



Department of the Treasury

Bureau of Engraving and Printing



— The New \$100 Federal Reserve Note —

Chief Financial Officer
Performance and Accountability Report

2013

MISSION

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

CORE VALUES

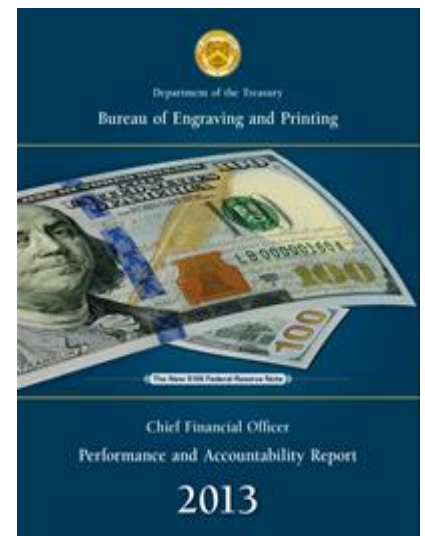
Integrity • Fairness • Performance • Respect

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

The image featured on the cover is of the newly designed NexGen \$100 Federal Reserve note issued to the public on October 8, 2013. The redesigned \$100 note introduces two advanced security features: the 3-D Security Ribbon and the Bell in the Inkwell. It also includes security features used in other US denominations, such as the portrait watermark and security thread.





Top photo: Treasurer of the United States Rosie Rios and Secretary of the Treasury Jacob Lew visited the Washington, D.C. Currency Facility for a special tour. Bottom photo: BEP Director Larry Felix guided them through production sections to observe the currency manufacturing process, including notes with Secretary Lew's signature.



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MESSAGE FROM THE DIRECTOR

This past year at the Bureau of Engraving and Printing (the Bureau or BEP) has been one of progress through production challenges and cultural change. The Bureau achieved its mission to develop and produce United States currency notes, trusted worldwide, through the commitment of our dedicated employees that pushed through the production challenges encountered during the year.



During 2013, the Bureau delivered 6.6 billion Federal Reserve notes to the Federal Reserve System and is scheduled to produce 6.1 billion in 2014. In 2013, it was not business as usual, due to production challenges associated with the redesigned, NexGen \$100 note and significant budget cuts under sequestration. Through the persistent and dedicated efforts of all BEP employees and in partnership with the Federal Reserve Board (FRB), BEP successfully produced over two billion NexGen \$100 notes at its Western Currency Facility in fiscal year 2013 and the FRB successfully issued the \$100 note into circulation on October 8, 2013.

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. Our goal with the CQA program is to establish a quality driven organization that will support a culture of continuous improvement through future currency design generations. Our efforts have identified changes to our organization structure to better support our vision. At times, this will require us to realign and reorganize internal components to create an improved working environment. It is clear that a more robust structure is needed to support and continue the evolution of our quality management system.

As the Bureau continues to develop and produce United States currency notes, trusted worldwide; our organization must consistently provide world-class, quality products. Any successful quality program starts with the employees; which is why BEP continues to move aggressively with a multi-year program to improve the workplace through the Federal government's "Best Places to Work (BPTW) Initiative. The Bureau improved its ranking to 47 out of 300 Federal agencies on the annual Federal Employee Viewpoint Survey (FEVS). We were the only Treasury bureau to meet or beat all of our 2013 FEVS index goals. We will continue to seek ways to involve employees to enhance the workplace and drive continuous quality improvement.

In 2014, the Bureau looks forward to an exciting and challenging year, which involves the continued efforts towards providing meaningful access; single-note inspection; 50-subject printing (from the current 32-subject sheet); and planning towards the next currency design for 2020. 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, and our core values, as we strive to maintain the highest quality standards for US currency.

A handwritten signature in black ink, which appears to read "Larry Felt". The signature is stylized and fluid.



MESSAGE FROM THE CHIEF FINANCIAL OFFICER



I am Debra H. Richardson, and am pleased and privileged to present the Bureau of Engraving and Printing's Performance and Accountability Report for 2013 as the new Chief Financial Officer (CFO) for the Bureau. I was selected for the CFO position after serving for many years in financial management, budget, acquisition and executive administration positions in multiple Federal agencies.

In 2013, 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 29th consecutive year along with an unqualified opinion on internal controls over financial reporting. Both opinions exemplify 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 and opinion on internal controls over financial reporting help to ensure the integrity of the revolving fund, as well as the reliability of financial data used for managerial decision-making.

In 2013, the Bureau delivered 6.6 billion currency notes to the Federal Reserve, resulting in revenue of \$695 million and an excess of revenue over expenses of \$28 million. The excess of revenues over expenses funds Bureau working capital requirements and investments in plant and equipment.

In 2013, the Bureau's steady investment in new equipment and systems along with a talented and highly trained workforce successfully produced and delivered to the Federal Reserve Board over two billion Next Generation \$100 notes. Production of this highly complex currency design required investments in new printing equipment, development of new in-line and off-line inspection technology and improvements in final processing and packaging systems. In conjunction with these critical technology investments, the Bureau continued to partner with the Federal Reserve Board to build and deploy a rigorous and comprehensive Currency Quality Assurance program to drive continuous quality improvement that supports consistent production of the highest quality currency notes. Additionally, the Bureau moved forward with a robust research and development effort to develop new counterfeit deterrent features for future currency redesigns.

In 2014, the Bureau must maintain its focus on quality manufacturing, superior customer service, and efficient stewardship of resources so we can continue to effectively meet the needs of all stakeholders. The Bureau has identified a number of targeted cost-reduction efforts for 2014 and 2015 to support Treasury's focus on fiscal sustainability. These efforts will ensure that the Bureau has the financial resources necessary to invest in its employees to maintain a talented workforce, and support a well-disciplined capital investment strategy to enhance product quality, promote counterfeit deterrence, and improve the cost efficiency and effectiveness of the manufacturing processes.

Debra H. Richardson



HIGHLIGHTS

The Bureau's primary goal in 2013 was the continued production of the redesigned \$100 note. The Federal Reserve Board announced in April that the Next Generation \$100 note would begin circulating in October 2013.

In 2013, the Bureau of Engraving and Printing (Bureau/BEP) received an unqualified opinion on its financial statements for the 29th consecutive year and an unqualified opinion on its internal controls over financial reporting. The Bureau also continues to develop strategies for meaningful access to currency for the blind and visually impaired, while developing innovative designs containing effective counterfeit deterrent security features.

Additional operational highlights for 2013 include:

REDESIGNED US CURRENCY (NEXGEN) NOTE

BEP produced over two billion of the redesigned NexGen \$100 notes in 2013. Successful production of the new \$100 notes is the result of a multi-year collaborative effort by the BEP with the Federal Reserve Board, the Department of the Treasury, and the United States Secret Service. The Federal Reserve Board began issuing the redesigned \$100 note on October 8, 2013. This note, which incorporates new security features such as a blue, 3-D security ribbon, is easier for the public to authenticate but more difficult for counterfeiters to replicate.



Uncut NexGen \$100 overprinted sheets set to be trimmed on WCF note processing equipment.

CURRENCY QUALITY ASSURANCE (CQA) PROGRAM

BEP is partnering with the Federal Reserve Board to transform BEP into a modern, quality assurance manufacturing operation through the implementation of CQA. Under CQA, BEP has successfully institutionalized a robust Corrective and Preventive Action (CAPA) process to identify and correct the causes of currency product non-conformances or potential non-conformances. The CAPA program continues to make significant progress as efforts center on more rigorous root cause investigations, adding experienced investigative staff, and thorough documentation of the corrective action plans and verification of effectiveness. More than fifty managers and supervisors have received CAPA training and the CAPA Council has prioritized CAPAs to ensure that investigative resources are used as effectively as possible. BEP successfully piloted the new Quality Management System Review (QMSR), which provides a snapshot of quality performance to executive leadership. The improvement activities are centered on data-driven review and reporting by process owners.

MEANINGFUL ACCESS

BEP entered into an Interagency Agreement with the Library of Congress to distribute free currency readers to the blind and visually impaired. Distribution of currency readers will begin on a pilot basis in 2014 with a national rollout planned for 2015. Additionally, BEP released the free EyeNote™ application to provide meaningful access across Apple platforms and more than 13,000 applications have been downloaded to date. A free Android (Google) application was also developed and released in coordination with the Department of Education.



BEST PLACE TO WORK (BPTW) INITIATIVE

The Bureau substantially improved its ranking among Federal agencies as a better place to work based on the results of the annual Federal Employee Viewpoint Survey (FEVS). BEP's 2013 FEVS scores improved across-the-board with our average positive response rate increasing by 10% over 2012 FEVS results.



Both WCF LEPE press teams were recognized by the Treasurer as the processing of the one billionth currency note was completed. *Top photo (left to right):* Assistant pressman Gary Battle Jr., pressmen Andy Santos, Johnny Brownlee, and Robert Etchison, LEPE assistant supervisor Dennis Lang, pressmen Robert Lopez and Robert Drinks, and assistant pressman, Robert Perez. *Bottom photo (left to right):* EM Shop Assistant Foreman and LEPE Project Manager Jimmy McCallum, LEPE assistant supervisor Dennis Lang, pressman Raju Mathai, Treasurer Rios, and pressmen Robert Lopez and Robert Etchison.

