



Audit Report



OIG-08-036

BILL AND COIN MANUFACTURING: BEP Needs to Enforce and Strengthen Controls at Its Eastern Currency Facility to Prevent and Detect Employee Theft

June 12, 2008

Office of
Inspector General

Department of the Treasury

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Abbreviations

BEP	Bureau of Engraving and Printing
ECF	Eastern Currency Facility
OIG	Office of Inspector General
WCF	Western Currency Facility

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*The Department of the Treasury
Office of Inspector General*

June 12, 2008

Larry R. Felix, Director
Bureau of Engraving and Printing

The Bureau of Engraving and Printing (BEP) prints billions of Federal Reserve Notes for delivery to the Federal Reserve System each year. These notes are printed at the Eastern Currency Facility (ECF) in Washington, D.C., and at the Western Currency Facility (WCF) in Fort Worth, Texas. In June 2006, BEP notified Treasury's Office of Inspector General (OIG) that at least 64 incomplete \$100 notes, missing the Treasury seal and serial number, had entered into commerce. A joint investigation by Treasury OIG, BEP, the U.S. Secret Service, and the Federal Bureau of Investigation led to the recovery of additional incomplete notes. The investigation revealed that these notes originated from 21 32-count sheets of partially printed \$100 notes that an ECF employee stole in May 2006.¹ The objective of this audit was to determine the internal control failures that allowed the theft to occur and to determine whether BEP has enhanced its internal controls to (1) prevent the occurrence of a similar theft and (2) provide for timely detection should another theft occur. Appendix 1 contains a more detailed description of our objective, scope, and methodology.

In brief, we determined that the ECF theft occurred because BEP failed to ensure that production supervisors enforced, and employees adhered to, existing internal controls. Additionally, there were no policies and procedures in place to investigate production discrepancies. We are making three recommendations to strengthen BEP's internal controls in safeguarding assets and

¹ Currency manufacturing has multiple steps. Each side of a note goes through a separate printing, after which an individual serial number and Treasury seal are affixed. The 21 sheets stolen from ECF were missing only the serial numbers and Treasury seal. The thief was able to put partially printed currency into circulation by using casino vending machines.

investigating discrepant loads. BEP concurred with the recommendations and plans to add routine security patrols, establish policies and procedures for dealing with production discrepancies, and provide annual security training to employees.

It should be noted that in September 2006, the employee pled guilty, pursuant to a plea agreement, to one count of possession of tools and materials for counterfeiting purposes. In February 2007, the employee was sentenced to 9 months of incarceration, 3 years of supervised release, and ordered to pay restitution of \$37,200. After his arrest, the employee retired from federal service and is drawing a federal government pension.

Background

BEP produces U.S. currency and other security documents issued by the federal government. In fiscal year 2006, BEP produced 8.2 billion Federal Reserve Notes, with ECF supplying 3.7 billion and WCF supplying 4.5 billion. In fiscal year 2007, BEP produced 9.1 billion notes. The other types of security documents produced by BEP include portions of U.S. passports, materials for the Department of Homeland Security, military identification cards, and Immigration and Naturalization certificates.

In October 2004, WCF plant security officials called the Secret Service to report that a stack of \$50 notes totaling \$5,000 was missing. An individual employed at WCF from 1992 to 2005 fell under suspicion and admitted to stealing currency for about the last 6 years of his employment. In November 2005, the former employee was convicted of offenses related to the theft of \$30,000 from WCF.² In March 2007, we issued a report which found that a major factor in the theft was WCF's failure to follow its policies and procedures.³ The report also identified an absence of guidance when handling discrepant loads.

² Although the exact amount stolen could not be determined, authorities estimated that the individual removed notes totaling between \$600,000 and \$700,000 from WCF.

³ *Bill and Coin Manufacturing: Control Weaknesses Need To Be Addressed at BEP's Western Currency Facility*, OIG-07-035 (Mar. 30, 2007).

Finding

Policies Issued in Response to an Earlier Employee Theft Were Not Enforced

According to the investigation, the ECF theft occurred in May 2006 when an employee took 21 sheets of partially printed \$100 notes. Although the employee was not assigned to the area where the theft occurred, his job required him to enter the area to check skids of currency and make sure they were ready for transfer to the next production area. With no one observing him and with the security camera not focused on the area where the loads⁴ were staged, the employee confessed that he was able to remove the sheets from a skid and hide the sheets in his clothing prior to removing them from the facility.

After the remaining sheets in the load were transferred and went through the next phase of the production process, the load was identified as a discrepant load on a *Close of Business Report*⁵ with a shortage of 21 sheets. The follow-up reconciliation process did not resolve the discrepancy and an internal investigation was not conducted until the theft was detected when partially printed notes were discovered at several casinos.

