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BY THE COMPTROLLER GENERAL

# Report To The Congress

OF THE UNITED STATES

## Audit Of The Bureau Of Engraving And Printing Fund For The Year Ended September 30, 1979

The financial statements of the Bureau of Engraving and Printing fund present fairly its financial position at September 30, 1979, and the results of its operations and changes in its financial position for the year then ended.



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

B-198499

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

We have examined the Bureau of Engraving and Printing Fund's financial statements for the fiscal year ended September 30, 1979. Public Law 656, which established the Bureau's revolving fund, requires that we examine the statements in accordance with the provisions of the Accounting and Auditing Act of 1950.

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

The act also requires the Comptroller General to approve accounting systems when they are deemed adequate and conform to prescribed principles, standards, and related requirements (31 U.S.C. 66(b)). The Comptroller General approved the Bureau's accounting system on July 9, 1952. Since then, changes have been made which have not been approved, including a new personnel and payroll system and a method for accounting for additional funds collected for capital equipment and working capital.

We examined the Bureau's statement of financial condition as of September 30, 1979, and related statements of income and expense and of changes in financial position for the fiscal year ended September 30, 1979. These statements do not include (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 law (31 U.S.C. 181a(c)), and (3) costs of certain services performed by other agencies for the Bureau, such as check preparation and external audit. The amount of these costs is not readily determinable.

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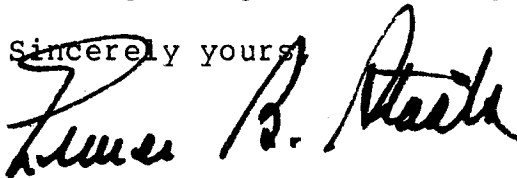
Our examination of the accompanying financial statements was made in accordance with the Comptroller General's standards for auditing financial transactions, accounts, and reports of governmental activities. We included such tests of the accounting records and such auditing procedures as we considered necessary in the circumstances.

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 September 30, 1979, and the results of its operations and changes in its financial position for the period then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

The financial statements for the year ended September 30, 1978, which are presented for comparative purposes only, were not examined by us. Therefore, we do not express an opinion on the 1978 statements.

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

Sincerely yours,

A handwritten signature in black ink, appearing to read "James B. Starks". The signature is written in a cursive style with a large initial "J".

Comptroller General  
of the United States

## SCHEDULE I

## SCHEDULE I

DEPARTMENT OF THE TREASURY  
BUREAU OF ENGRAVING AND PRINTING FUND  
STATEMENT OF FINANCIAL CONDITION  
SEPTEMBER 30, 1979 AND 1978

	-UNAUDITED-	
<u>ASSETS</u>	September 30, <u>1979</u>	September 30, <u>1978</u>
<b>CURRENT ASSETS:</b>		
Cash with the Treasury	\$ 31,130,204	\$ 19,823,073
Accounts receivable	11,772,757	13,732,179
Inventories (notes 1 and 2)	30,386,589	25,753,693
Prepaid expenses	<u>267,589</u>	<u>220,264</u>
Total current assets	<u>73,557,139</u>	<u>59,529,209</u>
PLANT AND EQUIPMENT (notes 1 and 3)	62,552,557	58,324,057
Less accumulated depreciation (notes 1 and 3)	<u>33,452,718</u>	<u>31,201,885</u>
Net plant and equipment	<u>29,099,839</u>	<u>27,122,172</u>
DEFERRED CHARGES (notes 1 and 4)	<u>1,838,482</u>	<u>1,993,820</u>
Total assets	<u>\$104,495,460</u>	<u>\$ 88,645,201</u>
<u>LIABILITIES AND INVESTMENT OF THE U.S. GOVERNMENT</u>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 2,049,518	\$ 2,435,997
Accrued liabilities (note 5)	14,809,904	12,811,683
Trust and deposit liabilities	1,424	1,424
Advances from others (note 6)	15,540,000	15,450,000
Current installments of capitalized lease-purchase contracts (note 1)	<u>1,301,008</u>	<u>1,442,756</u>
Total current liabilities	<u>33,701,854</u>	<u>32,141,860</u>
<b>LONG-TERM LIABILITIES:</b>		
Capitalized lease-purchase contracts less current installments (note 1)	<u>524,898</u>	<u>1,825,906</u>
Total liabilities (note 7)	<u>34,226,752</u>	<u>33,967,766</u>
<b>INVESTMENT OF THE U.S. GOVERNMENT:</b>		
Appropriation from U.S. Treasury	14,250,000	14,250,000
Donated assets, net	18,044,969	18,044,969
Provision for capital improvements (notes 1 and 8)	37,019,886	21,336,008
Provisions for additional working capital (notes 1 and 9)	1,464,973	1,002,754
Retained earnings or deficit (-) (notes 1 and 10)	<u>- 511,120</u>	<u>43,704</u>
Total investment of the U.S. Government	<u>70,268,708</u>	<u>54,677,435</u>
Total liabilities and investment of the U.S. Government	<u>\$104,495,460</u>	<u>\$88,645,201</u>