LARGE EXAMINING & PRINTING EQUIPMENT (LEPE)

BEP continues to retool its manufacturing processes with investments in state-of-the-art production equipment. In 2013, two LEPEs became fully operational at the Western Currency Facility (WCF) and produced over one billion \$1 notes. These LEPE machines are capable of processing 50-subject currency sheets (compared to BEP's traditional 32-subject format), as well as providing efficient multitasking capabilities to print serial numbers and seals, in addition to cutting and packaging in a single process.

BRING OUR CHILDREN TO WORK DAY

In July, the Bureau hosted its 5th Annual "Bring Our Children to Work Day." This year's theme, "The Magic of Money", focused on the artistic elements of currency, historic symbols and watermarks to modern color shifting inks and advanced security features of today's bills, including the next generation \$100 note. Employees at both the Washington, DC (DCF) and Fort Worth, Texas (WCF) 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 250 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

The BEP completed its fifth annual "Feds Feed Families" event in 2013. Bureau employees donated more than 4,800 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. entitled "Let Freedom Ring," the program celebrated the life and legacy of Dr. King and his vision to transform America's understanding and acceptance of cultural differences. Guest speaker Dr. Joel Freeman noted Dr. King's philosophy of non-violence and social change. Suitland High School Center for the Visual and Performing Arts Concert Choir performed several selections during the event.



PROFILE OF THE BUREAU OF ENGRAVING AND PRINTING

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.

The Bureau produces US 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 currency 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.



Mary Stevens, DCF currency sheet examiner, performs quality check of \$1 currency sheets



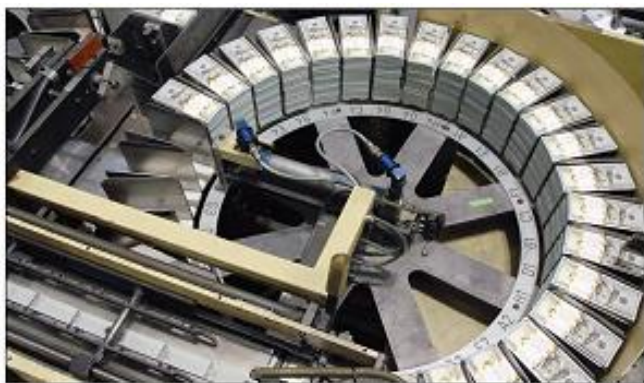
Mutilated Currency Examiners Dajun White and Penny Glover reconstruct damaged currency as part of a public reimbursement claim.

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, 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.

MANUFACTURING

In recent years, the Bureau has redesigned and produced new \$5, \$10, \$20, \$50 and \$100 notes. The new designs are part of the US government's ongoing efforts to maintain the integrity and security of US currency. The latest note to be redesigned was the \$100 note. After a rigorous program of production testing, the Bureau produced over 4 billion of the new \$100 notes in 2012 and 2013.



NexGen \$100 production on Cope-Pac overprinting equipment

During 2013, the Bureau delivered 6.6 billion Federal Reserve notes to the Federal Reserve Board. The Washington, DC and Fort Worth, Texas facilities delivered 1.9 billion and 4.7 billion Federal Reserve notes, respectively. For 2014, the Federal Reserve Board has ordered 6.1 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 LEPE that combines previously separate manufacturing processes and enables the Bureau to produce 50-subject currency sheets. The successful implementation of this advanced technology has led to improved productivity, reduced the Bureau's environmental impact and provided 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 CQA Program. Several major continuous improvement initiatives are underway under the CQA umbrella. BEP continues to install new equipment to enable migration to a 50-subject sheet manufacturing environment, and has acquired state-of-the-art technology to inspect notes off-line.

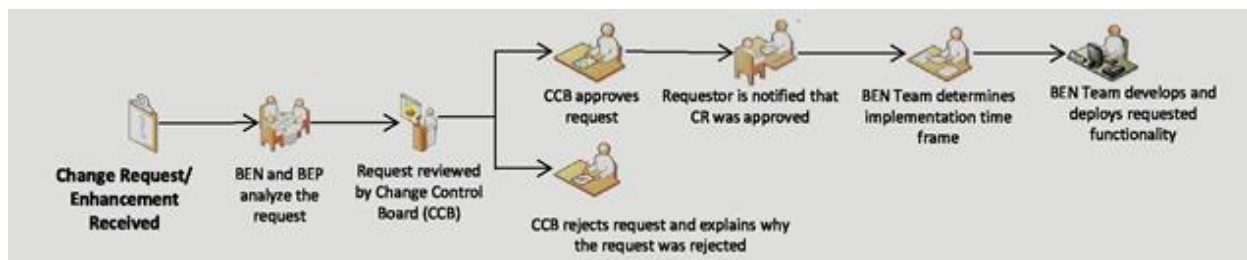
During 2013, the Bureau initiated a new conversion project for the \$5 note production order, with the DCF delivering approximately 480 million \$5 notes that were printed on the Bureau's state-of-the-art Super Orlof Intaglio (SOI) presses. (All \$5 notes previously produced were printed on the WCF's older I-10 intaglio presses.) These notes were produced using the traditional 32-subject format. Transition of the \$5 production to the SOI presses will enable the Bureau to utilize the 50-subject printing format in the future.



INFORMATION TECHNOLOGY

In 2013, 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's multi-year program to modernize its business information technology systems moved forward in 2013. These business IT systems, integrated within the Bureau of Engraving & Printing Enterprise (BEN), includes the Manufacturing Support Suite (MSS), the Data Management Module (DMM), an assets management module referred to as Maximo, and a data warehouse and intelligence tool known as BEN Reporting. During 2013, the Bureau continued to expand on BEN functionality by implementing major change requests (CR) to enhance the user experience, add new features and enhance reporting capabilities, while developing a robust training program as part of BEN University. BEN University was established to provide comprehensive training related to BEN systems. Training includes both computer based and classroom style courses that are offered at both facilities for all shifts as appropriate.



BEP's change request process for BEN enhancements

MSS is an enterprise resource planning (ERP) system utilizing the Oracle Managed Cloud Services for the Federal environment. MSS is a fully integrated business solution that has reduced manual processes, increased efficiency, improved data quality, and provides real-time enterprise data and information for improved decision-making. MSS includes a Manufacturing Execution Console (MEC) for production floor users and product accountability.

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. This year, DMM was expanded to include LEPE, upgraded for the new version of inspection equipment, and provided improved data capture.

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. In 2013, BEP implemented numerous change requests for user improved Maximo functionality, as well as integration with MSS for item and cost data.

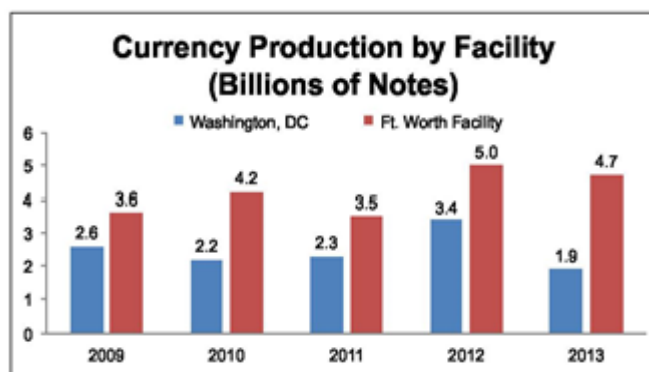
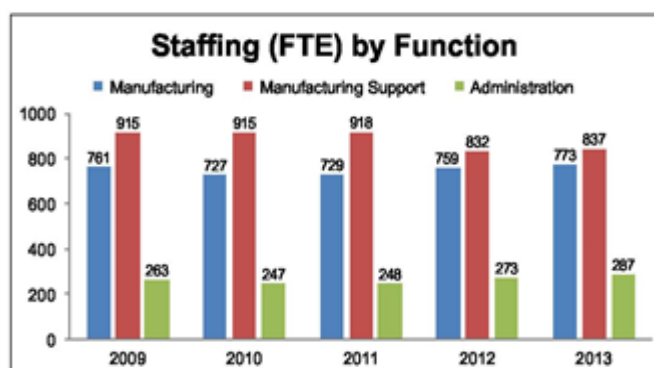
BEN Reporting is BEP's enterprise reporting tool for all business area data related to BEN. In 2013, dashboards and key performance indicators (KPI's) were implemented in the Offices of Financial Management; Compliance; Quality; and Production. Additionally, ad hoc reporting and analytical capabilities were introduced along with additional reports for quality, accountability, and financial control.

Also during 2013, BEP introduced technical advances such as the Enterprise Service Bus to improve system integration, reduce point-to-point interfaces and improve reliability and availability.

Lastly, 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. No significant FISMA audit findings were reported at BEP in 2013. The Bureau continues to be an active participant in Department of the Treasury CIO and Critical Infrastructure Protection Planning initiatives including the implementation of personal identity verification (PIV) cards, FISMA compliance and timely patching of all the BEP IT assets.

