

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 management 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 management control requirements.



\$50 Silver Certificate (1891) with portrait of Edward Everett, Secretary of State.

The Bureau has a history of strong management 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 compliance with Bureau operating policies and procedures by performing unannounced reviews in production and storage areas that have custody of security items. During 2004, the CRTs performed 379 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 management 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 four years. The internal review staff supports the maintenance and continuous improvement of the Bureau's quality management system by conducting quality audits throughout the Bureau.

The financial statements and annual audit are important elements in the stewardship of the Bureau's revolving fund. For the 20th consecutive year, the Bureau has received an unqualified opinion on its financial statements from an independent, certified public accounting firm. For 2004, the Bureau received an unqualified opinion on October 15, 2004, demonstrative of world-class financial management. The annual audit and FMFIA review process help to ensure the integrity of the revolving fund and the reliability of financial data used for managerial decision-making. In 2005, the Bureau intends to expand its internal control system to be in compliance with the more stringent requirements of the Sarbanes-Oxley Act, as applicable.

In 2004, the Bureau's Chief Information Officer (CIO) continued to emphasize increased security and accountability, standardization of Bureau hardware, software, and informa-



tion 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 were initially released and updated, but also to address the specific needs of the Bureau relative to the documentation of manufacturing and administrative processes, legacy asset portfolios and the development of performance metrics associated with assets included in legacy portfolios. 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 integrity and security of information systems. In 2004, the Bureau's core information system was recertified after the upgrade of its operating system, and the remaining systems and applications have undergone extensive independent program reviews using methodology developed by the National Institute of Standards and Technology.

The CIO Directorate continues to maintain and refine policy and procedures for ensuring the adequacy of management controls throughout the life cycle of information technology hardware and software. The Bureau's Computer Security Incident Response Capability meets the requirements of the Departments of the Treasury and Homeland Security. In addition, the Bureau continues to be an active participant in Department of the Treasury Critical Infrastructure Protection Planning efforts in instituting policies and procedures to ensure the confidentiality, availability, integrity and reliability of information. 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. The



Pressman Michael Pate pulling a sample sheet to check serial numbers during final production.

first phase of the implementation of configuration management software is nearing completion, with completion expected in 2006.

The Bureau has implemented a rigorous Capital Planning and Investment Control Process which includes IT and non-IT investment review committees. The IT Architecture and Security Subcommittee, which has membership representing IT Security, Enterprise Architecture and Technical Security, reviews all business cases and statements of work which pertain to the acquisition of IT or IT-embedded capital assets.

Continuity of Operation Planning (COOP) has a Bureau-wide focus. In May 2004, the Bureau participated in exercise "Forward Challenge" in which the Bureau's Contingency and COOP plans were tested by Crisis Management Teams in table-top and other disaster recovery exercises.

Summary of Office of Inspector General Audits

The Bureau began 2004 with six open audit recommendations issued by the Office of Inspector General (OIG). These recommendations pertained to program issues. During 2004, the Bureau received eight additional recommendations in two OIG audit reports. One recommendation resulted from an audit requested by a Bureau contracting officer and pertained to contract issues. Seven recommendations were the result of an OIG initiated audit of the Bureau's controls over security. The recommendation from the contract-type audit report was implemented or addressed in 2004 resulting in monetary benefits of about \$10,000. In addition, seven recommendations from program-type audit reports were implemented or addressed in 2004. The remaining recommendations will be addressed as appropriate.



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 has a unique fiduciary responsibility to the American public with respect to the custody and safeguarding of its assets and high-value items.



\$50 National Bank Note, First National Bank of Winnemucca, Nevada (1906), with portrait of John Sherman, Secretary of the Treasury.

