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Examination of Financial Statements Bureau of Engraving and Printing Fund for Fiscal Years 1974 and 1975 Shows Need for Statutory Authority to Increase Capitalization. FOD-76-22; B-114801. March 7, 1977. 19 pp. + 2 appendices (4 pp.).

Report to the Congress; by Robert F. Keller, Acting Comptroller General.

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Authority: 12 Stat. 532. 30 Stat. 17. 19 Stat. 353. 31 U.S.C. 66(a).

The Bureau of Engraving and Printing Fund finances the Bureau's operations and any surplus the Fund accrues during any fiscal year is paid into the Treasury's general fund as miscellaneous receipts. Agencies using the Bureau's services make payments at prices adequate to recover the cost of producing the requisitioned items. In fiscal year 1975, a surcharge was added to prices charged to customers in order to finance a machinery and equipment modernization program. Findings/Conclusions: The Bureau cannot continue to levy the surcharge without specific statutory authority. The financial statements of the Fund present fairly its financial position at June 30, 1974 and 1975, in conformity with principles and standards prescribed by the Comptroller General, with the exception that the Fund's increased capitalization is not authorized. Recommendations: The Secretary of the Treasury should obtain legislative authority for the Bureau to borrow funds from the Treasury's general fund as the optimum approach to financing capital improvements. (RRS)

REPORT TO THE CONGRESS

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

Examination Of Financial Statements Bureau Of Engraving And Printing Fund For Fiscal Years 1974 And 1975 Shows Need For Statutory Authority To Increase Capitalization

Department of the Treasury

The law establishing the Bureau's revolving fund requires that any surplus of revenue over costs be returned to the Treasury. In fiscal year 1975 the Bureau added a surcharge to the prices customer agencies paid to finance capital equipment. Without specific statutory authority to increase its capitalization, the Bureau cannot levy and retain the surcharge.

GAO recommends that the Secretary of the Treasury obtain the appropriate legislative changes to authorize the increased capitalization which has resulted from the funds accumulated by the surcharge. GAO also recommends that the Secretary obtain authority for the Bureau to borrow funds from the U.S. Treasury so that subsequent major acquisitions of equipment can be financed by borrowing rather than a surcharge.

FOD-76-22

MARCH 7, 1977

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114801

To the President of the Senate and the
Speaker of the House of Representatives

This report summarizes our examination of the financial statements of the Bureau of Engraving and Printing Fund for fiscal years 1974 and 1975.

We made our examination pursuant to the act of August 4, 1950 (31 U.S.C. 181), which established the Bureau of Engraving and Printing Fund.

We are sending copies of this report to the Director, Office of Management and Budget, and to the Secretary of the Treasury.

ACTING Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

EXAMINATION OF FINANCIAL STATEMENTS BUREAU OF ENGRAVING AND PRINTING FUND FOR FISCAL YEARS 1974 AND 1975 SHOWS NEED FOR STATUTORY AUTHORITY TO INCREASE CAPITALIZATION
Department of the Treasury

D I G E S T

The Bureau of Engraving and Printing Fund was established to finance Bureau operations which consist principally of manufacturing U.S. paper currency, various public debt instruments, postage and internal revenue stamps, food coupons, and military payment certificates. Agencies using the Bureau's services make payments at prices adequate to recover costs of producing the items requisitioned. Revenue from sales of its products in fiscal years 1974 and 1975 was about $85.9 million and $99.3 million, respectively. Net losses for fiscal years 1974 and 1975 were $150,031 and $369,631, respectively. (See p. 3.)

In 1972 the Bureau initiated a $17.5 million machinery and equipment modernization program. In fiscal years 1972 and 1973, the Congress appropriated $6 million for the program. In fiscal year 1973 the House Committee on Appropriations directed the Bureau to establish prices to cover direct and indirect costs and to accumulate sufficient funds to replace capital equipment. In response, the Bureau has added a surcharge to the prices charged customers. As of June 30, 1975, the Bureau had collected $2,128,371 through its surcharge and had entered lease-purchase agreements for 12 pieces of modern equipment. (See p. 7.)

Without specific statutory authority to increase its capitalization, the Bureau cannot legally levy and retain the surcharge. GAO recommends that the Secretary of the Treasury obtain the appropriate legislative changes to authorize the increased capitalization which has resulted from the funds accumulated by the surcharge. (See p. 10.)

The Department of the Treasury disagreed with the need for legislative change to increase capitalization primarily because it has been levying the surcharge without objection from the Congress and GAO. Although it is true that Bureau officials met with GAO in 1972 to discuss the surcharge, memorandums of that meeting by Bureau and GAO representatives present advised that such a surcharge was prohibited by the legislation governing the revolving fund. (See p. 10.)

The Bureau is paying an average annual interest rate of about 14.6 percent for 12 pieces of equipment on lease-purchase agreements. If the Bureau had had authority to borrow from the Treasury's general fund, the interest rate would have been considerably less than 14.6 percent. Therefore, GAO recommends that the Secretary of the Treasury obtain legislative authority for the Bureau to borrow funds from the Treasury's general fund as the optimum approach to financing capital improvements. (See pp. 9 and 10.)

