



FT. WORTH, TX FACILITY EXPANSION

BUILDING FOR THE FUTURE

2019 CHIEF FINANCIAL OFFICER ANNUAL REPORT

BUREAU OF ENGRAVING AND PRINTING



U.S. DEPARTMENT OF THE TREASURY



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

Building For The Future – The Bureau of Engraving and Printing made substantial progress in 2019 toward its strategic goal of modernizing its currency production facilities. As shown on the cover, construction is underway on a major expansion of the Bureau's Western Currency Facility in Fort Worth, Texas. The expansion will add 250,000 square feet of production and support space and is expected to be complete in 2022. The expansion will provide the additional floor space to accommodate new production technology equipment that will be acquired to add the capability to produce currency with new design features in the future. Also, the Bureau received long awaited legislative authority to replace its production facility in Washington, DC with a new, more efficient facility in the Washington DC metro area. In addition, the Department of the Treasury has been authorized to enter into an agreement with the US Department of Agriculture (USDA) for the transfer of a USDA parcel of land in Beltsville, Maryland to be the site for the new facility.

These major facility investments will provide the necessary capability to continually adapt the manufacturing process to meet the production challenges of increasingly complex currency design necessary for the security of the Nation's currency supply over the long term.

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MESSAGE FROM THE DIRECTOR

Founded in 1862, the mission of the Bureau of Engraving and Printing (BEP/Bureau) is to develop and produce United States currency notes, trusted worldwide. Our financial performance in 2019 demonstrates the BEP's strong commitment to the accomplishment of our mission and accountability for our resources.

An innovative and empowered workforce is the cornerstone of our success. During 2019, the Bureau delivered 6.3 billion Federal Reserve notes with a face value of \$188 billion to the Federal Reserve Board. With the persistent engagement of our employees, this year's currency order was fulfilled on schedule and under budget, while meeting world-class standards.

During the year, BEP made great strides toward our strategic goal of modernizing our currency manufacturing capability. After more than 20 years of ongoing deliberation, I am thrilled to announce BEP obtained legislative approval for building a more efficient replacement Washington, DC production facility in the National Capital Region. Further, the Farm Bill (P.L. 115-334) included a provision authorizing the Secretary of the U.S. Department of Agriculture (USDA) to transfer a parcel of land located at USDA's Beltsville Agricultural Research Center (BARC) in Prince George's County, Maryland to the Bureau for the purpose of constructing a replacement manufacturing facility. The Bureau, working in partnership with the USDA and the U.S. Army Corps of Engineers (USACE), has begun evaluating the land to determine the feasibility and environmental impact of constructing a replacement facility on that site. This would replace the existing facility located in Washington, DC, which is more than 100 years old.

As we prepare and build for the future, leadership remains a pivotal part of our desire to remain the world's preeminent currency and securities printer. In 2019, my Deputy Directors and I filled key leadership positions within the Bureau and built a highly talented Senior Executive Team to lead BEP in meeting its present and future challenges. We also honored our rich history of exemplary leadership by hosting a BEP Director's Day at our Washington, DC facility. During this event, Bureau employees joined me and four former BEP directors (Bob Leuver, Larry Rolufs, Tom Ferguson, and Larry Felix) for a historical meet and greet. On a facility tour, the former directors witnessed how their combined visions helped shape BEP's current landscape and discussed plans for a promising future.

I also wish to express my profound gratitude to the entire BEP workforce for their exceptional service to BEP and our nation this year. In the coming year, we must remain focused on the continual pursuit of operational excellence as we produce and deliver high quality, safe, and secure U.S. currency notes for domestic and international commerce. Together we will continue to build a better BEP by focusing on our core values: performance, integrity, fairness, and respect.

MESSAGE FROM THE CFO

In January 2019, I joined the BEP as Associate Director, Chief Financial Officer (CFO). I am honored to serve as the CFO, and during my tenure, we will continue the Bureau's long-standing commitment to excellence in financial stewardship of our resources.

I am pleased to present the BEP's Chief Financial Officer Annual Report for the fiscal year (FY) ending September 30, 2019. Through the commitment of our dedicated employees, the BEP celebrates its 35th consecutive year of achieving an unmodified or "clean" audit opinion on its financial statements. Further, I am proud to report that we are one of very few entities in the federal government who engage auditors to express an opinion on internal controls. Our auditors positively confirmed that the Bureau maintained, in all material respects, effective internal control over financial reporting as of September 30, 2019, based on the criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. These findings are strong indicators of BEP's commitment to excellence and sound financial management practices.

During 2019, the Bureau delivered 6.3 billion currency notes to the Federal Reserve Board, resulting in revenue of \$802.3 million and an excess of revenue over expenses of \$109.9 million. The excess of revenue over expenses provided the necessary funding for Bureau working capital requirements and ongoing investments in the plant and equipment. The Bureau continued to realize efficiency savings that were the result of continued investment in manufacturing and support process upgrades.

As evidence of our commitment to financial accountability and business transformation, the BEP underwent a major upgrade to our Oracle Managed Cloud Services for Federal System Enterprise Applications. This undertaking allowed for improved security and enabled functionality enhancements with our entire Oracle E-Business Suite, including Manufacturing Support Suite (MSS) and BEP Reporting. MSS is the Bureau's enterprise-wide financial and manufacturing application that offers a fully integrated business solution that has reduced manual processes, increased efficiency, and improved data quality. BEP Reporting is a centralized data repository and platform that allows BEP to view its operations and make informed, transparent, and data-driven business decisions. Continual enhancements to our information technology infrastructure strengthens our ability to provide accurate and reliable financial information for sound decision-making.

In the year ahead, we will remain committed to thoughtful stewardship of the Bureau's resources. Moving forward, we plan to invest in our workforce, employ cutting-edge technologies, and modernize our facilities and production equipment to address future challenges and demands.

HIGHLIGHTS OF THE YEAR

The BEP achieved many important accomplishments this year. Our most notable achievement was receiving legislative approval for building a more efficient replacement Washington, DC production facility in the National Capital Region. In addition, the Western Currency Facility's (WCF) expansion and renovation continued to make great headway during 2019. Once completed, the WCF will be more secure and have more production and storage space, which will prove useful in fulfilling the Yearly Currency Order in the midst of the Washington, DC Facility (DCF) renovation and relocation.

Expansion and modernization of our facilities supports the goals of BEP's Strategic Plan, bolstering its commitment to producing world-class U.S. currency notes and other securities. Read more on this topic in the Facility Modernization Section of this report.

For the 35th consecutive year, the BEP is proud to receive an unmodified opinion on its financial statements and an unqualified opinion on internal controls over financial reporting. The Bureau also continued to develop strategies for meaningful access to currency for blind and visually impaired individuals, while developing innovative currency designs containing effective counterfeit deterrent security features.

The BEP is delighted to recognize the following additional highlights of the year:

Oracle Enterprise Applications Upgrade

BEP completed a large-scale upgrade of Oracle Enterprise Applications during FY 2019. The upgrade resulted in improved system performance, reduced downtime, and enhanced system security. The upgrade provides BEP with 346 available new features. BEP executed the upgrade efficiently and timely, without interruption to operations. Original plans called for 12 days of system downtime; however, by prioritizing system availability, the project team was able to reduce the system downtime from 12 days to seven days. This provided BEP with a seamless transition from the old systems to the upgraded systems. "The Oracle upgrade highlights BEP's dedication to innovation and collaboration, as the coordinated effort involved more than 150 individuals from multiple organizations," said Director Len Olijar.

Environment/Pollution Prevention Awards

In November 2019, the WCF won three awards at the City of Fort Worth Water Department's 21st Annual Environmental Excellence Awards Ceremony. The WCF accepted the Partnership Award for 10 consecutive years of 100 percent compliance with local, state, and federal pretreatment wastewater regulations and our wastewater permit. The WCF was also one of five facilities that received a "Pollution Prevention Award" for outstanding pollution prevention activities. The highlight of the ceremony was when the WCF won the "Industry of the Year" Award. This is an extremely meaningful award, as it recognizes one Fort Worth industry that has demonstrated five or more years of consistent compliance and significant pollution prevention activities.

BEP Director's Day

Director Len Olijar hosted four former BEP directors (Robert J. Leuver, 1983 -1988; Larry E. Rolufs, 1995-1997; Thomas A. Ferguson, 1988-2006; and Larry R. Felix, 2006-2015) on May 03, 2019 at the DCF. The former directors toured the facility, visited with old friends and colleagues, and witnessed the technological advances made in U.S. banknote production since their tenure. As part of the day's events, Director Olijar led the former directors on a tour of manufacturing's pre-press areas, highlighting the latest printing processes and technologies.

Following the tour, employees joined everyone for a reception where Director Olijar presented his distinguished guests with a group photo and currency set highlighting their years of BEP service. Director Olijar expressed his appreciation to the former directors for returning to the Bureau and remarked that the visit was a special day in the organization's history. In leading the unique agency, each former BEP director played an important role in shaping the innovations employed today.



Pictured left to right, BEP Director Len Olijar and former BEP Directors Robert Leuver, Larry Rolufs, Thomas Ferguson, and Larry Felix.

Testing the Future of U.S. Currency

BEP's Development Testing Division in the Office of Process Management hosted an open house to highlight the latest printing and application technology, with live demonstrations of its newest testing equipment. The Mini Orlof Test Press, the Multifarious Test Press, and the Hot Foil Die Cutting Test Press introduce new application and printing processes into future generations of currency.

Honoring Our Veterans

The Bureau hosted Veterans Appreciation Day programs at both facilities. This year's theme, "Honoring All Who Served: WWI 100 Years," honored the brave men and women who have paid the ultimate sacrifice. The DCF's program featured one of the few living survivors of the Battle of Iwo Jima.

The Bureau also welcomed WWII, Vietnam, and Korean War veterans, as well as Kansas City Southern Coffey County High School students for a special tour that highlighted BEP-produced military currency and products. The Honor Flight Network, a non-profit organization honoring America's veterans, accompanied the group. Deputy Director (CAO) Marty Greiner, BEP Veterans Committee members, and the Office of Security's Honor Guard greeted the group and welcomed them with a special flag presentation and military salute.

In addition to the tour, plate printers from BEP's Miscellaneous Products Division provided the group with an 18th-century Spider Press demonstration with one of BEP's military items. A BEP Historical Resource Center curator also explained the historical significance of BEP's military currency exhibits.



The Honor Guard presents the colors.



Miscellaneous Products Division staff providing Spider Press demonstrations.