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

## SCHEDULE II

## SCHEDULE II

DEPARTMENT OF THE TREASURY  
BUREAU OF ENGRAVING AND PRINTING FUND STATEMENT  
OF INCOME AND EXPENSE FOR THE FISCAL YEARS ENDED  
SEPTEMBER 30, 1979 AND 1978

	<u>1979</u>	<u>1978</u>
-UNAUDITED-		
OPERATING REVENUE: SALES OF ENGRAVING AND PRINTING*	<u>\$141,671,160</u>	<u>\$139,000,855</u>
OPERATING COSTS:		
Cost of sales:		
Direct labor	38,684,643	37,823,281
Direct materials used	19,461,060	17,227,036
Contract printing (food coupons)	22,682,247	25,861,168
Contract printing (securities)	--	72,934
Prime cost	<u>80,827,950</u>	<u>80,984,419</u>
Overhead costs:		
Salaries and indirect labor	26,964,440	27,372,265
Factory supplies	4,728,677	4,625,587
Repair parts and supplies	1,250,926	1,057,152
Employer's share personnel benefits	6,186,970	6,380,333
Rents, communications and utilities	3,912,819	4,034,505
Other services	2,977,144	2,509,497
Distribution charges (food coupons)	1,014,875	1,220,767
Depreciation and amortization (note 1)	3,388,691	3,029,528
Cost of financing lease-purchase contracts (note 1)	344,521	636,057
Minor equipment	125,758	118,769
Transportation of things	260,472	281,434
Sundry expense (net)	126,138	689,357
Total overhead	<u>51,281,431</u>	<u>51,955,251</u>
Total costs	<u>132,109,381</u>	<u>132,939,670</u>
Less:		
Nonproduction costs:		
Shop costs capitalized	858,088	905,369
Cost of miscellaneous services rendered other agencies	1,925,708	2,111,597
Cost of production	<u>129,325,585</u>	<u>129,922,704</u>
Net increase(-) or decrease in finished goods and work in process inventories from operations	<u>- 3,289,402</u>	<u>373,082</u>
Cost of sales	<u>126,036,183</u>	<u>130,295,786</u>
OPERATING INCOME OR LOSS (-)*	<u>15,634,977</u>	<u>8,705,069</u>
NONOPERATING REVENUE:		
Operation and maintenance of space utilized by other agencies	1,360,034	1,439,809
Other direct charges for miscellaneous services*	565,674	675,471
NONOPERATING COSTS:		
Cost of various services rendered other agencies	1,925,708	2,111,597
NONOPERATING INCOME OR LOSS (-)*	<u>--</u>	<u>3,683</u>
NET INCOME OR LOSS (-) FOR THE YEAR* (note 1)	<u>\$15,634,977</u>	<u>\$ 8,708,752</u>

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

\*1978 amounts have been adjusted to conform to 1979 presentation.

## SCHEDULE II

## SCHEDULE II

ANALYSIS OF CHANGES IN RETAINED EARNINGS

-UNAUDITED-

	<u>1979</u>	<u>1978</u>
OPENING BALANCE	\$ 43,704	\$ -1,159,247
NET INCOME - PER ABOVE	<u>15,634,977</u>	<u>8,708,752</u>
	<u>\$15,678,681</u>	<u>\$7,549,505</u>
LESS:		
DISTRIBUTION OR ALLOCATION		
Accumulated earnings returned to Treasury	43,704	-
Surcharge for capital improvements	15,683,878	6,503,047
Surcharge for working capital	<u>462,219</u>	<u>1,002,754</u>
	<u>16,189,801</u>	<u>7,505,801</u>
CLOSING BALANCE	<u>- 511,120</u>	<u>43,704</u>

DEPARTMENT OF THE TREASURYBUREAU OF ENGRAVING AND PRINTING FUNDSTATEMENT OF CHANGES IN FINANCIAL POSITIONFOR THE FISCAL YEARS ENDED SEPTEMBER 30, 1979 AND 1978