ORGANIZATION

The Bureau's executive structure consists of the Bureau Director, a Deputy Director and six 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.



EXECUTIVE ORGANIZATIONAL STRUCTURE



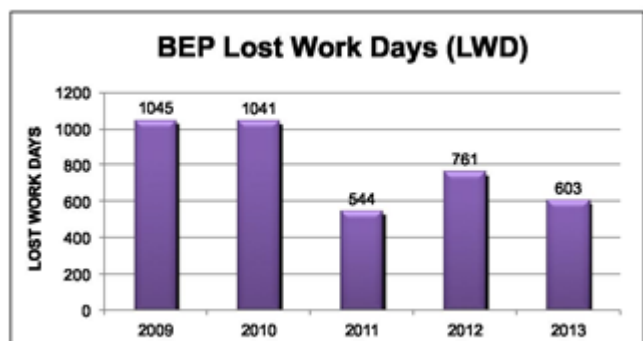
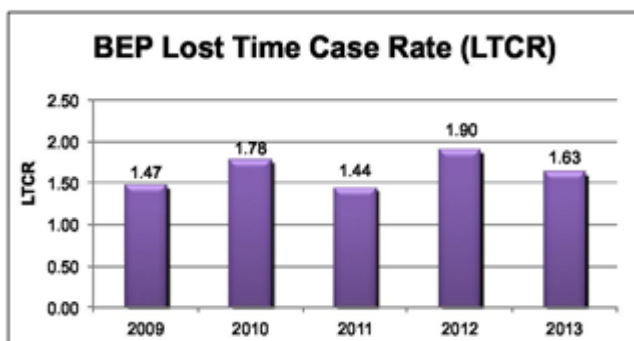
SAFETY, HEALTH AND ENVIRONMENTAL MANAGEMENT

BEP's Office of Environment, Health, and Safety (OEHS) manages programs that minimize the Bureau's impact on the environment and protect workers from injuries, illnesses, and disabilities. The Bureau uses an ISO 14001 registered environmental management system (EMS) to focus and improve its environmental, health and safety programs. BEP's EMS includes all aspects of environment management, as well as health and safety. The continued improvement and effectiveness of this management system is demonstrated by the positive results of the ISO 14001 third-party audits, and long term improvements in our key operating metrics. The Bureau's goals are to maintain a downward trend in occupational injury and illness rates, and to minimize the environmental impact of BEP operations on air emissions, wastewater discharge, and solid waste. Engagement of personnel at all levels is also a goal, and many EHS improvements have been made as a result of employee suggestions, technical work groups, and projects led by safety and environmental professionals.

IMPROVING WORKER HEALTH AND SAFETY

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. In 2013, there was a successful reduction in both the number of lost workdays (LWD) and the OSHA reportable lost time case rate (LTCR). The OEHS has driven a downward movement in both LTCR and LWD categories by focusing on the types and causes of injuries that are the most difficult to control. In addition, the SHD has worked closely with the Bureau's workers' compensation staff to redirect the Bureau's limited and light duty program in accordance with the President's POWER Initiative Goal 7; which strives to accelerate an employee's return to work in cases of serious injury or illness. Also, the SHD implemented a program titled Injury Call (IC), which is a program where key executives meet with supervisors monthly to review significant injuries. During the IC meetings, supervisors review the root causes and the corrective actions necessary to prevent repeat injuries. In 2014, BEP 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 LTCR in 2013 was 1.6 lost time cases per 100 employees. This represents a 16% decrease from last year's rate of 1.9 and meets our corporate goal of 1.6. Two contributing factors leading to the decrease are the re-engineered limited and light duty program and the implementation of the IC Program.



With regard to our number of lost workdays, BEP accumulated 603 lost workdays in 2013, which is a 21% decrease from 2012. This decrease is directly attributed to the changes in the limited and light duty program.

PROTECTING THE ENVIRONMENT

Total industrial waste water discharges and total regulated solid waste disposal amounts showed little change from 2012 to 2013, while total regulated air emissions increased by approximately 10 tons Bureau-wide. A shift in the production mix at both facilities to production of more complex notes, is believed to be the cause of the overall waste generation increase observed on a per unit of production basis. As noted below, BEP has projects underway that are intended to reduce its environmental impact.

Another measure of sustainability is an organization's energy consumption and greenhouse gas (GHG) emissions, and the Bureau has made significant progress in reducing these. BEP has focused on improving the efficiency of its operations and facilities, and has completed a variety of energy conservation projects at its facilities. Under the guidance of its Office of Facilities Support, BEP has reduced energy intensity by more than 25% since 2003. BEP also conducts comprehensive greenhouse gas emissions surveys, and since its first survey, which used 2008 data, BEP has reduced GHG emissions from the direct use of energy and fuels by more than 11,000 metric tons/year or more than 17%.

The following are specific examples of significant 2013 projects:

- Evaluated options for recycling of trimmed edges of currency paper from production operations and recycling shredded securities waste. BEP coordinated with a vendor to evaluate the potential for reclaiming cellulose fibers from this material. BEP intends to conduct additional testing in 2014, as this material is one of the Bureau's largest waste streams. Continued to make progress on the DCF wiping solution recycling project, and continued to evaluate alternatives for recycling or reuse of wiping solution waste water pretreatment



Lillian Cates, Manager Office of Environment, Health & Safety receives signed currency note from Treasurer Rosie Rios.

plant residual solids. Wiping solution recycling is a process to reclaim approximately 95% of our water-based wipe solution. The wiping solution recycling process will save approximately 12 million gallons of water annually, while reducing energy use by 4.5 billion Btu/year and reducing the use of process chemicals. During 2013, BEP completed final design plans for the recycling system and began site preparations.

- Installed high efficiency, low NO_x boilers at WCF. These are estimated to reduce energy consumption by 3.3 billion Btu/year, cut natural gas costs by 15-30%/year, reduce NO_x emissions by 70%, and reduce CO₂ emissions by approximately 1,700 metric tons/year.



- Installed variable frequency drives on DCF cooling towers and chilled water pumps. This project is estimated to have an annual energy savings of 411,000 kilowatt hours.
- Began recycling used oils and greases, and fluorescent lamp ballasts from the DCF.

In 2014, 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. BEP plans to begin construction on the wiping solution recycling plant in DCF during 2014, and expects that the plant will begin operation in 2015. Other initiatives include identifying and testing low VOC cleaners that can be used on the Bureau's currency presses, evaluating options for recycling shredded securities' waste and trimmed edges, and evaluating options for recycling waste-water pretreatment plant solids and waste intaglio inks. In addition, completion of a facility-wide supervisory control and data acquisition (SCADA) project at the DCF is expected to provide energy savings of 38 billion Btu/year. As these projects show, BEP is committed to taking proactive and cost-effective steps to improve the efficiency of our operations and minimize our impact upon the environment.



WCF employees accept the Pretreatment Partnership Award presented by City of Fort Worth Water Department personnel.

STRATEGIC PLAN

The Bureau's Strategic Plan is aligned with the Department of the 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



BEP and the US Mint hosted a joint "Townhall Meeting" at the Bureau. Pictured are: BEP Director Larry Felix; BEP Deputy Director Len Olijar; US Treasurer Rosie Rios; US Mint Chief Financial Officer David Motl, and US Mint Acting Director Dick Peterson.

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 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 will rely on 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) **Innovative Design:** To create innovative currency designs, which provide effective counterfeit deterrence and meaningful access.
- (2) **Currency:** To produce United States currency notes that function flawlessly in commerce.
- (3) **Organizational Excellence:** To achieve organizational excellence and customer satisfaction by balanced investments in people, processes, facilities, and technology.

These goals help support the overall mission of the BEP and focus on key issues that affect the organization and its employees. The goals are emphasized through the following six objectives:

- (1) **Develop New Series Notes:** Research, develop, and test innovative designs containing effective security features for new series of notes.
- (2) **Retool Production Facilities:** Modernize BEP production facilities and create state-of-the-art manufacturing systems that leverage our enterprise resource planning system to support 21st century manufacturing and provide real-time data to improve process control.
- (3) **Provide Meaningful Access:** Develop tactile features and issue currency reader devices to enable the blind and visually impaired to denominate US currency.
- (4) **Enhance Quality:** Enhance quality assurance system practices to assure efficient and effective note production.
- (5) **Create a Best Place to Work:** Create a work environment, which fosters high levels of collaboration, job satisfaction, employee engagement, performance, pride, and accountability.



- (6) Improve Organization Efficiency and Effectiveness: Engage and participate in Strategic Alignment Initiatives leveraging best practices and synergies between BEP, the United States Mint, and other banknote printers to continuously improve 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.



Treasurer Rosie Rios receives a briefing on the Super Simultan IV. Pictured from left to right: Offset pressman David Thornton, Chief, Office of Currency Manufacturing Ron Voelker, Treasurer Rosie Rios, Offset Assistant Supervisor Daniel Elmore, WCF Associate Director Charlene Williams, and BEP Deputy Director, Len Olijar.



