



*Honoring 150 Years of Pride, Craftsmanship and Innovation*



UNITED STATES DEPARTMENT OF THE TREASURY

BUREAU OF ENGRAVING AND PRINTING



2012

CHIEF FINANCIAL OFFICER

PERFORMANCE AND ACCOUNTABILITY REPORT

## Mission

The Bureau of Engraving and Printing develops and produces United States currency notes, trusted worldwide.

## CORE VALUES

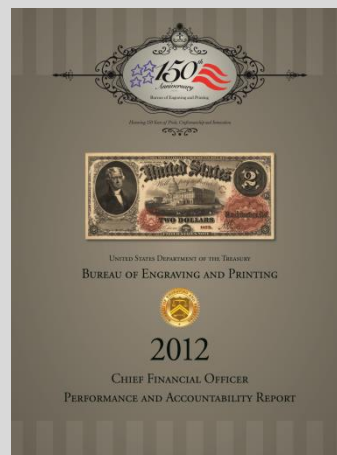
Integrity • Fairness • Performance • Respect

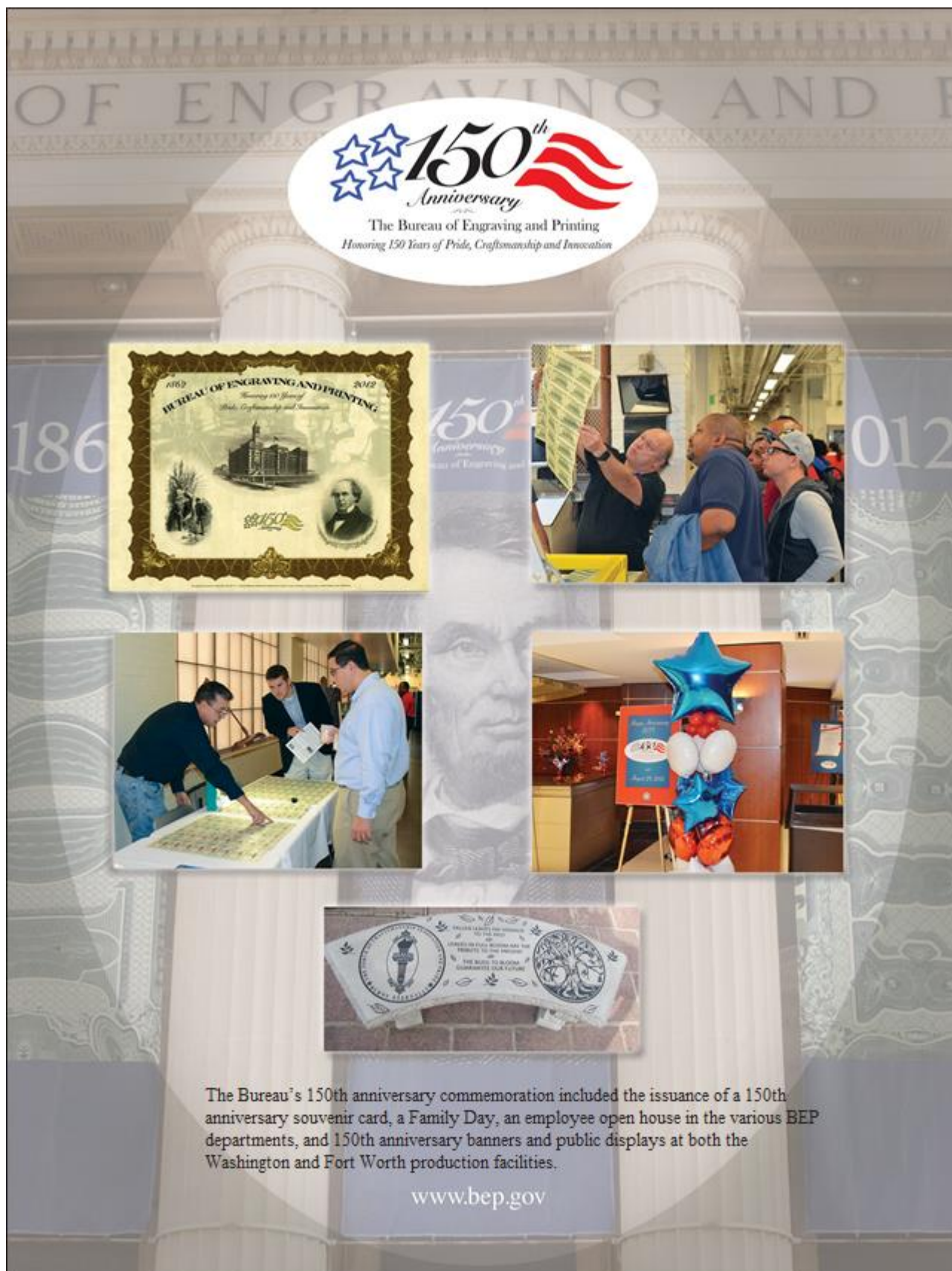
## VISION

The Bureau of Engraving and Printing is a world-class securities printer providing our customers and the public superior products through excellence in manufacturing and technological innovation.

## ABOUT THE COVER

In celebration of the Bureau of Engraving and Printing's 150th anniversary, the cover features the 150th Anniversary logo along with a photograph of a series 1875, \$2 United States Note. As a security measure, the note was produced jointly by the BEP and a private banknote company. The BEP printed the face of the note depicted on the cover. After October 1, 1877, the BEP became responsible for printing the faces and backs of all United States currency notes.





The Bureau's 150th anniversary commemoration included the issuance of a 150th anniversary souvenir card, a Family Day, an employee open house in the various BEP departments, and 150th anniversary banners and public displays at both the Washington and Fort Worth production facilities.

[www.bep.gov](http://www.bep.gov)

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## MESSAGE FROM THE DIRECTOR

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The mission of the Bureau of Engraving and Printing (the Bureau or BEP) is to develop and produce United States currency notes, trusted worldwide. As it celebrated its 150th Anniversary in 2012, the Bureau dealt successfully with significant challenges and positioned itself for continued success in 2013. The BEP's long, established legacy of pride, craftsmanship, and innovation has made us the world's premier banknote producer. We have undergone much growth and change over the past century and a half. In the past decade alone, we have significantly upgraded our infrastructure, while maintaining traditional, time-honored artistry and leadership in design techniques.

During the past year, the Bureau successfully delivered the most complex currency program in its history. The Federal Reserve Board ordered every denomination for the first time in more than two decades, and the order included both new design and old design \$100 notes. Production of the new design \$100 notes has proceeded extraordinarily well at the Western Currency Facility (WCF) in Fort Worth, TX and we look forward to restarting production of this note in Washington, DC in 2013 (ECF). While producing this challenging program, BEP installed a new enterprise resource planning system at both facilities. Over the next year, we will continue to enhance the Bureau's new information system to ensure that it delivers timely, accurate, actionable information.

As the Bureau continues to develop and produce United States currency notes, trusted worldwide; our organization must consistently provide world-class, quality products. Consistent with this high standard, the Bureau has maintained its certification under ISO 9001 Standard for more than a decade. ISO is an internationally recognized standard that provides requirements for quality management systems. Since our initial certification in 2001, the BEP continues to maintain and recertify to this standard, which requires continuous improvement. Also, BEP is moving quickly with its partners, the Federal Reserve Board and the US Secret Service, to build and sustain a robust Currency Quality Assurance (CQA) Program which emphasizes continuous quality improvement. Several major continuous improvement initiatives are underway under the CQA umbrella; including the Treasury Seal Improvement Program; implementation of 50-subject \$1 note production; and the development of tactile features for notes to enhance accessibility for the blind and visually impaired.

Similarly, the Bureau has moved aggressively with a multi-year program to improve the workplace. The Bureau improved its ranking among Federal agencies as a better place to work based on the results of the annual Federal Employee Viewpoint Survey. We continue to increase employee engagement at every level in the Bureau, from pre-planning to production, to finished product, as well as in supporting functions. The Aim 4 Yes! initiative stresses the need to positively respond to our internal customers and strengthen our Core Value of Respect. The BEP Great! Initiative draws its strength from the Bureau's third Core Value of Integrity by providing a commitment to always perform at our very best. These initiatives along with the CQA program ensure that BEP will also meet the Core Value of Performance. We will continue to seek ways to involve employees to enhance the workplace and drive continuous quality improvement.

In 2013, the Bureau looks forward to an exciting and challenging year, which involves an abundance of complex work at both facilities, the 50-subject \$1 testing program, and single note inspection and tactile feature development. Although the 2013 currency order is lower than last year, currency usage remains strong. The order poses significant challenges and ensures another busy year ahead for the BEP. I know that we have the right team at the right time to meet these challenges. As an organization, we are motivated by our shared responsibilities to each other, our core values, and the world currency market.



## MESSAGE FROM THE CHIEF FINANCIAL OFFICER

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I am pleased and privileged to present the Bureau of Engraving and Printing's Performance and Accountability Report for 2012.

In 2012, we continued a commitment to strong financial management; timely, accurate financial reporting, and continual improvement at the Bureau. This tradition of quality financial management resulted in an unqualified audit opinion on the Bureau's financial statements for the 28th consecutive year exemplifying our commitment to maintaining unparalleled excellence in financial reporting.

The financial statements and annual audit are important elements in the stewardship of the Bureau's revolving fund. The annual audit helps to ensure the integrity of the revolving fund, as well as the reliability of financial data used for managerial decision-making.

In 2012, the Bureau delivered 8.4 billion currency notes to the Federal Reserve, resulting in revenue of \$736 million and an excess of revenue over expenses of \$54 million. The excess of revenues over expenses funds Bureau working capital requirements and investments in plant and equipment.

In 2012, the Bureau completed the implementation of BEP Enterprise (BEN), which provides an integrated information technology platform that simplifies and standardizes the integration of disparate information technology systems and applications used in the Bureau. BEN includes the Manufacturing Support Suite (MSS), the Data Management Module (DMM), and an asset management module known as Maximo.

The Bureau effectively exceeded the Agency's Small Business Program goals and commitments in 2012. BEP will continue to support the Office of Small and Disadvantaged Business Utilization (OSDBU) on the formulation of small business procurement policy initiatives in 2013 by capitalizing on emerging trends and increasing efficiency through improved technology. The BEP is extremely committed to meeting our Small Business goals and is working closely with the small business community to ensure that all capable firms including minority, women, disabled veteran owned businesses, and businesses located in historical underutilized business zones, are provided opportunities to partner with BEP.

The Bureau continued a multi-year recapitalization of its Washington, DC and Fort Worth, Texas facilities. Investments in new production and test equipment will improve productivity, reduce the Bureau's environmental impact, and provide the capability to produce increasingly sophisticated and complex currency designs.

In 2013, the Bureau will enter an exciting and challenging year, which involves an abundance of work at both facilities. The Currency Quality Assurance Program, 50-subject currency sheet testing program, single note inspection and tactile feature development are high priorities.

Finally, I would like to take this opportunity to thank the employees within the CFO Directorate and across BEP for their professionalism and support during my tenure as the CFO. In 2013, I will have the honor of serving as the Deputy Director for the Bureau. I feel fortunate to have led such dedicated, hardworking employees and to have been able to contribute to making the Bureau a better place to work.

*Leonard R. Olivo*

# HIGHLIGHTS

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The Bureau's primary goal in 2012 was to focus on optimizing the production process for the redesigned \$100 note. The Bureau worked with the Federal Reserve Board and its major stakeholders to improve the production process to enable the Bureau to consistently produce the redesigned \$100 notes necessary for world-wide circulation. The Bureau successfully began production of the redesigned \$100 notes in early 2012 and the Federal Reserve Board has begun to accept delivery and build inventories of the new note in advance of release into circulation.

In 2012, the Bureau of Engraving and Printing received an unqualified opinion on its financial statements for the 28th consecutive year while completing the migration of its core business function to a new enterprise resource management system known as BEP Enterprise (BEN).

## BEP 150th Anniversary

2012 marked the 150th Anniversary of the Bureau of Engraving and Printing. BEP celebrated milestones in innovation, craftsmanship and contributions of all employees past and present by holding events and activities for employees, retirees and general public throughout 2012.



Anniversary banner displayed in the employee tunnel connecting the annex and main buildings in Washington DC.

## LEPE

The Bureau continued the installation of new Large Examining and Printing Equipment (LEPE) in 2012. Testing and limited production of 32-subject \$1 notes and 50-subject \$1 notes were done during the year for the two



Transport of LEPE equipment to the 4th floor of the Washington, DC Main Building.

