, the operations of the Bureau are financed by means of a revolving fund. This fund is reimbursed through billings to the Bureau's customers for products delivered. Public Law 95-81 authorized the Bureau to include in its product prices an amount to provide funding for the acquisition of capital equipment and future working capital.

The financial statements represent the consolidation of two Federal revolving funds. The majority of all amounts and activity (approximately 99%) is contained in the Bureau of Engraving and Printing Revolving Fund, which finances Bureau operations. The other revolving fund, the Mutilated Currency Revolving Fund, is used to redeem damaged paper currency received from the public.

***2. Summary of Significant Accounting Policies***

***Basis of Accounting***

The Bureau of Engraving and Printing has historically prepared its financial statements in conformity with generally accepted accounting principles, based on accounting standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body. In October 1999, the Federal Accounting Standards Advisory Board (FASAB) was designated by the American Institute of Certified Public Accountants (AICPA) as the standards-setting body for financial statements of federal government entities, with respect to the establishment of generally accepted accounting principles. FASAB has indicated, however, that financial statements prepared based upon accounting standards published by the FASB may also be regarded as in conformity with generally accepted accounting principles for those federal agencies, such as the Bureau of Engraving and Printing, that have issued financial statements based upon FASB accounting standards in the past. Accordingly, consistent with historical reporting, the Bureau of Engraving and Printing financial statements are presented in accordance with accounting standards published by the FASB.