	-UNAUDITED-	
	<u>1979</u>	<u>1978</u>
SOURCES OF WORKING CAPITAL:		
From operations:		
Net profit or loss (-)*	\$15,634,977	\$ 8,708,752
Charges to operations not requiring use of working capital:		
Depreciation and amortization	3,388,691	3,029,528
Cost of financing lease-purchase contracts	344,521	636,057
Disposal or retirement of fixed assets	80,861	766,794
Proceeds from sales of surplus or obsolete fixed assets	10,293	14,909
Appropriated capital	<u>    --</u>	<u>5,000,000</u>
Total sources	<u>\$19,459,343</u>	<u>\$18,156,040</u>
APPLICATION OF WORKING CAPITAL:		
Additions to plant and equipment (includes \$901,000 of equipment acquired through lease-purchase contracts in fiscal year 1978)	\$ 5,646,695	\$ 4,790,298
Reduction of deferred cost of financing lease-purchase contracts	--	- 326,667
Payments made on lease-purchase contracts	1,301,008	2,415,974
Accumulated earnings returned to Treasury	43,704	--
Increase in working capital	<u>12,467,936</u>	<u>11,276,435</u>
Total application	<u>\$19,459,343</u>	<u>\$18,156,040</u>

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

\*1978 amounts have been adjusted to conform to 1979 presentation.



## SCHEDULE III

## SCHEDULE III

Analysis of changes in working capital

	<u>September 30, 1979</u>		<u>September 30, 1978</u>	
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
Current assets:				
Cash	\$11,307,131		\$8,361,499	
Accounts receivable		\$1,959,422	2,148,319	
Inventories	4,632,896		2,008,833	
Prepaid expense	47,325		35,758	
Liabilities:				
Accounts payable	386,479			\$ 420,214
Accrued liabilities		1,998,221		1,993,829
Trust and deposit liabilities	--	--	355,985	
Advances from others		90,000		800,000
Other liabilities	<u>141,748</u>	<u>--</u>	<u>1,580,084</u>	<u>--</u>
	\$16,515,579	\$ 4,047,643	\$14,490,478	\$ 3,214,043
Increase or decrease (-) in working capital		<u>12,467,936</u>		<u>11,276,435</u>
	<u>\$16,515,579</u>	<u>\$16,515,579</u>	<u>\$14,490,478</u>	<u>\$14,490,478</u>

## NOTES TO FINANCIAL STATEMENTS

### 1. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting--Assets and liabilities and income and expenses are recognized on the accrual basis of accounting.

Inventories--Finished goods and work-in-process inventories are 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.

Lease-purchase contracts capitalized--Certain long-term lease-purchase contracts relating to the financing of equipment are accounted for as installment purchases of property. Upon payment of the required amounts, the equipment covered by these contracts becomes the property of the Bureau, and accordingly, for financial reporting purposes this equipment is being capitalized on the basis of the outright purchase price per contract. The difference between the total contract amounts, which are recorded as either current or long-term liabilities, and the capitalized equipment costs represents an implicit amount of interest and contractor risk because of Bureau termination without liability privileges. This difference is accounted for as a deferred lease cost. Amortization of this lease cost is based on the ratio of each monthly lease payment to the total contract price.

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.

Surcharges--In accordance with Public Law 95-81, approved July 31, 1977, the Bureau includes in its selling prices a surcharge which is used for financing capital improvements and for providing additional funds for working capital.

Earnings--Customer agencies make payments at prices deemed adequate by the Bureau 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 earnings are to be paid into the general fund of the Treasury except those required to offset any accumulated loss from prior years operations.

2. INVENTORIES

	September 30, <u>1979</u>	September 30, <u>1978</u>
Finished goods	\$ 17,695,564	\$ 9,885,413
Work in process	4,081,578	8,602,326
Raw materials	4,202,136	3,584,202
Stores	<u>4,407,311</u>	<u>3,681,752</u>
Total	<u>\$ 30,386,589</u>	<u>\$ 25,753,693</u>

3. PLANT AND EQUIPMENT

	September 30, <u>1979</u>	September 30, <u>1978</u>
Machinery and equipment:		
Lease-purchase contracts	\$ 7,397,307	\$ 7,397,307
Outright purchases	40,824,435	40,044,377
Motor vehicles	328,616	358,485
Office machines	428,736	425,300
Furniture and fixtures	258,658	240,297
Building appurtenances	<u>7,424,365</u>	<u>6,807,831</u>
Total	\$ 56,662,117	\$ 55,273,597
Less accumulated depreciation	<u>33,452,718</u>	<u>31,201,885</u>
Net	23,209,399	24,071,712
Construction in progress	<u>5,890,440</u>	<u>3,050,460</u>
Total	<u>\$ 29,099,839</u>	<u>\$ 27,122,172</u>

Construction in progress on September 30, 1979, consists of \$5,772,123 for various items of machinery and equipment and \$118,317 for various building appurtenances.