In GAO's opinion, the financial statements of the Bureau of Engraving and Printing Fund present fairly its financial position at June 30, 1974 and 1975, and the results of its operations and changes in its financial position for the years then ended, in conformity with the principles and standards of accounting prescribed by the Comptroller General of the United States, except that the fund's increased capitalization, as discussed above, is not authorized. (See p. 12.)

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CHAPTER 1

INTRODUCTION

The Bureau of Engraving and Printing, Department of the Treasury, manufactures U.S. paper currency, various public debt instruments, postage and internal revenue stamps, food coupons, and military payment certificates. In addition, the Bureau prints commissions, certificates of awards, permits, and many other miscellaneous items. The Bureau's products are produced for Government departments and independent agencies, the Board of Governors of the Federal Reserve System, and insular possessions of the United States.

The Bureau conducts extensive research and development to improve the quality of products, reduce manufacturing costs, and strengthen deterrents to counterfeiting Government securities. It purchases equipment, materials, and supplies; manufactures ink and gum used for its products; provides maintenance service for its buildings and plant machinery and equipment; and stores and delivers its products in accordance with requirements of customer agencies. The Bureau renders additional services for other Government agencies, including (1) the operation of facilities for destroying mutilated securities and confidential papers and (2) custodial and elevator services in areas of its buildings occupied by other branches of the Department of the Treasury.

Bureau management is vested in a Director, appointed by the Secretary of the Treasury. The Director reports to the Assistant Secretary of the Treasury for Enforcement, Operations, and Tariff Affairs. Mr. James A. Conlon was appointed Director on October 9, 1967.

The basic legislation authorizing the Bureau's operation dates back to the act of July 11, 1862 (12 Stat. 532). This legislation has been supplemented by the act of March 3, 1877 (19 Stat. 353), and the act of June 4, 1897 (30 Stat. 17). The century-old Bureau has grown from a small unit of 6 persons to a large, modern industrial establishment employing over 3,000 people. The Bureau is housed in two buildings in Washington, D.C., with a combined floor space of about 25 acres, and rents 11,400 square feet of warehouse space in Lorton, Virginia.

The Bureau's principal customers are the Federal Reserve System, the Department of Agriculture, the U.S. Postal Service, and the Internal Revenue Service.

BUREAU ACCOUNTING SYSTEM

The Accounting and Auditing Act of 1950, 31 U.S.C. 66(a) (1970), places responsibility for establishing and maintaining adequate systems of accounting and internal control with the head of each executive agency. These systems are required to meet the accounting principles, standards, and related requirements prescribed by the Comptroller General.

The act also requires that the Comptroller General approve accounting systems when they are deemed adequate and conform to prescribed principles, standards, and related requirements. The Bureau's accounting systems were approved by the Comptroller General on July 9, 1952.

CHAPTER 2

OPERATIONS

The Bureau's operations are financed by a revolving fund--the Bureau of Engraving and Printing Fund. Agencies using the Bureau's services pay prices deemed by the Secretary of the Treasury to be adequate to recover the Bureau's costs of producing the items. Any surplus the fund accrues in any fiscal year is paid into the Treasury's general fund as miscellaneous receipts, except that any surplus may be applied first to offset any accumulated deficit from prior years' operations.

The Bureau reported that it delivered the following finished goods to its customers in fiscal years 1974 and 1975.

	Number of pieces		Face value
	1974	1975	1975
Currency	2,324,000,048	2,823,840,776	$ 22,041,440,000
Bonds, notes, bills, certificates, and debentures	5,868,097	4,958,357	$178,632,475,000
Stamps	40,209,216,683	34,185,724,872	$ 12,330,618,894
Miscellaneous	7,819,258	7,968,202	-

In fiscal years 1974 and 1975, revenue from the sales of products was $85,869,069 and $99,367,009, respectively. The Bureau reported net losses in both fiscal years--$150,031 in 1974 and $369,631 in 1975. The Bureau periodically reviews the costs of producing its products and adjusts selling prices accordingly.

PROCUREMENT OF CURRENCY PAPER

For printing U.S. currency the Bureau uses paper manufactured to conform to rigid specifications prescribed by the Secretary of the Treasury. The paper's distinctive feature is that small segments of colored fiber are incorporated while the paper is being manufactured.

For the past 37 years, only one supplier has responded to invitations for bids issued under formal advertising procedures for the Bureau's requirements for currency paper. Our report on "Examination of the Bureau of Engraving and Printing Fund, Fiscal Years 1970 and 1971,"(B-114801, May 17, 1972), pointed out the absence of adequate and effective competition in procuring currency paper. The Bureau adopted our suggestion that future contracts be negotiated on the basis of the supplier's cost data--certified cost or pricing data in accordance with the provisions of the Federal Procurement Regulations (41 CFR 1-3.807-3 and 1-3.807.4 1976).

On August 13, 1973, the Bureau awarded a $9 million fixed-price-with-escalation contract, which was negotiated on the basis of cost data, to its long-term supplier for furnishing currency paper during fiscal years 1974 and 1975. This contract was for an estimated 13.3 million pounds of currency paper at 67.1 cents a pound, an increase of 2.9 cents a pound over the prior contract price. The contract contains an option for extension through fiscal years 1976 and 1977, which was exercised in June 1975.