Community Outreach

For the second year, BEP partnered with high school students from Maryland's Prince George's County Public School Academy of Engineering and Science, Project Lead the Way (PLTW) program. This program provides exposure to potential career paths by creating a specialized, engineering-focused production tour with employees from the Offices of Quality Engineering and Management, Currency Manufacturing, and Facilities Support. The PLTW program is an established, four-year, college-prep program that centers on developing and strengthening the problem-solving skills, knowledge, and experiences of students interested in pursuing careers in science, technology, engineering, and math (STEM).

The WCF Tour and Visitor Center hosted its annual Employee Craftsmanship Demonstrations, featuring an up-close view of the specialized skills employees use to produce the nation's currency. The public showcase included new activities that focused on STEM. The addition of STEM activities to the demonstrations was another avenue BEP used to educate the public and inspire students to pursue STEM fields. The STEM activities highlighted how the BEP uses laboratory testing methods, process improvement, technology, and statistical analysis to accomplish its mission. The demonstrations also showed how BEP STEM professionals work together with BEP craftspeople to produce and maintain the high quality standards of U.S. currency.



Students examine a 50-subject \$1 note currency sheet.

Bring Our Children to Work Day

BEP's annual Bring Our Children to Work Day took place on the official day of national recognition, April 25, 2019. Children gained knowledge about the historical and present-day transformations of the manufacturing processes through live demonstrations of the unique changes within currency designs as well as the innovative and distinct technical features of money. In addition to a production tour, teens could attend a career fair to help them define their career goals and discover how they fit into the working world. There were also activities to highlight the use of STEM at BEP.

Inter-Agency Partnerships

United States Secret Service (USSS)

The BEP and the USSS worked together to create an area at the DCF to house a new USSS central processing facility for all incoming counterfeit currency. The processing unit creates efficiencies that benefit the BEP, the USSS, and the Federal Reserve Board.

Internal Revenue Service (IRS)

BEP hosted its first Information Technology Vendor Outreach Session in December 2018, in partnership with the IRS. The event aligned both agencies' strategic plans by proactively building relationships with potential industry partners. The session provided an opportunity for small business vendors, specifically from IT industries, to present their companies' capabilities to BEP program managers and acquisition officers and to identify small business concerns.

U.S. Mint

October 01, 2018, marked the official transition of BEP's internet sales platform to the United States Mint's e-commerce solution. The partnership is part of the agencies' strategic alignment initiative to streamline operations and cross-promotional activities. The transition increased BEP's exposure and access to the Mint's more than 695,000 online subscribers, resulting in an increase of 616 percent in the number of orders and a 240 percent increase in sales revenue from FY 2018.

ABOUT 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 began printing currency in 1862. The Bureau operates on the 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 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 U.S. currency and many other security documents issued by the federal government in facilities located Washington, DC and Fort Worth, TX. Activities at the Bureau include engraving plates and dies; manufacturing certain inks used to print security products; purchasing materials, supplies and equipment; and, researching and developing new security features for future banknote designs. In addition, the Bureau provides technical assistance and advice to other federal agencies in the design and production of security documents, which, because of their innate value or other characteristics, require counterfeit deterrence. The Bureau also performs reviews of the Federal Reserve Bank's unfit currency operations, whereby banknotes, which are no longer fit for circulation, are taken out of circulation, destroyed, and accounted for. Additionally, BEP is responsible for the accountability and destruction of internally generated security waste products. As a service to the public, the Bureau also processes claims for the redemption of mutilated paper currency.

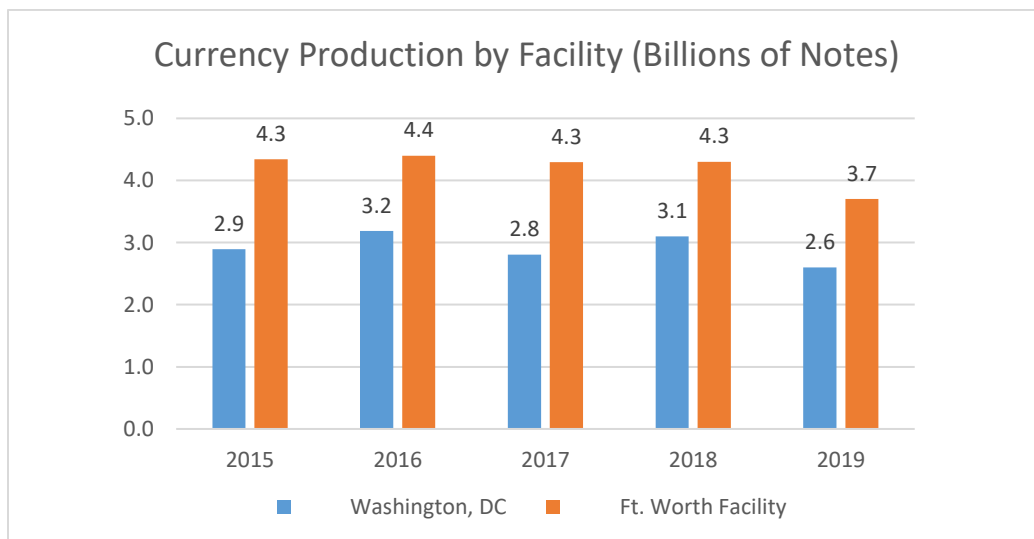
The Bureau occupies three government-owned facilities: the Main and Annex buildings in Washington, DC and the Western Currency Facility in Fort Worth, Texas. The Main Building became operational in 1914, the Annex Building in 1938, and the Western Currency Facility in 1991. The BEP constructed the WCF to increase production capacity, reduce transportation costs, streamline the manufacturing process, and enhance the nation's emergency preparedness.

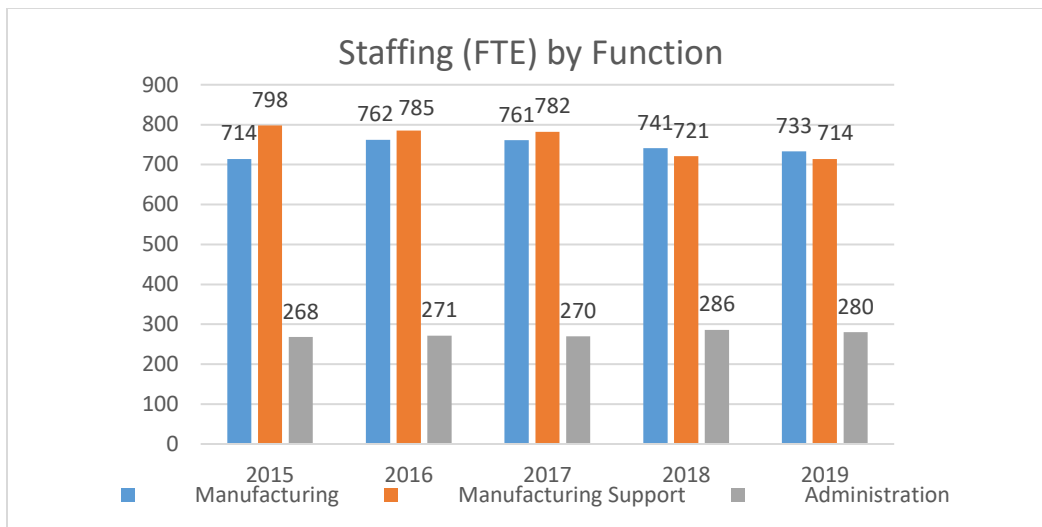
In addition to housing production facilities, free tours of currency operations are available to the public in both Washington, DC and Fort Worth. Visitor centers house currency manufacturing displays, interactive kiosks, and other information about the history of our nation's currency. The Visitor centers 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 U.S. Mint's website: [Catalog.USMint.gov/bureau-of-engraving.html](https://www.catalog.usmint.gov/bureau-of-engraving.html).

Manufacturing

During 2019, the Bureau delivered 6.3 billion Federal Reserve notes to the Federal Reserve System. The DCF and WCF delivered 2.6 billion and 3.7 billion notes, respectively. For 2020, the Federal Reserve Board has ordered 6.2 billion Federal Reserve notes.

The Bureau is committed to updating its Quality Management System (QMS) for the production of U.S. currency. The BEP QMS conforms to ISO 9001:2015, which lays out a framework for ensuring that products meet or exceed customer needs and that every process continues to improve and mature. ISO 9001:2015 includes all business processes that support currency manufacturing. That includes processes that affect people, infrastructure, and the operational environment of currency manufacturing. In 2019, the BEP developed and implemented robust training to enhance workforce familiarity with the BEP Quality Policy and QMS. The Bureau has also built a robust and sustainable Currency Quality Assurance (CQA) program. Several major continuous improvement initiatives are underway under the CQA umbrella. The Bureau's goal with the CQA program is to support a quality driven organization that will sustain quality excellence through future currency generations.





Information Technology

In 2019, the Bureau's Chief Information Officer (CIO) continued to emphasize increased security and accountability, standardization of Bureau hardware, software, and information technology-related processes; and, enhanced governance of the information technology (IT) program and resources. In IT security, 100 percent of the Bureau's major applications and general support systems received accreditation in order to meet the requirement for certification and accreditation at least every three years. Additionally, the BEP remains committed to full implementation of the National Institute of Standards and Technology's (NIST) SP800-53 and SP800-53A management, operational, and technical controls for IT systems as well as 100 percent implementation of the United States Government Configuration Baseline for Microsoft software and NIST approved configurations for other operating systems and databases.

Manufacturing Support Suite (MSS) is the Bureau's enterprise-wide financial and manufacturing application that uses the Oracle E-Business Suite. Oracle Managed Cloud Service (OMCS) hosts the cloud-based system. MSS is a fully integrated business solution that has reduced manual processes, increased efficiency, improved data quality, and provided real-time enterprise data and information for improved decision-making. As part of its commitment to ongoing monitoring of IT security controls, the system's security team within the CIO Directorate executes quarterly Separation of Duties analyses on all MSS user responsibilities 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.

During FY 2019, the CIO Directorate participated in a number of audits and reviews of financial and support IT systems, and Federal Information Security Management Act implementation. BEP continues to design and implement controls to comply with the OMB Circular A-123, Management's Responsibility for Internal Control and the Government Accountability Office's Federal Information System Controls Audit Manual audit standards, in order to support the annual audited financial statements. The CIO Directorate is an active participant in Department of the Treasury Critical Infrastructure Protection Planning efforts, including testing of Continuity of Operation Planning (COOP) responses through government and Treasury-wide exercises.

