# Audit Report

OIG-21-022

**FINANCIAL MANAGEMENT**

**Audit of the Bureau of Engraving and Printing's Financial Statements for Fiscal Years 2020 and 2019**

February 12, 2021

Office of Inspector General
Department of the Treasury

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

February 12, 2021

**MEMORANDUM FOR LEONARD R. OLIJAR**
**BUREAU OF ENGRAVING AND PRINTING**

**FROM:** James Hodge /s/
Director, Financial Audit

**SUBJECT:** Audit of the Bureau of Engraving and Printing's Financial Statements for Fiscal Years 2020 and 2019

We hereby transmit the attached subject report. Under a contract monitored by our office, KPMG LLP (KPMG), a certified independent public accounting firm, audited the financial statements of the Bureau of Engraving and Printing (BEP) as of September 30, 2020 and 2019, and for the years then ended, and provided an opinion on the financial statements, an opinion on management's assertion that BEP maintained effective internal control over financial reporting, and reported on compliance with laws, regulations, and contracts tested. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements,* and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, *Financial Audit Manual.*

In its audit of BEP, KPMG found

- the financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- management's assertion that BEP maintained effective internal control over financial reporting as of September 30, 2020, was fairly stated in all material respects;
- a significant deficiency related to information technology controls; and
- no instances of reportable noncompliance with laws, regulations, and contracts tested.

KPMG also issued a management letter dated February 12, 2021, discussing matters involving deficiencies in internal control over financial reporting that were identified during the audit but were not required to be included in the auditors' reports. These matters relate to the following areas:

- journal entries;
- financial reporting;
- property, plant, and equipment; and
- inventory.

This letter will be transmitted separately.

In connection with the contract, we reviewed KPMG's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on BEP's financial statements or management's assertion on the effectiveness of internal control over financial reporting, or conclusions on compliance with laws and regulations.

KPMG is responsible for the attached auditors' report dated February 12, 2021, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

If you wish to discuss this report, please contact me at (202) 927-0009, or a member of your staff may contact Shiela Michel, Manager, Financial Audit, at (202) 927-5407.

Attachment

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

## Financial Statements

## Years ended September 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

# THE DEPARTMENT OF THE TREASURY
# BUREAU OF ENGRAVING AND PRINTING
## FINANCIAL STATEMENTS
## FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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

# Independent Auditors' Report

The Acting Inspector General, U.S. Department of the Treasury and
The Director of the Bureau of Engraving and Printing, U.S. 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 (the Bureau), which comprise the balance sheets as of September 30, 2020 and 2019, 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, 2020, 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, 2020 and 2019, and the results of its operations and its 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, 2020, based on the criteria established in *Internal Control – Integrated Framework* issued by 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 deficiency in the Bureau's internal control described in Exhibit I below to be a significant deficiency.

*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, 2020 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 financial statement. 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 Response to Findings*

Management's response to the finding identified in our audit is 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
February 12, 2021

Exhibit 1 – Significant Deficiency

**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 fiscal year 2020 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 effective controls 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 employees' and contractors' user accounts were disabled in a timely manner, and accounts not utilized for over 120 days were disabled;

3. Deficiencies in the operating effectiveness of key controls performed by service organizations were timely evaluated and mitigated.

4. The complementary user entity controls (CUEC) identified to support the operating effectiveness of controls performed by service organizations were designed and operating effectively.

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. Identify relevant risks and implement controls to address such risks;

2. Use the appropriate data in designing controls;

3. Focus sufficient resources to design and implement controls for financial and mixed financial systems;

We recommend that the Bureau:

1. Perform a robust risk assessment to identify risk related to the listing of terminated users and develop controls to address these risks, to facilitate the timely removal of terminated user accounts.

2. Complete implementation of planned remediation for the re-certification of privileged users.

3. Work with service providers to monitor the remediation of known issues impacting BEP identified in Statement on Standards for Attestation Engagements (SSAE) 18 reports.

4. Ensure compensating controls are operating at an appropriate level of precision to reduce the level of risk posed by deficiencies impacting BEP identified in SSAE 18 reports.