The contract's standard price adjustment clause provides that the price for currency paper can be increased or decreased proportionately with increases or decreases in the supplier's cost.

Price increases on the contract were as follows:

Date	Price per pound
Aug. 13, 1973	67.1
June 25, 1974	87.0
Dec. 3, 1974	89.1
June 18, 1975	94.2

The large increase from August 1973 to June 1974 was primarily due to an average increase in raw materials of 15 percent, a 12-percent increase in labor, and a 5-percent increase in overhead rates due to smaller quantities produced.

To effectively exercise its rights and safeguards under the contract, the Bureau established procedures for reviewing the data used in negotiating the contract price and for auditing periodically the cost records at the contractor's plant. As of January 1977 the Bureau's internal auditor had completed two audits of the contractor's cost records.

DATA PROCESSING PLANS

Currently, the Bureau's reporting systems and procedures are primarily manual. However, in 1972 the Bureau initiated a program for developing and implementing a computer-based management information system designed to provide and integrate information on its manufacturing and financial activities. As the initial step, in November 1975 the Bureau converted its payroll and personnel processing from punched card equipment to computer processing. The Bureau is using a payroll and personnel system the Department of the Interior developed.

To further improve its data processing capabilities, the Bureau plans to

--reorganize its Tabulation Machine Section into a Data Processing Division;

--train personnel in the use of more modern data processing equipment for data entry and computer time sharing;

--initiate a pilot project for improved data entry systems; and

--develop computer systems for inventory control, manufacturing, and financial accounting.

FOOD COUPON PRODUCTION

In fiscal year 1961 the Bureau began printing food coupons for the Food Stamp Program administered by the Food Nutrition Service of the Department of Agriculture. Since 1961 food coupon printing has increased from 7.9 million coupons to a record high in fiscal year 1975 of over 3 billion coupons.

Because of increasing demands on equipment, space, and manpower, the Bureau awarded a contract to a private company on November 2, 1971, for production of about half the annual food coupon requirement. This action was helpful in reducing excessive overtime and eased the existing equipment and space constraints.

For fiscal year 1974 the Office of Management and Budget (OMB) reduced the Bureau's proposed personnel ceiling and directed the Bureau to contract out to private industry the entire food coupon production. After OMB's action, the Bureau received downward revisions in several work requirements. Because of these revised requirements, the Bureau requested and received OMB approval to continue producing about 20 percent of the food coupons needed during fiscal year 1974.

During fiscal year 1975 the Department of Agriculture initiated a new series of food coupons for issue on March 1, 1975. Since the private companies were unable to provide all the coupons needed by the changeover date, the Bureau continued producing the old series.

During March the Department of Agriculture requested the Bureau to assist in producing the new series since private companies could not meet the escalated program requirements. Therefore, the Bureau continued to produce food coupons through fiscal year 1975.

A comparison of Bureau and industry volumes and costs for food coupon production follows:

		Bureau			Private firms	
Fiscal year	Total deliveries (billions)	Coupons delivered (millions)	Percent of product	Cost	Coupons delivered (millions)	Cost
1972	1.87	1,439	77	$8,854,410	426	$ 2,879,456
1973	1.89	957	51	7,080,088	935	6,410,528
1974	2.53	443	18	3,986,180	2,092	17,179,964
1975	3.15	437	14	5,084,723	2,715	27,536,025

OMB granted the Bureau permission to produce all $2 food coupon books in fiscal year 1976, because the Bureau could produce the books cheaper than the private sector.

CHAPTER 3

MACHINERY AND EQUIPMENT MODERNIZATION PROGRAM

On the basis of its analysis of immediate and predictable needs, the Bureau initiated a program in 1972 for the accelerated acquisition of modern machinery and equipment. The purposes of the program are to (1) maintain the Bureau's productive capacity at a rate consistent with the growth of work programs, (2) further improve its operations, and (3) mechanize some of the more costly manual processing operations.

About $17.5 million will be required to implement this program. The cost of this specialized machinery and equipment, however, will substantially exceed funds normally available to the Bureau. Consequently, for fiscal year 1972 the Bureau received an appropriation of $3 million to initiate the modernization program.

For fiscal year 1973 the Bureau requested an additional $6 million to continue the program; however, the Congress limited the appropriation to $3 million. In recommending a $3 million appropriation, the House Committee on Appropriations also directed the Treasury and the Bureau to review pricing policies for services with the view towards establishing prices which will generate sufficient funds, at least over the relatively long range, to cover direct and indirect operating costs as well as accumulate an adequate reserve for replacing capital equipment.

In response to the objective set forth by the Committee's report, the Bureau added a surcharge to prices charged customers beginning in fiscal year 1975. The surcharge rate is computed by dividing the amount of funds needed for equipment modernization by either the expected revenues for sales or the expected units of sales. The rate for each product is then applied to actual amounts billed or units delivered. Amounts collected from the surcharge are used to finance machinery and equipment. As of June 30, 1975, the Bureau had collected $2,128,371 through its surcharge and had entered lease-purchase agreements for 12 pieces of modern equipment.