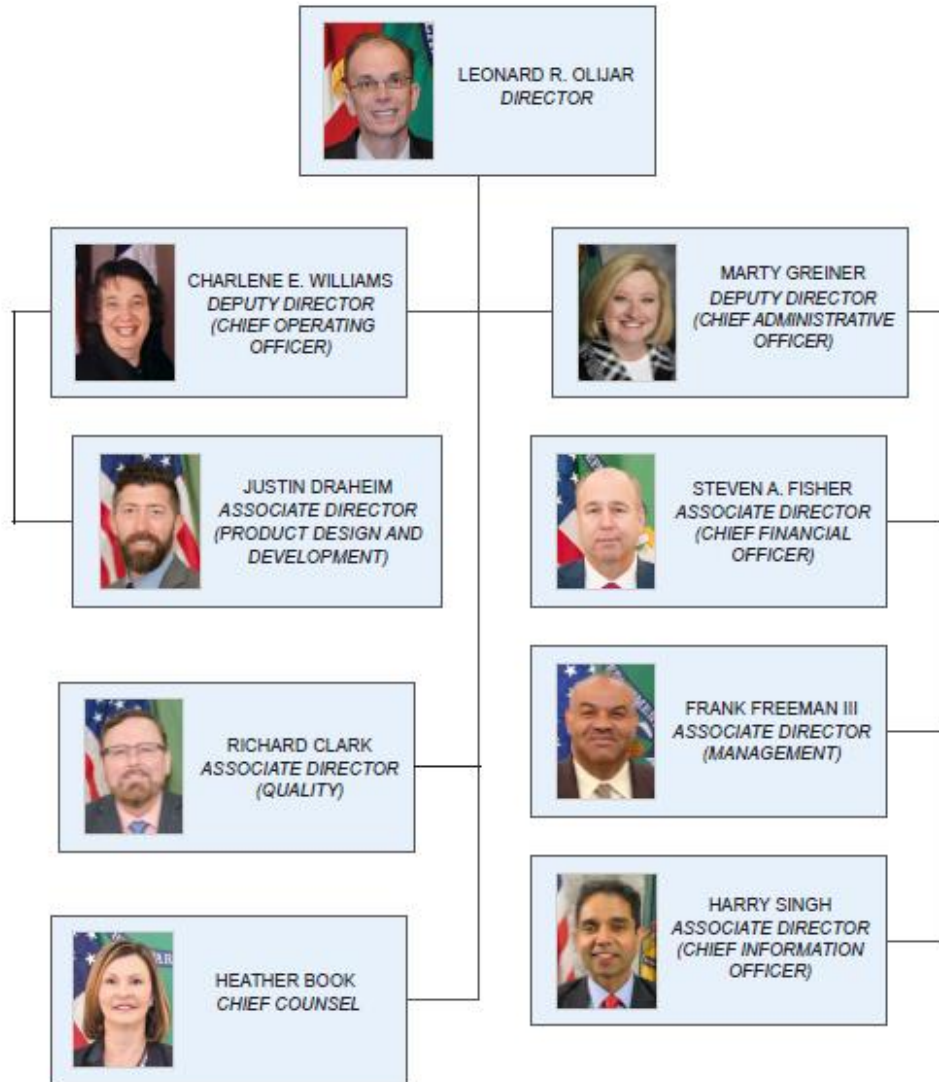
The directorate also tests and executes disaster recovery plans for the Bureau's major systems that support financial operations, such as MSS, on a biannual basis.

Before the end of FY 2019, the CIO Directorate planned and executed an assessment of IT security controls for BEP systems hosted on-site and at OMCS. These on-site assessments tested security controls across a number of IT security control families to determine if these controls were designed and are operating effectively. Testers examined artifacts and interviewed stakeholders, as well as reviewed all available system specific security documents. Evaluated security controls were determined to be operating effectively as of September 30, 2019. The CIO Directorate is issuing a report outlining any assessment findings and recommendations for use by the BEP CFO.

Organization

The following organizational chart displays the BEP's organizational structure. The Bureau's senior executive structure consists of the Bureau Director, a Deputy Director (Chief Operating Officer), a Deputy Director (Chief Administrative Officer), five Associate Directors, and the Chief Counsel. Various planning committees and subcommittees report to the Senior Executive Team. 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.

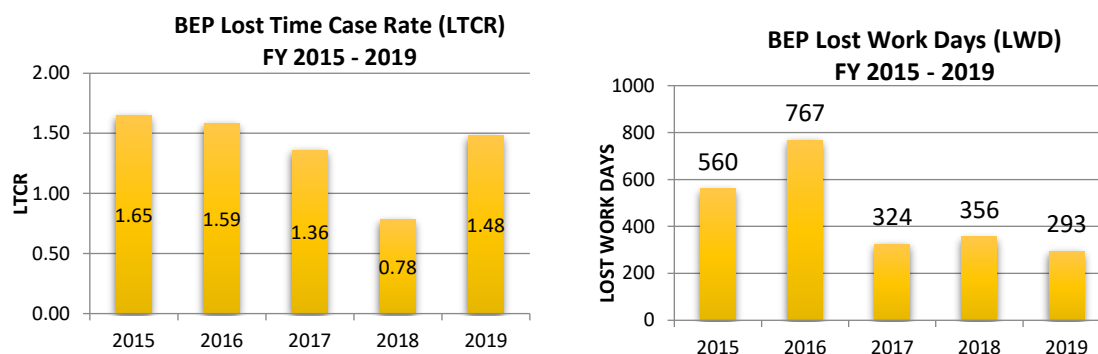
2019 Executive Organizational Structure



Safety, Health, and Environmental Management

The BEP's Office of Environment, Health, and Safety (OEHS) at the DCF and the Safety and Occupational Health Branch (SOHB) at the WCF manage programs that reduce the Bureau's environmental impact and protect workers from injuries and illnesses. The Bureau's Environmental Management System (EMS) conforms to ISO 14001:2015, an internationally recognized standard focused on managing and improving environmental, health, and safety programs. Continual improvement of the ISO 14001 environmental management system is demonstrated by the positive results of the ISO 14001 third-party audits, and long-term improvements in our key performance metrics. The Bureau's goals are to maintain a downward trend in occupational injury and illness rates and to continue to minimize the environmental impact of operations, while continuing to produce a high quality product. The BEP engages personnel at all levels and many EHS improvements have been made as a result of employee suggestions, technical work groups, and projects led by safety and environmental professionals.

BEP's key performance indicators for safety include recordable Lost Time Cases Rate (LTCR) per 100 employees and Lost Work Days (LWD) as defined by the Occupational Safety and Health Administration (OSHA). The OSHA recordable lost time case rate is calculated by multiplying the number of lost time cases by 200,000 (hours worked annually by 100 workers) divided by BEP's total number of hours worked. In FY 2019, the LTCR increased and LWD slightly decreased from the previous fiscal year.



The Bureau's LTCR in FY 2019 was 1.48 lost time cases per 100 employees. This represents a 9 percent increase over the previous four-year average. The increased rate is attributable to a rise in musculoskeletal disorders and "struck by/struck against" type of incidents. The BEP's number of lost workdays decreased 42 percent as compared to the previous four-year average. This decrease is the result of BEP's continued focus toward returning employees back to work in a light/limited duty capacity. OEHS and ESHB will continue to work to prevent injuries and illnesses through hazard anticipation, evaluation, and controls, including engineering controls and administration controls such as training, employee awareness, and job safety analyses. Employees use personal protective equipment to control hazards pending additional engineering and process changes or as a last resort when other controls do not adequately control the hazard.

During FY 2019, BEP performed health and safety risk assessments for a number of departments to proactively identify hazards and develop targeted controls. BEP also enhanced its hearing conservation program by implementing engineering controls inside production sections, installing acoustic absorptive materials and modular office components, and replacing aging equipment.

In FY 2020, BEP will strive to:

- Identify a multi-facility software solution to document and track inspection and audit findings.
- Continue to focus on hazard identification and incident prevention and enhance coordination with the Occupational Health Units (HU) to achieve comprehensive injury case management and accelerate the return of employees to work.
- Improve injury trend analysis to include incorporating case management data from workers compensation specialists in examining the severity of injury types.

Protecting the Environment

On November 6, 2019, the WCF won three honors at the City of Fort Worth Water Department's 21st Annual Environmental Excellence Awards Ceremony. The highlight of the ceremony was receiving the Industry of the Year Award. The WCF was proud to receive this award, which honors one Fort Worth industry that has demonstrated five or more years of consistent compliance and significant pollution prevention activities.

The WCF also accepted the Pollution Prevention Award and the Partnership Award. The Partnership Award recognizes an organization for 10 consecutive years of 100 percent compliance with local, state, and federal pretreatment wastewater regulations and BEP's wastewater permit. The WCF wastewater treatment plant provides chemical and mechanical treatment for wastewater generated in the plate printing and plate making areas before discharged to the City of Fort Worth.

The Pollution Prevention Award recognized the BEP for its work incorporating the Single Note Inspection (SNI) system into the manufacturing process. SNI is a system that reclaims quality notes that are not "off spec" so they are not destroyed as waste. In 2017, the WCF reclaimed 138.68 million \$100 notes and eliminated 3,507 tons of material usage. In 2018, the WCF reclaimed 17.97 million \$20 notes and 139 million \$100 notes, eliminating 3,960 tons of material usage.

In 2019, the Bureau's generation of regulated wastes were reduced by 5.3 percent from the prior year. The year-over-year reduction in the currency order influenced this outcome, as did the Bureau's efforts to reduce waste generation from its production activities. BEP expects to increase the hours of operation and efficiency of the wiping solution recycling plant at the DCF, which will reduce waste generation rates further. Process improvements that increase production efficiency, such as printing large format (50-subject) sheets on BEP's newer presses and SNI are also expected to reduce waste generation. By actively pursuing and implementing cost effective energy efficiency projects, BEP has reduced its greenhouse gas (GHG) emissions from facility energy use by 31.2 percent since FY 2008. BEP has also increased its purchases of renewable energy to 15 percent of total electricity use since that time.

The following are specific examples of projects with significant environmental benefits:

Wiping Solution Recycling Plant (WSRP)

Wastewater generated from on-site pretreatment of wiping solution is the Bureau's largest industrial waste stream. The WSRP cleans the used water-based solution for re-use on currency presses. During FY 2019, the DCF transitioned primary wiping solution production to the WSRP, and used the plant to produce primarily fresh wiping solution while completing repairs and improvements to increase system performance and reliability. The DCF resumed recycling wiping solution on a limited basis in June 2019, which reduced water consumption, wastewater discharge, and the use of process chemicals. The DCF will implement additional process improvements during FY 2020.