LEPEs installed at the Western Currency Facility (WCF). A third LEPE was installed in the Washington, DC facility. These LEPE machines are capable of processing 50-subject currency sheets, as well as providing efficient multi-tasking capabilities to print serial numbers and seals, in addition to cutting and packaging in a single process.

## Fleet Management Program

In 2012, BEP was honored with the "Bob Baker Fleet Manager of the Year" award from the GSA. BEP has converted all vehicles in the fleet (excluding a portion of mission critical law enforcement vehicles) from petroleum only to alternative/flex fuel vehicles and participated in the Treasury Department/General Services Administration (GSA) Pilot Program for electric vehicles. BEP has exceeded the Presidential Executive Order mandates for the use of fossil fuel, alternative fuel and greenhouse gas emission. BEP has maintained a status of "Green" on the Treasury Department Scorecard for environmental sustainability.

## **BEP Enterprise – BEN**

The Bureau continued the modernization of its cloud-based business information technology system under the BEN program. During 2012, the Bureau implemented the Contract Lifecycle Management tool, which gives a single point of access for all acquisition activities in the BEP. Also, a public sales order management solution was deployed to integrate public sales and the core financial system.

## **Bring Our Children to Work Day**

In July, the Bureau hosted its 4th Annual “Bring Our Children to Work Day.” Employees at both the Washington, DC and Fort Worth, Texas facilities were encouraged to bring their children to work for a fun and educational tour and activities illustrating the vital services Bureau employees provide in support of the nation’s economy. More than 300 children were registered for the event.

## **Veteran’s Appreciation Day**

In honor of Veteran’s Day, the Bureau held “Veteran’s Appreciation Day.” This year’s theme, “Honoring All Who Served,” paid tribute to all of the Bureau’s men and women who have served in the United States Armed Services.

## **Feed A Family**

Bureau employees supported the annual “Feds Feed Families” drive by donating more than 5,500 pounds of food for the Capital Area Food Bank in Washington, DC and the Tarrant Area Food Bank in Fort Worth, Texas.

## **Martin Luther King Observance Program**

The Bureau held an observance program to pay tribute to civil rights leader, non-violence advocate and clergyman Dr. Martin Luther King, Jr. Guest speaker Shawn Ramey, a motivational speaker and leadership expert, focused on fulfilling Dr. King’s dream by inspiring the audience to maximize their potential through education, leadership, self-confidence and respect. Suitland High School Center for the Visual and Performing Arts Concert Choir performed several selections during this year’s event.



Suitland High School students regaling BEP employees during BEP’s MLK observance program.

## **Best Place to Work Initiative**

The Best Place to Work (BPTW) Initiative continued in 2012 to improve employee engagement through increased organizational communication, transparency, and employee involvement. BPTW activities, such as new Group Coaching/Mentoring and 150th Anniversary Activities programs, are designed to improve employee engagement and to strategically align with the BEP’s core values.



# PROFILE OF THE BUREAU OF ENGRAVING AND PRINTING

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The mission of the Bureau of Engraving and Printing is to develop and produce United States currency notes, trusted worldwide.

The Bureau of Engraving and Printing began printing currency in 1862. The Bureau operates on the basis of authority conferred upon the Secretary of the Treasury by 31 U.S.C. 321(a) (4) to engrave and print currency and other security documents. Operations are financed by a means of a revolving fund established in 1950 in accordance with Public Law 81-656. This fund is reimbursed through product sales for direct and indirect costs of operations including administrative expenses. In 1977, Public Law 95-81 authorized the Bureau to include an amount sufficient to fund capital investment and to meet working capital requirements in the prices charged for products. This eliminated the need for appropriations from Congress.



Larry Felix, BEP Director, escorts Treasurer of the United States Rosie Rios at the BEP anniversary celebration.

The Bureau produces U.S. currency and many other security documents issued by the Federal Government. Other activities at the Bureau include engraving plates and dies; manufacturing certain inks used to print security products; purchasing materials, supplies and equipment; and storing and delivering products in accordance with requirements of customers. In addition, the Bureau provides technical assistance and advice to other Federal agencies in the design and production of documents, which, because of their innate value or other characteristics, require counterfeit deterrence. The Bureau reviews cash destruction and unfit cur-

rency operations at Federal Reserve Banks, and it is responsible for the accountability and destruction of internally generated security waste products. As a service to the public, the Bureau also processes claims for the redemption of mutilated paper currency.

The Bureau occupies three government-owned facilities. The Main and Annex buildings, located in Washington, DC, produce Federal Reserve notes and other security products. The Western Currency Facility, located in Fort Worth, Texas, produces Federal Reserve notes. The Main Building became operational in 1914, the Annex Building in 1938, and the Western Currency Facility began operations in 1991. The Western Currency Facility was constructed to provide increased production capacity, reduce transportation costs and enhance the Nation's emergency preparedness.

In addition to housing production facilities, free tours of currency operations are offered to the general public in both Washington, DC and Fort Worth, Texas. The tours include Visitor Centers with currency manufacturing displays, interactive kiosks and other information about the history of our Nation's currency. The Visitor Centers also sell uncut sheets of currency, engravings and other collectibles. In addition to the on-site sales centers, these items are available through mail order and the Bureau's internet site: [www.bep.gov](http://www.bep.gov).

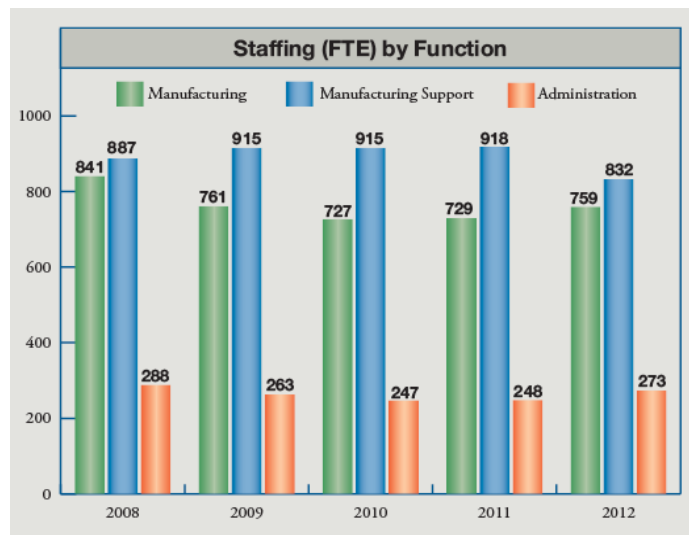
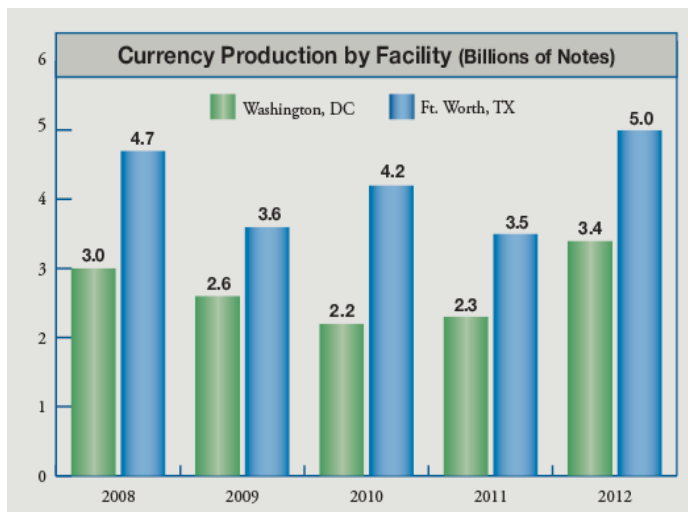
## Manufacturing

In recent years, the Bureau has redesigned and delivered new \$5, \$10, \$20, and \$50 notes to the Federal Reserve Banks. The new designs are part of the U.S. government's ongoing efforts to maintain the integrity and safety of U.S. currency. The latest note to be redesigned was the \$100 note. The redesigned \$100 note was unveiled in 2010. A rigorous program of production testing was performed in 2011 to overcome creasing and other production problems during initial production runs in late 2010, leading to successful production start-up in 2012.

During 2012, the Bureau delivered 8.4 billion Federal Reserve notes to the Federal Reserve System. The Washington, DC and Fort Worth, Texas facilities delivered 3.4 billion and 5.0 billion Federal Reserve notes, respectively. For 2013, the Federal Reserve Board has ordered 7.8 billion Federal Reserve notes.

In keeping with its tradition of product innovation and production efficiency, the Bureau continued to upgrade its manufacturing processes at both facilities with the acquisition of Large Examining and Printing Equipment (LEPE) that enables the Bureau to produce 50-subject currency sheets. Successful implementation of this advanced technology will improve productivity, reduce the Bureau's environmental impact and provide the ability to produce increasingly more complex currency note designs.

The Bureau's quality management system for the production of U.S. currency has been registered as ISO 9001 compliant for the past eleven years. BEP is moving quickly with its partners, the Federal Reserve Board and the US Secret Service to build and sustain a robust Currency Quality Assurance (CQA) Program. Several major continuous improvement initiatives are underway under the CQA umbrella. A number of new projects, including the Treasury Seal Improvement Program; 50-subject \$1; and the addition of tactile features to notes were introduced in the CQA Program and will continue through 2013.



## Information Technology

In 2012, 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 the modernization of its business information technology systems under the BEN program. BEN includes the Manufacturing Support Suite (MSS), the Data Management Module (DMM), and an assets

management module referred to as Maximo. During 2012, the Bureau went live with the second phase of the BEN program with the release of the Manufacturing Support Suite (MSS), Contract Lifecycle Management (CLM) and public sales. MSS is fully integrated business software designed to manage day-to-day business activities, including financials, acquisitions, supply chain, manufacturing and inventory.

MSS is a financial application utilizing the Oracle E-Business Suite that is hosted through the cloud at the Oracle Federal On-Demand site. MSS is a fully integrated business solution that will reduce manual processes, increase efficiency, improve data quality, and provide real-time enterprise data and information for improved decision-making.

DMM is the component of BEN that focuses on the shop floor and will modernize the way in which BEP captures and utilizes operational data to improve efficiency and quality. DMM allows for real-time machine and production status information. Maximo will help BEP manage its physical assets from the time they are purchased until they are ready for disposal by providing a central source of information regarding the maintenance activities and costs associated with those assets. Maximo improves communication and efficiency by providing enhanced analyses of assets.

Also during 2012, the Bureau participated and continues to participate in a number of reviews of financial, Federal Information Security Management Act (FISMA), and support IT systems as the Bureau applies OMB Circular A-123 and the Government Accountability Office's Federal Information System Controls Audit Manual (FISCAM) audit standards in support of the annual audited financial statements resulting in no significant FISMA audit findings at BEP in 2012. The Bureau continues to be an active participant in Department of the Treasury Critical Infrastructure Protection Planning efforts, including testing of Continuity of Operation Planning (COOP) responses through Government and Treasury-wide exercises and through biannual tests of the COOP plans for the Bureau's enterprise management information and public sales support systems.

## Organization

The Bureau's executive structure consists of the Bureau Director, a Deputy Director and seven Associate Directors and Chief Counsel. The executive committee structure includes an Executive Committee, the Capital Investment Committee, and various planning committees and subcommittees. The planning committees and subcommittees are composed of a cross-section of Bureau senior and mid-level managers that represent diverse organizational units. By cutting across organizational lines, these groups serve to promote effective communication, increased collaboration and participative, proactive management.



Treasurer of the United States Rosie Rios shows a new \$100 dollar bill to students in a virtual classroom visit with Rogers-Herr Middle School in Durham, NC. One of the students was a final grand prize winner in the Save Out Loud contest which was part of the Ready.Save.Grow campaign.