BEP Deputy Director, Len Olijar and Treasurer Rosie Rios present BEP Chief Office of Acquisitions Ernest Dilworth a certificate of appreciation for his office's work with the "Small Business" community.



BUSINESS TRANSFORMATION

Emphasis of quality initiatives continued to be a high priority throughout BEP. Efforts to improve the ordering of raw materials and implement quality inspection in production areas were initiated. Tracking and reporting of quality related issues by the BEP Quality Management System Review (QMSR) through BEP insight allows all employees the opportunity to view management's efforts to improve BEP's ability to produce high quality Federal Reserve notes in a cost efficient manner.

RETOOLING

BEP continued efforts to re-tool production processes used to produce US Federal Reserve notes

Office of Engraving Efforts: The Office of Engraving is responsible for the production of wet/dry offset plates, intaglio plates and letterpress seals used in the production of US currency, security products and public sales items. Renovated production areas and the re-tooling of the intaglio plate and seal manufacturing operations was



Fifty subject one dollar engraved intaglio image carrier.

completed in 2013, including the relocation of all electrical discharge machines (EDM) used in the manufacture of letterpress seals. BEP now has state of the art production areas strategically located in the Main building in close proximity to currency manufacturing areas. These efforts were made to upgrade old/outdated equipment, improve quality and efficiency, and improve employee safety. Also, a new film plate processor was purchased to produce wet offset plates in the production of special securities and public sales items.

Intaglio Printing On-line Inspection: Installation of Nota-Save 3 was completed on the intaglio presses at the DCF. The Nota-Save 3 is an in-line inspection system capable of viewing color. Previous inspection systems did not measure in color.

The Single Note Inspection (SNI): SNI equipment was installed at the DCF to inspect finished inventories of Next Generation \$100 notes to assure they meet quality standards prior to shipping to Federal Reserve Banks. The equipment will be operational in 2014.

Overprinting & Packaging: Installation of one LEPE was completed at the DCF, which will allow the Bureau to focus initial production on 50-subject \$1 currency in 2014. The WCF is also scheduled to begin production of \$1 50-subject currency on the two LEPE machines in 2014.



Information System: The Bureau of Engraving and Printing Enterprise (BEN) is an Oracle system and is used as the primary automated information system throughout BEP to include financial, accountability, material ordering and production data. In 2013, the Bureau of Engraving and Printing (BEP) continued improvements to system reliability and usability.

Lean Six Sigma: The Bureau completed four Lean Six Sigma projects in 2013.

- a. US Mint – Collaborative project with the US Mint to ensure timely completion of A-123 corrective actions. Achieved 65% improvement in closeouts recorded in Treasury’s Joint Audit Management Enterprise System (JAMES).
- b. Routine Testing – Streamlined routine testing processes for ink and paper. Reduced process waste and variation to achieve reliable release of test reports to support production requirements. Launched IT support project to enable automatic data acquisition and analytics.
- c. Avoid “Zero” Inventory (stock outs) – Improved inventory management practices to eliminate Zero Inventory condition. Implemented multiple process improvements to enhance Shipping & Receiving/ Storeroom/Acquisition performance. Launched second tier Green Belt projects to address longer term issues.
- d. Currency Paper Supply – Stabilized and streamlined paper acquisition process. Identified critical factors causing volatile demand signals experienced by BEP’s paper supplier. Launched second tier Green Belt projects to drive improvements.

5S Implementation: Beginning in 2013, BEP began instituting 5S as a companion improvement effort to LSS in both its research labs and in designated production areas. 5S is the name of a workplace organization method utilized to organize a work space for efficiency and effectiveness by identifying and storing the items used, maintaining the area and items, and sustaining the new order. The decision-making process used to determine that the optimum organization of items was coordinated by project managers with input from employees with an intimate understanding of specific work requirements. 5S efforts to organize all work areas will continue in 2014:

- a. Deployed 5S in DCF Section 6. Achieved Level 4 maturity. Section will serve as a pilot to promulgate the practice throughout all DCF production areas.
- b. Deployed 5S in the Durability Lab. Achieved Level 4 maturity. Lab serves as a critical Customer interface and will be used to replicate 5S deployment throughout OMT.

ISO 9001 Quality Management System: BEP retained its ISO certification for the manufacturing and support processes required in the production of US 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 (WCP) is an initiative in support of the Presidential Directive, dated June 10, 2010; (Presidential Memorandum – Disposing of Unneeded Federal Real Estate) to increase sales proceeds, cut operating cost, and improve energy efficiency. In conformity with the Presidential Directive, the WCP initiative is intended to reduce real estate assets/footprint and increase utilization of existing real estate space in the federal government. The BEP partnered with the Department of the Treasury to develop a strategy and approach to combine other Treasury Bureaus warehouse requirements within the BEP’s existing warehouse space in Landover, Maryland.

Three Treasury bureaus: Internal Revenue Service/Criminal Investigations Division (IRS/CI), Bureau of the Fiscal Service Financial Management Service (FMS), Office of the Comptroller of the Currency (OCC) and Departmental Offices (DO) with expiring lease agreements at their existing warehouses entered into interagency agreements to relocate to the BEP Landover, MD warehouse. DO, FMS and IRS/CI relocated to the BEP Landover warehouse in October 2012, March 2013 and May 2013 respectively. OCC is scheduled to conclude its relocation in 2014. The BEP warehouse was approximately 75% utilized, affording the opportunity to absorb the warehouse requirements of IRS/CI, FMS, OCC and DO. The WCP is designed to maximize the use of the BEP warehouse, eliminate separate warehouse leases for IRS/CI, FMS, OCC and DO, resulting in fewer lease agreements and increase operational and administrative cost savings across Treasury.



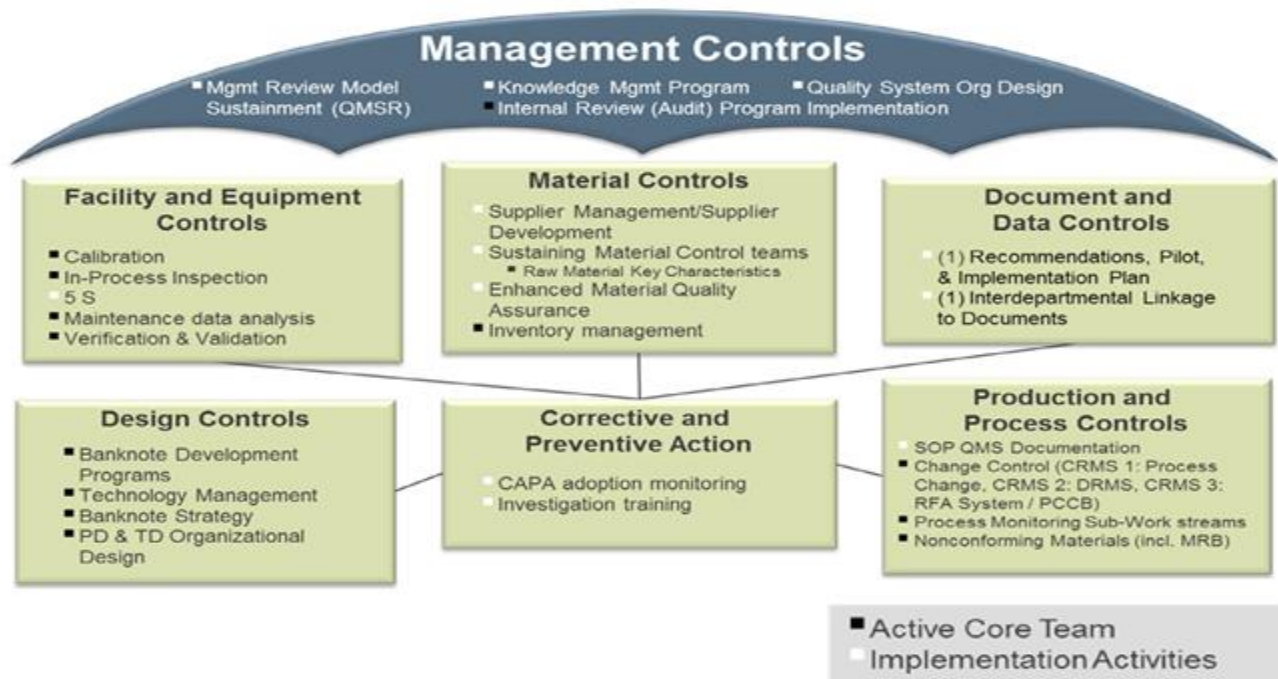
NexGen \$100 note "Public Education Banner" displayed above the Bureau's front steps.

CURRENCY QUALITY ASSURANCE PROGRAM

United States banknotes are rapidly increasing in complexity, counterfeit deterrence, and machine-readiness capabilities. As a result, there is unprecedented demand for their development and production. The NexGen \$100 note has truly evolved into a high-tech consumer good, and so will future generations of US currency. In order to keep pace with this complexity, which includes new technologically advanced design features, a dedicated, persistent effort is needed to drive continuous quality improvement. The CQA Program objective is to provide a dedicated, persistent effort to move the BEP towards a proactive quality assurance environment incorporating collaboration by all quality system stakeholders.