SNI Process

BEP implemented SNI, a process that reclaims individual notes that pass quality standards from sheets of currency that contain at least one defective note. SNI currently runs on \$1, \$20, and \$100 currency notes. In 2019, BEP reclaimed 269 million notes at the WCF and 14 million notes at the DCF. This diverted 311 tons of material from solid waste disposal. Without reclaiming these notes, BEP would have used an additional 76 tons of ink and 3.3 tons of solvent to complete its currency order, and would have generated an additional 710,000 gallons of waste water, 2.5 tons of air pollutants, and 78 tons of industrial solid wastes.

High Efficiency Lighting Systems

The DCF and WCF upgraded interior lighting by installing LED lighting throughout large areas at both facilities. LED lamps have a longer lifespan, do not generate heat from infrared radiation, and create a better light experience and work environment. They also reduce fluorescent bulb handling, breakage, hazardous waste, and disposal costs. The DCF estimates that this project will reduce lighting energy consumption by 53 percent, saving 1,960-megawatt hours a year of electricity and \$196,000 a year; WCF expected cost savings are \$68,000 a year. The DCF also received a \$75,000 rebate from the District of Columbia government for the energy efficiency improvement.

Ink Performance Improvement

BEP ink chemists reformulated a letterpress ink to improve its performance on press. By using the new ink, BEP employees do not have to stop and clean the presses as often. This reduces the use of cleaning solvents and resulting employee exposures, emissions of volatile organic compounds to air, and hazardous waste generation from BEP's letterpress printing processes. The reduction in press downtime increases process throughput, and helps BEP meet its annual order more efficiently.

Pneumatic Security Barriers

The DCF replaced security gates and bollards at all facility vehicle entrances with pneumatic systems that do not contain hydraulic fluid, eliminating a potential source of oil leaks to storm sewers. BEP also enhanced spill prevention controls within the facility.

In FY 2020, the Bureau will continue to strive to reduce its environmental impact and improve safety protocols and procedures. The DCF will focus on optimizing its operation of the WSRP.

The Bureau learned important lessons during FY 2018 and FY 2019 that it will implement to improve process reliability, quality, and recycling rates. Quality defects that occur during printing can result in the use of materials to print unfit notes, which has an environmental impact; BEP will seek to increase process efficiency and reduce spoilage through projects like SNI as well as projects to reduce ink setoff. BEP plans to implement the SNI process on additional denominations in the future.

To address higher risk processes, BEP will continue an ongoing project to reformulate its wiper roller coverings, and will evaluate alternatives to electrolytic hard chrome plating. To reduce energy consumption and GHG emissions, the DCF will re-lamp production wings with LED lighting and install high efficiency air handling units in these areas. Execution of these planned projects will facilitate continued reductions in BEP's environmental impacts and improvements in employee health and safety, in line with a long-standing commitment to proactive and responsible environmental stewardship.

STRATEGIC PLAN

The Bureau supports the Department of the Treasury's Strategic Plan by providing trusted and secure U.S. currency notes for use by the public. Implementation of BEP's five-year strategic plan (2018-2022) continues. This plan 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. The Bureau remains resolute in producing quality currency, controlling costs, being environmental stewards, and working safely as it moves towards a vision of a "world-class securities printer." To accomplish its goals, the Bureau will rely on the ingenuity, industriousness, and commitment of every employee to meet the challenges of printing currency in the 21st century. This will require the near-perfect alignment of innovative design, advanced manufacturing technology, and a highly skilled workforce.

The Bureau has three strategic goals:

- (1) **Execution** – To safely and timely deliver quality products to stakeholders in a cost-effective and environmentally responsible manner.
- (2) **Innovation** – To create innovative designs, processes, and products that exceed our stakeholders' expectations.
- (3) **Excellence** – To achieve overall excellence by balanced investment in people, processes, facilities, and technology.

These goals help support BEP's overall mission and focus on key issues that affect the organization and its employees. BEP emphasizes these goals through the following seven objectives:

Meet Customer Expectations: Consistently deliver high quality products and services that meet or exceed customer's expectations and requirements.

Improve Quality: Enhance the quality assurance system to assure efficient and effective note production, optimized production support, and administrative processes and practices.

Deliver New Features and Capabilities: Develop, implement, and deliver new and effective security features, and provide meaningful access to blind and visually impaired individuals.

Develop Next Family of Banknotes: Develop and test banknotes containing new overt and covert security features to deter counterfeiting.

Modernize Production Facilities and Equipment: Create state-of-the art manufacturing systems to support 21st century manufacturing capabilities that will allow for the continued delivery of secure and accessible currency for all.

Modernize and Protect Information Technology: Modernize and protect information technology while keeping current functionality cost-effectively operational through transitions.

Improve Organizational Efficiency, Effectiveness, and Sustainability: Enhance efficiency and effectiveness of Bureau business functions that sustain operations, in order to consistently deliver timely and high quality products and services that meet customer expectations.

Build Workforce of Today and Tomorrow: Create and sustain a high performing, results-driven workforce that consistently demonstrates high levels of teamwork, collaboration, job satisfaction, and pride in organizational, team, and individual work accomplishments.

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, while minimizing environmental impact.

FACILITY MODERNIZATION

BEP is committed to transforming its operations through major equipment investments and modernizing its facilities. In 2019, the President of the United States signed into law a provision giving the Bureau the approval to proceed with acquisition of necessary land for, and construction of, a replacement currency production facility in the National Capital Region. This new building, coupled with strategic renovations and improved utilization of existing space, will allow BEP to meet the growing demand of our global products with an unprecedented renewed commitment to quality.

DC Replacement Facility

The BEP saw significant progress in FY 2019 with respect to the Bureau's goal of replacing its aging DC production facility with a smaller, more efficient currency production facility. The Bureau entered into an inter-agency agreement with the USACE – Baltimore District to provide program, design, environmental, and construction management services for the duration of the project, as the USACE brings a wealth of experience and knowledge in the delivery of large, industrial type facilities. Through the USACE, the Bureau began significant pre-design activities associated with a potential federally owned site in Maryland, to include surveying, environmental assessment, traffic and utility studies, soil analysis, and compliance with the National Environmental Policy Act. Additionally, the Bureau and the USACE, worked steadily to scope and procure a facility design contract so engineering of the replacement facility can begin in early 2020. BEP anticipates the design process will take approximately two years to complete, allowing the Bureau to break ground on the replacement facility in 2022.

WCF Expansion Project

The WCF Expansion Project broke ground in 2019 to provide an additional 250,000 square feet of space for new equipment and processes that will enable BEP to meet future needs in currency design development and manufacturing. The \$210 million expansion will also provide improved vehicle security check areas and additional administrative spaces. The project is comprised of four major phases and is expected to be complete in 2021.

QUALITY

Currency Quality Assurance (CQA) Program

U.S. currency notes are rapidly increasing in complexity and must incorporate improved security, counterfeit deterrence, machine readability, and raised tactile functionality for blind and visually impaired individuals. The most recent \$100 note is truly a high-tech consumer good, and future generations of currency designs will need to have the same level, if not more, complexity.

Series changes, verification and validation work, and the next family of note designs required extensive support from the Quality Directorate in FY 2019. The Bureau continues to implement the CQA program designed to integrate the current ISO 9001:2015 certified QMS, new technologically advanced design features, new equipment, new processes, and ever-higher quality and environmental demands to produce trusted U.S. currency at high volume and exceptional value.

The Bureau determined that a robust CQA program is necessary to address every aspect of the U.S. currency lifecycle, from product development and acquisition of material, through process and production control, to final release and delivery. Improvements in the QMS, CQA program, and Lean Six Sigma continued to be made to ensure that notes were produced to world-class quality levels.

Quality Policy

In FY 2019, the Bureau truly lived up to its Quality Policy Statement: “Everything we do supports producing secure, high quality banknotes that meet customer requirements. We are committed to continually improving our products and processes and investing in our employees and equipment to enable that improvement.”

Priority Initiatives

The Bureau continued to deliver excellent customer value in alignment with Treasury strategic goals and objectives this year. The Bureau implemented and executed plans and initiatives to maintain the high quality of the nation’s currency, leveraged technology to more effectively support quality management systems, and engaged and developed its people to build sustainability for the future. The CQA program began a transition from a project-based program to a culture-based program of sustainable and continual improvement. CQA roadmaps for quality, operations, product development and design, and training were developed, and they will provide a path for greater quality system maturity looking to the future. Lean Six Sigma resources moved to the Quality Directorate to more strategically align with common goals and priorities. Continuing to mature the Lean Six Sigma program in FY 2020 is a key initiative.

Customer Satisfaction and Communications

BEP developed a new system to evaluate customer satisfaction in coordination with the Federal Reserve Board. Three performance success factors drive this system: on-time-in full (OTIF) deliveries, quality at expected levels, and cost at the agreed upon level. For FY 2019, the Bureau met every factor at 100 percent for every month of the year, demonstrating excellent customer satisfaction and delivery. To improve the communication of defect-related issues with the Federal Reserve Board, the BEP developed and implemented a new defect notification protocol. This new protocol has shown to be effective in improving early communication and documentation of quality-related events with the customer. Improving customer satisfaction and enhancing the communications protocol will continue in FY 2020.

Quality Assurance

In 2019, the Bureau better utilized quality assurance specialists for in-process defect detection and documentation, improved the in-process “notice of defect” systems, and improved the quality-release systems. BEP implemented these improvements in an effort to move from a legacy quality control model to a quality assurance model, seeking to reduce spoilage and defects closer to the point of occurrence. In addition to better understanding where defects occur in various processes, remediation actions are also documented and tracked for effectiveness.

Quality Management Controls

The Quality Management System Review (QMSR) provides a regular forum for the Senior Executive Team to assess the effectiveness of the ISO 9001:2015-certified QMS and to identify quality improvement activities, issues, and risks. In FY 2020, the Quality Directorate initiative to improve the QMSR will focus on sustaining the cross-functional review, decision-making, and proactive management of the QMS within the Bureau. The Quality Audit program is also a key program driving continuous improvement of the QMS and assuring conformance to the ISO 9001:2015 requirements. The Bureau's Quality Audit team performs both internal and external supplier audits helping to assure excellent quality performance.