## EXECUTIVE ORGANIZATIONAL STRUCTURE





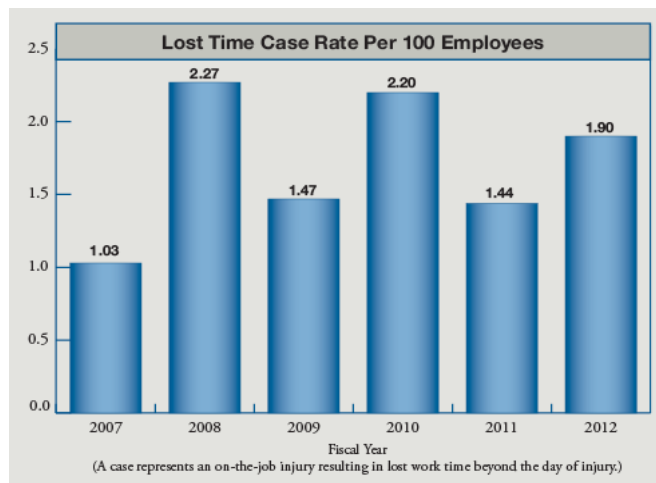
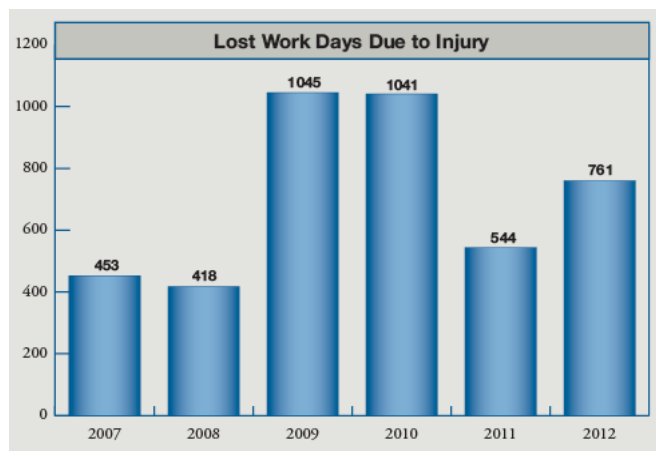
# SAFETY, HEALTH AND ENVIRONMENTAL MANAGEMENT

Since 2007, the Bureau has used an ISO 14001 registered environmental management system (EMS) as the core driver for its environmental, health and safety programs at both of its production facilities. Unlike other organizations, BEP's EMS includes all aspects of environment, as well as health and safety. In 2012, the Bureau completed a variety of initiatives to improve its EMS management system and overall EHS performance. The continued improvement and effectiveness of our management system as demonstrated by the positive results of the ISO 14001 third party audits. Our key operating metrics also showed positive progress. The Office of Environment, Health, and Safety (OEHS) manages programs that minimize the Bureau's impact on the environment and protects workers from injuries, illnesses, and disabilities. The Bureau's goals are to maintain a downward trend in occupational injury and illness rates, as well as minimizing the environmental impact of our operations on air emissions, wastewater discharge, and solid waste.

## Improving Worker Health and Safety

One of the primary focuses of our safety and health function is to prevent injuries and illnesses. The Safety and Health Division (SHD) uses the Occupational Safety and Health Administration's (OSHA) reportable lost time case rate and the number of days away from work attributable to OSHA reportable cases as key performance indicators.

The Bureau has successfully reduced injuries by more than 50% since the early 2000's. Much of the success is due to a continual improvement approach, which targets high volume and high-risk injuries for preventative initiatives. However, in 2012, there was a spike in the number of days away from work and the OSHA reportable lost time case rate (LTCR). Long term, the Bureau expects a downward trend on both the days away from work and the lost time case rate by focusing on the types and causes of injuries that are the most difficult to control. In addition, the SHD will work closely with the Office of Workers' Compensation programs to redirect the Bureau's limited and light duty program in accordance with the President's POWER Initiative Goal 7; speeding employees' return to work in cases of serious injury or illness. The OEHS will also focus on issues within the system that may lead to injuries and illnesses and allow for allocation of resources for the greatest impact on injury prevention. In 2013, the Bureau will continue to focus on injury analysis at the corporate level and address supervisory and management accountability by communicating injuries to senior level executives.

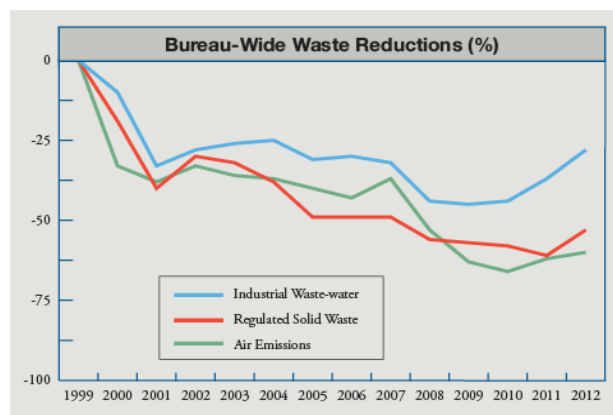


The Bureau's lost time case rate (LTCR) in 2012 was 1.90 lost time cases per 100 employees. This represents a 32% increase from last year's rate of 1.44 and is above the Bureau corporate goal of 1.6. Two contributing factors driving the increase of the LTCR: 1) the administration of limited and light duty at the DCF and 2) the need for increased nurse case management involvement. Several cases considered relatively minor (one and two days lost time) may have avoided the 'lost workday' categorization if the above contributing factors were addressed. In January 2013, OEHS SHD will conduct an in-depth annual OSHA injury and illness analysis to determine what trends may have contributed to this increase. The annual analysis will also focus on identifying new ways to reduce injury and illness rates.

With regard to our number of lost workdays, the Bureau incurred 761 lost workdays in 2012, which is a 40% increase from 2011. However, the 2012 levels are still below our peak years in 2009 and 2010. The significant drop in lost work days in 2011 was due to changes in the limited and light duty programs at the Western Currency Facility.

## Protecting the Environment

BEP's printing activity, measured by notes to vault, increased by 29% from 2011 to 2012, with large increases experienced at both facilities. The increase in production resulted in increased industrial wastewater and regulated solid waste generation of 23% and 24% respectively, over 2011. Air emissions were flat despite the production increase, due to the implementation of solvent Volatile Organic Compounds (VOC) reduction projects at ECF and WCF. Increased production raises the importance of pollution prevention and waste minimization initiatives, and the Bureau continued to implement projects in these areas. One result of this work has been a reduction in the DC facility's hazardous waste generation by approximately 40,000 pounds in two years. Engagement of personnel at all levels is critical, and improvements were made as a result of employee suggestions, technical work groups, and projects lead by environmental professionals. The Bureau remains committed to continuous improvement, and to further strengthening our environmental programs through our ISO 14000 certified EMS.



### The following are specific examples of significant 2012 projects:

- Evaluated options for recycling of trimmed edges of currency paper from production operations, and recycling shredded securities waste. Several potential options were identified. Full production testing was conducted on one option. BEP plans to conduct additional testing in 2013 as this material is one of the Bureau's largest waste streams.
- Reformulated a solvent used on letterpress equipment to reduce VOC content by 35%. The reformulated solvent helped ECF reduce VOC emissions while increasing production.
- Implemented a low VOC solvent for use in manual cleaning on the main currency presses at WCF. This project has the potential to reduce air emissions from this process by 50%.

- Maintained progress on the wiping solution recycling project, and continued to evaluate alternatives for recycling or reuse of wiping solution waste water pretreatment plant residual solids. Wiping solution recycling is a process to reclaim approximately 95% of our water-based wipe solution. The wipe solution recycling process will save approximately 12 million gallons of water annually, while reducing both energy use and the use of process chemicals.
- Installed three new high performance boilers at WCF in 2012. These are estimated to reduce natural gas consumption by 15 to 30%, reduce carbon dioxide emissions by approximately 1,700 metric tons/year, and to cut nitrogen oxide emissions by 70%.

## Pretreatment Partnership Award

For a 13th year, the Western Currency Facility (WCF) was the recipient of the Pretreatment Partnership Award from the city of Fort Worth. This is awarded to all companies and Federal facilities that have maintained 100% compliance with all local, Federal, and State regulations for the year.



Left to right: Colleen McKinney, Manager WCF EHS Branch; Laly Joseph, Manager City of Fort Worth Pretreatment Services Division; Frank Crumb, Director of the Water Department; Robert Hobbs, Chief, WCF Office of Operations Support; Charlene Williams, WCF Associate Director; Greg Wade, Facilities Support Branch Power Plant Engineer; Sebastian Fichera, Assistant Director of the Water Department

## 2012 BEP GREENBACK Award Winners

BEP's ECF Paint Shop employees were recognized for eliminating high VOC paints and solvents in favor of very low or zero VOC products. The Paint Shop team conducted extensive internet research and worked with vendors to identify products that contain very low concentrations of volatile chemicals that also provide high quality, durable finishes



Daniel Milstead (BEP Painter) and Daniel Moore (Supervisor) were awarded the 2012 Greenback award for their efforts in eliminating high VOC paints and solvents in the Paint Shop.

An additional benefit of the products they implemented is that brushes and tools can be cleaned with warm water instead of paint thinner or mineral spirits. The environmental benefits of this project were significant. Hazardous waste generation was cut 90%, while air emissions of volatile organic compounds were cut 83%. The project was entirely a voluntary effort initiated by Paint Shop employees, and it is illustrative of the benefits that come from active employee engagement in EHS programs

In 2013, the Bureau will continue to focus on initiatives that reduce its environmental impact and improve the safety of its employees in a cost-effective way. Significant initiatives that are planned for the year include beginning construction of the wiping solution recycling plant in ECF, and identifying and testing low VOC cleaners that can be used on the Bureaus currency presses.



# STRATEGIC PLAN

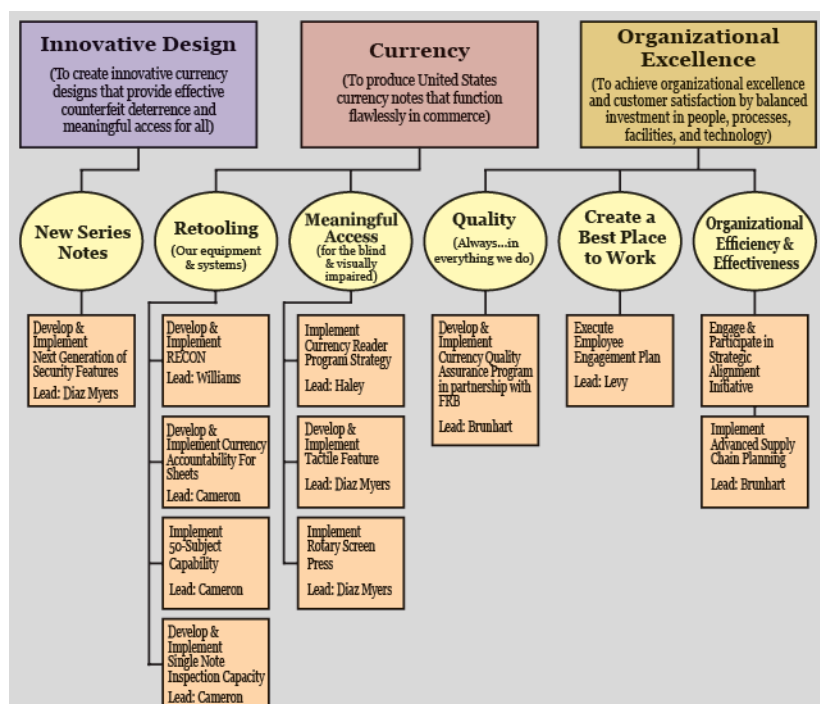
The Bureau's Strategic Plan is aligned with the Department of Treasury's Strategic Plan. It serves as a roadmap to guide the Bureau toward the goal of creating a new environment that will ensure high quality cost-effective and flexible business operations for years to come. While committed to meeting the many new challenges of implementing innovative technology, the Bureau remains resolute in producing quality currency, controlling costs, being environmental stewards, and working safely as we move towards our vision – to continue to be a world-class security printer. We want to make sure we get it right – in all respects – the first time, every time. The Bureau needs the ingenuity, industriousness, and commitment of every employee to meet the challenges of printing currency in the 21st century. This will require the near-perfect alignment of innovative design, advanced manufacturing technology, and highly skilled workforce.

## The Bureau has three strategic goals:

- (1) To produce United States currency notes that function flawlessly in commerce;
- (2) To produce innovative currency designs that provide effective counterfeit deterrence and meaningful access for all; and
- (3) To achieve organizational excellence and customer satisfaction by balancing investment in people, processes, facilities, and technology

First, the Bureau is committed to producing high quality U.S. currency that works the “first time, every time” in commerce. The quality management system for production of U.S. currency has been registered as International Organization Standardization (ISO) 9001 compliant for the past eleven years. As another sign of its commitment to world class quality standards, the Bureau, in partnership with the Federal Reserve Board and the U.S. Secret Service, has embarked on a major initiative to implement a currency quality assurance program and focus the organization on continuous improvement.

Second, innovative currency design instills confidence in the integrity of U.S. currency. The Bureau will continue to collaborate with the Federal Reserve, the U.S. Secret Service, and other stakeholders to identify, evaluate, and improve features in currency design, particularly those aimed at counterfeit deterrence, while



The Bureau's strategic initiatives.



BEP Director Larry Felix speaks to workforce.



BEP Deputy Director Pam Gardiner participates in BEP's "Walk In My Shoes" effort.

ensuring acceptance in the marketplace. As the world's currency, counterfeiting of U.S. currency is an international issue which requires continued vigilance to ensure worldwide acceptance.