5. Enhance controls to ensure that CUECs are properly designed and operating effectively.

**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, 2020 and 2019

| | (In Thousands) | |
|---|---|---|
| | **2020** | **2019** |
| **ASSETS** | | |
| Current assets | | |
| Cash (Note 3) | $ 180,770 | $ 253,692 |
| Accounts receivable (Note 10) | 58,290 | 60,104 |
| Inventories (Note 4) | 191,960 | 199,831 |
| Prepaid expenses | 369 | 261 |
| Total current assets | 431,389 | 513,888 |
| Property and equipment, net (Note 5) | 540,369 | 427,329 |
| Other assets, net (Note 6) | 26,135 | 16,006 |
| Total assets | $ 997,893 | $ 957,223 |
| **LIABILITIES AND EQUITY** | | |
| Liabilities | | |
| Current liabilities (Notes 7 and 8) | | |
| Accounts payable | $ 24,156 | $ 22,305 |
| Accrued liabilities | 39,075 | 30,636 |
| Advances | 8,444 | 6,157 |
| Total current liabilities | 71,675 | 59,098 |
| Workers’ compensation liability (Note 8) | 63,282 | 58,192 |
| Total liabilities | 134,957 | 117,290 |
| Contingencies and commitments (Notes 12 and 13) | | |
| Equity | | |
| Invested capital | 32,435 | 32,435 |
| Cumulative results of operations | 830,501 | 807,498 |
| Total equity | 862,936 | 839,933 |
| Total liabilities and equity | $ 997,893 | $ 957,223 |

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, 2020 and 2019

| | (In Thousands) | |
|---|---|---|
| | **2020** | **2019** |
| Revenue from sales (Note 10) | $ 773,166 | $ 802,262 |
| Cost of goods sold | 570,603 | 527,777 |
| Gross margin | 202,563 | 274,485 |
| Operating costs: | | |
| General and administrative expenses | 128,306 | 116,366 |
| Research and development | 51,254 | 48,219 |
| | 179,560 | 164,585 |
| Excess of revenues over expenses | 23,003 | 109,900 |
| Cumulative results of operations at beginning of year | 807,498 | 697,598 |
| Cumulative results of operations at end of year | $ 830,501 | $ 807,498 |

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, 2020 and 2019

| | (In Thousands) | |
|---|---|---|
| | **2020** | **2019** |
| **Cash flows from operating activities** | | |
| Excess of revenues over expenses | $ 23,003 | $ 109,900 |
| Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities: | | |
| Depreciation | 43,687 | 41,700 |
| Loss from obsolescence | 822 | 2,596 |
| Changes in assets and liabilities | | |
| (Increase) Decrease in accounts receivable | 1,814 | 6,431 |
| (Increase) Decrease in inventories | 7,871 | (14,108) |
| (Increase) Decrease in prepaid expenses | (108) | 137 |
| (Increase) Decrease in other assets | (10,959) | (198) |
| Increase (Decrease) in accounts payable | 1,851 | (4,907) |
| Increase (Decrease) in accrued liabilities | 8,439 | 668 |
| Increase (Decrease) in advances | 2,287 | (1,575) |
| Increase (Decrease) in workers' compensation liability | 5,090 | (6,125) |
| Net cash provided by operating activities | 83,797 | 134,519 |
| **Cash flows from investing activities** | | |
| Purchases of property and equipment | (156,719) | (81,578) |
| Net cash used in investing activities | (156,719) | (81,578) |
| Net increase (decrease) in cash | (72,922) | 52,941 |
| Cash at beginning of year | 253,692 | 200,751 |
| Cash at end of year | $ 180,770 | $ 253,692 |

See accompanying notes to the financial statements.

# 1.0 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.

# 2.0 Summary of Significant Accounting Policies

## *2.1 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. Certain presentations and disclosures may be modified, if needed, to prevent the disclosure of classified information.