Supplier Management

Effective supply chain management is also a part of the CQA program, assuring critical-to-quality materials and parts are available when needed. The Bureau works jointly with suppliers to lead continuous improvement projects that will enhance supplier performance. BEP made improvements to the supply chain, reducing requisition backlogs to ensure that BEP received critical-to-quality materials when needed, in order to meet customer deliveries. From a quality perspective, round robin laboratory testing with suppliers and visits to supplier sites helped build strong coalitions with a focus on quality.

Material Controls

Work in the material controls area continues to focus on raw material key characteristics, inspection of incoming materials, material traceability, final quality-release process improvement, and supply chain activities. The goal is to improve raw material performance, reduce costs, and improve material quality. BEP developed a plan for a new Material Review Board (MRB) with a focus not only on material-non-conformances, but also to additionally provide oversight to ensure the proper inspection of critical-to-quality incoming materials. BEP will implement the enhanced MRB in FY 2020.

Data Analytics

BEP continued to make great strides in FY 2019 in data analytics and statistical analysis to make sense of the increasingly vast amounts of quality-related data the Bureau produces daily. The BEP has promoted data analytics by supporting a growing data analytics community of practice and hosting a Data Analytics Day event with several well-attended breakout-training sessions. Utilizing the Bureau's Data Lake and equipping people with new training in data analysis and improved reporting, has led to an improved understanding of quality and defect issues. This work will continue into FY 2020.

Corrective and Preventive Actions

The Corrective and Preventive Action (CAPA) process provides a mechanism to identify, track, and correct the causes of non-conformances or potential non-conformances pertaining to printing U.S. currency. BEP identifies non-conformances during day-to-day operations, through customer notifications, as well as internal and external quality audits. Continual improvement of the CAPA process centers around more rigorous root-cause investigations and thorough documentation of the corrective action plans. The CAPA system has matured through the continual focus, effort, and leadership of the Quality Directorate staff. The well-defined and mature quality process has shown continuous improvement related to effective functioning of the system.

2019 Key Quality Assurance Accomplishments

The Bureau conducted audits that resulted in improved supplier processes to ensure delivery of high quality raw materials used in manufacturing U.S. currency. Supplier management as a whole continues to take on a more collaborative approach.

Quality Assurance (QA) specialists worked with the Office of Currency Manufacturing to assure product quality using a newly created QA Specialist Data Collection Tool, tracking not only defects, but also the corresponding remediation efforts to address those defects. This new tool has made in-process quality assurance work more effective.

The Bureau awarded a contract for QMS program and project management support. This contract will leverage contractor resources to improve calibration records management, Change Control Board, MRB, and QMS documentation. In FY 2019, the Bureau's calibration program smoothly transitioned to the Quality Directorate to continue to grow and develop this initiative in a centralized manner.

Both the internal quality audit and the CAPA processes have matured by using risk-based tools to determine priorities. The BEP uses performance metrics to evaluate the effectiveness of these processes and report on a routine basis at QMSR meetings.

The BEP implemented numerous improvements to the testing laboratories including acquisition of a modern scanning electron microscope and a state of the art Laboratory Information Management System (LIMS). BEP replaced obsolete instruments to improve reliability and functionality of testing methods. LIMS improved laboratory testing, including request submission, data collection, trend analysis, and reporting.

In 2019, a comparative study was performed evaluating the Bureau's laboratory capabilities compared to a new world-class currency production facility. It was determined the Bureau's lab capabilities were at least on par with new facilities, with some additional strengths and capabilities noted.

In FY 2019, the Bureau initiated a quality standards gap assessment to understand how robust the Bureau's quality standards are and to identify any gaps or weaknesses in quality standards. BEP assessed the \$20 note standards first and then work began on the \$5 note standards. Work in this area will continue in FY 2020. BEP put a plan in place to utilize a contractor to continue to support this project across all denominations.

The Bureau also successfully completed an ISO 9001:2015 surveillance audit with no instances of non-conformance and several strengths noted. An independent external \$100 DCF production readiness audit also took place showing the DCF had matured in quality and process control systems and quality management, and was effectively prepared for producing the \$100 note. Both of these independent audits illustrated the Bureau's continued focus on quality and effective quality management.

PROGRAM PERFORMANCE MEASURES

The Bureau employs program performance measures to quantify the effectiveness and efficiency of its overall organizational performance. On an annual basis, the Senior Executive Team develops standards 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 2019 are as follows:

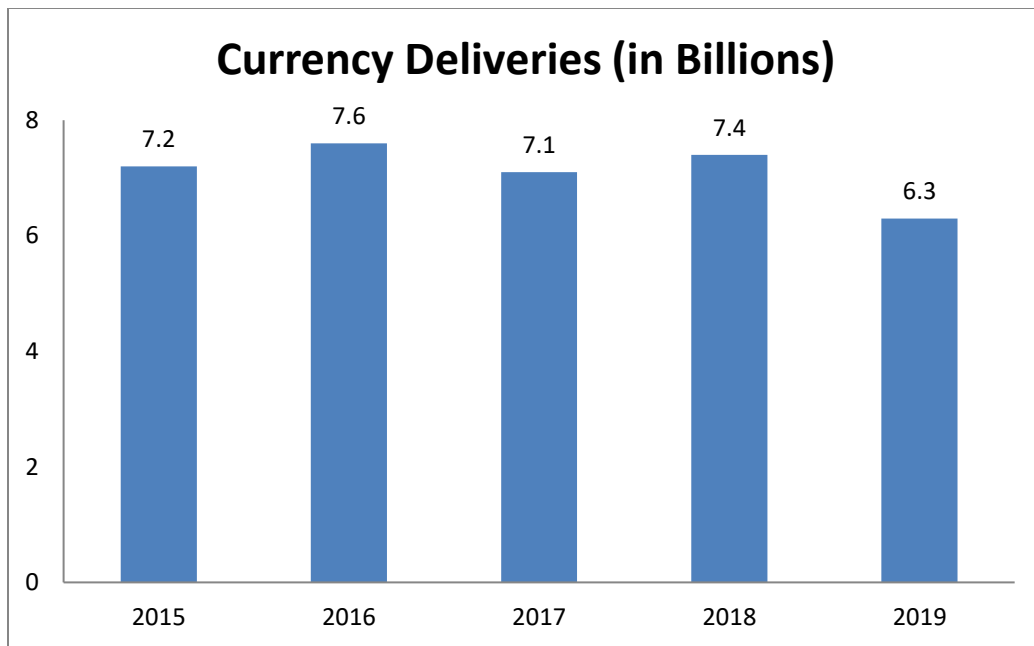
	<u>2019 Standard</u>	<u>2019 Actual</u>
1. Federal Reserve Notes (Cost per Thousand Notes)	\$ 52.85	\$ 51.01
2. Federal Reserve Notes Delivered (Billions)	6.3	6.3
3. Productivity Change 2018 to 2019	-12.4%	-13.9%
4. Currency Spoilage	6.7%	6.2%

The Bureau does not receive federal appropriations; a revolving fund finances Bureau operations 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>2019 Standard</u>	<u>2019 Actual</u>
Federal Reserve Notes	\$ 52.85	\$ 51.01

The actual production cost per thousand currency notes, which includes direct labor, materials, and applied manufacturing overhead, was below standard in 2019. This was due to material savings achieved from lower than expected spoilage.

<u>Currency Deliveries</u>	<u>2019 Standard</u>	<u>2019 Actual</u>
Federal Reserve Notes (Billions)	6.3	6.3

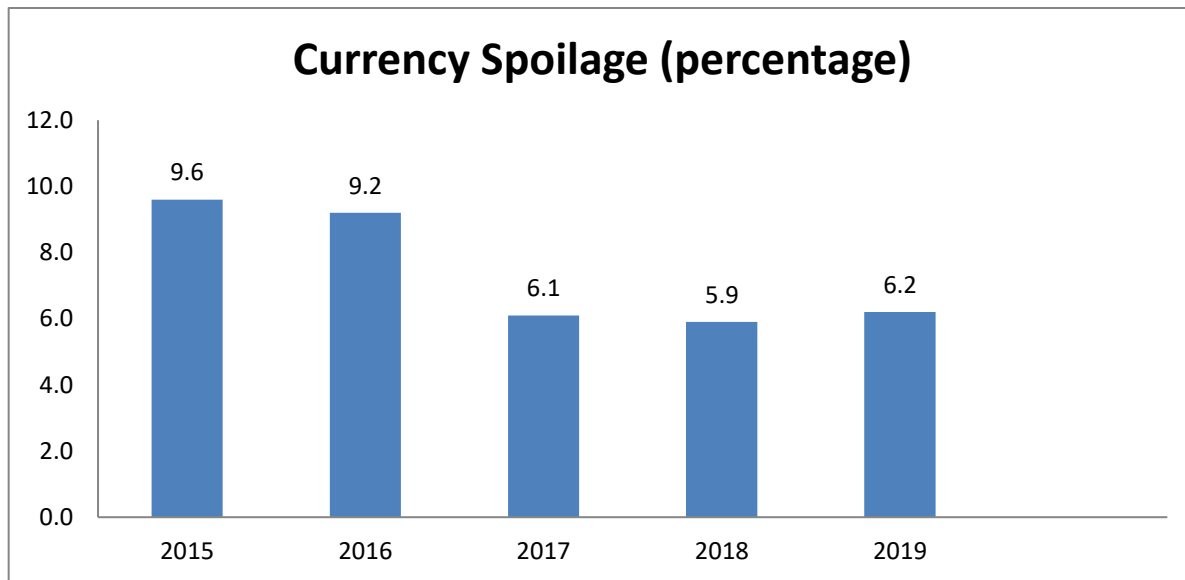


In 2019, the Bureau produced and delivered 6.3 billion Federal Reserve notes to the Federal Reserve Board. Deliveries and billings are based on orders received from the customer. The Federal Reserve Board submits their requirements for currency deliveries to the Bureau on an annual basis. For 2020, the Federal Reserve has ordered 6.2 billion notes.

	<u>2019 Standard</u>	<u>2019 Actual</u>
Productivity Change 2018 to 2019	-12.4%	-13.9%

The BEP calculates productivity based on units of output per labor hour. During 2019, the Federal Reserve Board decreased the currency order by 746 million notes. This reduction resulted in BEP's productivity decreasing by 13.9 percent.

<u>Currency Spoilage</u>	<u>2019 Standard</u>	<u>2019 Actual</u>
Federal Reserve Notes	6.7%	6.2%



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 2019, overall currency spoilage was below established standard, led by the \$100 and \$20 note reclamation process and \$1 note reclamation development. The BEP quality system continues to mature to self-sustaining status; spoilage was well below standard; and the Bureau began reclamation of \$1 notes during the year.