Of particular concern is meaningful access, i.e., the ability of those who are blind or visually impaired to correctly denominate U.S. currency in transactions. BEP is exploring technological solutions to provide access to U.S. currency, including use of cell phones, computers, and imaging and reading devices, as well as incorporating tactile features into note production. One such solution, known as EyeNote, is a free downloadable application that is available for the Apple iOS platforms; iPhones, iPads, and iPod Touch devices.

The Bureau's third strategic goal is to achieve organizational excellence and customer satisfaction by balanced investment in people, processes, facilities, and technology. The Bureau is committed to being a Best Place to Work (BPTW) and is working to create a work environment that fosters high levels of job satisfaction, employee engagement, performance, and pride. The Bureau's BPTW effort is a multi-year, cultural transformational initiative to move the Bureau into the top 100 Best Places to Work in the Federal Government.

Effective human resource management is a priority at the Bureau. Continuous effort is put forth to hire, develop, and retain the most adaptive and effective workforce possible. Initiatives to assess and remedy skill gaps and provide BEP with a more flexible workforce and more adaptive supervisory staff are underway.

The Bureau is also committed to providing a safe and healthy environment for its employees. The Bureau has



Treasurer of the United States Rosie Rios examining platemaking material with Photoengraver Robert Armstrong.

reached a long-term objective by achieving and maintaining ISO 14001 registry on the effectiveness of the Bureau's environmental management system for all facilities and operations.

The Bureau has positioned itself to meet its strategic goals and related objectives from operational, developmental, and resource perspectives. It will uphold its tradition of excellence by taking advantage of opportunities to maintain a balanced and talented workforce, enhance product quality, promote counterfeit deterrence, and streamline its manufacturing process.

## BUSINESS TRANSFORMATION

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BEP continued to implement quality initiatives for existing production processes and install new equipment to meet changing and future demands in the production of Federal Reserve notes and other government security documents. BEP focused on improving quality control tools and installation of modernized equipment used in the production of the NexGen \$100, the most challenging and sophisticated U.S. banknote ever produced. BEP other initiatives include implementation of a new automated information system throughout the BEP, an inter-agency warehouse consolidation effort and a new fleet management program.

**Retooling:** BEP continued retooling efforts to improve the quality of production equipment and tools used in the production of Federal Reserve notes, with an emphasis on the production of the NexGen \$100, improving quality, and maintaining consistency between production facilities. Installation of new equipment and improved quality control tools were initiated at both production facilities.

**Simultan Efforts:** The Simultan is a dry-offset printing press used to print color on all NexGen Federal Reserve notes. Simultan personnel working with BEP machinists, designed and produced ink roller gauges for the offset colors used in the printing of each NexGen denomination. The gauges assist pressmen in press set-up and quality assurance. Efforts began in preparation for 50-subject printing, and a new off-line ink roller washer was installed reducing clean-up time for the pressmen.

**Intaglio Printing Efforts:** Installation of Nota-Save 3 was completed on the intaglio presses at the WCF and was begun at the ECF. The Nota-Save 3 is an in-line inspection system capable of viewing color.

**Inspection Efforts:** The first CIS (Computerized Inspection System) was installed in Washington, DC. The CIS is capable of inspecting offset/intaglio printed sheets up to 50-subject. Initially it will be used to inspect 32-subject sheets for both the conventional overprinting equipment (COPE) and the new overprinting equipment (LEPE).

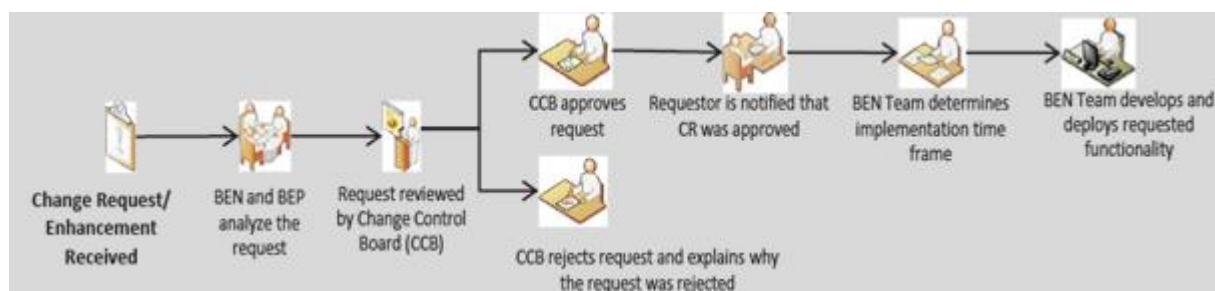


As of 2012, BEP has installed Large Examining and Printing Equipment (LEPE) at both the Fort Worth, TX and Washington, DC currency facilities.

**Overprinting Efforts:** Installation of two LEPE's (Large Examining and Printing Equipment) was completed at the WCF. BEP received approval to begin production of \$1 currency on the LEPE beginning in 2013. Installation and acceptance testing of a LEPE at the ECF was initiated in 2012.

**Information System:** BEN: "Bureau of Engraving and Printing Enterprise" - In 2011, the Bureau of Engraving and Printing (BEP) began using the financial portion of the new Oracle based system. In 2012, all BEP system

users began using BEN as the enterprise information system. The system is used to track financial, procurement, production and inventory data. The project utilizes standard industry software that has been adapted to meet the specific needs of the Bureau.



BEP's change request process for BEN enhancements.

**Process Control:** BEP continued to work with the Federal Reserve Board to improve process control techniques throughout the manufacturing process. These initiatives have been outlined in the Quality portion of this document.

**Lean Six Sigma:** The Bureau completed two internal Lean Six Sigma projects in 2012. One project looked at ways to improve the printing of Optical Variable Ink (OVI). The project drove improvements in quality and consistency of the printed image. A second project involved streamlining cycle time for customer service in BEP's Labor Management Relations area.

**ISO 9001 Quality Management System:** BEP retained its ISO certification for the manufacturing and support processes required in the production of Federal Reserve notes. BEP is required to maintain accurate and timely records of production and support activities to include the design, development, scheduling, production and raw material ordering and storage.

**ISO 14001 Environmental Management Systems:** BEP retained its ISO certification for the environmental stewardship and responsibility required to maintain large production facilities.

**Warehouse Consolidation:** The Landover, MD Warehouse Consolidation Plan (LMWCP) is an initiative in support of the Presidential directive to reduce the real property footprint and increase utilization of existing space in the federal government. Existing lease agreements will be expiring soon for the following three Treasury bureaus: Internal Revenue Service/Criminal Investigations Division (IRS/CI), Financial Management Service (FMS) and Departmental Offices (DO). The LMWCP will enable IRS/CI, FMS and DO to consolidate into existing BEP leased space by relocating their material to the BEP Landover warehouse. The BEP warehouse is approximately 75% utilized, affording the opportunity to absorb the warehouse requirements of IRS/CI, FMS and DO. The Warehouse Consolidation Plan is designed to maximize the use of the BEP warehouse, eliminate separate warehouse requirements for IRS/CI, FMS and DO, result in fewer lease agreements and increase operational and administrative cost savings across Treasury.



**Fleet Management Program:** The primary performance goal for the Fleet Management Program is to support the Presidential Executive Orders (E.O. #13423 “Strengthening Federal Environmental, Energy and Transportation Management” and E.O. #13514 “Federal Leadership in Environmental, Energy and Economical Performance”) by reducing the use of fossil fuel, increasing alternative fuel use, and reducing the carbon footprint of emission into the atmosphere.

BEP has converted all vehicles in its fleet (excluding a portion of mission critical law enforcement vehicles) from petroleum only to alternative/flex fuel vehicles and participated in the Treasury Department/General Services Administration (GSA) Pilot Program for electric vehicles by procuring two Chevrolet Volts in 2012. BEP has exceeded the Presidential Executive Order mandates for reducing use of fossil fuel and decreasing greenhouse gas emissions and increasing the use of alternative fuels. BEP has maintained a status of “Green” on the Treasury Department Scorecard for environmental sustainability. In 2012, BEP was honored with the “Bob Baker Fleet Manager of the Year” award from the GSA.

The Fleet Management Program mission is to support the Bureau motor vehicle requirements for the Washington, DC Facility and Western Currency Facility in Fort Worth, TX. The Bureau mission requirements include police surveillance and transporting of secured products, security field investigations, and transporting facility supplies, equipment and personnel. In conjunction with servicing the motor vehicle needs of the Bureau.



Hines Jackson, BEP pipefitter demonstrates equipment to BEP Deputy Director Pam Gardiner.

**Facility Study:** A Facility Feasibility Study is currently underway to evaluate the DC Facility. Three alternatives have been identified and the study will be used to vet each of the three alternatives. Items included in the study include: infrastructure, production operations, manufacturing and security costs, and economic analyses. The study is scheduled to be completed in the second quarter of 2013.

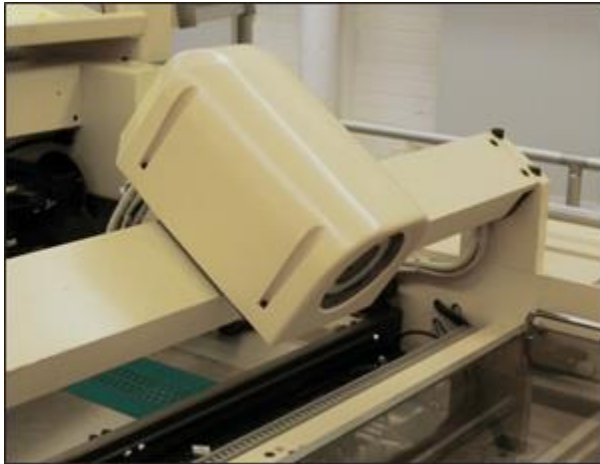


Paul Webster, intaglio platemaker, demonstrates intaglio platemaking operations to Treasurer of the United States Rosie Rios.

# CURRENCY QUALITY ASSURANCE PROGRAM

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In 2011, BEP initiated the Currency Quality Assurance (CQA) Program. In 2012, BEP continued efforts to enhance the program. The CQA is intended to focus on all aspects of the production of Federal Reserve notes and its lifecycle from product development to acquisition of material, through process and production control, to final release and delivery. To manage the many improvement initiatives under the program, the multi-year program effort has been broken into waves.



Electronic camera used for currency inspection.

With the start of 2012, a number of new project teams were initiated as Wave 2 of the CQA Program. These project teams, including team members from Contractors, BEP, Federal Reserve Board, and the US Secret Service, have made significant accomplishments to-date with much of this project work continuing through the end of 2012 as Wave 3. Two major accomplishments were a revised format for the Executive Management Review to include an effective and formal management review process and the quality and design of the new product development process.

Initially (Wave 1), the CQA focused on four major initiatives: product design, process change, corrective/preventive action and management review. In 2012 (Waves 2 and 3), additional initiatives were identified: raw material, facilities/equipment, communication, and future currency designs.

## Design Controls Project Team

**Design Planning and Requirements Effort:** Develop, refine and train the organization on Banknote development and requirements management processes to enable the design of future notes to meet heightened quality standards at reasonable cost.

**Banknote Strategy and Technology Management Effort:** Develop a repeatable planning framework based on objective criteria that enables the banknote community to identify the timing of future banknote releases with a keen awareness of emerging technologies and production capabilities.

## Production and Process Project Team

**Process Change Effort:** Establish a process change system with clear communication channels and feedback mechanisms to inform all parties of pending or approved changes, calling attention to potential upstream and downstream impact prior to an implemented change. Process change controls provide structure for the decisions associated with product or process changes after design completion.

**Standard Operating Procedures Effort:** Develop and enhance the Production and Process Standard Operating Procedures (SOP's) as well as documentation of the visual controls that operators will/should use to evaluate production performance.

## Corrective And Preventative Action (CAPA) Project Team

**CAPA Effort:** Responsible to update the CAPA process to seek more input from the organizations that have an impact on product quality, and to improve the input process for issues and the visibility of CAPAs to the organization. The CAPA process will provide proactive identification and correction of systemic quality issues. The CAPA process will be a closed-loop process for closure of customer complaints.

## Management Controls Project Team

**Management Review Effort:** Responsible to provide management operational insight to avoid quality issues and waste. It is a tool to provide the management team critical quality data to maintain control over the quality system. It is a decision-making forum where critical data-driven questions are raised to management, decisions are made on a path forward, and action items are tracked to resolution. This effort was completed in 2012.

**Training Program Effort:** Improve training program content, processes and governance to ensure that quality-related processes improvements are effectively and consistently implemented and institutionalized throughout the organization.