To get to this level, the BEP and its stakeholders are moving forward on a multiyear, robust CQA Program. CQA will address every aspect of the product life cycle—from product development to acquisition of material, through process and production control, to final release and delivery. The CQA Program will help the Bureau move away from its current model of quality control, and move toward a new model of quality assurance—building quality in, not inspecting it in.

This high-level chart shows the planned improvements within each work-stream.



MANAGEMENT CONTROLS

The Office of Quality successfully piloted the new Quality Management System Review (QMSR), formerly known as the Executive Management Review, which provides an in-depth view of quality performance to Bureau Executives. The improvement activities are centered on data-driven review and reporting by process owners. Activities focus on sustaining the cross-functional review, decision-making, and proactive management of the Quality System.



FACILITIES AND EQUIPMENT CONTROLS

The Facilities and Equipment work-stream focused on implementation of five pilot projects to address areas identified for improvement. The five pilot projects are:

- Calibration
- In-process Inspection Equipment;
- 5 “S” Implementation (workspace organization improvements);
- Maintenance Data Analysis; and
- Equipment Verification and Validation

MATERIAL CONTROLS

Material Controls project teams worked on two closely related projects. The first was Supplier Management that focused on improving quality system integration, supplier performance measurement, inventory management, and acquisition processes for direct and indirect materials. The second was Incoming Inspection and Raw Material Management that focused on increasing integration between supplier testing, BEP incoming material inspection, specifications, and material performance in production.

DOCUMENT AND DATA CONTROLS

The Document and Data Controls team reviewed the Quality System documentation hierarchy and recommended improvements to aid employee navigation of the quality documents on the BEP intranet. Other areas targeted for improvement include document change control, retention, distribution, and obsolescence.

DESIGN CONTROLS

The Design Planning work-stream continued efforts in refining and implementing the five-phase Product Development Process developed by the initial Design Review project team in 2012. Multiple product development projects are being piloted under the CQA program. Pilot projects currently being supported through the Product Development Process include Treasury Seal Improvement Program (TSIP), 50-subject \$1 Production, and Tactile Feature development.

CORRECTIVE AND PREVENTIVE ACTION

The Corrective and Preventive Action (CAPA) process allows a mechanism to identify and correct the causes of non-conformances or potential non-conformances pertaining to printing United States currency. These non-conformances are identified during day-to-day operations, customer complaints, internal quality audits, or external (ISO) audits. Improvement efforts center around more rigorous root cause investigations and thorough documentation of the corrective action plans.

PRODUCTION AND PROCESS CONTROLS

During the earlier CQA endeavors, the Production and Process Controls team improved the uniform and accurate documentation of Standard Operating Procedures as well as the assessment of the Change Controls of processes and documents.



2013 KEY QUALITY ASSURANCE ACCOMPLISHMENTS

The BEP implemented the use of charting, triggers, and statistical analysis of spoilage and rejections data at its Monthly Quality Meetings. This analysis will roll-up to summary reporting during the Quality Management System Review meetings.

The Bureau completed training for, and implementation of, the new BEP-wide equipment calibration procedure.

In-process inspection team has documented the key inspection processes that are meaningful to improve process monitoring capabilities.

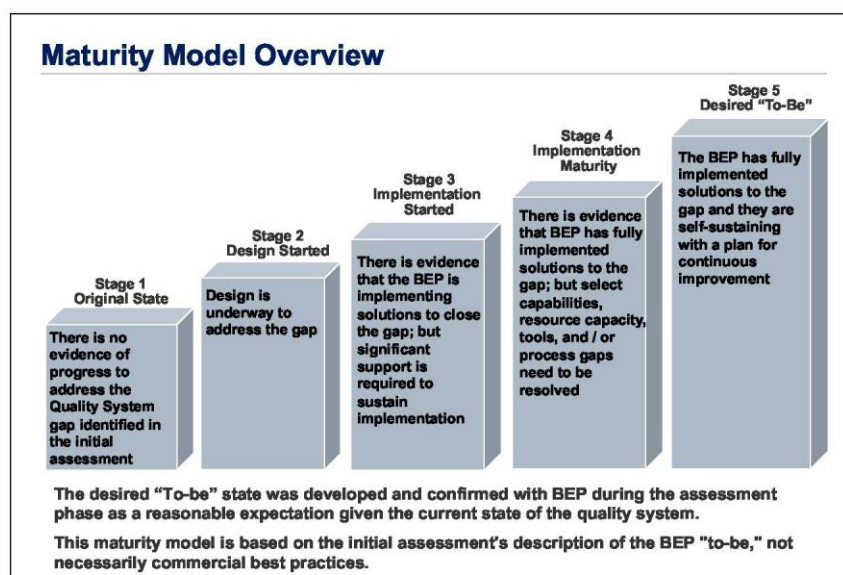
The Office of Acquisition held Supplier Business Reviews with two raw materials suppliers and one equipment supplier. These reviews were productive and beneficial to all parties concerned.

The Materials Controls team has instituted the materials certification process. The Contracting Officer's Representatives are preparing documentation for certification reviews to validate materials currently in the dock-to-stock program qualify to remain in this status.

The Design Controls team kicked off the Technology Development Process (TDP) governance with the first Technology Review Group (TRG) and Technology Approval Committee (TAC) meetings working on two pilot projects.

The CAPA program continues to make significant progress as CAPAs are being opened at an increased rate. The CAPA Council has prioritized CAPAs to ensure that investigative resources are used as effectively as possible. This program area has achieved Level IV in the maturity model, the first program area to do so.

The BEP is committed to drive each of these CQA Program areas to achieve the "To-Be" state as depicted in the Maturity Model Overview.



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 2013 are as follows:

<i>Table cell intentionally left blank</i>	<u>2013 Standard</u>	<u>2013 Actual</u>
1. Federal Reserve Notes (Cost per Thousand Notes)	\$ 52.02	\$ 50.45
2. Federal Reserve Notes Delivered (Billions)	6.7	6.6
3. Productivity Change 2012 to 2013	-14.5%	-12.1%
4. Currency Spoilage	9.8%	11.0 %

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>	<u>2013 Standard</u>	<u>2013 Actual</u>
Federal Reserve Notes	\$ 52.02	\$ 50.45

The actual production cost per thousand currency notes, which includes direct labor, materials, and applied manufacturing overhead, was below standard in 2013. This was due primarily to material savings achieved from better than expected ink mileage and machine productivity associated with the redesigned \$100 note.

<u>Currency Deliveries</u>	<u>2013 Standard</u>	<u>2013 Actual</u>
Federal Reserve Notes (Billions)	6.7	6.6

In 2013, the Bureau delivered 6.6 billion Federal Reserve notes to the Federal Reserve Board (FRB). Deliveries and billings are based on orders received from the customer. In 2013, BEP delivered the remainder of the program in the month after year-end. The FRB submits their requirements for currency deliveries to the Bureau on an annual basis. For 2014, the Federal Reserve has ordered 6.1 billion notes.

<i>Table cell intentionally left blank</i>	<u>2013 Standard</u>	<u>2013 Actual</u>
Productivity Change 2012 To 2013	-14.5%	-12.1%

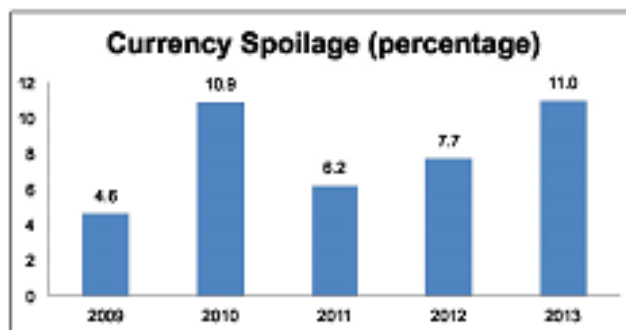
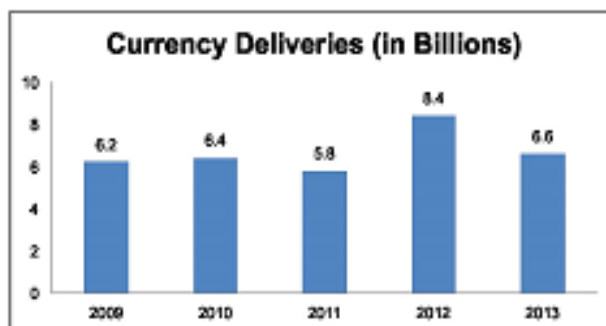
Productivity is calculated based on units of output per labor hour. In 2013, overall productivity decreased by 12.1%. This was directly attributable to the decrease in the currency order.

<u>Currency Spoilage</u>	<u>2013 Standard</u>	<u>2013 Actual</u>
Federal Reserve Notes	9.8%	11.0%



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 2013, overall currency spoilage was above standard, primarily due to the production problems with the redesigned \$100 note at the Washington, DC facility.

Table cell intentionally left blank	<u>2011</u>	<u>2012</u>	<u>2013</u>
1. Federal Reserve Notes (Cost per Thousand Notes)	\$ 34.60	\$ 42.35	\$ 50.45
2. Federal Reserve Notes Delivered (Billions)	5.8	8.4	6.6
3. Productivity Change	-1.9 %	25.5 %	-12.1 %
4. Currency Spoilage	6.2 %	7.7 %	11.0 %



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 and 2013, challenges encountered during the conversion to a new ERP system resulted 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.