	<u>2017</u>	<u>2018</u>	<u>2019</u>
1. Federal Reserve Notes (Cost per Thousand Notes)	\$ 43.58	\$47.41	\$ 52.85
2. Federal Reserve Notes Delivered (Billions)	7.1	7.4	6.3
3. Productivity Change	4.0 %	-0.9 %	-13.9 %
4. Currency Spoilage	6.1 %	5.9 %	6.2 %

The chart above depicts performance measures for the period 2017-2019. The BEP develops new cost and spoilage standards annually for all product lines produced at the Bureau. Performance to standard is a meaningful performance measure only in the applicable year.

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, BEP must pay an interest penalty to the vendor. Within the Department of the Treasury, the standard for the late payment rate is that no more than 2 percent of the invoices subject to prompt payment shall be paid late (at least 98 percent paid within 30 days).

The BEP's prompt payment performance for the past three years:

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Number of invoices paid late	25	94	59
Interest paid	\$830	\$15,466	\$4,469
% of invoices paid late	0.56%	2.21%	1.42%

MANAGEMENT DISCUSSION AND ANALYSIS

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

Cash

Bureau current cash requirements include operating expenses and capital expenditures. Cash increased by \$52.9 million in 2019. The increase is attributable to fixed charges collected from the Federal Reserve Board to fund significant construction projects for the Bureau. Cash flows provided by operations for the years ended September 30, 2019 and 2018 were \$134.5 million and \$60.7 million, respectively.

Accounts Receivable

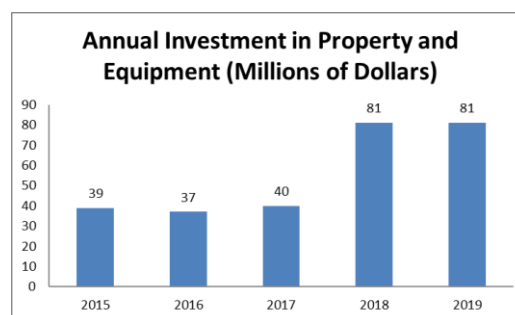
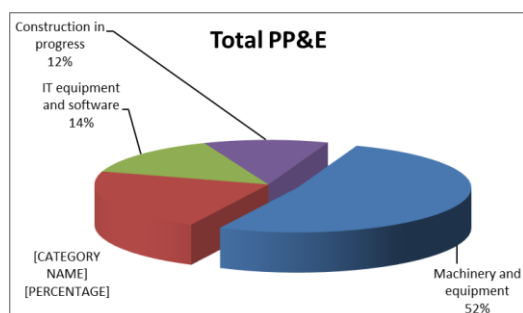
Accounts receivable decreased by \$6.4 million in 2019. This was due to a decreased amount of currency delivered to the Federal Reserve Board in the final month of the year as compared to the final month of 2018.

Inventories

Net inventories increased by \$14.1 million in 2019. The increase resulted from an increase in the Bureau's finished goods inventory in anticipation of increased demand for currency for the holiday period.

Property and Equipment

Net property and equipment increased \$39.8 million in 2019 to \$427.3 million. The increase can be attributed to investments in currency manufacturing equipment in excess of depreciation.

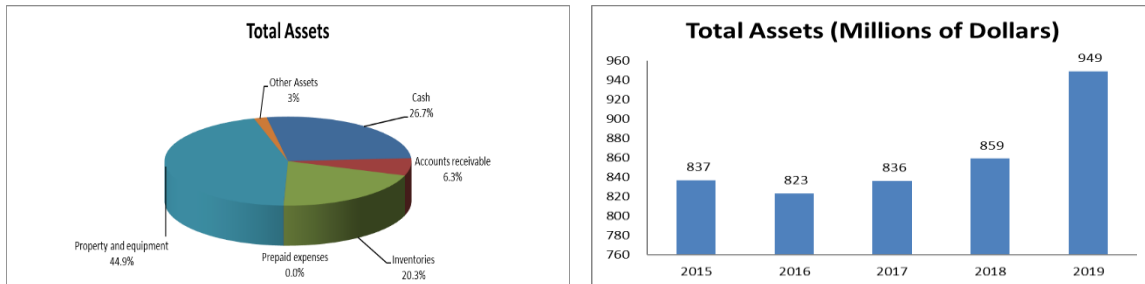


Prepaid Expenses

Prepaid expenses decreased by \$137,000 from the prior year, which includes business activity with the Library of Congress partnership for the distribution of the e-Reader program.

Other Assets

Other assets decreased by \$2.4 million in 2019. The decrease was related to the increase in the reserve for spare parts resulting from the continued aging of repair parts necessary for the servicing of currency manufacturing equipment.



Accounts Payable

Accounts payable decreased from \$27.2 million in 2018 to \$22.3 million in 2019, as a result of a decrease in outstanding invoices related to the agency's technology and equipment investments.

Accrued Current Liabilities

Accrued current liabilities increased from \$30 million in 2018 to \$30.6 million in 2019, due to an increase in the year-end payroll accrual.

Advances

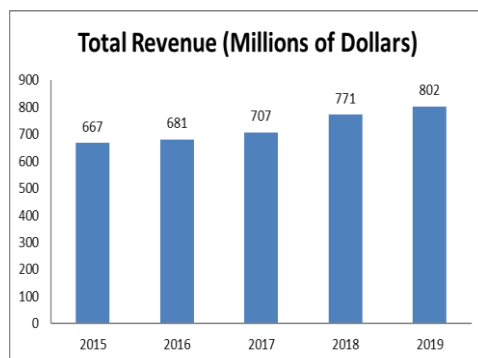
Advances decreased from \$7.7 million in 2018 to \$6.2 million in 2019, due to lower mutilated currency cases open at the end of the fiscal year.

Workers' Compensation Liabilities

The actuarial workers' compensation liability decreased from \$57.8 million in 2018 to \$52.6 million in 2019. The decrease in the actuarial liability primarily resulted from a change in the Department of Labor methodology used to determine the liability.

Revenue from Sales

Overall, revenue from sales increased from \$771.5 million in 2018 to \$802.3 million in 2019. This \$30.8 million increase is attributable to the increase in collections from the Federal Reserve Board in anticipation of increased investments in capital projects.

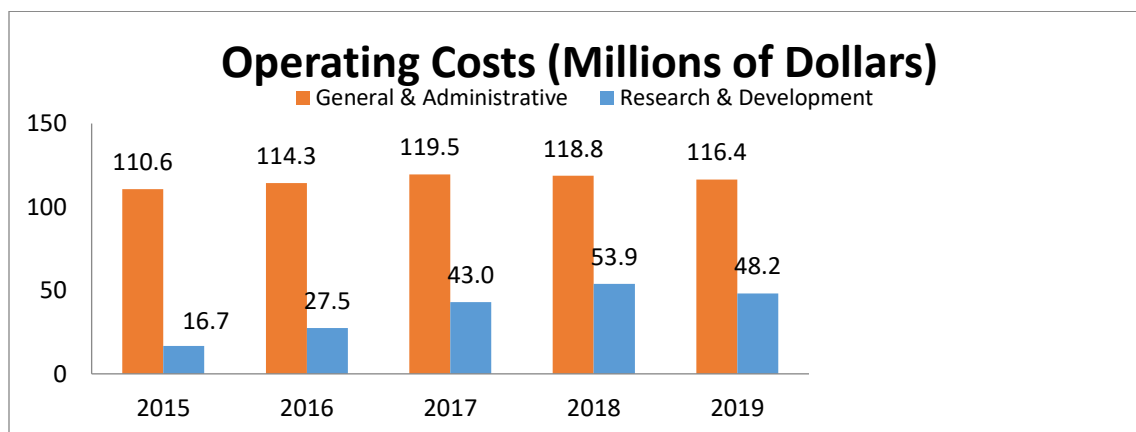


Cost of Goods Sold

Cost of goods sold decreased from \$584 million in 2018 to \$527.8 million in 2019. The \$56.2 million decrease is due to reduced deliveries of currency notes.

Operating Costs

Operating costs decreased by \$8.1 million in 2019. The change is primarily attributable to efficiency improvements realized in BEP support activities.



Legal Compliance

The BEP 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 2019, the BEP 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 passed in 1982, requires agencies to perform regular evaluations of internal controls and financial management systems to protect against waste, fraud, and abuse. The subsequent passage of the Chief Financial Officers Act, the Federal Financial Management Improvement Act (FFMIA), 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 controls, 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. Personnel knowledgeable in all aspects of the Bureau's accountability system staff the help desks. 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 conducts compliance review testing at both facilities to 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 2019, BEP performed 600 unannounced reviews and communicated results to office chiefs, supervisors, and managers responsible for enforcing policies and procedures and implementing corrective actions.

The Internal Control Awareness Program promotes 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 and the environmental management system are ISO 9001 and 14001 registered, respectively. The Bureau's ISO lead auditor-trained staff support the maintenance and continuous improvement of the Bureau's quality and environmental management systems by conducting regular audits throughout the Bureau.

The Bureau's Internal Control Policy Committee (ICPC) provides overall guidance and coordination to the internal control program. The ICPC fosters a management environment in which accountability for results and cost effective controls ensures the reliability of financial reporting, effectiveness of operations, and compliance with applicable laws and regulations. The committee is comprised of senior level executives, 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 35th consecutive year, the Bureau has received an unmodified opinion on its financial statements from an independent, certified

public accounting firm. Additionally, for the 11th consecutive year the Bureau received an unmodified opinion from the auditors on management's assertion that the Bureau maintained effective internal control over financial reporting. This was achieved 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 unmodified audit opinion on the financial statements, the unmodified 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.

CUSTODY OF ASSETS

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

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 strong controls are in place to properly safeguard these items. Also, the Bureau has display areas at each of its facilities, and maintains historical collections in Washington, DC. The displays and historical collections include valuable artifacts related to currency, as well as the former postage stamp operations and other securities produced by the Bureau. While these collections are not included in the inventory balances as reported in the financial statements, BEP maintains the appropriate custodial records and controls. BEP performs physical inventories regularly to ensure accountability for these collections.

In order to 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. The Bureau's organizational structure reflects this focus. The Office of Compliance, who has oversight responsibility with respect to internal controls, reports to the CFO. 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 for Management, plans, administers and monitors the Bureau's security programs. These programs include personnel, physical and operational security, and securities destruction. Through this structure, the BEP holds individual unit managers accountable and responsible for maintaining proper custody and safeguarding of all assets under their control. 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.