The September 30, 1979, total of \$56,662,117 includes \$22,178,890 of fully depreciated assets still in use. The amounts by class are:

Machinery and equipment	\$ 16,756,095
Motor vehicles	52,285
Office machines	127,079
Furniture and fixtures	100,758
Building appurtenances	<u>5,142,673</u>
Total	<u>\$ 22,178,890</u>

4. DEFERRED CHARGES

	September 30, <u>1979</u>	September 30, <u>1978</u>
Lease-purchase financing costs	\$ 425,907	\$ 770,428
Alterations and maintenance	1,308,635	1,072,148
Experimental equipment	28,895	1,203
Other	75,045	115,046
 Furniture and fixtures previously capitalized)	<u>    --    </u>	<u>34,995</u>
Total	<u>\$ 1,838,482</u>	<u>\$ 1,993,820</u>

5. ACCRUED LIABILITIES

	September 30, <u>1979</u>	September 30, <u>1978</u>
Payroll	\$ 4,054,333	\$ 4,296,970
Accrued leave	3,252,970	3,361,635
Constructive receipts	4,175,393	3,330,308
Other	<u>3,327,208</u>	<u>1,822,770</u>
Total	<u>\$14,809,904</u>	<u>\$12,811,683</u>

The accrual for constructive receipts is the estimated value of work performed by contractors to Government specifications, which had not been delivered to or accepted by the Bureau at the statement date. Excluded from this amount is the value of any lease-purchase equipment which has not been accepted by the Bureau because of contractual language contained in the contracts limiting Bureau liability in the event of cancellation. For September 30, 1979, the asset categories for constructive receipts are: machinery and equipment, \$1,515,750; raw materials, \$425,030; stores, \$140,942; and finished goods, \$2,093,671.

6. ADVANCES

The following agencies have advanced funds to the Bureau which are being used to finance increased inventories needed for future deliveries of food coupon books, site preparation costs for processing facilities, and product costs for alien registration identification cards, partial costs of annex power distribution systems and annex cafeteria renovations:

	September 30, <u>1979</u>	September 30, <u>1978</u>
Department of Agriculture (food coupon books)	\$ 14,000,000	\$ 14,000,000
Department of Justice (site preparation and product costs)	1,450,000	1,450,000
Bureau of Public Debt (partial cost of annex power distribution system and annex cafeteria reno- vations)	65,000	--
Bureau of Government Finan- cial Operations (partial cost of annex cafeteria renovations)	<u>25,000</u>	<u>--</u>
Total	<u>\$ 15,540,000</u>	<u>\$ 15,450,000</u>

7. COMMITMENTS AND CONTINGENT LIABILITIES

Outstanding commitments with suppliers for undelivered purchase orders total \$11,516,404 as of September 30, 1979, and \$10,855,666 as of September 30, 1978.

8. SURCHARGE

The provision for capital improvements, resulting from the Bureau's need to obtain modern equipment, is funded by the use of a surcharge included in the selling price of Bureau products. The surcharge is computed by various methods designed to equitably identify the needed funds to a specific program or overall Bureau requirements for which the capital expenditure is to be utilized.

The value of capital improvements considered as being acquired with surcharge funds is computed on the basis of a ratio of the surcharge generated during the period to the total funds available for capital expenditures (depreciation and surcharge), times the cost of all equipment purchased during the period involved. For those items of equipment identified as being purchased entirely with surcharge funds, the actual cost of the equipment and not the foregoing ratio method is used in determining the value of capital improvements acquired with surcharge funds.

Included under the category "Pending Projects" are specific capital improvement projects to be acquired with surcharge funds. In addition, surcharge funds have been collected which will be applied to future progressive and final settlement payments on current contracts in process.

An analysis of the provision for capital improvements is as follows:

	<u>Provision for capital improvements</u>		
	<u>Pending</u>	<u>Authorized</u>	<u>Total</u>
	<u>projects</u>	<u>projects</u>	
Surcharge (7-1-74 through 9-30-78)	\$21,336,008		\$21,336,008
Capital improvements acquired with surcharge funds (7-1-74 through 9-30-78)	- 17,401,533	\$17,401,533	--
Balance 9-30-78	3,934,475	17,401,533	21,336,008
Surcharge (fiscal year 1979)	<u>15,683,878</u>	--	<u>15,683,878</u>
Total	19,618,353	17,401,533	37,019,886
Capital improvements acquired with surcharge funds (fiscal year 1979)	- 4,434,325	<u>4,434,325</u>	--
Balance 9-30-79	<u>\$15,184,028</u>	<u>\$21,835,858</u>	<u>\$37,019,886</u>

9. The provision for additional working capital is based upon a projection of the funds needed by the Bureau to maintain adequate inventory levels during the time between disbursements for labor, materials, and other related costs of production and reimbursement from customer agencies. Increments to this capital provision are generated by means of a surcharge added to the price of Bureau products.
10. The accumulated earnings of \$43,704 at September 30, 1978, were returned to the Treasury of the United States in accordance with the provisions of Public Law 656, approved August 4, 1950.

(260021)







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