Management Controls: Wave 3 Workstream Areas

## Material Control Project Team

**Supplier Management Effort:** Improve quality system integration, performance measurement, inventory management, and acquisition processes for direct and indirect material.

**Incoming Inspection and Raw Material Management Effort:** Increase integration between supplier testing, BEP incoming material inspection, specifications, and material performance in production.

## Facilities and Equipment Project Team

**Current State and Gap Analysis Effort:** Identify current strengths and weaknesses in validation, maintenance, and calibration processes and identify opportunities for improvement.

# PROGRAM PERFORMANCE MEASURES

The Bureau measures the effectiveness and efficiency of its overall organizational performance by using program performance measures. Standards are developed annually by the senior executive staff based on the prior 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 established for currency production.

Bureau-level performance measures and associated results for 2012 are as follows:

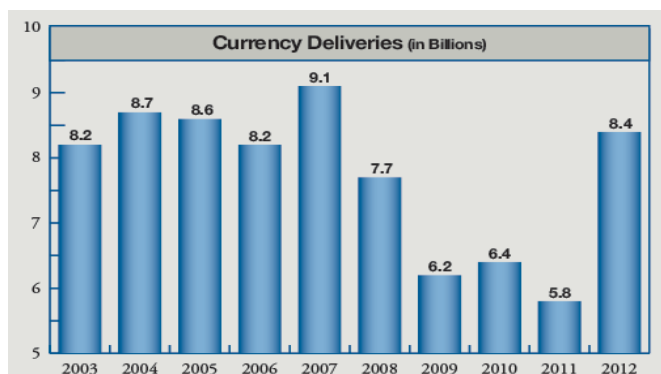
Performance measures	2012 Standard	2012 Actual
1. Federal Reserve Notes (Cost per Thousand Notes)	\$ 43.55	\$ 42.35
2. Federal Reserve Notes Delivered (Billions)	8.4	8.4
3. Productivity Change 2011 to 2012	19.4%	25.5%
4. Currency Spoilage	8.0%	7.7%

The Bureau does not receive Federal appropriations; operations of 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 necessary 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>Currency—Cost per Thousand Notes</u>	2012 Standard	2012 Actual
Federal Reserve Notes	\$ 43.55	\$ 42.35

The actual production cost per thousand currency notes, which includes direct labor, materials, and applied manufacturing overhead, was below standard in 2012. This was due primarily to material savings achieved from better than expected spoilage and ink mileage associated with the redesigned \$100 note.

<u>Currency Deliveries</u>	2012 Standard	2012 Actual
Federal Reserve Notes (Billions)	8.4	8.4



In 2012, the Bureau delivered 8.4 billion Federal Reserve notes to the Federal Reserve Board (FRB). Deliveries and billings are based on orders received from the customer. The FRB submits their requirements for currency deliveries to the Bureau on an annual basis. For 2013, the Federal Reserve Board has ordered 7.8 billion notes.



	<u>2012 Standard</u>	<u>2012 Actual</u>
Productivity Change 2011 to 2012	19.4%	25.5%

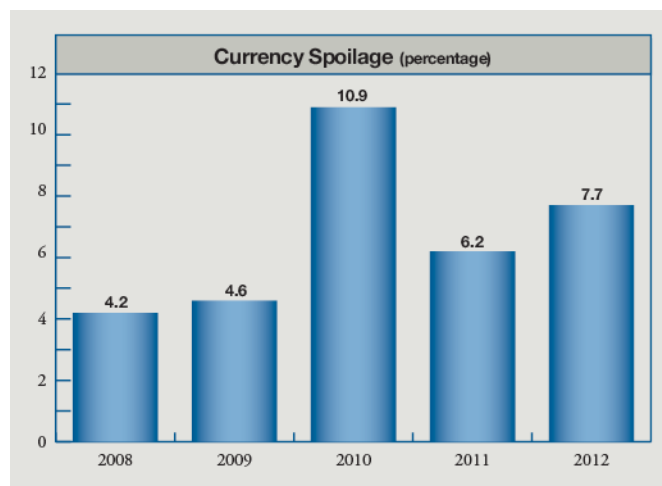
Productivity is calculated based on units of output per labor hour. In 2012, overall productivity increased by 25.5%. This was directly attributable to the increase in currency production volume and improved production performance of the redesigned \$100 note.

Currency Spoilage	2012 Standard	2012 Actual
Federal Reserve Notes	8.0%	7.7%

Spoilage, an inherent result of any production process, is an important indicator of the overall effectiveness of the production process and quality of material inputs. In 2012, overall currency spoilage was below standard, primarily due to continued emphasis on quality and lower than anticipated spoilage on the redesigned \$100 note.

	<u>2010</u>	<u>2011</u>	<u>2012</u>
1. Federal Reserve Notes (Cost per Thousand Notes)	\$ 44.85	\$ 34.60	\$ 42.35
2. Federal Reserve Notes Delivered (Billions)	6.4	5.8	8.4
3. Productivity Change	-8.8%	-1.9%	25.5%
4. Currency Spoilage	10.9%	6.2 %	7.7%

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.



## Prompt Payment

To ensure that Federal agencies pay invoices in a timely manner, Congress passed the Prompt Payment Act and the Office of Management and Budget (OMB) issued Circular A-125, which is now codified as part of the

Code of Federal Regulations (CFR). Generally, the CFR requires payment within 30 days from the latter of either the receipt of a proper invoice or acceptance of the goods/services. If this time frame is not met, an interest penalty must be paid to the vendor. Within the Department of the Treasury, the standard for the late payment rate is that no more than 2% of the invoices subject to prompt payment shall be paid late (at least 98% paid within 30 days).

The Bureau's prompt payment performance for the past three years is presented below. During 2012, complications arose from the conversion to the new enterprise resource planning (ERP) system resulting in the increase to the number of invoices paid late. System improvements made in the second half of the year significantly reduced the number of invoices paid late.

	2010	2011	2012
Number of invoices paid late	25	92	324
Interest paid	\$ 229	\$ 2,012	\$42,594
% of invoices paid late	0.41%	1.47%	6.19%



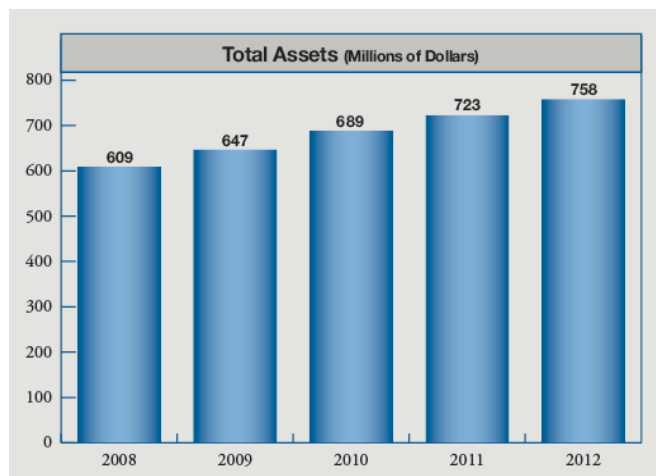
George Fritz, Currency Exchanger/Examiner and Darren Cummings, Assistant LEPE Pressman view group pictures during a 150th anniversary celebration event at the WCF.

# MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion should be read in conjunction with the Financial Statements and Notes thereto and selected financial data included elsewhere in this Performance and Accountability Report.

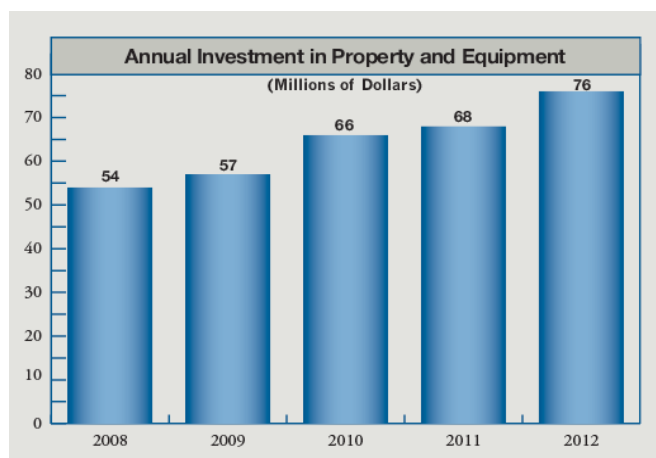
## Cash

Bureau current cash requirements include operating expenses and capital expenditures. Cash decreased by \$12.2 million in 2012. The decrease is attributed to cash disbursements for capital equipment and infrastructure improvements. Cash flows provided by operations for the years ended September 30, 2012 and 2011 were \$63.5 million and \$44.3 million, respectively.



## Accounts Receivable

Accounts receivable increased by \$15.9 million in 2012. This was due to the increased amount of currency delivered in the final month of the year and the related billing.

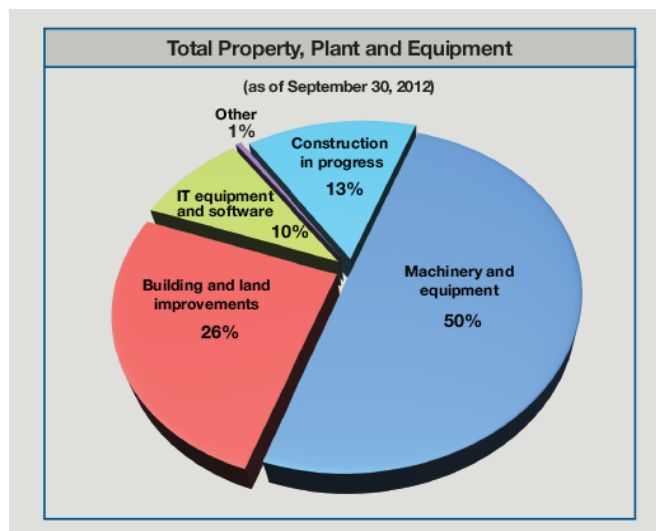


## Inventories

Net inventories decreased by \$4.2 million in 2012, primarily due to a reduction in finished goods inventory. Anticipating capacity constraints arising from the increased size and complexity of the upcoming program, production on the 2012 order began in the 4th quarter of 2011, with completed work held as finished goods until the start of 2012. There was no acceleration of the 2013 program in 2012.

## Property and Equipment

Net property and equipment increased \$34.8 million in 2012 to \$416.4 million. The increase was related to the purchase of currency manufacturing equipment as part of the retooling effort and the investment in the Bureau's technology infrastructure.



## Other Assets

Net other assets decreased by \$0.6 million in 2012. The decrease was related to the increase in the reserve for spare parts.

## Accounts Payable

Accounts payable decreased from \$33.7 million in 2011 to \$19.0 million in 2012. The principal cause for the decrease was the timing of cash disbursements for the investment in the Bureau's technology infrastructure and the new requirement to expedite payments for small businesses.

## Accrued Current Liabilities

Accrued current liabilities decreased from \$35.9 million in 2011 to \$34.7 million in 2012 due to a decrease in the year-end payroll accrual.

## Advances

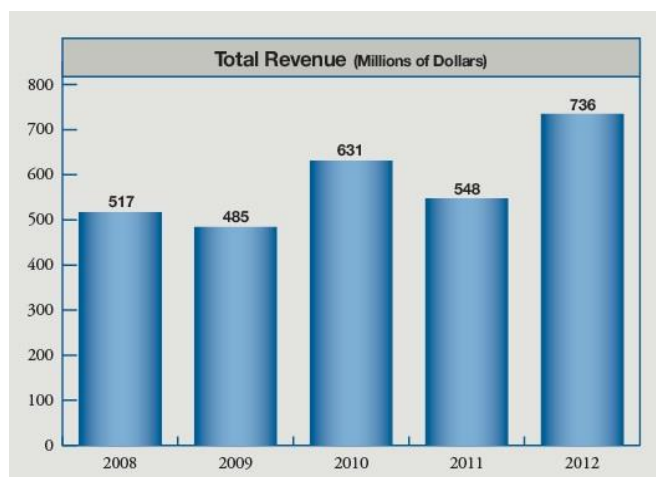
Advances decreased by \$3.4 million in 2012. The decrease is attributed to the reduction in special security product orders.

## Workers' Compensation Liabilities

The actuarial workers' compensation liability increased \$0.6 million in 2012. The increase in the actuarial liability primarily resulted from decreases in the discount rates used to determine the liability.

## Revenue from Sales

Overall revenue from sales increased from \$548.1 million in 2011 to \$735.8 million in 2012. This \$187.7 million increase is attributable to the increase in the 2012 currency program.