Office of Management and Budget Circular No. A-123, *Management's Responsibility for Internal Control*, requires an agency that has identified significant areas of risk to implement activities to continually monitor and test controls to identify those that are poorly designed or ineffective. Management is responsible for improving such controls. Management is also responsible for communicating the objectives of internal control and ensuring that the organization is committed to sustaining an effective internal control environment.

⁴ A load starts out at 20,000 sheets but would be reduced when mutilated or quality control currency is removed from production.

⁵ The Close of Business Report is an accountability document produced daily for the purpose of tracking discrepant loads of currency from one production process to the next.

BEP issued the following memoranda and policies to improve and communicate its internal controls after the 2004 theft from WCF:

- In May 2005, the former BEP Director issued a memorandum to the bureau's management staff. The memorandum restated BEP policy regarding security, accountability, and safety of personnel and property and emphasized that supervisors are responsible for ensuring compliance with policies and procedures. Among the reminders was that no employee is exempt from the joint control requirements when in security areas or when removing products from sections.
- In July 2005, BEP issued new bureau guidance to change the reconciliation process and guide accountability for securities produced. BEP Circular No. 71-00.64, *Bureau of Engraving and Printing Zero Tolerance Policy* (hereafter referred to as the Zero Tolerance Policy), requires counts of all securities to be reconciled upon completion of each process before the securities are transferred to the next process. Procedures were to be established by each component in the production process, in coordination with the Office of Management Control (Compliance) and Office of Security, delineating the steps to be taken to resolve any discrepancy. Prior to the Zero Tolerance Policy, BEP had an unofficial practice of accepting plus or minus 10-sheet discrepancies in loads or processes.
- In October 2005, BEP management issued a second bureauwide policy, BEP Circular No. 71-00.65, *Custody and Control of Security Items* (hereafter referred to as the Custody and Control Policy), which established requirements for handling BEP securities and instruments and defined the different controls. For example, in segregated production areas and in nonproduction areas where securities are temporarily held during the production process, the policy specified that work be conducted by "joint control teams," which require that at least two team members work in the general presence and view of each other.
- In March 2006, not long after being appointed, the current BEP Director issued a memorandum that reemphasized BEP's policies

and procedures to protect and account for its product. The Director noted that Custody and Control Policy required employees to ensure that joint control be adhered to where required. The memorandum also cited (1) BEP Circular 71-00.66, *Procedures for Internal Transportation of Securities in Approved Containers*, (2) BEP Circular 70-03.18, *Physical Inventory Requirements for Sensitive Property and Security Items*, and (3) the Zero Tolerance Policy, which requires that all securities be reconciled upon completion of each process before being transferred to the next process. If differences are identified, the Zero Tolerance Policy requires employees to research and document reasons for the differences.

The ECF theft occurred in May 2006, only 2 months after the current Director's memorandum was issued. Nevertheless, the events surrounding the theft indicated that two of the policies highlighted in that memorandum were not being followed at the time of the theft.

First, the employee who stole the currency was alone in the staging area during the theft, in violation of the Custody and Control Policy's joint control requirement. During our audit, we observed during walkthroughs of ECF manufacturing areas that employees were still often working alone in areas requiring joint control.

Second, when the *Close of Business Report* showed that the total sheet count processed by one production section was 21 less than the number of sheets delivered from the prior section, the reconciliation did not result in a resolution of the discrepancy. Under the Zero Tolerance Policy, an unresolved discrepancy may be subject to review and investigation by the Office of Security. However, the Office of Security informed us that not all discrepancies are investigated and no investigation is undertaken until a formal referral is received from the Office of Compliance or, as in this case, a lead is received from another source.⁶ Because the Office of Compliance had begun using the *Close of Business*

⁶ A Currency Trouble Report is a memorandum that summarizes the discrepancy found, research done, and the issue pending.

Report instead of the previously used *Currency Trouble Report* to formally refer matters to the Office of Security, the Office of Security said it did not know an investigation was warranted. According to the Assistant to the Chief of the Office of Compliance, the Office of Security was made aware of the policy change several weeks prior to the theft. But we found that the Office of Security had not adjusted its policies and procedures to institute this change.

As a general observation, we did not find evidence that employees had been fully trained in complying with these policies. We believe providing employees with additional and continual training could help ensure an understanding of what is required and reinforce adherence to these requirements.

Recommendations

We recommend that the Director of BEP do the following:

1. Direct ECF management to ensure that production supervisors continually monitor and enforce employee adherence to policies and procedures.

Management Response

BEP concurred with the recommendation. By October 1, 2008, BEP will have its Police Operation Division at ECF begin conducting routine patrols of the currency section, as is currently being done at the WCF, to ensure supervisors and their employees are adhering to the policies and procedures. Officers will use a patrol checklist and, if a security violation is observed, may cite the responsible employee(s) and/or supervisor by issuing a BEP *Notice of Security Violation*.