STATUTORY AUTHORITY NEEDED TO INCREASE BUREAU FUND

Although the Committee's direction to the Bureau was in agreement with the purpose of the revolving fund--to put the Bureau on a more self-sustaining basis--the Bureau cannot legally levy and retain the surcharge without specific statutory authority.

The act of August 4, 1950 (31 U.S.C. §181-181e (1970)), which established the Bureau's revolving fund, provides that agencies shall pay for services

> "* * * at prices deemed by the Secretary of the Treasury * * * to be adequate to recover the amount of direct and indirect costs of the Bureau, including its administrative expenses, incidental to performing the work or services requisitioned." (31 U.S.C. §181 (1970)).

The revolving fund was established to be available without fiscal year limitation for financing all costs and expenses of operating and maintaining the Bureau.

Since replacement costs of capitalized assets are "costs and expenses" of operation, the Bureau is required to

> "make provision for replacement of capitalized equipment and other fixed assets through the maintenance of adequate depreciation reserves <u>based on original cost or on appraised values</u> * * *." (31 U.S.C. §181c (1970)) (emphasis supplied.)

Any surplus the fund accrues in any fiscal year must be paid into the general fund of the Treasury, provided that any surplus may be applied first to restore any impairment of the capital of the fund.

The report accompanying the bill (S. 3653) enacting the 1950 act, stated that:

> "* * * since the Bureau would be authorized to recover all of its costs of operation, the capital of the fund should be maintained at this original level unless additional capital were provided by appropriations. The need for such additional capital, however, is not contemplated on the basis of existing operations and conditions." (S. Rept. 1932, 81st Cong., 2d S.3 (1950).)

The above legislation and accompanying report indicates that the Congress intended for the Bureau to request appropriations if additional capital were needed. We recognize that the position of the Committee on Appropriations may comport with the purpose of the revolving fund legislation--to put the Bureau on a more self-sustaining basis. However, authorization for the Bureau's surcharge would require amendment of the existing statute.

ALTERNATIVE METHODS OF FINANCING SHOULD BE EXPLORED

Recognizing that cash accumulation produced by a reasonable surcharge would take too long to provide sufficient funds to meet current machinery and equipment needs, the Bureau is using lease-purchase agreements which permit the acquisition of items as funds become available. It expects that the annual savings through using modern machinery will initially offset and eventually exceed lease payments.

The annual payments for the 12 pieces of equipment are shown in the following table.

	Down payment	Annual payment: 1st year	2nd year	3rd year	4th year	5th year	Total
Six Currency Overprinting and Processing Machines leased from MGD Graphic Systems Division, Rockwell International	$700,000	$1,629,504	$1,486,008	$ 870,048	$ [illegible]7,968	$ 649,224	$ 6,122,752
Two Intaglio Currency Presses leased from MGD Graphic Systems Division, Rockwell International	-	517,632	476,856	436,080	395,280	354,504	2,180,352
Four Intaglio Currency Presses leased from American Banknote Co.	-	3,104,000	1,034,000	518,000	258,000	258,000	5,172,000
Total	$700,000	$5,251,136	$2,996,864	$1,824,128	$1,441,248	$1,261,728	$13,475,104

The purchase price of this equipment would have been $10,244.000. Therefore, the Bureau is paying an average annual interest rate of about 14.6 percent.

We believe that less costly alternatives may be available for financing capital improvements. If the Bureau had had authority to borrow from the Treasury's general fund, the interest rate would have been considerably less than the 14.6 percent paid. Not only would it have been less expensive but also the Bureau may not have had to levy the surcharge or use lease-purchase arrangements, both of which have caused considerable administrative problems. For example, devising formulas for assessing the surchage by product and accounting for its receipt and disbursement are complicated and time-consuming and no doubt will eventually necessitate additional controls to assure that inequities do not result from the way the surcharge is levied and spent.

CONCLUSIONS

Although the Bureau was acting in response to direction from the House Committee on Appropriations, it cannot legally levy and retain the surcharge without specific statutory authority. Accordingly, we believe the Bureau should seek a legislative amendment to authorize the increased capitalization of the fund. We believe also that, in the future, as an alternative to the surcharge and lease-purchase agreements, the Bureau should obtain long-term borrowing authority to finance major equipment acquisitions. This would reduce financing costs and simplify administrative procedures.

The Department disagreed with the need for legislative change to increase capitalization primarily because it has been levying the surcharge without objection. (See app. I.) Although it is true that Bureau officials met with us in 1972 to discuss the surcharge, memorandums of that meeting by the Bureau and our representatives present advised that such a surcharge was prohibited by the legislation governing the revolving fund and that the report of the Appropriations Committee did not amend the original legislation in this regard. Our participants stated that in view of the circumstances, we probably would not take issue with the surcharge approach. However, we suggested that the Bureau seek an amendment to the revolving fund legislation and that it also discuss with the Committee the apparent conflict between the legislation and the Committee's instructions.

The Bureau did not pursue amending the law and, consistent with our previous position, we believe that an amendment is required.