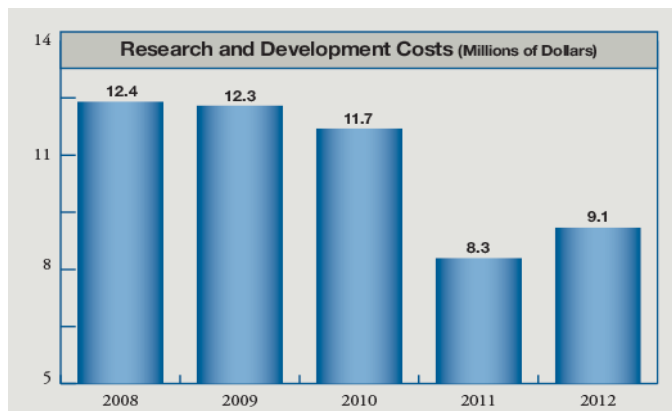
## Average Billing Rate for Currency

Year	Rate per Thousand Notes	Single Note
2002	\$54.39	\$0.054
2003	\$57.16	\$0.057
2004	\$55.56	\$0.056
2005	\$56.08	\$0.056
2006	\$54.56	\$0.055
2007	\$60.99	\$0.061
2008	\$63.82	\$0.064
2009	\$74.82	\$0.075
2010	\$96.34	\$0.096
2011	\$90.57	\$0.091
2012	\$86.22	\$0.086



## Cost of Goods Sold

Cost of goods sold increased from \$442.8 million in 2011 to \$564.7 million in 2012. The \$121.9 million increase was due to an increase in the currency order size, as well as a change in the product mix, as a larger portion of the 2012 currency order consisted of the more-expensive NexGen notes. The gross margin as a percentage of revenue increased from 19.2 percent in 2011 to 23.3 percent in 2012. The gross margin improvement was primarily the result of significant ink mileage and spoilage savings realized in 2012, especially in regards to the NexGen \$100 note production.



## Operating Costs

Operating costs increased by \$28.7 million in 2012. The change is primarily attributed to increased investment in the Bureau's technology infrastructure and related depreciation expense.

## Legal Compliance

The Bureau of Engraving and Printing is committed to ensuring its financial activities are carried out in full compliance with applicable laws and regulations. To ensure this responsibility is met, financial managers direct annual reviews of financial operations and programs compliance with applicable laws and regulations. For 2012, the Bureau of Engraving and Printing complied substantially with all laws and regulations considered material to internal control over financial reporting.



BEP enhanced its ability to produce high quality security documents with a new large format offset press.

## FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT PLANS AND ACCOMPLISHMENTS

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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, the Federal Financial Management Improvement Act, and the Sarbanes-Oxley Act of 2002 further increased the 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 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, storage, and off-line components that have custody of security items. During 2012, the CRTs performed 706 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, as well as, the environmental management system have both been ISO 9001 and 14001 registered. The internal review staffs support the maintenance and continuous improvement of the Bureau's quality and environmental management systems by conducting internal quality audits throughout the Bureau.

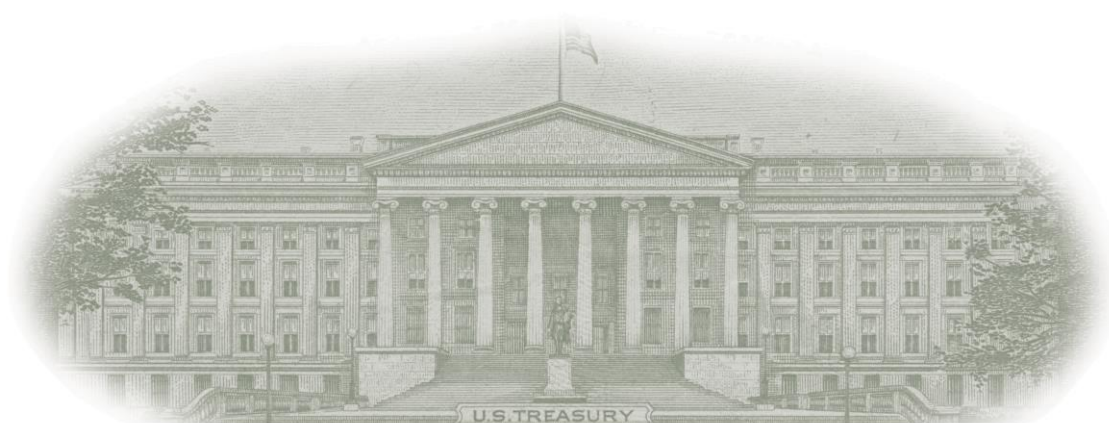
The Bureau's Internal Control Policy Committee (Committee) provides overall guidance and coordination to the internal control program and fosters a management environment in which accountability for results and cost effective controls are maintained to ensure the reliability of financial reporting, effectiveness of operations, and compliance with applicable laws and regulations. The Committee is comprised of senior level executives and is chaired by the Chief Financial Officer.

The accompanying financial statements and annual audit are important elements in the stewardship of the Bureau's revolving fund. For the 28th consecutive year, the Bureau has received an unqualified opinion on its financial statements from an independent, certified public accounting firm. The unqualified audit opinion on the financial statements and the FMFIA review process, ensure the integrity of the revolving fund and the reliability of financial data used for managerial decision-making.

In 2012, 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. In IT security, 100% of the Bureau's Major Applications (MA) and General Support Systems (GSS) have been accredited in order to meet the requirement for certification and accreditation at least every three years. In responding to concerns about lost computers and data throughout the Federal Government and the private sector, the Bureau has implemented technologies to encrypt all laptop hard drives and removable Universal Serial Bus (USB) and optical media.

The CIO Directorate continues to refine policy and procedures for ensuring the adequacy of management controls throughout the life cycle of all hardware and software. In support of OMB initiatives, the CIO has implemented Networx/TIC conversion under the Treasury TNet contract. Additionally, BEP remains committed to full implementation of the National Institute of Standards and Technology (NIST) SP800-53 and SP800-53A management, operational, and technical controls for IT systems, as well as 100% implementation of the Federal Desktop Core Configuration for Microsoft software and NIST approved configurations for other operating systems and databases.

During 2012, BEP was subject to a number of audits and reviews of financial and support IT systems, and FISMA implementation. BEP continues to design and implement controls to comply with the Government Accountability Office's Federal Information System Controls Audit Manual audit standards in order to support the annual audited financial statements. The CIO Directorate is an active participant to Department of the Treasury Critical Infrastructure Protection Planning efforts, including testing of Continuity of Operation Planning (COOP) responses through Government and Treasury-wide exercises. The Directorate also tests COOP plans for the Bureau's mainframe computer, enterprise management information system, and public sales support systems twice a year.



## CUSTODY OF ASSETS

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In addition to the production of currency, 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 the former 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.



BEP security vault.

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 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 Compliance. This office evaluates and monitors internal control systems and maintains a comprehensive product accountability system. 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.



## ASSURANCE STATEMENT FISCAL YEAR 2012

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The Bureau of Engraving and Printing (Bureau), made a conscientious effort during fiscal year 2012 to meet the internal control requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982, the Federal Financial Management Improvement Act (FFMIA) of 1996, Office of Management and Budget (OMB) Circular A-123, and the Reports Consolidation Act of 2000. The Bureau, taken as whole, is operating in accordance with the procedures and standards prescribed by the Comptroller General of the United States and OMB guidelines.

As required by the FMFIA, the Bureau evaluated both its internal controls and financial management systems for fiscal year 2012. 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 weaknesses and no material nonconformances outstanding as of September 30, 2012.

The Bureau evaluated its internal control over financial reporting in accordance with OMB Circular A-123, "Management's Responsibility for Internal Control." Based on the results of this evaluation, the Bureau can provide reasonable assurance that internal control over financial reporting as of September 30, 2012, is operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting. 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 Fiscal Year 2012 with sixteen (16) open and twelve (12) new audit recommendations, issued by the Office of Inspector General (OIG). These recommendations pertained to training, policy and/or procedure adherence. The Bureau implemented corrective action on all but four (4) of those items during the year and they are being addressed as appropriate.



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

### **Financial Statements**

Years ended September 30, 2012 and 2011

(With Independent Auditors' Reports Thereon)

#### **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.



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Independent Auditors' Report

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 (the Bureau) as of September 30, 2012 and 2011, and the related statements of operations and cumulative results of operations, and cash flows (hereinafter referred to as "financial statements") for the 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 of America; 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 (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bureau's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 as of September 30, 2012 and 2011, and the results of its operations, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 14, 2012, 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 contracts, and other matters. The purpose of those reports 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our fiscal year 2012 audit.

KPMG LLP

December 14, 2012

KPMG LLP is a Delaware limited liability partnership,  
the U.S. member firm of KPMG International Cooperative  
("KPMG International"), a Swiss entity.

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

Balance Sheets  
As of September 30, 2012 and 2011

**ASSETS**

	<b><u>2012</u></b> (In Thousands)	<b><u>2011</u></b> (In Thousands)
Current Assets		
Cash (Note 3)	\$ 117,993	\$ 153,662
Accounts receivable (Note 10)	54,355	28,622
Inventories, net (Note 4)	144,676	140,229
Prepaid expenses	<u>4,743</u>	<u>3,698</u>
Total current assets	321,767	321,138
Property and equipment, net (Note 5)	416,350	381,507
Other assets, net (Note 6)	<u>19,606</u>	<u>20,220</u>
Total assets	\$ <u><u>757,723</u></u>	\$ <u><u>722,865</u></u>

**LIABILITIES AND EQUITY**

	<b><u>2012</u></b> (In Thousands)	<b><u>2011</u></b> (In Thousands)
Liabilities		
Current liabilities (Notes 7 and 8)		
Accounts payable	\$ 18,980	\$ 33,683
Accrued liabilities	34,668	35,949
Advances	<u>5,011</u>	<u>8,460</u>
Total current liabilities	58,659	78,092
Workers' compensation liability (Note 8)	<u>63,039</u>	<u>62,423</u>
Total liabilities	<u>121,698</u>	<u>140,515</u>
Contingencies and commitments (Notes 12 and 13)		
Equity		
Invested capital	32,435	32,435
Cumulative results of operations	<u>603,590</u>	<u>549,915</u>
Total equity	<u>636,025</u>	<u>582,350</u>
Total liabilities and equity	\$ <u><u>757,723</u></u>	\$ <u><u>722,865</u></u>

See accompanying notes to the financial statements.



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

Statements of Operations and  
Cumulative Results of Operations  
For the Years Ended September 30, 2012 and 2011

	<u><b>2012</b></u> (In Thousands)	<u><b>2011</b></u> (In Thousands)
Revenue from sales (Note 10)	\$ 735,797	\$ 548,094
Cost of goods sold	<u>564,669</u>	<u>442,769</u>
Gross margin	<u>171,128</u>	<u>105,325</u>
Operating costs:		
General and administrative expenses	<u>9,127</u>	<u>8,314</u>
Research and development	<u>117,453</u>	<u>88,747</u>
Excess of revenues over expenses	53,675	16,578
Cumulative results of operations at beginning of year	<u>549,915</u>	<u>533,337</u>
Cumulative results of operations at end of year	\$ <u><u>603,590</u></u>	\$ <u><u>549,915</u></u>

See accompanying notes to the financial statements

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

Statements of Cash Flows  
For the Years Ended September 30, 2012 and 2011

	<b><u>2012</u></b> (In Thousands)	<b><u>2011</u></b> (In Thousands)
<b>Cash flows from operating activities</b>		
Excess of revenues over expenses	\$ 53,675	\$ 16,578
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities		
Depreciation	40,812	32,566
(Gain) Loss from obsolescence	(175)	720
Loss from disposal of property and equipment	-	53
Changes in assets and liabilities		
Increase in accounts receivable	(15,919)	(9,814)
(Increase) decrease in inventories	5,102	(8,729)
(Increase) decrease in prepaid expenses	(1,045)	210
Increase in other assets	(163)	(4,102)
Increase (decrease) in accounts payable	(14,703)	13,639
Increase (decrease) in accrued liabilities	(1,281)	2,436
Decrease in advances	(3,449)	(2,861)
Increase in workers' compensation liability	616	3,588
Net cash provided by operating activities	<u>63,470</u>	<u>44,284</u>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	<u>(75,655)</u>	<u>(67,768)</u>
Net cash used in investing activities	<u>(75,655)</u>	<u>(67,768)</u>
Net decrease in cash	(12,185)	(23,484)
Cash at beginning of year	<u>130,178</u>	<u>153,662</u>
Cash at end of year	\$ <u><u>117,993</u></u>	\$ <u><u>130,178</u></u>

See accompanying notes to the financial statements.

