



Highlights of [GAO-05-368](#), a report to congressional requesters

CURRENCY PAPER PROCUREMENT

Additional Analysis Would Help Determine Whether a Second Supplier Is Needed

Why GAO Did This Study

For over 125 years, the Bureau of Engraving and Printing (BEP), within the Department of the Treasury, has relied on a single contractor to supply the paper for U.S. currency. Such a long-term contracting relationship could contribute to higher costs and other risks. Another federal agency that relied on a single contractor, the U.S. Mint, decided to obtain a second supplier for coin metal.

In solicitations for currency paper contracts in 1999 and 2003, BEP took steps to address barriers to competition that GAO had identified in 1998 through a survey of paper manufacturers. This report updates GAO's 1998 report using data from a second survey. It addresses (1) the changes BEP made to encourage competition and the results of its efforts, (2) the steps BEP took to ensure that it paid fair and reasonable prices, and (3) the analysis BEP has done of the advantages and disadvantages of obtaining a second supplier.

What GAO Recommends

GAO recommends that the Secretary of the Treasury direct the Director of BEP to (1) increase outreach to paper manufacturers before issuing solicitations and (2) assess the need for a second supplier of currency paper and if a second supplier is needed, take the necessary action to obtain one. BEP, the Mint, and the Federal Reserve Board generally agreed with the report's findings and/or recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-05-368.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Katherine A. Siggerud at (202) 512-2834 or siggerudk@gao.gov.

What GAO Found

To encourage competition for the 1999 and 2003 contracts, BEP modified its solicitations to, among other things, indicate that it would provide bidders with the security thread that is inserted into most currency paper and extend the time for initial deliveries. For the 1999 contract, one additional supplier submitted an initial proposal but later withdrew it, and for the 2003 contract, only the current supplier submitted a proposal. This company remains the sole supplier of U.S. currency paper. According to paper manufacturers, several barriers to competition remain, including the high capital costs of and technological requirements for producing currency paper. BEP said it has not addressed these barriers because the requirements are either essential to preserve the security of currency paper or they are outside BEP's control (e.g., anticounterfeiting features are recommended by a federal committee). While some of the remaining barriers are outside BEP's control, BEP's outreach to paper manufacturers has been limited. For example, BEP does not meet regularly with them, as the Departments of Defense and Homeland Security meet with potential suppliers of their procurements, to identify additional steps that could be taken to encourage competition. To the extent that BEP has reached out to paper manufacturers, it has generally done so in conjunction with other BEP procurements.

For the contracts awarded in 1999 and 2003, BEP took several steps, consistent with the Federal Acquisition Regulation's requirements, to determine that the prices it paid under these contracts were fair and reasonable. For the 1999 contract, it used price analysis (a comparison of two proposals) to determine that the two proposals it initially received were fair and reasonable. This analysis was sufficient because BEP had determined that adequate price competition existed. For the 2003 contract, BEP performed several cost analysis activities to ensure that the final agreed-to price was fair and reasonable, since the current supplier was the only company that submitted a proposal. For example, BEP obtained certified cost and pricing data from the current supplier, requested an audit review of the current supplier's price proposal, and established a technical analysis team to examine steps in the current supplier's manufacturing process that affect price. BEP also arranged for postaward audits of the current supplier.

BEP has not analyzed the advantages and disadvantages of obtaining a second supplier of currency paper since 1996. At that time, it concluded that the costs would outweigh the benefits, but it did not analyze the long-term effects. As a result, it does not know how a second supplier would affect the costs, quality, security, and supply of currency paper over time. Analyzing the advantages and disadvantages of obtaining a second supplier would help BEP determine the need for one.