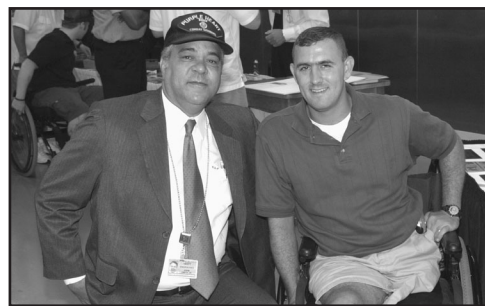
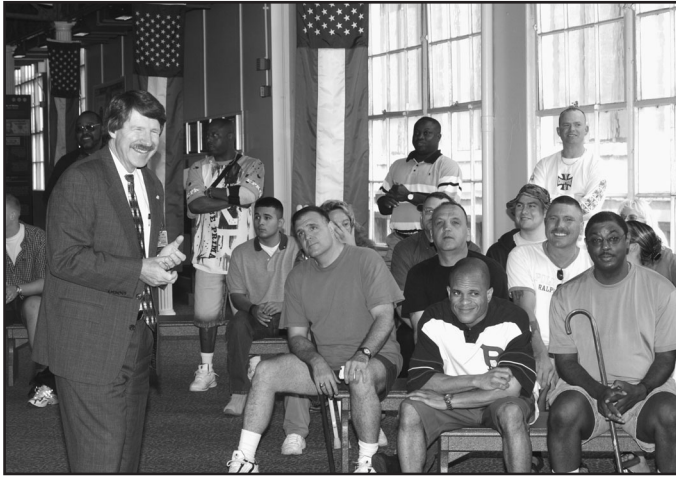
Currency products and other items used in test, experimental, research and other off-line activities are normally expensed immediately and are not carried as assets in the Bureau's financial statements. While the costs expensed may be immaterial to the financial statements, many of these items have high 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 ventilation systems. In 2001, the Bureau began an expansion of the Western Currency Facility in Fort Worth, Texas to provide additional production capability to print the next generation currency designs. This expansion of the production area was com-

pleted in 2003 and a public tour addition was completed in 2004.

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 management controls, is the Office of Management Control. This office evaluates and monitors management 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 management 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.





Program Performance Measures

The Bureau measures the efficiency and effectiveness of its overall organizational performance by using program performance measures. Standards are developed annually by senior executive staff based on past year's performance, contracted price factors, and anticipated productivity improvement. Actual performance against standard depends on BEP's ability to meet annual spoilage, efficiency and capacity utilization goals estimated for each product line. In addition to the existing Bureau-level performance measurement system, an office-level performance measurement system was implemented in 1995 under the umbrella of the Government Performance and Results Act (GPRA).

Bureau-level performance measures and associated results for 2004 are shown in the chart at the bottom of the page.



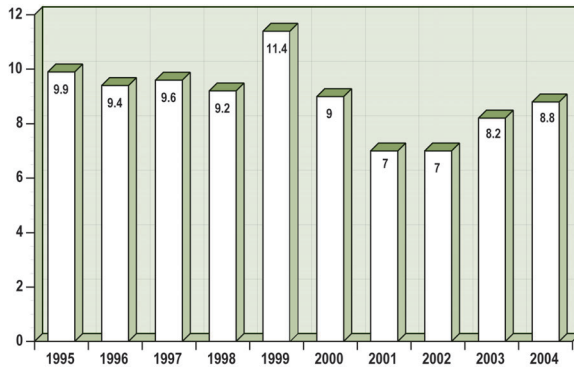
\$50 Federal Reserve Note (1914), with portrait of Ulysses S. Grant.