OIG Comments

BEP's plan to have its Police Operation Division conduct routine patrols at the ECF to observe for security violations and, when

warranted, issue violation notices, satisfies the intent of our recommendation.

2. Direct BEP management to establish clear, written policies and procedures that specify assignment of responsibility and actions to be taken when discrepancies are found in the production process.

Management Response

BEP concurred with the recommendation. By January 1, 2009, BEP's Office of Security will develop written policies and procedures for both BEP facilities that specify the assignment of responsibility and actions to be taken when discrepancies are found during the production process.

OIG Comments

BEP's plan to develop and implement such policies and procedures, once done, satisfies the intent of our recommendation.

3. Direct BEP management to ensure that ECF employees, including supervisors, are trained and periodically retrained in product security-related policies and procedures.

Management Response

BEP concurred with the recommendation. By June 1, 2009, BEP's Office of Security will provide all employees with annual security refresher training.

OIG Comments

BEP's plan to conduct annual security training satisfies the intent of our recommendation.

* * * * *

We appreciate the courtesies and cooperation provided to our staff. If you wish to discuss this report, you may contact me at (617) 223-8640.

/s/
Donald P. Benson
Audit Director

Our audit objective was to determine the internal control failures that allowed the May 2006 theft of currency at the Eastern Currency Facility (ECF) to be perpetrated and to determine whether the Bureau of Engraving and Printing (BEP) has enhanced internal controls to (1) prevent the occurrence of a similar theft and (2) provide for timely detection should another theft occur.

To address these objectives, we

- reviewed BEP policies and procedures;
- reviewed internal BEP reports and memoranda;
- reviewed product accountability data;
- observed the ECF production process;
- performed analyses on discrepant load data; and
- discussed internal controls with ECF management and representatives from the Office of Compliance, Office of Currency Production, and Office of Security.

We performed work onsite at ECF from November 2006 to April 2007, with a follow-up visit in September 2007.

We conducted our audit in accordance with generally accepted government auditing standards.

Appendix 2
Management Response

June 6, 2008

MEMORANDUM FOR DONALD P. BENSON, DIRECTOR
OFFICE OF INSPECTOR GENERAL

FROM: Leonard R. Olijar /s/
Associate Director
(Chief Financial Officer)

SUBJECT: Draft Audit Report - CURRENCY MANUFACTURING:
BEP Needs to Enforce and Strengthen Controls at Its Eastern
Currency Facility to Prevent and Detect Employee Theft

Thank you for the opportunity to review the Office of Inspector General's (OIG) draft audit report "CURRENCY MANUFACTURING: BEP Needs to Enforce and Strengthen Controls at Its Eastern Currency Facility to Prevent and Detect Employee Theft." The Bureau of Engraving and Printing (BEP) offers the following comments on the draft report.

Finding 1, Recommendation 1:

We recommend that the Director of BEP direct ECF management to ensure that production supervisors continually monitor and enforce employee adherence to policies and procedures.

Comment:

BEP concurs with this recommendation. By October 1, 2008, the Bureau's Police Operation Division will begin routinely patrolling the currency sections to provide additional security presence within the sections to ensure that supervisors and their employees are adhering to the policies and procedures which is currently being done at the Western Currency Facility (WCF). During these section security patrols, officers will be using a patrol checklist and if a security violation is observed, the officer may issue a BEP Form 9090, Notice of Security Violation to the responsible employee(s) and/or to the responsible supervisor.

Finding 2, Recommendation 1:

We recommend that the Director of BEP direct BEP management to establish clear, written policies and procedures that specify assignment of responsibility and actions to be taken when discrepancies are found in the production process.

Note: BEP separately provided the signed response on its letterhead.

Comment:

BEP concurs with this recommendation. By January 1, 2009, the Bureau's Office of Security will develop written policies and procedures for both facilities that specify the assignment of responsibility and actions to be taken when discrepancies are found during the production process.

Finding 3, Recommendation 1:

We recommend that the Director of BEP direct BEP management to ensure that ECF employees, including supervisors, are trained and periodically retrained in product security-related policies and procedures.

Comment:

BEP concurs with this recommendation. By June 1, 2009, the Bureau's Office of Security will provide annual Security refresher training to all employees.

Office of Inspector General

Tom Byrnes, Director (retired)
Cedric Hammond, Sr., Audit Manager
John Lemen, Audit Manager (retired)
Stephen Syriala, Audit Manager (retired)
Susan Sebert, Auditor-in-Charge
Kenneth O'Loughlin, Auditor
Vicky Liu, Auditor
Myung Han, Referencer

Department of the Treasury

Office of Strategic Planning and Performance Management
Office of Accounting and Internal Control

Bureau of Engraving and Printing

Director
Associate Director (Chief Financial Officer)

Office of Management and Budget

OIG Budget Examiner