RECOMMENDATIONS

We recommend that the Secretary of the Treasury obtain the appropriate legislative changes to authorize the increased capitalization which has resulted from the funds accumulated by the surcharge. We further recommend that the Secretary obtain legislative authority for the Bureau to borrow funds from the Treasury so that subsequent major acquisitions of machinery and equipment can be financed by borrowing rather than by adding a surcharge.

The Treasury did not comment on our recommendation that the Bureau seek legislative authority to borrow funds from the Treasury. However, in several meetings with Bureau officials, they have indicated agreement with our suggestion.

CHAPTER 4

INTERNAL AUDIT

The objective of the Bureau's Office of Audit is to assist management at all levels in achieving efficiency, effectiveness, and economy in financial, administrative, production, and other operations. To accomplish this objective, the Bureau's internal auditors conduct three types of reviews:

Examinations of financial transactions, accounts and reports, including an evaluation of compliance with applicable laws, regulations, and authorized policies and procedures.

Reviews of efficiency and economy in using resources.

Reviews to determine whether desired results are effectively achieved.

The Office of Audit is headed by the Chief Internal Auditor who reports directly to the Director of the Bureau.

The internal audit staff as of June 30, 1974, and June 30, 1975, numbered 21 and 24 auditors, respectively. The internal auditors issued 52 reports with 173 recommendations in fiscal year 1974, and 61 reports with 229 recommendations in fiscal year 1975.

Recommendations by the internal auditors resulted in reduced operating costs; strengthening internal controls; better use of personnel, materials, and equipment; improved safety and security; more effective procurement and warehousing; and identifying obsolete stock and equipment.

The Office of Audit distributes its draft reports to the responsible officials and incorporates their comments in the final report. All outstanding recommendations are followed up every 30 days. If no action has been taken, the matter is reported to the Director of the Bureau in writing.

Our review indicated that the internal audit work was satisfactory and included adequate tests of the areas reviewed. Therefore, the extent of our detailed tests of accounting records was reduced. Our review of the internal audit staff's work included (1) reviewing the audit program to determine the adequacy of the prescribed procedures, (2) observing the taking of physical inventory of selected items at the end of the fiscal years, and (3) reviewing reports and workpapers pertaining to audits of the accounts to the extent that we deemed appropriate.

CHAPTER 5

SCOPE OF EXAMINATION AND OPINION

ON FINANCIAL STATEMENTS

SCOPE OF EXAMINATION

We made our examination of the financial statements of the Bureau of Engraving and Printing Fund for fiscal years 1974 and 1975 in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, in view of the effectiveness of internal controls, including the internal audit function.

OPINION ON FINANCIAL STATEMENTS

No amounts are included in the financial statements for (1) interest on the investment of the Government in the Bureau of Engraving and Printing Fund, (2) depreciation on the Bureau's buildings excluded from the assets of the fund by the act of August 4, 1950, and (3) costs of certain services performed by other agencies for the Bureau, such as check preparation and external audit. These costs, the amount of which is not readily determinable, are excluded by law.

To accumulate sufficient funds to replace capital equipment, the Bureau has added a surcharge to prices charged customers. Without specific statutory authority to increase its capitalization, the Bureau cannot legally levy and retain the surcharge. (See p. 7.)

In our opinion, the accompanying financial statements (schs. 1, 2, and 3) present fairly the financial position of the Bureau of Engraving and Printing Fund at June 30, 1974 and 1975, and the results of its operations and changes in its financial position for the years then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States, except that the fund's increased capitalization, as discussed above, is not authorized.

DEPARTMENT OF THE TREASURY

BUREAU OF ENGRAVING AND PRINTING FUND

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

JUNE 30, 1975 AND 1974

	June 30, 1975	June 30, 1974
ASSETS		
CURRENT ASSETS:		
Cash with the Treasury	$12,675,257	$ 8,302,151
Accounts receivable (note 2)	10,914,481	6,964,670
Inventories (notes 1 and 2)	21,800,632	12,464,219
Prepaid expenses	147,857	92,559
Total current assets	45,538,227	27,823,599
PLANT AND EQUIPMENT (notes 1 and 3)	38,948,828	37,208,220
Less accumulated depreciation (note 1)	26,581,981	25,219,059
Net plant and equipment	12,366,847	11,989,161
DEFERRED CHARGES	120,140	134,640
Total assets	$58,025,214	$39,947,400
LIABILITIES AND INVESTMENT OF THE U.S. GOVERNMENT		
LIABILITIES:		
Accounts payable	$ 3,389,510	$ 2,754,458
Accrued liabilities (note 4)	10,049,653	8,008,022
Trust and deposit liabilities	307,977	240,970
Advances from others (note 5)	15,576,751	2,001,367
Total liabilities (note 6)	29,323,891	13,004,817
INVESTMENT OF THE U.S. GOVERNMENT:		
Appropriation from U.S. Treasury	9,250,000	9,250,000
Donated assets, net	18,044,969	18,044,969
Provision for capital improvements (note 7)	2,128,371	-
Accumulated earnings or deficit(-) (note 1)	-722,017	-352,386
Total investment of the U.S. Government	28,701,323	26,942,583
Total liabilities and investment of the U.S. Government	$58,025,214	$39,947,400

The notes following schedule 3 are an integral part of this statement.