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

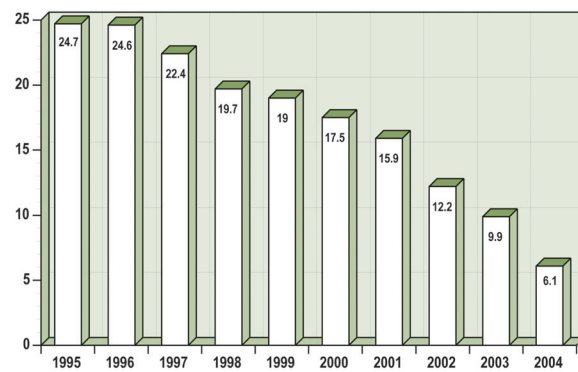
	<u>2004 Standard</u>	<u>2004 Actual</u>
1. <i>Federal Reserve Notes (Cost Per Thousand Notes)</i>	\$29.88	\$28.13
2. <i>100 Stamp Coil (Cost Per Thousand Stamps)</i>	\$1.90	\$1.62
3. <i>Federal Reserve Notes Delivered (Billions)</i>	8.7	8.8
4. <i>Postage Stamps Delivered (Billions)</i>	7.0	6.1
5. <i>Overall Productivity Change 2003 to 2004</i>	0%	5.8%
a. <i>Currency Productivity Change 2003 to 2004</i>	3%	7.4%
b. <i>Postage Productivity Change 2003 to 2004</i>	-20%	-7.8%
6. <i>Currency Spoilage</i>	5.4%	4.3%
7. <i>100 Stamp Coil Spoilage</i>	8.0%	5.7%



**Currency Deliveries
(Billions of Notes)**



**Postage Deliveries
(Billions of Stamps)**



efficient cash is provided for operations the Bureau must perform to these standard costs.

Currency (Cost Per Thousand Notes) Federal Reserve Notes	2004 Standard	2004 Actual
	\$29.88	\$28.13

The actual production cost per thousand currency notes, which includes direct labor and materials and applied manufacturing overhead, was about 6% below standard in 2004. This was due to lower than anticipated spoilage, improved ink mileage and higher productivity for the entire program.

Postage (Cost Per Thousand Stamps) 100 Stamp Coil	2004 Standard	2004 Actual
	\$1.90	\$1.62

The actual production cost per thousand stamps for the 100 Stamp Coil was approximately 15 percent below standard. This was primarily due to reduced spoilage, improved productivity, and lower labor and material costs.

Product Deliveries	2004 Order	2004 Delivery
Federal Reserve Notes (Billions)	8.7	8.8
Postage Stamps (Billions)	7.0	6.1

In 2004, the Bureau delivered 8.8 billion Federal Reserve Notes to the Federal Reserve System and 6.1 billion postage stamps to the U.S. Postal Service. Deliveries to the Federal Reserve exceeded the 2004 order because the Bureau delivered part of the 2005 program (0.1 billion notes) in 2004. Conversely, deliveries to the U.S. Postal Service during the year were less than the order in 2004 because the Bureau delivered part of the 2004 program (0.9 billion stamps) in

2003. 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 most years, actual production does not equal the order because production and delivery of the subsequent year's order may start before the new year.

Productivity Change	2004 Standard	2004 Actual
Overall Productivity	0%	5.8%
Currency Productivity	3%	7.4%
Postage Productivity	-20%	-7.8%



Pressman Wayne Winebrenner cleaning offset plates.



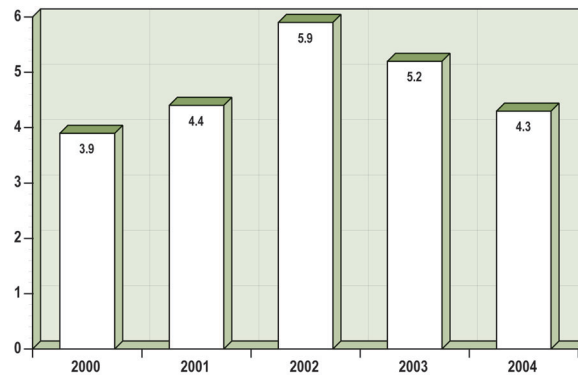
Productivity is calculated based on units of output per labor hour. In 2004, overall productivity increased by 5.8 percent. This was primarily due to a significant reduction in staffing as over 200 employees took advantage of retirement incentives offered in conjunction with the phase-out of the postage stamp program.

Staffing levels (apprenticeship and training programs) continued to focus on projected, long-term demand, demand trends and preparations necessary for the production of next generation currency, not fluctuations in year-to-year orders.