## *2.2 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.

### *2.3 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.

### *2.4 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.

### *2.5 Property and Equipment*

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

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

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

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

### 2.6 *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.

### 2.7 *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).

### 2.8 *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.

### 2.9 *Workers' Compensation Costs*

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

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

The second component, the actuarial FECA liability, is the estimated liability for future benefit payments. These future workers' compensation estimates were generated 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, 2020 were 2.414% and 2.303% for wages and medical in year one and subsequent years, respectively. Discount rates as of September 30, 2019 were 2.610% and 2.350% 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.

### *2.10 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.

### *2.11 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.

### *2.12 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.

### *2.13 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.

### *2.14 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, 2020 and 2019, 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, 2020 or 2019.

## 3.0 Cash

The year-end cash balances by fund are as follows as of September 30, 2020 and 2019:

| | (In Thousands) | |
|---|---|---|
| | **2020** | **2019** |
| Bureau of Engraving and Printing Revolving Fund | $ 172,327 | $ 247,535 |
| Mutilated Currency Revolving Fund | 8,443 | 6,157 |
| Total | $ 180,770 | $ 253,692 |

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, 2020 and 2019, respectively (See Note 7).

## 4.0 Inventories

Inventories consist of the following as of September 30, 2020 and 2019:

| | (In Thousands) | |
|---|---|---|
| | **2020** | **2019** |
| Raw material and supplies | $ 63,356 | $ 69,630 |
| Work-in-process | 57,148 | 50,196 |
| Finished goods - currency | 39,336 | 50,391 |
| Finished goods - uncut currency | 26,415 | 23,532 |
| E-Reader inventory | 5,705 | 6,082 |
| Total | $ 191,960 | $ 199,831 |

## 5.0 Property and Equipment, net

Property and equipment consist of the following as of September 30, 2020 and 2019:

| | (In Thousands) | |
|---|---|---|
| | **2020** | **2019** |
| Machinery and equipment | $ 702,293 | $ 650,395 |
| Building and land improvements | 306,913 | 281,574 |
| IT equipment and software | 180,397 | 179,162 |
| Office machines | 1,685 | 1,685 |
| Furniture and fixtures | 1,339 | 1,339 |
| Donated assets - art work | 125 | 125 |
| Motor vehicles | 175 | 212 |
| Leasehold improvements | 230 | 230 |
| | 1,193,157 | 1,114,722 |
| Less accumulated depreciation | 877,381 | 833,732 |
| | 315,776 | 280,990 |
| Construction-in-progress | 224,593 | 146,339 |
| Net property and equipment | $ 540,369 | $ 427,329 |

Depreciation expense for the years ended September 30, 2020 and 2019 was $43.7 million and $41.7 million, respectively.

The majority of the increase in construction-in-progress from 2019 to 2020 was due to an increase in spending for progress payments for the acquisition of new production equipment. Equipment spending occurred primarily on the WCF Intaglio Presses, $100 Finishing Line, WCF Optinota, and Offset Inspection Upgrade. The increase in spending on construction projects occurred primarily on the WCF Expansion, but also included additional spending on the DCF Production Facility Program.

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.

## 6.0 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, 2020 and 2019 was $17.8 million and $16.9 million.

## 7.0 Current Liabilities

All current liabilities are funded and consist of the following as of September 30, 2020 and 2019:

(In Thousands)

| | 2020 | 2019 |
|---|---|---|
| Intragovernmental | $ 4,974 | $ 4,779 |
| With the public | 66,701 | 54,319 |
| Total | $ 71,675 | $ 59,098 |

Accrued current liabilities consist of the following as of September 30, 2020 and 2019:

(In Thousands)

| | 2020 | 2019 |
|---|---|---|
| Payroll | $ 19,585 | $ 13,514 |
| Annual leave | 14,937 | 12,432 |
| Workers' compensation | 4,233 | 4,233 |
| Other | 320 | 457 |
| Total | $ 39,075 | $ 30,636 |

Advances consist of the following as of September 30, 2020 and 2019:

(In Thousands)

| | 2020 | 2019 |
|---|---|---|
| Mutilated Currency | $ 8,443 | $ 6,157 |
| Other | 1 | 0 |
| Total | $ 8,444 | $ 6,157 |