The opinion of the General Accounting Office appears on page 12.

 SCHEDULE 2

DEPARTMENT OF THE TREASURY

BUREAU OF ENGRAVING AND PRINTING FUND

COMPARATIVE STATEMENT OF INCOME AND EXPENSE

FOR THE FISCAL YEARS ENDED JUNE 30, 1975 AND 1974

	1975	1974
OPERATING REVENUE: SALES OF ENGRAVING AND PRINTING	$ 99,367,009	$85,869,069
OPERATING COSTS:		
Cost of sales:		
Direct labor	29,037,427	26,628,428
Direct materials used	11,039,746	8,758,968
Contract printing (food coupons)	30,297,223	16,351,414
Contract printing (gasoline rationing coupons)	-	3,796,560
Prime cost	70,374,396	55,535,370
Overhead costs:		
Salaries and indirect labor	22,320,360	19,561,821
Factory supplies	3,581,374	2,415,208
Repair parts and supplies	843,249	600,135
Employer's share personnel benefits	4,567,867	4,088,963
Rents, communications and utilities	2,635,190	1,580,117
Other services	1,170,857	1,062,712
Distribution charges (food coupons)	1,119,949	741,468
Depreciation and amortization (note 1)	1,572,558	1,472,394
Gains(-) or losses on disposal or retirement of fixed assets	-1,171	5,428
Minor equipment	984,210	386,545
Transportation of things	332,182	359,712
Sundry expense (net)	-1,310	101,639
Total overhead	39,125,315	32,376,142
Total costs	109,499,711	87,911,512
Less:		
Nonproduction costs:		
Shop costs capitalized	964,244	851,870
Cost of miscellaneous services rendered other agencies	1,531,233	1,193,108
	2,495,477	2,044,978
Cost of production	107,004,234	85,866,534
Net increase(-) or decrease in finished goods and work in process inventories from operations	-7,266,013	152,566
Cost of sales	99,738,221	86,019,100
OPERATING PROFIT OR LOSS(-)	-371,212	-150,031
NONOPERATING REVENUE:		
Operation and maintenance of incinerator and space utilized by other agencies	1,120,609	905,558
Other direct charges for miscellaneous services	412,205	287,550
NONOPERATING COSTS:		
Cost of miscellaneous services rendered other agencies	1,531,233	1,193,108
NONOPERATING PROFIT OR LOSS(-)	1,581	-
NET PROFIT OR LOSS(-) FOR THE YEAR (note 1)	$ -369,631	$ -150,031

The notes following schedule 3 are an integral part of this statement.

The opinion of the General Accounting Office appears on page 12.

SCHEDULE 3

DEPARTMENT OF THE TREASURY

BUREAU OF ENGRAVING AND PRINTING FUND

COMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE FISCAL YEARS ENDED JUNE 30, 1975 AND 1974

Funds provided and applied

	1975	1974
FUNDS PROVIDED:		
Sales of engraving and printing	$ 99,367,009	$85,869,069
Provision for capital improvements	2,128,371	-
Operation and maintenance of incinerator and space utilized by other agencies	1,120,609	905,558
Other direct charges for miscellaneous services	412,205	287,550
	103,028,194	87,062,177
Less cost of sales and services (excluding depreciation and other charges not requiring expenditure of funds: fiscal year 1975 $1,571,387, fiscal year 1974 $1,477,822)	99,698,067	85,734,387
	3,330,127	1,327,790
Sales of surplus equipment	5,740	4,804
Decrease in working capital	-	153,470
Total funds provided	$ 3,335,867	$ 1,486,064
FUNDS APPLIED:		
Acquisition of fixeds assets	$ 1,909,870	$ 1,350,955
Acquisition of experimental equipment and plant repairs and alterations to be charged to future operations	30,444	135,109
Increase in working capital	1,395,553	-
Total funds applied	$ 3,335,867	$ 1,486,064

Analysis of changes in working capital

	June 30, 1975		June 30, 1974	
	Increase	Decrease	Increase	Decrease
Current assets:				
Cash	$ 4,373,106			$1,465,931
Accounts receivable	3,949,810		$3,057,566	
Inventories	9,336,413		744,448	
Prepaid expenses	55,297			25,059
Liabilities:				
Accounts payable		$ 635,051		1,327,699
Accrued liabilities		2,041,631		156,264
Trust and deposit liabilities		64,013	18,583	
Advances from others		13,575,384		1,001,367
Other liabilities		2,994	2,253	
	$17,714,626	$16,319,073	$3,822,850	$3,976,320
Increase or (decrease) in working capital	$1,395,553		-$153,470	

The notes following schedule 3 are an integral part of this statement.

The opinion of the General Accounting Office appears on page 12.

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Inventories--Finished goods and work-in-process inventories valued at cost, including administrative and service overhead. Except for the distinctive paper, which is valued at the acquisition cost, raw materials and stores inventories are valued at the average cost of the materials and supplies on hand.

Plant and equipment--Machinery and equipment, furniture and fixtures, office machines and motor vehicles acquired on or before June 30, 1950, are stated at appraised values as at that date. Additions since June 30, 1950, and all building appurtenances are valued at acquisition cost.

