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# Highlights

Highlights of [GAO-04-283](#), a report to the Subcommittee on Domestic and International Monetary Policy, Trade, and Technology, Committee on Financial Services, House of Representatives

## Why GAO Did This Study

The government produces billions of coins and currency notes each year. Coins are made by the U.S. Mint and issued by the Treasury Department. Currency notes are made by the Bureau of Engraving and Printing and issued by the Federal Reserve System (Fed). The Fed buys coins from the Mint at face value but pays the Bureau only the costs of printing currency. Coins on the books of the Fed are assets that are issued by the Mint, and notes are liabilities of the Federal Reserve Banks. In recent years congressional hearings have highlighted the confusion over differences in the budgetary and accounting treatment of coins and currency. In addition, the Treasury Inspector General and others have reported problems with Mint and Bureau operations. GAO was asked to review (1) how the costs and earnings from coins and currency are budgeted and accounted for and (2) whether any operational problems at the Mint and Bureau need further action.

## What GAO Recommends

To comply with the purpose of the reporting requirement of the Public Enterprise Fund, GAO recommends that the Secretary of the Treasury ensure that the Mint identifies whether amounts are being retained in excess of the estimated operating costs of the following year and, if so, explains how they will be used. In response to Treasury's comments, GAO revised its recommendation.

[www.gao.gov/cgi-bin/getrpt?GAO-04-283](http://www.gao.gov/cgi-bin/getrpt?GAO-04-283).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Bernard Ungar, (202) 512-2834, or [ungarb@gao.gov](mailto:ungarb@gao.gov).

## COINS AND CURRENCY

# How the Costs and Earnings Associated with Producing Coins and Currency Are Budgeted and Accounted For

## What GAO Found

The earnings from issuing both coins and currency reduce government borrowing costs; however, how these earnings are budgeted and accounted for differs. Production costs of coins and currency are generally treated the same in the budget and accounting statements. The difference between the face value of coins and the costs of minting them results in earnings, called seigniorage, which is shown in the budget as a reduction in needed borrowing for the government, after the deficit or surplus for the year is calculated. The budgetary impact of seigniorage is interest avoided from the borrowing it displaces and is not visible because it is neither quantified nor shown in the budget. The government also generates earnings by issuing currency, but it is handled differently. The difference between the face value of currency issued and its production cost goes to the Fed. The Fed buys collateral, usually Treasury securities, to back up the currency issued. The interest collected on those Treasury securities is used to pay for Fed costs, and the remainder is returned to Treasury. The budgetary impact of issuing currency comes from the interest returned by the Fed, which is shown as a budgetary receipt and counted in the calculation of the deficit or surplus. Production costs of both coins and currency are shown as costs of operations in Treasury's financial statements. According to the Federal Accounting Standards Advisory Board, seigniorage should be shown as a source of financing in Treasury's statement of changes in net position, whereas interest returned by the Fed for currency is shown as revenue in Treasury's statement of custodial activity. Treasury has not been reporting seigniorage this way but made the correction beginning with its fiscal year 2003 financial statements.

Both the Mint and the Bureau have had operational problems in recent years in contracting and acquiring property and equipment. The Mint has also had problems with forecasting demand, monitoring costs, and reporting to Congress. The Mint and Bureau have generally taken or started to take actions to address the problems. The Mint has clarified its first quarterly report for 2004 to include more information on how retained funds will be used. However, the Mint is still not explicitly stating whether the retained amounts are in excess of the estimated operating costs for the following year and, if so, it is not explaining how the retained earnings will be used, as required by law.

## Examples of Currency and Coin



Sources: U.S. Mint and Bureau of Engraving and Printing.