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

Notes to the Financial Statements  
September 30, 2012 and 2011

**1. Reporting Entity**

The Bureau of Engraving and Printing (Bureau), a component of the United States (U.S.) Department of the Treasury, is the U.S. Government's security printer. The Bureau designs and produces U.S. currency. The Bureau also advises and assists federal agencies in the design and production of other U.S. Government documents requiring counterfeit deterrence or secure production.

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 laws and regulations. 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. Invested capital represents the historical value of the initial contribution made by the Federal Government.

The financial statements represent the consolidation of two federal revolving funds. The majority of all financial transactions are 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. All significant balances and transactions between the funds have been eliminated in consolidation.

**2. Summary of Significant Accounting Policies**

*Basis of Accounting*

The Bureau has historically prepared its financial statements in conformity with U.S. generally accepted accounting principles (GAAP), based on accounting standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body. Under such standards, the Bureau prepares its financial statements using the full accrual basis of accounting under which revenues are recognized when earned and expenses are recognized as incurred, regardless of when cash is exchanged.

The Federal Accounting Standards Advisory Board (FASAB) has been designated by the American Institute of Certified Public Accountants as the standards-setting body for financial statements of Federal Government entities, with respect to the establishment of GAAP. FASAB has indicated, however, that financial statements prepared based upon accounting standards published by the FASB may also be regarded as in conformity with GAAP for those federal agencies, such as the Bureau, that have issued financial statements based upon FASB accounting standards in the past. Accordingly, consistent with historical reporting, the Bureau's financial statements are presented in accordance with accounting standards published by the FASB.

*Estimates*

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related revenues and expenses. Those estimates most significant to the Bureau's financial statements are the actuarial estimates made by the Department of Labor (DOL) in arriving at the liabilities for workers' compensation, allowances for obsolescence, the useful lives of property and equipment, the likelihood of losses associated with contingent liabilities, and certain accrued expenses at the date of the financial statements. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

(continued)

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

**Notes to the Financial Statements  
September 30, 2012 and 2011**

*Cash*

Cash represents the aggregate amount of the Bureau's funds held on deposit with the U.S. Treasury and are available to pay liabilities.

*Inventories*

Raw material and supply inventories are stated at standard cost, except for one advanced counterfeit deterrent material, which is valued using the first-in-first-out (FIFO) method. Finished goods inventories are stated at weighted average unit cost. All methods approximate actual cost. Cost elements included in work-in-process and finished goods inventories are direct materials, direct labor, manufacturing overhead and manufacturing support.

Any raw materials inventory determined to be obsolete will be immediately expensed resulting in no allowance for inventory obsolescence for raw materials.

*Property and Equipment*

Property and equipment are recorded at cost. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred. The capitalization threshold is \$50,000. The Bureau capitalizes all cost associated with new construction and building improvements.

The Bureau occupies and uses buildings and land owned by the Department of the Treasury. The Bureau is not charged for the use of the buildings or land, but is responsible for maintenance and repair of all buildings and land improvements. The land and building shell for the Bureau's Western Currency Facility were donated by the City of Fort Worth, Texas to the Department of the Treasury (See Note 5).

Depreciation of property and equipment is calculated using the straight-line method over the following estimated useful lives:

Machinery and equipment	3 - 15 years
Building improvements	3 - 40 years
Information technology (IT) equipment and software	3 - 5 years
Office machines	5 - 10 years
Furniture and fixtures	5 - 10 years
Motor vehicles	3 - 9 years

*Other Assets*

Other assets consist principally of machine repair parts and tools, which are used in the production of the Bureau's products. Other assets are stated at standard cost, which approximates actual cost, net of a reserve for obsolescence.

*Employee Retirement Plans*

Bureau employees participate in the contributory Civil Service Retirement System (CSRS) or Federal Employees' Retirement System (FERS), to which the Bureau and employees make contributions according to plan requirements. Consistent with reporting under multi-employer pension plans, the Bureau does not report CSRS and FERS assets, accumulated plan benefits or future liabilities, if any, applicable to its employees. This data is reported for plan participants by the Office of Personnel Management (OPM).

(continued)



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

**Notes to the Financial Statements  
September 30, 2012 and 2011**

*Postretirement Benefits Other than Pensions*

Postretirement benefits for former Bureau employees, specifically health care costs and life insurance, are administered and paid by OPM through appropriations received from the U.S. Government. The Bureau does not reimburse OPM for these payments. The Bureau's financial statements do not include the cost of employee postretirement benefits paid by OPM, or the actuarial liability for such benefits.

*Workers' Compensation Costs*

The Federal Employee Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for the Bureau's employees under FECA are administered by DOL and are ultimately paid by the Bureau.

The FECA liability consists of two components. The first component, the accrued FECA liability, is based on actual claims paid by DOL but not reimbursed by the Bureau. The Bureau reimburses DOL for the amount of actual claims normally within one to two years after payment is made by DOL. As a result, the Bureau recognizes a current and non-current liability for actual claims paid by DOL, to be reimbursed by the Bureau.

The second component, the actuarial FECA liability, is the estimated liability for future benefit payments. These future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for future FECA benefits. The actuarial liability for future worker's compensation benefits includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value using the Office of Management and Budget's (OMB) economic assumptions for 10-year Treasury notes and bonds, which resulted in discount rates as of September 30, 2012 and 2011, of 2.29% and 3.54% in year one and 3.14% and 4.03% thereafter. The Department of the Treasury allocated the overall liability to Treasury components based on past claims paid information provided by DOL.

*Annual, Sick, and Other Leave*

Annual leave is accrued as a liability when earned and the accrual is reduced as leave is taken. The balance in this accrued liability account reflects current pay rates.

Sick leave and other types of non-vested leave are expensed as the leave is taken.

*Revenue Recognition*

Revenue from sales to the Federal Reserve Board is recognized when finished goods satisfactorily pass all Bureau quality control standards and are delivered to the on-site Federal Reserve Depository vaults. Finished goods are released for shipment in accordance with customer requirements. Revenue from the sale of uncut currency to the public is recognized at the time the product is shipped. The Bureau does not record an allowance for returns because of a historically negligible return rate.

(continued)

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

**Notes to the Financial Statements  
September 30, 2012 and 2011**

*Research and Development Costs and Public Education (Advertising) Costs*

Research and development costs and public education costs are expensed as incurred. Public education costs, which are reported in cost of goods sold, amounted to \$0 and \$3.1 million in the years ended September 30, 2012 and 2011, respectively.

*Tax Status*

The Bureau is a federal entity, and therefore is not subject to federal, state, or local income taxes. Accordingly, no provision for income taxes is made in the accompanying financial statements.

*Contingencies*

Liabilities from loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources, are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation cost can be reasonably estimated. Loss contingencies that do not meet these criteria, but are reasonably possible and estimable are not accrued, but are disclosed in Note 12.

*Fair Value Measurements*

ASC 820-10, Fair Value Measurements and Disclosures, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The Bureau's financial instruments are comprised of cash, accounts receivable, accounts payable, accrued liabilities, and advances as of September 30, 2012 and 2011, respectively. The carrying amounts of these financial instruments approximate fair value because of the short-term nature of these instruments. The Bureau holds no financial instruments that are required by ASC 825-10 to be valued at, reported, or disclosed at fair value as of September 30, 2012 or 2011.

**3. Cash**

The year-end cash balances by fund are as follows as of September 30, 2012 and 2011:

	(In Thousands) <b><u>2012</u></b>	(In Thousands) <b><u>2011</u></b>
Bureau of Engraving and Printing		
Revolving Fund	\$ 113,076	\$ 126,264
Mutilated Currency Revolving Fund	<u>4,917</u>	<u>3,914</u>
Total	<u>\$ 117,993</u>	<u>\$ 130,178</u>

The balance in the mutilated currency revolving fund, consisting of processed claims for mutilated currency submitted by the public for redemption, is offset by a liability to the public which is included in advances on the balance sheets as of September 30, 2012 and 2011, respectively (See Note 7).

(continued)

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

Notes to the Financial Statements  
September 30, 2012 and 2011

**4. Inventories, net**

Inventories consist of the following as of September 30, 2012 and 2011:

	(In Thousands)	(In Thousands)
	<u><b>2012</b></u>	<u><b>2011</b></u>
Raw material and supplies	\$ 75,418	\$ 46,429
Work-in-process	41,736	40,203
Finished goods - currency	7,302	48,270
Finished goods - uncut currency	<u>20,220</u>	<u>13,924</u>
Total	<u><u>\$ 144,676</u></u>	<u><u>\$ 148,826</u></u>

The allowance for inventory obsolescence was \$0 and \$952 thousand, at September 30, 2012 and 2011, respectively.

**5. Property and Equipment, net**

Property and equipment consist of the following as of September 30, 2012 and 2011:

	(In Thousands)	(In Thousands)
<u><b>Property and equipment types</b></u>	<u><b>2012</b></u>	<u><b>2011</b></u>
Machinery and equipment	\$ 494,201	\$ 477,455
Building and land improvements	251,335	234,314
IT equipment and software	94,603	56,821
Office machines	2,791	2,791
Furniture and fixtures	1,277	1,272
Donated assets - art work	125	125
Motor vehicles	<u>212</u>	<u>212</u>
	844,544	772,990
Less accumulated depreciation	553,642	512,831
	290,902	260,159
Construction-in-progress	<u>125,448</u>	<u>121,348</u>
Net property and equipment	<u><u>\$ 416,350</u></u>	<u><u>\$ 381,507</u></u>

Depreciation expense for the years ended September 30, 2012 and 2011 was \$40.8 million and \$32.6 million, respectively.

The Bureau occupies and uses buildings and land owned by the Department of the Treasury. The land and building shell for the Fort Worth, Texas facility were donated by the City of Fort Worth to the Department of the Treasury in 1987, which holds the title thereto. At the time of donation, the land had an appraised value of \$1.5 million and the building shell cost was \$5.6 million. In accordance with the provisions of Public Law 81-656, Bureau financial statements include only the costs to build out the facility.

(continued)

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

Notes to the Financial Statements  
September 30, 2012 and 2011

**6. Other Assets, net**

Other assets consist principally of machine repair parts and tools. The allowance for obsolescence for these parts and tools for the years ended September 30, 2012 and 2011 was \$6.7 million and \$5.9 million, respectively.

**7. Current Liabilities**

All current liabilities are funded and consist of the following as of September 30, 2012 and 2011:

	(In Thousands)	(In Thousands)
	<u><b>2012</b></u>	<u><b>2011</b></u>
Intragovernmental	\$ 5,843	\$ 15,354
With the public	52,816	62,738
Total	<u>\$ 58,659</u>	<u>\$ 78,092</u>

Accrued current liabilities consist of the following as of September 30, 2012 and 2011:

	(In Thousands)	(In Thousands)
	<u><b>2012</b></u>	<u><b>2011</b></u>
Payroll	\$ 16,506	\$ 17,591
Annual leave	11,628	11,591
Workers' compensation	5,595	5,270
Other	939	1,497
Total	<u>\$ 34,668</u>	<u>\$ 35,949</u>

Accrued current liabilities consist of the following as of September 30, 2012 and 2011:

	(In Thousands)	(In Thousands)
	<u><b>2012</b></u>	<u><b>2011</b></u>
Other Federal Agencies	\$ 58	\$ 4,513
Mutilated Currency	4,917	3,914
Public sales	36	33
Total	<u>\$ 5,011</u>	<u>\$ 8,460</u>

**8. Workers' Compensation Liability**

Claims incurred and paid by DOL as of September 30, 2012 and 2011, but not yet reimbursed to DOL by the Bureau, are approximately \$11.8 million and \$12.3 million, of which approximately \$5.6 million and \$5.3 million represent a current liability, as of September 30, 2012 and 2011, respectively. The Bureau will reimburse DOL for these claims in the next two years. The Bureau's estimated non-current, actuarially derived future workers' compensation liability was approximately \$56.8 million and \$55.4 million as of September 30, 2012 and 2011, respectively. The Bureau's estimated, undiscounted, non-current, actuarially derived future workers' compensation liability was approximately \$81.9 million and \$87.5 million as of September 30, 2012 and 2011, respectively.

(continued)



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

Notes to the Financial Statements  
September 30, 2012 and 2011

**9. Employee Retirement Plans and Postretirement Benefits Other than Pensions**

Employer contributions to the retirement plans were \$18.3 million and \$17.9 million for 2012 and 2011, respectively. The CSRS employer contribution rate for fiscal years 2012 and 2011 was 7.0%. The FERS agency contribution rate was 11.9% and 11.7% for fiscal years 2012 and 2011, respectively. The cost of providing the CSRS and FERS benefits is more than the amounts contributed by the Bureau and the employees to OPM. The additional cost of providing benefits, including the cost financed by OPM, which is not included in the Bureau's Statements of Operations, totaled \$25.7 million and \$26.5 million in 2012 and 2011, respectively.