ASSURANCE STATEMENT

The BEP made a conscientious effort during 2019 to meet the internal control requirements of the FMFIA of 1982, the FFMIA of 1996, Office of Management and Budget (OMB) Circular A-123 and the Reports Consolidation Act of 2000. The Bureau, taken as a 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 FY 2019. The results of these evaluations provide reasonable assurance 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 issued by the OMB. In addition, the Bureau had no instances of material internal control weaknesses or material non-conformances as of September 30, 2019.

The Bureau evaluated its internal control over financial reporting in accordance with OMB Circular A-123 Appendix A, "Management of Reporting and Data Integrity Risk," the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 2013 "Internal Control—Integrated Framework" and the updated COSO 2017 Enterprise Risk Management—Integrated Framework." Based on the results of this evaluation, the Bureau can provide reasonable assurance that internal control over financial reporting as of September 30, 2019, 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 in a manner 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 AUDITS

The Bureau began 2019 with one open corrective action. The Office of Inspector General issued 19 new ones. These pertained to training, policy and/or procedure adherence, and internal controls. The Bureau implemented corrective action on 13 items during the year. There are seven open issues outstanding.



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.



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

Financial Statements

Years ended September 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

**THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING
FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

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

Independent Auditors' Report

The Deputy 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 and Internal Control

We have audited the accompanying financial statements of the Bureau of Engraving and Printing (Bureau), which comprise the balance sheets as of September 30, 2019 and 2018, 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. We also have audited the Bureau's internal control over financial reporting as of September 30, 2019, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's Responsibility for the Financial Statements and Internal Control over Financial Reporting

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 effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control Over Financial Reporting".

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements and an opinion on the Bureau's internal control over financial reporting based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditors' judgment, including the assessment of the risks that a material weakness exists. An audit of internal control over financial reporting also involves obtaining an understanding of internal control over financial reporting and testing and



evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

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

Definition and Inherent Limitations of Internal Control over Financial Reporting

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 assessment 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.

Opinions

Opinion on Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bureau as of September 30, 2019 and 2018, and the results of its operations, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Opinion on Internal Control over Financial Reporting

In our opinion, the Bureau maintained, in all material respects, effective internal control over financial reporting as of September 30, 2019, based on the criteria established in *Internal Control – Integrated Framework* issued by the COSO.

Other Reporting Required by Government Auditing Standards

Internal Control over Financial Reporting

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 deficiencies in the Bureau's internal control described in Exhibit I below to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bureau's financial statements as of and for the year ended September 30, 2019 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. 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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-03.

Management's Responses to Findings

Management's responses to the findings identified in our audit are described in the accompanying Exhibit I. We did not audit management's response and, accordingly, we express no opinion on the response.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the deficiencies we considered to be significant deficiencies, and the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
April 16, 2020

Exhibit 1 – Significant Deficiencies

A. Financial Reporting Controls Need Improvement

Internal controls must be designed, implemented, and operating effectively in an integrated manner to provide reliable financial statements.

During our fiscal year 2019 audit, we identified certain deficiencies in internal controls related to Committees of Sponsoring Organization (COSO) principles 10, *the organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels* and 12, *the organization deploys control activities through policies that establish what is expected and procedures that put policies into action*, which we considered collectively to be a significant deficiency under the auditing standards issued by the American Institute of Certified Public Accountants. These deficiencies are a result of weaknesses in entity level controls. Specifically, we identified the following deficiencies:

1. Reconciliations over various U.S. Standard General Ledger (USSGL) accounts were not done timely or, accurately.
2. Service provider risks were not properly addressed by effectively reviewing Service Organization control (SOC) reports.
3. Capital projects were not properly reviewed to determine the need to transfer from construction-in-progress to in-service.

COSO principle 4 requires “the organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives”; and COSO principle 5 requires “the organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives”. These deficiencies occurred because, the Bureau had staff turnover and limited staff in the Accounting Division which did not allow for providing sufficient training for individuals to accurately and timely perform account reconciliations and perform proper review over capital project and the Bureau did not have adequate processes and procedures in place to effectively enforce and monitor complementary user entity controls (CUECs) executed by the responsible parties performing the controls.

We recommend that the Bureau:

1. Ensure significant accounting policies and Standard Operating Procedures (SOPs) are formally documented, completed, updated and revised timely. SOPs should include sufficient detail to allow a new employee to understand and perform the controls.
2. Adequately train and develop personnel to ensure that the control operators have adequate knowledge and understanding of underlying transactions and are able to perform the controls effectively and timely.
3. Further develop and document the when and how the review and assessment of its SSAE 18 reports. This should include documentation requirements, risk assessment, consideration of the report opinion and implemented CUECs, consideration of subservice organizations and considerations over any unusual conclusions or information.

Management’s Response

The Bureau concurs. The Bureau has already initiated corrective actions to address each recommendation.

Exhibit 1 – Significant Deficiencies, Continued

B. Information Technology Controls Need Improvement

The Bureau did not fully implement information system control activities to achieve the objectives and respond to the risks as required by COSO principle 11, *the Organization selects and develops control activities over technology to support the achievement of objectives*. COSO principle 11 includes points of focus for management to select and develop control activities to restrict technology access rights to authorized users commensurate with their job responsibilities and to protect assets from external threats. In addition, COSO states that “information that is obtained from outsourced service providers that manage business processes on behalf of the entity, and other external parties on whom the entity depends, is subject to the same internal control expectations.”

During the FY 2019 financial statement audit, the Bureau had control deficiencies related to its general controls over relevant financial and mixed financial systems either managed by the Bureau or hosted at service organizations. The Bureau did not have fully effective access controls and segregation of duties to provide assurance that:

1. User access was reviewed for compliance with account management requirements and access to systems was protected against unauthorized modification, loss, or disclosure;
2. Separated user accounts were disabled in a timely manner, and accounts not utilized for over 120 days were disabled;
3. Responsibilities were properly segregated to prevent incompatible activities from occurring; and
4. The design and operating effectiveness of key IT controls implemented for financial and mixed financial systems at service organizations were assessed.

COSO principle 11, requires that the Bureau select and develop control activities over technology to support the achievement of objectives and to restrict technology access rights to authorized users commensurate with their job responsibilities and to protect assets from external threats. In addition, COSO states that “information that is obtained from outsourced service providers that manage business processes on behalf of the entity, and other external parties on whom the entity depends, is subject to the same internal control expectations.”

Collectively, the aforementioned IT control deficiencies increased the risk of unauthorized use, disclosure, disruption, modification, or destruction of information and information systems that could impact the integrity and reliability of information processed in the associated applications, which may lead to misstatements of the financial statements. These deficiencies occurred because, the Bureau did not:

1. Confirm that the controls were properly designed and operating effectively;
2. Identify relevant risks and implement controls to address such risks;
3. Establish clear responsibilities in its IT plans, policies, and procedures; and
4. Focus sufficient resources to perform controls for financial and mixed financial systems.

We recommend that the Bureau:

1. Perform comprehensive user account access reviews with the appropriate resources for financial and mixed financial systems hosted both at the Bureau and service organizations.
2. Implement a quality control mechanism to deactivate separated users' accounts for financial and mixed financial systems on a timely basis and disable inactive accounts after 120 days of nonuse.

Exhibit 1 – Significant Deficiencies, Continued

3. Segregate incompatible user responsibilities access for users within financial and mixed financial systems that commensurate with job responsibilities.
4. Assess the design and operating effectiveness of key IT controls implemented for financial and mixed financial systems at service organizations on at least an annual frequency.
5. Assess relevant IT risks to financial reporting on a periodic basis and determine whether existing IT controls mitigate these risks; establish clear responsibilities in its IT plans, policies, and procedures; and focus sufficient resources to perform controls for financial and mixed financial systems.

Management's Response

The Bureau concurs. The Bureau has already initiated corrective actions to address each recommendation.

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

Balance Sheets
As of September 30, 2019 and 2018

(In Thousands)

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets		
Cash (Note 3)	\$ 253,692	\$ 200,751
Accounts receivable (Note 10)	60,104	66,535
Inventories, net (Note 4)	199,831	185,723
Prepaid expenses	<u>261</u>	<u>398</u>
Total current assets	513,888	453,407
Property and equipment, net (Note 5)	427,329	387,451
Other assets, net (Note 6)	<u>16,006</u>	<u>18,404</u>
Total assets	\$ <u><u>957,223</u></u>	\$ <u><u>859,262</u></u>
LIABILITIES AND EQUITY		
Liabilities		
Current liabilities (Notes 7 and 8)		
Accounts payable	\$ 22,305	\$ 27,212
Accrued liabilities	30,636	29,968
Advances	<u>6,157</u>	<u>7,732</u>
Total current liabilities	59,098	64,912
Workers' compensation liability (Note 8)	<u>58,192</u>	<u>64,317</u>
Total liabilities	<u>117,290</u>	<u>129,229</u>
Contingencies and commitments (Notes 12 and 13)		
Equity		
Invested capital	32,435	32,435
Cumulative results of operations	<u>807,498</u>	<u>697,598</u>
Total equity	<u>839,933</u>	<u>730,033</u>
Total liabilities and equity	\$ <u><u>957,223</u></u>	\$ <u><u>859,262</u></u>

See accompanying notes to the financial statements.

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

Statements of Operations and
Cumulative Results of Operations

For the Years Ended September 30, 2019 and 2018

(In Thousands)

	<u>2019</u>	<u>2018</u>
Revenue from sales (Note 10)	\$ 802,262	\$ 771,480
Cost of goods sold	<u>527,777</u>	<u>583,949</u>
Gross margin	<u>274,485</u>	<u>187,531</u>
Operating costs:		
General and administrative expenses	116,366	118,788
Research and development	<u>48,219</u>	<u>53,879</u>
	<u>164,585</u>	<u>172,667</u>
Excess of revenues over expenses	109,900	14,864
Cumulative results of operations at beginning of year	<u>697,598</u>	<u>682,734</u>
Cumulative results of operations at end of year	<u><u>\$ 807,498</u></u>	<u><u>\$ 697,598</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, 2019 and 2018

	(In Thousands)	
	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Excess of revenues over expenses	\$ 109,900	\$ 14,864
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation	41,700	45,207
Loss from obsolescence	2,596	44
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	6,431	(27,373)
Decrease (increase) in inventories	(14,108)	17,254
Decrease in prepaid expenses	137	220
Decrease in other assets	(198)	1,325
Increase in accounts payable	(4,907)	6,621
Increase in accrued liabilities	668	578
Increase (decrease) in advances	(1,575)	1,947
Increase (decrease) in workers' compensation liability	(6,125)	15
Net cash provided by operating activities	<u>134,519</u>	<u>60,702</u>
Cash flows from investing activities		
Purchases of property and equipment	<u>(81,578)</u>	<u>(81,179)</u>
Net cash used in investing activities	<u>(81,578)</u>	<u>(81,179)</u>
Net (decrease) increase in cash	52,941	(20,477)
Cash at beginning of year	<u>200,751</u>	<u>221,228</u>
Cash at end of year	<u>\$ 253,692</u>	<u>\$ 200,751</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, 2019 and 2018

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.