	2004 Standard	2004 Actual
Currency Spoilage Federal Reserve Notes	5.4%	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 spoilage has fallen for the past two years. Overall currency spoilage in 2004 was below standard as result of this increased emphasis on quality and lower than anticipated spoilage on the initial roll-out of the next generation \$50 note.

**Currency Spoilage
(Percentage)**



	2004 Standard	2004 Actual
Postage Stamp Spoilage 100 Stamp Coil	8.0%	5.7%

Postage stamps are printed on web presses (roll fed). This printing process is much faster than sheet-fed printing, which is used for Federal Reserve Notes. As a result of this faster processing, spoilage rates for postage stamp printing are higher when compared to currency printing. Spoilage on the 100 Stamp Coil was below standard as a result of continued improvements in electronic inspection and increased communication throughout the production process.



Bookbinder Tommy Beck monitoring the \$20 note for quality.



Comparable Performance Measures for Three Years

	<u>2002</u>	<u>2003</u>	<u>2004</u>
1. Federal Reserve Notes (Cost Per Thousand Notes)	\$30.03	\$29.14	\$28.13
2. Federal Reserve Notes Delivered (Billions)	7.0	8.2	8.8
3. Postage Stamps (Cost Per Thousand Stamps) 100 Stamp Coil	\$1.48	\$1.51	\$1.62
4. Postage Stamps Delivered (Billions)	12.2	9.9	6.1
5. Overall Productivity Change	-6.3%	11.1%	5.8%
a. Currency Productivity Change	-5.2%	12.1%	7.4%
b. Postage Productivity Change	-11.6%	4.3%	-7.8%
6. Currency Spoilage	5.9%	5.2%	4.3%
7. Postage Stamp Spoilage 100 Stamp Coil	6.7%	5.8%	5.7%

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.



Management Discussion and Analysis

During 2004, 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.



\$50 Gold Certificate, Series of 1922, with portrait of Ulysses S. Grant.

Total deliveries of Federal Reserve Notes in 2004 increased over 2003 levels and postage stamp deliveries decreased according to plan. Revenues increased in 2004 primarily due to a six percent increase in the Bureau's currency program. The net operating loss for the year was within planned parameters. Funding for the Bureau remains adequate because depreciation, a non-cash expense offsets most of the capital investment and the planned operating loss in 2004.

Cash, Accounts Receivable and Cash Flow

Cash decreased \$7 million in 2004, while accounts receivable remained relatively unchanged from 2003. The decrease in cash was primarily the result of the planned net operating loss.

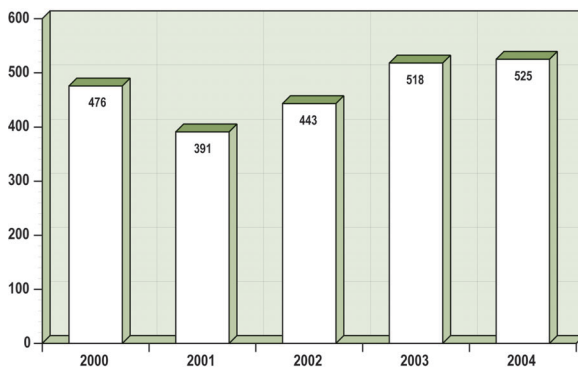
Inventories

Inventories increased from \$95 million in 2003 to \$103 million in 2004. This was primarily due to increased work in process and finished goods inventories resulting from high production levels of the redesigned \$50 note that was released into circulation on September 28, 2004.

Property and Equipment

Net property and equipment decreased from \$284 million in 2003 to \$261 million in 2004. This net decrease was due to depreciation in excess of the addition of new property and equipment.