OPM paid costs totaling \$10.7 million and \$11.2 million for the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) programs in 2012 and 2011, respectively. These costs are not included in the Bureau's Statements of Operations. The Bureau paid costs totaling \$14.6 million and \$14.1 million for the FEHBP and FEGLI programs in 2012 and 2011, respectively.

**10. Concentration of Revenue**

The Bureau's principal customers are other federal and quasi-federal governmental organizations. During 2012 and 2011, the Bureau's sales revenue from these organizations as well as the outstanding amounts due from them as of September 30, 2012 and 2011, are reflected in the following table:

	Revenue (In Thousands)		Accounts Receivable (In Thousands)	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Federal Reserve Board:				
Currency Production	723,436	\$ 523,009	\$ 52,954	\$ 36,993
Mutilated Currency	3,277	3,472	804	873
Other Federal Agencies	<u>1,974</u>	<u>3,291</u>	<u>92</u>	<u>126</u>
	<u>728,687</u>	<u>529,772</u>	<u>53,850</u>	<u>37,992</u>
Public sales	6,809	18,320	1	56
Other	<u>301</u>	<u>2</u>	<u>504</u>	<u>388</u>
	<u>7,110</u>	<u>18,322</u>	<u>505</u>	<u>444</u>
Total	<u>\$ 735,797</u>	<u>\$ 548,094</u>	<u>\$ 54,355</u>	<u>\$ 38,436</u>

Revenues from other federal agencies are derived principally from the sale of security printing products to U.S. Government agencies and related fees charged.

Substantially all products are sold on a fixed price basis. When the revenue from such pricing is not sufficient to cover all costs and provide for necessary working capital the Bureau will negotiate with the Federal Reserve Board for an additional surcharge. The required surcharge totaled approximately \$0 and \$97.8 million in 2012 and 2011, respectively. This amount is included in Revenue on the Statement of Operations.

**11. Principal Suppliers**

The Bureau is dependent upon sole suppliers for distinctive currency paper and several advanced counterfeit deterrent materials.

(continued)

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

**Notes to the Financial Statements  
September 30, 2012 and 2011**

**12. Commitments and Contingencies**

The Bureau is a party in various administrative proceedings, legal actions, and claims brought against the Federal Government by employees, contractors, and other parties. As of September 30, 2012 and 2011, there are no contingencies for litigation involving the Bureau, where the risk of loss is probable. Contingencies, where the risk of loss is reasonably possible, are approximately \$3.4 million and \$4.0 million as of September 30, 2012 and 2011, respectively. Since the risk of loss for these litigations is not probable, the Bureau did not record any liability. Management believes that the ultimate resolution of these litigations will not have a material impact on the reported financial position, results of operations, and cash flows.

In 2007, a judge ruled that the current U.S. currency design violates Section 504 of the Rehabilitation Act. The Court awarded no monetary damages. However, the Bureau is required to provide meaningful access to United States currency for blind and other visually impaired persons as part of the next currency redesign. The cost of currency changes necessary to provide meaningful access will be incorporated into future currency redesign costs. No costs related to the Court ruling have been accrued in the accompanying financial statements as of September 30, 2012 and 2011.

The Bureau has contracted to purchase three large finishing presses, incorporating automated inspection and packaging capability, costing approximately \$53.0 million. As of September 30, 2012, the Bureau has made cumulative payments of \$41.9 million and the remaining commitment outstanding is \$11.1 million. Delivery of the presses will be determined upon successful completion of final factory inspection tests. Progress payments related to the above contract is included in construction-in-progress within Property and Equipment on the balance sheets as of September 30, 2012 and 2011, respectively.

The Bureau does not carry commercial insurance on its physical assets because by law the Federal Government is self-insured.

**13. Operating Lease**

In 2002, the Bureau entered into a cancelable operating lease for warehouse space that expired in 2012. The operating lease for warehouse space was renewed in 2011 for an additional 10 years and will expire in 2022.

Rental expense for the years ended September 30, 2012 and 2011 was \$2.5 million and \$1.9 million, respectively.

Future minimum payments under the lease as of September 30, 2012, are (in thousands):

For the years ending September 30:	Amount
2013	\$ 3,039
2014	3,051
2015	3,064
2016	3,077
2017	3,090
Thereafter	14,068
Total	<u>\$ 29,389</u>

**14. Subsequent Events**

The Bureau has evaluated subsequent events through December 14, 2012, the date which the financial statements were available to be issued. There were no material events that required additional accruals or disclosures.



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## Independent Auditors' Report on Internal Control Over Financial Reporting

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 balance sheets of the Bureau of Engraving and Printing (the Bureau) as of September 30, 2012 and 2011 and the related statements of operations and cumulative results of operations, and cash flows (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated December 14, 2012.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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 (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Bureau is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our fiscal year 2012 audit, we considered the Bureau's internal control over financial reporting by obtaining an understanding of the design effectiveness of the Bureau's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bureau's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bureau's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the third paragraph of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2012 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in Exhibit I that we consider collectively to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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The Bureau's written response to the significant deficiency identified in our audit and presented in Exhibit I was not subjected to the auditing procedures applied in the audit of the Bureau's financial statements and, accordingly, we express no opinion on it.

Exhibit II presents the status of the prior year significant deficiency.

We noted certain additional matters that we have reported to management of the Bureau in a separate letter dated December 14, 2012.

This report is intended solely for the information and use of the Bureau's management, the Department of the Treasury's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 14, 2012



**Bureau of Engraving and Printing  
Independent Auditors' Report on Internal Control Over Financial Reporting**

**Current Year Significant Deficiency**

***Deficiencies Identified Related to the Implementation of the Oracle Operating System***

In fiscal year 2010, the Bureau introduced a multi-phase approach for upgrading its manufacturing and data management systems titled, Bureau of Engraving and Printing Enterprise (BEN). The roadmap to complete BEN included a series of manufacturing and data management system releases executed over a span of two years. On April 1, 2011, the Bureau issued a manufacturing support system release within the Office of Financial Management. This release was the first step in a full financial system conversion from BEP's legacy system, Bureau of Engraving and Printing Management Information System (BEPMIS), to a new system, Oracle-On-Demand and encompassed the conversion of the general ledger, the fixed assets sub-ledger, and the accounts receivable sub-ledger in fiscal year 2011. The remaining modules within BEN (which made up the bulk of the modules and included additional financial system components) were converted through a second release on October 2, 2011. Further upgrades to BEN in fiscal year 2012 were issued through Releases 3 (January 2012) and 4 (May 2012).

We noted several control deficiencies, related to the financial reporting process and associated with the Oracle implementation, which follow:

- The recording of Public Sales became automated through the Oracle system on May 31, 2012. Bureau management did not perform a reconciliation of the cash receipts report to the sales activity reflected in the items shipped report for the months of June through September 2012 until October, 2012 due to a system error in the recording of sales returns and certain sales transactions. BEN uses the items shipped information to record revenue earned in the general ledger, as a result, the Bureau was unable to reconcile cash received with revenue earned during those months noted above.
- A control gap exists in that the acquisitions department does not perform a monthly review of open Purchase Orders relating to Stock and Materials Requirements Planning (MRP) Orders to determine the reason an order is in open status because of insufficient staff and an inability to obtain the information from the system.
- Oracle Purchasing automatically records accrued liabilities as goods and services are received. From October 2011 through May 2012, because of an incorrect system preference selected, BEP did not have a control in place to ensure invoices that only required a two-way match and related to purchase orders that were migrated into Oracle during the conversion were properly recorded.
- The Bureau did not perform a reconciliation of the Work-In-Process Inventory (WIP) sub-ledger to the general ledger until July 2012. As such, no reconciliations were performed for the months of October 2011 through June 2012. BEP management noted that machine hours from the shop floor were not properly transferring from the sub-ledger to the general ledger during the month of October 2011. Furthermore, Oracle was not properly measuring the actual costs of raw materials in order to generate standard costs until May 1, 2012. Both of these issues contributed to the improper valuation of WIP until May 2012. The reconciliations were subsequently performed biweekly during the months of August and September 2012.

**Bureau of Engraving and Printing  
Independent Auditors' Report on Internal Control Over Financial Reporting  
Current Year Significant Deficiency**

OMB Circular A-123 states, "Management is responsible for developing and maintaining effective internal control. Effective internal control provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the agency's ability to meet its objectives, would be prevented or detected in a timely manner."

A failure to properly reconcile account sub ledgers to the general ledger or properly accrue liabilities could result in a misstatement of the related items on the financial statements. The Bureau determined that inventory was understated by \$2.1 million and public sales revenue was overstated by \$140 thousand based on the issues noted. A failure to review open purchase orders affects the ability of the Bureau to ensure that orders are processed promptly and correctly. This could allow the possibility of unmatched receiving documents or invoices to exist that are not being properly accrued.

We recommend the Bureau (1) review transaction and posting models within each sub-ledger of BEN to ensure that the system is correctly set up and that underlying transactions in each sub-ledger are being accurately reflected in the general ledger; (2) ensure that timely reconciliations of sub-ledgers to the general ledger are performed throughout the year, and (3) design and implement a control to perform a timely review of open purchase orders.

*Management Response:*

Management concurs with the recommendations and will take the necessary steps to implement policies and procedures to ensure the timely and accurate review of reconciliations performed.

**Bureau of Engraving and Printing**  
**Independent Auditors' Report on Internal Control Over Financial Reporting**  
**Status of Prior Years' Significant Deficiency**

Finding and Recommendations	Stat
<b><i>Internal Control Over Year End Liability Accruals Needs Improvement</i></b>	
<p>We recommend the Bureau (1) develop and implement policies and procedures to improve the reliability of reviews over significant and unusual accounting transactions and reconciliations by individuals most knowledgeable of the subject matter, (2) ensure policies and procedures are followed to verify all significant and unusual accounting transactions and reconciliations were performed properly, (3) require supporting documentation be provided with, and be examined as part of, the Bureau's review of year end specific item accounts payable estimates, and (4) ensure all year end specific</p>	<p>No control deficiencies related to the recording and review of Accounts Payable were identified in current year testing. We consider this finding closed.</p>



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## Independent Auditors' Report on Compliance and Other Matters

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 balance sheets of the Bureau of Engraving and Printing (the Bureau) as of September 30, 2012 and 2011, and the related statements of operations and cumulative results of operations and cash flows (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated December 14, 2012.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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 (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Bureau is responsible for complying with laws, regulations, and contracts applicable to the Bureau. As part of obtaining reasonable assurance about whether the Bureau's financial statements are free of material misstatement, we performed tests of the Bureau's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the Bureau. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

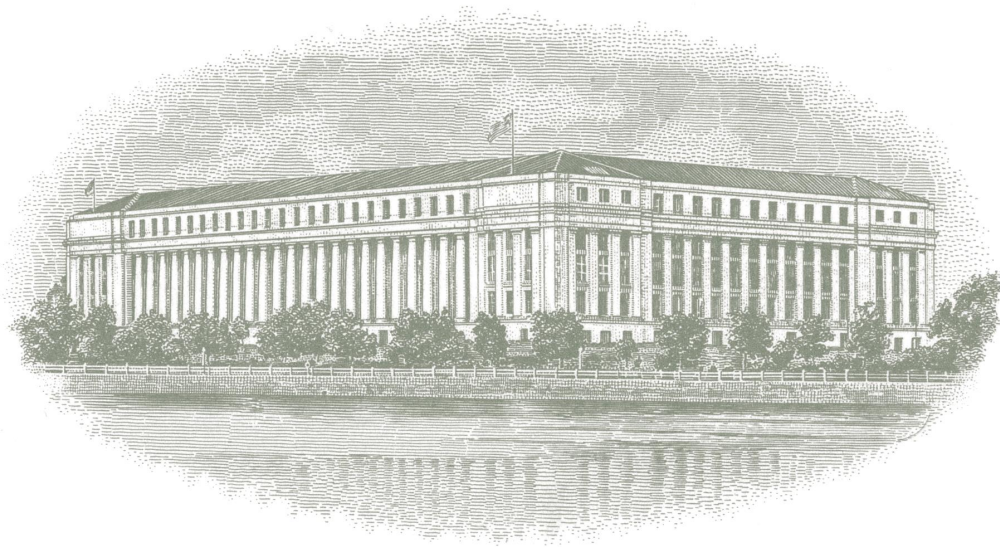
The results of our tests of compliance described in the preceding paragraph, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04

This report is intended solely for the information and use of the Bureau's management, the Department of the Treasury's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

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December 14, 2012

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