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

Notes to the Financial Statements

September 30, 2019 and 2018

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.

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 valued at standard cost by denomination. 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 obsolete is 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).

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

Notes to the Financial Statements

September 30, 2019 and 2018

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

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

Other Assets

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

Employee Retirement Plans

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

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 DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING**

Notes to the Financial Statements

September 30, 2019 and 2018

The second component, the actuarial FECA liability, is the estimated liability for future benefit payments. These future workers' compensation estimates were generated by DOL 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 U.S. Department of the Treasury's Yield Curve for Treasury Nominal Coupon Issues to reflect the average duration in years for income payment and medical payments. Discount rates as of September 30, 2019 were 2.610% and 2.350% for wages and medical in year one and subsequent years, respectively. Discount rates as of September 30, 2018 were 2.716% and 2.379% for wages and medical in year one and subsequent years, respectively. The Department of the Treasury allocated the overall liability to Treasury components based on past claims paid information provided by DOL.

Annual, Sick, and Other Leave

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

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

Revenue Recognition

Revenue from sales to the Federal Reserve Board is recognized when finished goods satisfactorily pass all Bureau quality control standards and are delivered to the on-site depository vaults designated for the Federal Reserve Board and are available for immediate shipping by the Federal Reserve Board. 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.

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

Notes to the Financial Statements

September 30, 2019 and 2018

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, 2019 and 2018, 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, *Financial Instruments - Overall*, to be valued, reported, or disclosed at fair value as of September 30, 2019 or 2018.

3. Cash

The year-end cash balances by fund are as follows as of September 30, 2019 and 2018:

(In Thousands)

	2019	2018
Bureau of Engraving and Printing	\$ 247,535	\$ 193,019
Revolving Fund		
Mutilated Currency Revolving Fund	6,157	7,732
Total	<u>\$ 253,692</u>	<u>\$ 200,751</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, 2019 and 2018, respectively (See Note 7).

4. Inventories

Inventories consist of the following as of September 30, 2019 and 2018:

(In Thousands)

	2019	2018
Raw material and supplies	\$ 69,630	\$ 58,643
Work-in-process	50,196	63,613
Finished goods - currency	50,391	32,851
Finished goods - uncut currency	23,532	23,979
E-Reader inventory	6,082	6,637
Total	<u>\$ 199,831</u>	<u>\$ 185,723</u>

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

Notes to the Financial Statements

September 30, 2019 and 2018

5. Property and Equipment, net

Property and equipment consist of the following as of September 30, 2019 and 2018:

	(In Thousands)	
	<u>2019</u>	<u>2018</u>
Machinery and equipment	\$ 650,395	\$ 594,123
Building and land improvements	281,574	279,049
IT equipment and software	179,162	174,873
Office machines	1,685	1,685
Furniture and fixtures	1,339	1,339
Donated assets - art work	125	125
Motor vehicles	212	212
Leasehold improvements	230	230
	<u>1,114,722</u>	<u>1,051,636</u>
Less accumulated depreciation	<u>833,732</u>	<u>792,170</u>
	<u>280,990</u>	<u>259,466</u>
Construction-in-progress	<u>146,339</u>	<u>127,985</u>
Net property and equipment	<u>\$ 427,329</u>	<u>\$ 387,451</u>

Depreciation expense for the years ended September 30, 2019 and 2018 was \$41.7 million and \$45.2 million, respectively.

The majority of the increase in construction-in-progress from 2018 to 2019 was due to an increase in spending for progress payments of production equipment being built to meet our specification and construction/renovation projects. Equipment spending occurred primarily on the WCF Intaglio Presses, N/S LEPE, Banknote Design Test Lines (Multifarious Press and Hot Foil Press), and Offset Inspection Upgrade. The increase in spending on construction projects occurred primarily on the WCF Expansion, but included additional spending on the DCF Tour Bridge Modernization, the DCF Main Headhouse HVAC Upgrade, and the WCF Automated Lighting Control projects.

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.

6. Other Assets, net

Other assets consist principally of machine repair parts and tools. The allowance for obsolescence for these parts and tools for years ended September 30, 2019 and 2018 was \$ 16.9 million and \$14.3 million.

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

Notes to the Financial Statements

September 30, 2019 and 2018

7. Current Liabilities

All current liabilities are funded and consist of the following as of September 30, 2019 and 2018:

(In Thousands)

	2019		2018
Intragovernmental	\$ 4,779	\$	5,300
With the public	54,319		59,612
Total	<u>\$ 59,098</u>	\$	<u>64,912</u>

Accrued current liabilities consist of the following as of September 30, 2019 and 2018:

(In Thousands)

	2019		2018
Payroll	\$ 13,514	\$	12,776
Annual leave	12,432		12,187
Workers' compensation	4,233		4,612
Other	457		393
Total	<u>\$ 30,636</u>	\$	<u>29,968</u>

Advances consist of the following as of September 30, 2019 and 2018:

(In Thousands)

	2019		2018
Mutilated Currency	\$ 6,157	\$	7,732
Total	<u>\$ 6,157</u>	\$	<u>7,732</u>

8. Workers' Compensation Liability

Claims incurred and paid by DOL as of September 30, 2019 and 2018, but not yet reimbursed to DOL by the Bureau, are approximately \$9.8 million and \$10.2 million, respectively, of which approximately \$4.2 million and \$4.6 million represent a current liability, as of September 30, 2019 and 2018, 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 \$52.6 million and \$57.8 million as of September 30, 2019 and 2018, respectively. The Bureau's estimated, undiscounted, non-current, actuarially derived future workers' compensation liability was approximately \$71.0 million and \$79.2 million as of September 30, 2019 and 2018, respectively.

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

Notes to the Financial Statements

September 30, 2019 and 2018

9. Employee Retirement Plans and Postretirement Benefits Other than Pensions

Employer contributions to the retirement plans were \$23.1 million and \$22.5 million for fiscal years 2019 and 2018, respectively. The CSRS employer contribution rate for fiscal years 2019 and 2018 was 7.0%. The FERS agency contribution rate was 13.7% for fiscal years 2019 and 2018, 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 \$30.9 million and \$29.0 million in 2019 and 2018, respectively.

OPM paid costs totaling \$13.0 million and \$13.0 million for the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) programs in 2019 and 2018, respectively. These costs are not included in the Bureau's Statements of Operations. The Bureau paid costs totaling \$17.1 million for the FEHBP and FEGLI programs in 2019 and 2018, which are included in the Bureau's Statement of Operations.

10. Concentration of Revenue

The Bureau's principal customers are other federal and quasi-federal governmental organizations. During 2019 and 2018, the Bureau's sales revenue from these organizations as well as the outstanding amounts due from them as of September 30, 2019 and 2018, are reflected in the following table:

	(In Thousands)		(In Thousands)	
	Revenue		Accounts Receivable	
	2019	2018	2019	2018
Federal Reserve Board:				
Currency Production	\$ 675,893	\$ 758,763	\$ 44,356	\$ 64,342
WCF Expansion	112,500	-	12,500	-
Mutilated Currency	3,551	3,531	884	903
Meaningful Access	1,350	1,238	1,019	398
New Facility	99	23	99	-
Other Federal Agencies	2,186	2,649	220	33
	<u>795,579</u>	<u>766,204</u>	<u>59,078</u>	<u>65,676</u>
Public sales	6,490	5,275	27	-
Other	193	1	999	859
	<u>6,683</u>	<u>5,276</u>	<u>1,026</u>	<u>859</u>
Total	<u>\$ 802,262</u>	<u>\$ 771,480</u>	<u>\$ 60,104</u>	<u>\$ 66,535</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.

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

Notes to the Financial Statements

September 30, 2019 and 2018

11. Principal Suppliers

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

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. Contingencies for litigations involving the Bureau, where the risk of loss was probable do not exist as of September 30, 2019 and 2018. Contingencies, where the risk of loss is reasonably possible, are approximately \$5.5 million and \$5.5 million as of September 30, 2019 and 2018, 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, 2019 and 2018. As an interim measure, the Bureau is providing currency readers, free of charge, to eligible blind and visually impaired individuals.

The Bureau has contracted to purchase printing equipment costing approximately \$223.4 million. As of September 30, 2019, the Bureau has made cumulative payments of \$83.9 million and the remaining commitment outstanding is \$139.5 million. Delivery of the printing equipment will be determined upon successful completion of final factory inspection tests. The Bureau entered into an Inter-Agency Agreement with the United States Army Corps of Engineers for the design review, construction, and contract administration of the Western Currency Facility expansion project and a new Washington DC Currency Facility. As of September 30, 2019, the Bureau has obligated \$304.0 million for these projects and has made cumulative payments of \$35.9 million. Progress payments related to the above contracts are included in construction-in-progress within Property and Equipment on the balance sheets as of September 30, 2019.

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

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

Notes to the Financial Statements

September 30, 2019 and 2018

13. Operating Lease

Rental expense for both years ended September 30, 2019 and 2018 was \$3.1 million, respectively.

Future minimum payments under the cancelable lease as of September 30, 2019, are (in thousands):

For the years ending September 30:	<u>Amount</u>
2020	3,135
2021	3,150
2022	<u>1,591</u>
Total	<u>\$ 7,876</u>

14. Subsequent Events

The Bureau has evaluated subsequent events through April 16, 2020, 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

April 16, 2020

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

RE: Management's Report on Internal Control Over Financial Reporting

Ladies and Gentlemen:

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, 2019. In making this assessment, the Bureau used the criteria established in the *Internal Control – Integrated Framework (2013)* 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, 2019.

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.

Leonard R.
Olijar

Digitally signed by
Leonard R. Olijar
Date: 2020.04.16
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Leonard R. Olijar
Director

Steven A.
Fisher

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Steven A. Fisher
Date: 2020.04.16
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Steven A. Fisher
Associate Director
(Chief Financial Officer)