## 8.0 Workers' Compensation Liability

Claims incurred and paid by DOL as of September 30, 2020 and 2019, but not yet reimbursed to DOL by the Bureau, are approximately $9.7 million and $9.8 million, respectively, of which approximately $4.2 million and $4.2 million represent a current liability, as of September 30, 2020 and 2019, 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 $57.8 million and $52.6 million as of September 30, 2020 and 2019, respectively. The Bureau's estimated, undiscounted, non-current, actuarially derived future workers' compensation liability was approximately $79.1 million and $71.0 million as of September 30, 2020 and 2019, respectively.

## 9.0 Employee Retirement Plans and Postretirement Benefits Other than Pensions

Employer contributions to the retirement plans were $24.2 million and $23.1 million for fiscal years 2020 and 2019, respectively. The CSRS employer contribution rate for fiscal years 2020 and 2019 was 7.0%. The FERS agency contribution rate was 13.7% for fiscal years 2020 and 2019, 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 $32.1 million and $30.9 million in 2020 and 2019, respectively.

OPM paid costs totaling $12.9 million and $13.0 million for the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) programs in 2020 and 2019, respectively. These costs are not included in the Bureau's Statements of Operations. The Bureau paid costs totaling $17.4 million and $17.1 million for the FEHBP and FEGLI programs in 2020 and 2019, which are included in the Bureau's Statement of Operations.

## 10.0 Concentration of Revenue

The Bureau's principal customers are other federal and quasi-federal governmental organizations. During 2020 and 2019, the Bureau's sales revenue from these organizations as well as the outstanding amounts due from them as of September 30, 2020 and 2019, are reflected in the following table:

| | **Revenue** (In Thousands) | | **Accounts Receivable** (In Thousands) | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| Federal Reserve Board: | | | | |
| Currency Production | $ 724,074 | $ 675,893 | $ 55,849 | $ 44,356 |
| WCF Expansion | 37,500 | 112,500 | 0 | 12,500 |
| Mutilated Currency | 4,013 | 3,551 | 1,003 | 884 |
| Meaningful Access | 543 | 1,350 | 80 | 1,019 |
| New Facility | 988 | 99 | 1,087 | 99 |
| Other Federal Agencies | 2,349 | 2,186 | 0 | 220 |
| | 769,467 | 795,579 | 58,019 | 59,078 |
| Public sales | 3,697 | 6,490 | 0 | 27 |
| Other | 2 | 193 | 271 | 999 |
| | 3,699 | 6,683 | 271 | 1,026 |
| Total | $773,166 | $ 802,262 | $58,290 | $ 60,104 |

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

# 11.0 Principal Suppliers

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

# 12.0 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, 2020 and 2019. Contingencies, where the risk of loss is reasonably possible, are approximately $5.1 million and $5.8 million as of September 30, 2020 and 2019, 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, 2020 and 2019. 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 $281.3 million. As of September 30, 2020, the Bureau has made cumulative payments of $30.4 million and the remaining commitment outstanding is $250.9 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, 2020, the Bureau has obligated $321.0 million for these projects and has made cumulative payments of $130.0 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, 2020.

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

## 13.0 Operating Lease

Rental expense for both years ended September 30, 2020 and 2019 was $3.1 million.

Future minimum payments under the cancelable lease as of September 30, 2020, are (in thousands):

| For the years ending September 30: | Amount |
|---|---|
| 2021 | 3,150 |
| 2022 | 3,518 |
| 2023 | 3,886 |
| 2024 | 3,901 |
| 2025 | 3,916 |
| Thereafter | 5,920 |
| Total | $24,291 |

## 14.0 Subsequent Events

The Bureau has evaluated subsequent events through 2/12/21, 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

February 12, 2021

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, 2020. 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, 2020.

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: 2021.02.12 17:36:4 | Steven A. Fisher Digitally signed by Steven A. Fisher Date: 2021.02.12 11:12:0 - |
| Leonard R. Olijar<br>Director | Steven A. Fisher<br>Associate Director<br>(Chief Financial Officer) |

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