Table cell intentionally left blank	<u>2011</u>	<u>2012</u>	<u>2013</u>
Number of invoices paid late	92	324	204
Interest paid	\$ 2,012	\$42,594	\$12,720
% of invoices paid late	1.47 %	6.19%	3.67%



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

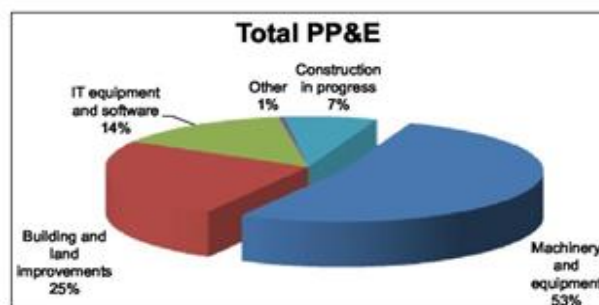
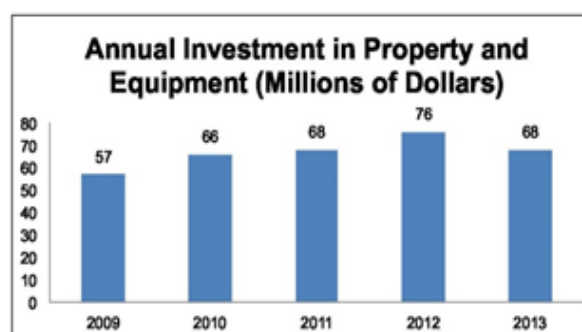
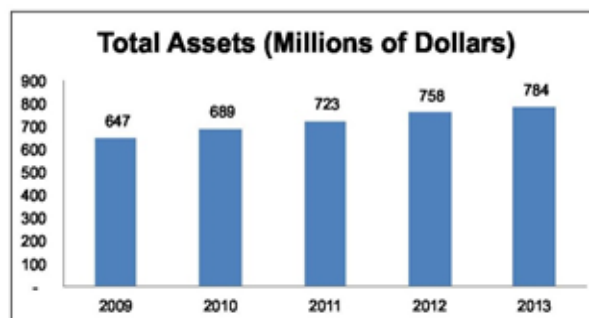
The Bureau's current cash requirements include operating expenses and capital expenditures. Cash decreased by \$29.8 million in 2013. The decrease is attributed to a reduction in the FRB order during the year and cash disbursements for capital equipment and infrastructure improvements. Additionally, the United States Federal government spending budget sequestration in 2013 resulted in automatic spending cuts to the Bureau of \$32.4 million. Cash flows provided by operations for the years ended September 30, 2013 and 2012, were \$38.2 million and \$63.5 million, respectively.

ACCOUNTS RECEIVABLE

Accounts receivable increased by \$8.9 million in 2013. This was due to the increase in the price per note and the working capital charges with the Federal Reserve Board.

INVENTORIES

Net inventories increased by \$32.7 million in 2013 due to a higher value of finished goods inventory for the new design \$100 notes. As a result of quality concerns, finished notes were held for future inspection.



PROMPT PAYMENT

Net property and equipment increased \$13.6 million in 2013 to \$430 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

Other assets increased by \$7.9 million in 2013. The increase was related to an increase in spare parts associated with the new LEPE machines.



ACCOUNTS PAYABLE

Accounts payable decreased from \$18.9 million in 2012 to \$16.2 million in 2013. The principal cause for the decrease was reduced spending on the Bureau's technology infrastructure.

ACCRUED CURRENT LIABILITIES

Accrued current liabilities decreased from \$34.7 million in 2012 to \$24.4 million in 2013 due to a decrease in the year-end payroll accrual.

ADVANCES

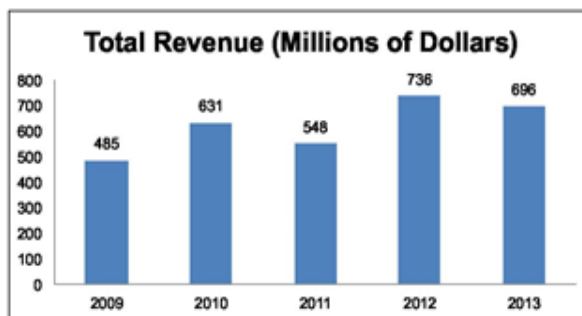
Advances consist of current liabilities with other Federal Agencies and undisbursed mutilated currency refunds. Advances increased \$7.1 million in 2013, of which \$6.6 million is attributed to undisbursed mutilated currency refunds.

WORKERS' COMPENSATION LIABILITIES

The actuarial workers' compensation liability increased \$3.3 million in 2013. 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 decreased from \$735.8 million in 2012 to \$695.5 million in 2013. This \$40.3 million decrease is attributable to a reduction in the order for old design \$100 notes by the Federal Reserve Board as the planned roll-out of the new design \$100 notes moved forward.



Average Billing Rate for Currency		
YEAR	RATE PER THOUSAND NOTES	SINGLE NOTE
2009	\$74.82	\$0.075
2010	\$96.34	\$0.096
2011	\$90.57	\$0.091
2012	\$86.22	\$0.086
2013	\$102.12	\$0.102

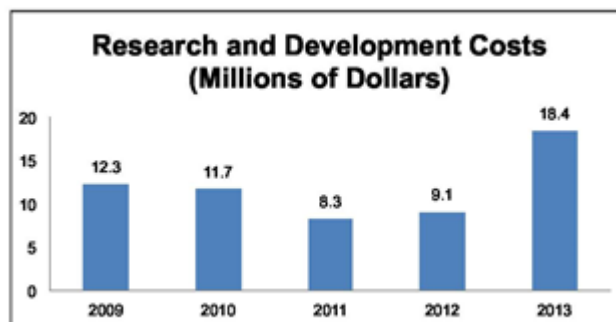


COST OF GOODS SOLD

Cost of goods sold decreased from \$564.7 million in 2012 to \$527.7 million in 2013. The \$36.9 million decrease is due to a much smaller currency order in 2013. The gross margin as a percentage of revenue increased from 23.3 percent in 2012 to 24.1 percent in 2013. The gross margin remained comparable to the prior year as the higher currency production costs were offset by corresponding billing rate increases.

OPERATING COSTS

Operating costs increased by \$21.8 million in 2013. The change can be attributed to costs incurred during production validation for the redesigned \$100 note in Washington, DC. These costs were charged to Research and Development. Additionally, depreciation on the Bureau's technology infrastructure also increased operating costs during the year.



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 2013, the Bureau of Engraving and Printing complied substantially with all laws and regulations considered material to internal control over financial reporting.



FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT PLANS AND ACCOMPLISHMENTS

The Federal Managers' Financial Integrity Act (FMFIA), which was passed in 1982, requires agencies to perform regular evaluations of internal controls and financial management systems to protect against fraud, waste, and abuse. The subsequent passage of the Chief Financial Officers Act, 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 2013, the CRTs performed 1,244 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 29th consecutive year, the Bureau has received an unqualified opinion on its financial statements from an independent, certified public accounting firm. Also, the Bureau received an unqualified opinion from the auditors on management's assertion that the Bureau maintained effective internal control over financial reporting as of September 30, 2013 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations



of the Treadway Commission (the COSO Framework) and the requirements of Appendix A of Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control." The unqualified audit opinion on the financial statements, the unqualified opinion on the internal control over financial reporting, and the FMFIA review process, ensure the integrity of the revolving fund and the reliability of financial data used for managerial decision-making.

In 2013, 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.

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.

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), an assets management module referred to as Maximo, and a data warehouse and business intelligence tool known as BEN Reporting. During 2013, the Bureau continued to expand on BEN functionality by implementing major change requests to enhance the user experience, adding new features, enhancing reporting capabilities, and developing a robust training program known as BEN University.

MSS is the Bureau's enterprise-wide financial application that uses the Oracle E-Business Suite. The system is hosted through the cloud at the Oracle Federal On-Demand (FOD) site. MSS is a fully integrated business solution that has reduced manual processes, increase efficiency, improve data quality, and provide real-time enterprise data and information for improved decision-making. As part of its commitment to ongoing monitoring of IT security controls, the BEN Program Management Office within the CIO Directorate executes quarterly Segregation of Duties analyses on all MSS system users to determine if new conflicts between permissions have been created. These ongoing assessments allow the Bureau to detect and mitigate risks associated with user permissions and controls. Also, the CIO Directorate conducts site visits at the Oracle FOD data center in Austin TX at least annually to test the effectiveness of physical, environmental and personnel security controls.