**Total Revenue
(Millions of Dollars)**



**Annual Investment in Property & Equipment
(Millions of Dollars)**

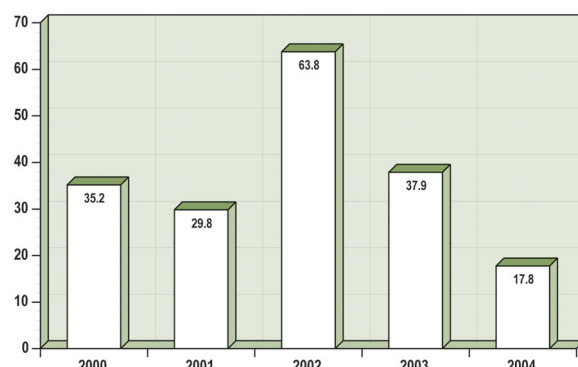
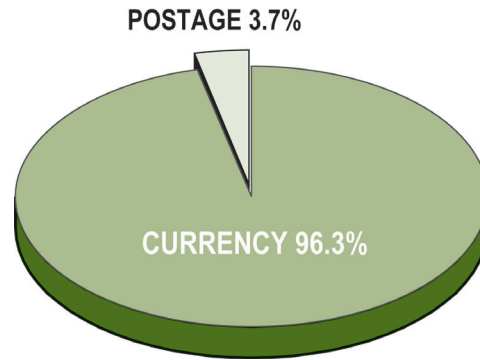




Plate Printer Deidre Veney inspecting currency to maintain quality standards.

2004 Revenue by Program



Other Assets

Other assets remained relatively unchanged in 2004.

Accounts Payable

Accounts payable increased from \$14 million in 2003 to \$19 million in 2004. The primary causes of the increase were the timing of cash disbursements for vendor payments and increased activity at year-end related to the production and release of the next generation \$50 note.

Accrued Current Liabilities

Accrued current liabilities increased from \$29 million in 2003 to \$31 million in 2004 due to payroll accruals and the timing of the pay period in relation to the end of the year.

Advances

Advances remained relatively unchanged in 2004.

Average Billing Rate for Currency

<u>Year</u>	<u>Rate Per Thousand Notes</u>	<u>Single Note</u>
1995	\$37.25	\$0.037
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



Workers' Compensation Liabilities

The actuarial workers' compensation liability increased from \$61 million in 2003 to \$62 million in 2004. The increase in the actuarial liability was primarily due to changes in the discount rate used to calculate this liability.

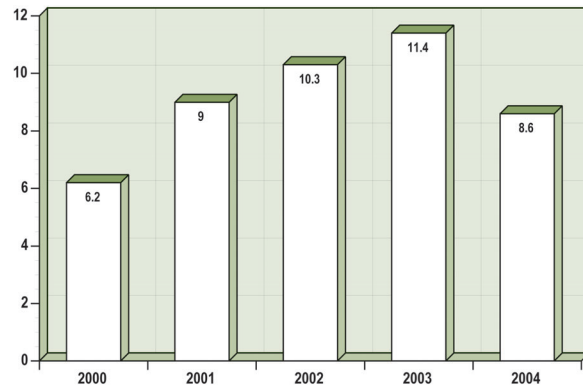
Revenue from Sales

Overall sales revenue increased by \$7 million in 2004 to \$525 million. This was due to the increase in the Bureau's currency deliveries from 8.2 billion notes in 2003 to 8.8 billion notes in 2004 - an increase of 7.3 percent.

Cost of Goods Sold

Cost of goods sold increased from \$469 million in 2003 to \$493 million in 2004. As a percentage of sales revenue, cost of goods sold increased from 90 percent to 94 percent. The overall increase in cost of goods sold was primarily due to the increase in the currency program. Gross margin as a percentage of revenue decreased as a result of the pro-

Research and Development Costs (Millions of Dollars)



duction of the costlier, counterfeit deterrent high-denomination notes and the planned net operating loss.

Operating Costs

Operating costs remained relatively unchanged in 2004.



Letter and Script Engraver Thomas Biles working on a new set of plates.





The Bureau of Engraving and Printing's Main Building in Washington, DC.

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.