The act that established the Bureau of Engraving and Printing Fund specifically excluded land and buildings costing about $9,000,000 from the assets of the fund. Also excluded are appropriated funds of about $7,184,000 for extraordinary uncapitalized building repairs and air-conditioning.

Depreciation--Depreciation is computed under the straight-line method. The depreciation rates used are based on the following useful lives: 6 to 30 years for machinery and equipment, 6 to 20 years for motor vehicles, 10 years for office machines, 10 years for furniture and fixtures, and 3 to 20 years for building appurtenances.

Earnings--Customer agencies make payment to the Bureau at prices deemed adequate to recover costs. Because of variations between prices charged and actual costs, the Bureau could earn a profit or incur a loss in any fiscal year. All profit is to be paid into the general fund of the Treasury except that required to offset any accumulated loss from prior years' operations.

2. Inventories

	June 30, 1975	June 30, 1974
Finished goods	$ 8,434,866	$ 2,726,854
Work in process	7,143,966	5,585,964
Raw materials	3,446,419	2,144,205
Stores	2,775,381	2,007,196
Total	$21,800,632	$12,464,219

The large increases in finished goods and work-in-process inventories are primarily due to orders by the Department of Agriculture for food coupon books necessitating greater inventories ($4.1 million). Also, in the latter half of fiscal year 1975 the U.S. Postal Service significantly reduced field inventory levels of postage stamps, which had an immediate effect of reducing orders received from postal service centers. The increase in postage stamp work-in-process, finished goods, raw materials, and stores inventories estimated at $4.3 million is attributed to this reduced demand. The large increase in finished goods was the primary reason for the increase in accounts receivable.

3. PLANT EQUIPMENT

	June 30, 1975	June 30, 1974
Machinery and equipment	$30,722,512	$30,130,815
Motor vehicles	162,370	160,914
Office machines	412,356	408,022
Furniture and fixtures	663,590	610,202
Building appurtenances	5,797,273	5,148,790
Total	37,758,101	36,458,743
Less accumulated depreciation	26,581,981	25,219,059
Net	11,176,120	11,239,684
Construction in progress	1,190,727	749,477
Total	$12,366,847	$11,989,161

Construction in progress on June 30, 1975, consists of $999,137 for various items of machinery and equipment, and $191,590 for various building appurtenances.

The June 30, 1975, total of $37,758,101 includes $16,972,743 of fully depreciated assets still in use. The amounts by class are:

Machinery and equipment	$12,814,782
Motor vehicles	52,166
Office machines	181,853
Furniture and fixtures	291,923
Building appurtenances	3,632,019
Total	$16,972,743

4. ACCRUED LIABILITIES

	June 30, 1975	June 30, 1974
Payroll	$ 2,120,407	$2,963,187
Accrued leave	2,812,642	2,586,307
Constructive receipts	2,370,530	1,641,200
Other	2,746,074	817,328
Total	$10,049,653	$8,008,022

The accrual for constructive receipts is the estimated value of work performed by contractors to special specification, which had not been delivered to or accepted by the Bureau at the statement date. For June 30, 1975, the offsetting entries are to raw materials, $419,638; stores, $146,527; and work in process, $1,804,365.

5. ADVANCES

The following agencies have advanced funds to the Bureau which are being used to finance increased inventories needed for future deliveries:

	June 30, 1975	June 30, 1974
Department of Agriculture (food coupon books)	$14,000,000	$2,000,000
U.S. Postal Service (postage stamps)	1,576,751	-
Other	-	1,367
Total	$15,576,751	$2,001,367

The Bureau pays contractors for food coupons when they are delivered to the warehouse. However, Agriculture does not pay the Bureau until about 3-1/2 months later. Because this time lag severely limits cash resources, Agriculture advanced the Bureau an additional $12 million during fiscal year 1975.

6. COMMITMENTS AND CONTINGENT LIABILITIES

Outstanding commitments with suppliers for unperformed contracts and undelivered purchase orders total $8,195,701 as of June 30, 1975.

A lease agreement for renting a closed circuit television system provides for payments averaging about $126,125 annually through March 1977, $96,913 from April 1, 1977, to March 31, 1978, and $64,224 from April 1, 1978, to March 31, 1979. At the end of payment, the Bureau will assume ownership of the equipment. Under the agreement the Bureau could be liable for a termination charge if it suspends or discontinues making rental payments. This charge was computed at $112,392 as of June 30, 1975. The Bureau has no plans to suspend or discontinue this system.

Civilian members of the Bureau's guard unit have submitted claims for overtime compensation alleged to be due for the period prior to October 9, 1973. The Bureau will pay the compensation but as of December 31, 1975, it had not begun processing individual claims. If all possible claims are paid, the liability is estimated to be about $500,000.

7. SURCHARGE

Effective July 1, 1974, the Bureau included a surcharge on the selling price of its products which will provide funds for future capital improvements. The surcharge rate is computed by dividing the amount of funds needed for equipment modernization by either the expected revenues from sales or the expected units of sales. The rate for each product is then applied to actual amounts billed or units delivered. This plan was developed in response to the directive issued by the Committee on Appropriations (H. Rept. 92-1150 (1972)) in reporting out the Treasury, Postal Service, and General Government Appropriation Bill, 1973 (Report No. 92-1150). In its report the Committee directed that the Bureau generate sufficient funds to cover direct and indirect costs of operations as well as accumulate an adequate reserve for replacement of capital equipment.

OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

SEP 30 1976

Dear Mr. McElyea:

Owing to Assistant Secretary Macdonald's recent transfer to the Department of Defense, I have taken the liberty of responding to your invitation to comment on draft report B-114801, Examination of Financial Statements, Bureau of Engraving and Printing Fund for Fiscal Years 1974 and 1975.

[See GAO note 1, p. 23.]

Surcharge

The matter of financing the Bureau's equipment needs was formally discussed as far back as March 10, 1972, during the appearance of the Director of the Bureau of Engraving and Printing before the House Subcommittee on Appropriations. In reporting out the Treasury, Postal Service, and General Government Appropriation Bill (H.R. 1150, 92nd Congress, (1973), the House Committee on Appropriations recommended that the Bureau's 1973 appropriation be reduced from the $6 million requested to $3 million and stated in part that

> "The Committee therefore recommends $3 million in the accompanying bill and directs the Bureau and the Department to review the pricing policies for services with the objective of establishing prices which will, at least over the relatively long range, generate sufficient funds to cover direct and indirect costs of operations as well as accumulate an adequate reserve for replacement of capital equipment."

The Bureau implemented this Congressional directive to raise its prices by establishing the surcharge. On August 15, 1972, in an effort to resolve any problems regarding the establishment of such a surcharge, a meeting was held between the General Accounting Office and the Bureau.

At this meeting, the Chief, Office of Financial Management of the Bureau, discussed both the pertinent language of Public Law 656 and the Committee's directive. General Accounting Office staff members indicated that there would be no objection by the GAO if the Bureau complied with this directive.

On March 13, 1974, in hearings before the House Subcommittee on Appropriations, the Director of the Bureau testified, without objection, that "... the Bureau is making provisions to implement the use of a surcharge, beginning in fiscal year 1975, as a means for financing future capital improvements." Additionally, "in their comprehensive analysis of productivity in Government, including existing capitalization constraints, the CSC-GAO-OMB study group has identified the use of the surcharge approach, as this committee recommended, as one of the viable techniques for improved financing capability toward the acquisition of productivity enhancing equipment." A similar statement was made at the Senate Hearings before the Subcommittee on Appropriations that same year.

On March 14, 1975, in the hearings before the House Subcommittee on Appropriations, the Director informed the Subcommittee that, beginning in fiscal year 1975, the Bureau had incorporated a surcharge in the cost of producing products. Since that time, the Bureau of Engraving and Printing has continued to use the surcharge technique in generating funds for short term equipment acquisition needs, without objection from Congressional committees.

Further, this Department has relied on Decision B-104492 (copy enclosed), issued by the Acting Comptroller General on October 4, 1951, advising the Secretary of the Treasury that the Bureau of Engraving and Printing Fund established by Public Law 656 is available for the purpose of financing additional equipment for the Bureau, as a necessary cost of operating and maintaining the Bureau.

[See GAO note 1, p. 23.]

Again, I have appreciated the opportunity to comment upon this document and applaud GAO for its comprehensive analysis and openness in dealing with the Executive Branch of Government. Should you desire further contact on either of these subjects, my staff and the staff of Director Conlon would be glad to meet with you.

Sincerely yours,

W. F. Hausman

William F. Hausman
Director
Office of Operations

Mr. S. D. McElyea
Director, Field Operations Division
United States General Accounting Office
Washington, DC 20548

Enclosures [See GAO note 2.]

GAO notes:

1. Deleted material relates to data in our draft report which has not been incorporated in this final report.

2. Enclosures not included.

PRINCIPAL OFFICIALS OF THE BUREAU OF ENGRAVING AND PRINTING RESPONSIBLE FOR THE ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
DIRECTOR:		
James A. Conlon	Oct. 1967	Present
DEPUTY DIRECTOR:		
Kenneth A. DeHart (note a)	July 1974	Present
Donald C. Tolson	Oct. 1968	Dec. 1973
CHIEF, OFFICE OF AUDIT:		
Jay L. Esserman	Feb. 1973	Present
ASSISTANT DIRECTOR OF ADMINISTRATION (note b):		
Seymour Berry	Aug. 1975	Present
CHIEF, OFFICE OF ADMINISTRATIVE SERVICES:		
Jules C. Rieder	Feb. 1975	Present
Albert J. Hamberg (note c)	May 1975	Dec. 1974
CHIEF, OFFICE OF FINANCIAL MANAGEMENT:		
Maurice M. Schneider	June 1974	Present
Andrew J. Wilson	Jan. 1967	June 1974

a/Mr. DeHart was acting Deputy Director prior to his promotion for the period following Mr. Tolson's retirement.

b/Assistant Director of Administration is a newly created position beginning 7/1/75.

c/Mr. Hamberg left his office during the spring of 1974 on disability leave. Mr. Rieder became acting Chief from July 1974 until his promotion.