The CIO Directorate continues to improve its IT security protections used to safeguard all BEP IT hardware and software assets including systems such as MSS. In 2013, the Bureau implemented additional monitoring and detection capabilities through the use of its SIEM, or security incident and event monitoring solution. This tool which checks network traffic and provides log correlation capabilities is used by BEP security analysts to review user and system activity for suspicious or unusual behavior. Also in 2013, the Bureau worked closely with the Department of Homeland Security (DHS) National Cybersecurity Assessment & Technical Services to conduct network and system penetration testing on external and internal BEP IT systems. Internal systems tested included Maximo and MSS. The results of these tests assist BEP in making sound security and risk mitigation strategy decisions. Findings for MSS and Maximo penetration tests determined there were no Critical, High or Moderate severity vulnerabilities that could be exploited to harm these systems.



CUSTODY OF ASSETS

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



NexGen \$100 32- subject intaglio sheet.

the financial statements, appropriate custodial records and controls are maintained. Physical inventories are performed regularly to ensure accountability for these collections.

Although the Bureau does not hold title to any land or facilities, it maintains custodial control over the buildings occupied in Washington, DC and Fort Worth, Texas.

In 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 & Chief Information Officer), 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 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 2013

The Bureau of Engraving and Printing (Bureau), made a conscientious effort during fiscal year 2013 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 2013. The results of these evaluations provided reasonable assurances that the internal control (Section 2) and the financial management system (Section 4) are in overall compliance with standards prescribed by the Comptroller General of the United States and guidance issues 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, 2013.

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, 2013, 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 2013 with four (4) open audit recommendations; and the Office of Inspector General (OIG) issued seventeen (17) new ones. Those recommendations pertained to training, policy and/or procedure adherence. The Bureau implemented corrective action on seven (7) of those items during the year. The remaining fourteen (14) issues are being addressed as appropriate.





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

Financial Statements

**Years ended September 30, 2013 and 2012
(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
Suite12000
1801 K. Street, NW
Washington, DC 20006

Independent Audits' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Bureau of Engraving and Printing (the Bureau), which comprise the balance sheets as of September 30, 2013 and 2012, and the related statements of operations and cumulative results of operations, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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





Opinion on the Financial Statements

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, 2013 and 2012, and the results of its operations, and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Reporting Required by *Government Auditing Standards*

Report on Internal Control

We also have examined, in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, management's assertion that the Bureau maintained effective internal control over financial reporting as of September 30, 2013, based on the criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated January 23, 2014 expressed an unqualified opinion on management's assertion that the Bureau maintained effective internal control over financial reporting.

Report on Compliance

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2014, on our tests of the Bureau's compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. That report and the report on internal control over financial reporting are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bureau's internal control over financial reporting and compliance.

KPMG LLP

January 23, 2014



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

Balance Sheets and 2012

As of September 30, 2013 and 2012

ASSETS

	<u>2013</u> (In Thousands)	<u>2012</u> (In Thousands)
Current Assets		
Cash (Note 3)	\$ 88,218	\$ 117,993
Accounts receivable (Note 10)	63,276	54,355
Inventories, net (Note 4)	171,504	144,676
Prepaid expenses	<u>3,528</u>	<u>4,743</u>
Total current assets	326,526	321,767
Property and equipment, net (Note 5)	429,985	416,350
Other assets, net (Note 6)	<u>27,048</u>	<u>19,606</u>
Total assets	\$ <u>783,559</u>	\$ <u>757,723</u>

LIABILITIES AND EQUITY

	<u>2013</u> (In Thousands)	<u>2012</u> (In Thousands)
Liabilities		
Current liabilities (Notes 7 and 8)		
Accounts payable	\$ 16,200	\$ 18,980
Accrued liabilities	24,446	34,668
Advances	<u>12,066</u>	<u>5,011</u>
Total current liabilities	52,712	58,659
Workers' compensation liability (Note 8)	<u>66,342</u>	<u>63,039</u>
Total liabilities	<u>119,054</u>	<u>121,698</u>
Contingencies and commitments (Notes 12 and 13)		
Equity		
Invested capital	32,435	32,435
Cumulative results of operations	<u>632,070</u>	<u>603,590</u>
Total equity	<u>664,505</u>	<u>636,025</u>
Total liabilities and equity	\$ <u>783,559</u>	\$ <u>757,723</u>

See accompanying notes to the financial statements.



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

Statements of Operations and
Cumulative Results and Operations

For the Years Ended September 30, 2013 and 2012

	<u>2013</u> (In Thousands)	<u>2012</u> (In Thousands)
Revenue from sales (Note 10)	\$ 695,504	\$ 735,797
Cost of goods sold	<u>527,727</u>	<u>564,669</u>
Gross margin	<u>167,777</u>	<u>171,128</u>
Operating costs:		
General and administrative expenses	<u>120,890</u>	<u>108,326</u>
Research and development	<u>18,407</u>	<u>9,127</u>
	<u>139,297</u>	<u>117,453</u>
Excess of revenues over expenses	28,480	53,675
Cumulative results of operations at beginning of year	<u>603,590</u>	<u>549,915</u>
Cumulative results of operations at end of year	\$ <u><u>632,070</u></u>	\$ <u><u>603,590</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, 2013 and 2012

	2013 (In Thousands)	2012 (In Thousands)
Cash flows from operating activities		
Excess of revenues over expenses	\$ 28,480	\$ 53,675
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities		
Depreciation	52,876	40,812
(Gain) Loss from obsolescence	502	(175)
Loss from inventory impairment	5,829	-
Loss from disposal of property and equipment	3	-
Changes in assets and liabilities		
Increase in accounts receivable	(8,921)	(15,919)
(Increase) decrease in inventories	(32,657)	5,102
(Increase) decrease in prepaid expenses	1,215	(1,045)
Increase in other assets	(7,944)	(163)
Decrease in accounts payable	(1,343)	(14,703)
Decrease in accrued liabilities	(10,222)	(1,281)
Increase (decrease) in advances	7,055	(3,449)
Increase in workers' compensation liability	3,303	616
Net cash provided by operating activities	<u>38,176</u>	<u>63,470</u>
Cash flows from investing activities		
Purchases of property and equipment	<u>(67,951)</u>	<u>(75,655)</u>
Net cash used in investing activities	<u>(67,951)</u>	<u>(75,655)</u>
Net decrease in cash	(29,775)	(12,185)
Cash at beginning of year	<u>117,993</u>	<u>130,178</u>
Cash at end of year	\$ <u><u>88,218</u></u>	\$ <u><u>117,993</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, 2013 and 2012

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, 2013 and 2012

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 year
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.



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

Notes to the Financial Statements
September 30, 2013 and 2012

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).

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, 2013 and 2012, of 2.73% and 2.29% in year one and 3.13% and 3.14% in subsequent years. 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.

(continued)



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

Notes to the Financial Statements
September 30, 2013 and 2012

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.

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

FASB Accounting Standard Codification (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, 2013 and 2012, 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, 2013 or 2012.

3. Cash

The year-end cash balances by fund are as follows as of September 30, 2013 and 2012:

	(In Thousands) <u>2013</u>	(In Thousands) <u>2012</u>
Bureau of Engraving and Printing		
Revolving Fund	\$ 76,750	\$ 113,076
Mutilated Currency Revolving Fund	<u>11,468</u>	<u>4,917</u>
Total	<u>\$ 88,218</u>	<u>\$ 117,993</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, 2013 and 2012, respectively (See Note 7).

(continued)



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

Notes to the Financial Statements
September 30, 2013 and 2012

4. Inventories, net

Inventories consist of the following as of September 30, 2013 and 2012:

	(In Thousands) <u>2013</u>	(In Thousands) <u>2012</u>
Raw material and supplies	\$ 66,853	\$ 75,418
Work-in-process	38,457	41,736
Finished goods - currency	49,171	7,302
Finished goods - uncut currency	<u>17,023</u>	<u>20,220</u>
Total	<u>\$ 171,504</u>	<u>\$ 144,676</u>

At September 30, 2013, the Bureau has on hand approximately 349 million Next Generation \$100 notes produced in FY 2013 that have not been accepted by the Federal Reserve Board due to certain imperfections found on a small percentage of these notes. The Bureau is performing an electronic inspection of the notes to identify those that do not meet the Federal Reserve Board's quality control standards. Bureau management's estimate of the amount of spoilage in these notes is approximately \$5.8 million, or 11.9%, out of a total of approximately \$49.0 million, which is included in Cost of Goods Sold in the Statement of Operations and Cumulative Results of Operations for the year ended September 30, 2013. Accordingly, management has written off \$5.8 million for inventory spoilage as of September 30, 2013. No such allowance was required as of September 30, 2012.

5. Property and Equipment, net

Property and equipment consist of the following as of September 30, 2013 and 2012:

	(In Thousands) <u>2013</u>	(In Thousands) <u>2012</u>
Machinery and equipment	\$ 544,452	\$ 494,201
Building and land improvements	260,496	251,335
IT equipment and software	148,163	94,603
Office machines	2,786	2,791
Furniture and fixtures	1,448	1,277
Donated assets - art work	125	125
Motor vehicles	212	212
Leasehold improvements	<u>130</u>	<u>-</u>
	957,812	844,544
Less accumulated depreciation	<u>604,789</u>	<u>553,642</u>
	353,023	290,902
Construction-in-progress	<u>76,962</u>	<u>125,448</u>
Net property and equipment	<u>\$ 429,985</u>	<u>\$ 416,350</u>

Depreciation expense for the years ended September 30, 2013 and 2012 was \$52.9 million and \$40.8 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, 2013 and 2012

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, 2013 and 2012 was \$7.2 million and \$6.7 million, respectively.

7. Current Liabilities

All current liabilities are funded and consist of the following as of September 30, 2013 and 2012:

	(In Thousands)	(In Thousands)
	<u>2013</u>	<u>2012</u>
Intragovernmental	\$ 5,673	\$ 5,843
With the public	47,039	52,816
Total	<u>\$ 52,712</u>	<u>\$ 58,659</u>

Accrued current liabilities consist of the following as of September 30, 2013 and 2012:

	(In Thousands)	(In Thousands)
	<u>2013</u>	<u>2012</u>
Payroll	\$ 6,826	\$ 16,506
Annual leave	11,840	11,628
Workers' compensation	5,071	5,595
Other	709	939
Total	<u>\$ 24,446</u>	<u>\$ 34,668</u>

Advances consist of the following as of September 30, 2013 and 2012:

	(In Thousands)	(In Thousands)
	<u>2013</u>	<u>2012</u>
Other Federal Agencies	\$ 550	\$ 58
Mutilated Currency	11,468	4,917
Public sales	48	36
Total	<u>\$ 12,066</u>	<u>\$ 5,011</u>

8. Workers' Compensation Liability

Claims incurred and paid by DOL as of September 30, 2013 and 2012, but not yet reimbursed to DOL by the Bureau, are approximately \$11.6 million and \$11.8 million, of which approximately \$5.1 million and \$5.6 million represent a current liability, as of September 30, 2013 and 2012, 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 \$59.8 million and \$56.8 million as of September 30, 2013 and 2012, respectively. The Bureau's estimated, undiscounted, non-current, actuarially derived future workers' compensation liability was approximately \$85.8 million and \$81.9 million as of September 30, 2013 and 2012, respectively.

(continued)



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

Notes to the Financial Statements
September 30, 2013 and 2012

9. Employee Retirement Plans and Postretirement Benefits Other than Pensions

Employer contributions to the retirement plans were \$18.6 million and \$18.3 million for 2013 and 2012, respectively. The CSRS employer contribution rate for fiscal years 2013 and 2012 was 7.0%. The FERS agency contribution rate was 11.9% for fiscal years 2013 and 2012, 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 \$26.9 million and \$25.7 million in 2013 and 2012, respectively.

OPM paid costs totaling \$9.7 million and \$10.7 million for the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) programs in 2013 and 2012, respectively. These costs are not included in the Bureau's Statements of Operations. The Bureau paid costs totaling \$15.2 million and \$14.6 million for the FEHBP and FEGLI programs in 2013 and 2012, respectively.

10. Concentration of Revenue

The Bureau's principal customers are other federal and quasi-federal governmental organizations. During 2013 and 2012, the Bureau's sales revenue from these organizations as well as the outstanding amounts due from them as of September 30, 2013 and 2012, are reflected in the following table:

	Revenue		Accounts Receivable	
	(In Thousands)		(In Thousands)	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Federal Reserve Board:				
Currency Production	\$ 679,287	\$ 723,436	\$ 57,874	\$ 52,954
Mutilated Currency	3,029	3,277	773	804
Other Federal Agencies	<u>2,395</u>	<u>1,974</u>	<u>251</u>	<u>92</u>
	<u>684,711</u>	<u>728,687</u>	<u>58,898</u>	<u>53,850</u>
Public sales	10,793	6,809	3,784	1
Other	<u>—</u>	<u>301</u>	<u>594</u>	<u>504</u>
	<u>10,793</u>	<u>7,110</u>	<u>4,378</u>	<u>505</u>
Total	<u>\$ 695,504</u>	<u>\$ 735,797</u>	<u>\$ 63,276</u>	<u>\$ 54,355</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.

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, 2013 and 2012

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, 2013 and 2012, 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 \$3.1 million and \$3.4 million as of September 30, 2013 and 2012, 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, 2013 and 2012.

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

13. Operating Lease

Rental expense for the years ended September 30, 2013 and 2012 was \$3.0 million and \$2.5 million, respectively.

Future minimum payments under the lease as of September 30, 2013, are (in thousands):

For the years ending September 30:	Amount
2014	\$ 3,051
2015	3,064
2016	3,077
2017	3,090
2018	3,103
Thereafter	<u>10,964</u>
Total	<u>\$ 26,349</u>

14. Subsequent Events

The Bureau has evaluated subsequent events through January 23, 2014, the date that the financial statements were available to be issued. There were no material events that required additional accruals or disclosures.





DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING
WASHINGTON, D.C. 20228

Management's Report on Internal Control Over Financial Reporting

We as management of the Bureau of Engraving and Printing (Bureau) are responsible for establishing and maintaining adequate internal control over financial reporting and for our assertion on the effectiveness of internal control over financial reporting. The Bureau's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

The Bureau's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of the assets of the Bureau;
- provide reasonable assurance that our transactions are recorded as necessary to permit preparation of our financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Bureau are being made in accordance with authorizations of management of the Bureau and those charged with governance; and
- provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Bureau's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that internal controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of the Bureau's internal control over financial reporting as of September 30, 2013. In making this assessment, the Bureau used the criteria established in the *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our assessment and those criteria, we conclude that the Bureau maintained effective internal control over financial reporting as of September 30, 2013.

KPMG LLP, an independent public accounting firm, has issued their reports, included herein, on (1) our financial statements; (2) our compliance with certain provisions of laws, regulations, and contracts and other matters; and (3) our assertion on the effectiveness of internal control over financial reporting.

Larry R. Felix
Director

Leonard R. Olijar
Deputy Director

Debra H. Richardson
Chief Financial Officer

January 23, 2014





KPMG LLP
Suite12000
1801 K. Street, NW
Washington, DC 20006

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 examined management's assertion, included in the accompanying "Management's Report on Internal Control Over Financial Reporting," that the Bureau of Engraving and Printing (Bureau) maintained effective internal control over financial reporting as of September 30, 2013, based on the criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bureau's management is responsible for maintaining effective internal control over financial reporting, and for its assertion on the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on management's assertion based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our examination included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our examination also included performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with U.S. generally accepted accounting principles. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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In our opinion, management's assertion that the Bureau of Engraving and Printing maintained effective internal control over financial reporting as of September 30, 2013 is fairly stated, in all material respects, based on the criteria established in *Internal Control – Integrated Framework (1992)* issued by COSO.

In accordance with *Government Auditing Standards*, we are required to report findings of significant deficiencies. 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. We consider the deficiency in the Bureau's internal control described in Exhibit I of this report to be a significant deficiency.

The Bureau's response to the significant deficiency identified in our examination is included in Exhibit I. We did not examine the Bureau's response and, accordingly, we express no opinion on the response.

We also have audited, 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. 14-02, *Audit Requirements for Federal Financial Statements*, the balance sheets as of September 30, 2013 and 2012, and the related statements of operations and cumulative results of operations, and cash flows, of the Bureau and our report dated January 23, 2014 expressed an unmodified opinion.

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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January 23, 2014



Fiscal Year 2013 Significant Deficiency***Internal Controls Over Monthly Inventory Account Reconciliations Need Improvement***

During our fiscal year 2013 audit, we noted errors made in the September 30, 2013 reconciliations of two raw materials and two spare parts general ledger accounts, and the resolution of the differences noted in those reconciliations which resulted in raw materials inventory being overstated by \$3,083,425 and other assets – spare parts being overstated by \$1,463,655 as of September 30, 2013. The Bureau corrected the errors in the fiscal year 2013 financial statements.

Office of Management and Budget Circular No. A-123, *Management's Responsibility for Internal Control*, states "As agencies develop and execute strategies for implementing or reengineering agency programs and operations, they should design management structures that help ensure accountability for results. As part of this process, agencies and individual Federal managers must take systematic and proactive measures to develop and implement appropriate, cost-effective internal control."

The reconciliations of the raw materials and spare parts general ledger accounts were incorrectly prepared and inadequately reviewed. A misunderstanding of the sub-ledger reports utilized in the reconciliation led, in part, to the incorrect preparation of the reconciliations. In addition, reconciling items were not tied to valid source documentation and correctly substantiated.

We recommend that the Bureau ensure reconciliations are performed accurately, all reconciling items are fully substantiated, sub-ledger reports are understood and utilized correctly, and a thorough supervisory review is conducted.

Management Response:

Management concurs with the recommendations and will take the necessary steps to implement policies and procedures to ensure a proper reconciliation of inventory and related supervisory review are performed and that the appropriate reports are being used in performing the reconciliation.





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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 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. 14-02, *Audit Requirements for Federal Financial Statements*, the financial statements of the Bureau of Engraving and Printing (the Bureau), which comprise the balance sheets as of September 30, 2013 and 2012, and the related statements of operations and cumulative results of operations, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated January 23, 2014.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bureau's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. 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 disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 14-02.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the Bureau's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bureau's compliance. Accordingly, this communication is not suitable for any other purpose.

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January 23, 2014

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