

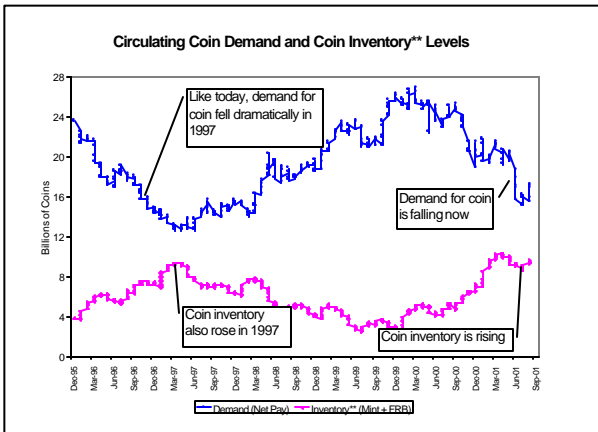
# UNITED STATES MINT

## Report to Congress on Operations

For the Period July 1 through September 30, 2001

Fourth Quarter FY 2001

### Summary



In the conference report to Public Law 104-52, enacted November 19, 1995, which created the United States Mint Public Enterprise Fund (PEF), Congress directed the Mint to report quarterly on implementation of the PEF. Since that time the Mint has reported on implementation and how it is using PEF flexibilities. This, the twenty-third quarterly report, takes on a new format and includes content that is prospective as well as retrospective.

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- ?? During FY 2001, the Mint transferred \$1.383 billion in profits excess to operating requirements to the Treasury General Fund.
- ?? For the fourth quarter FY 2001, circulating coinage revenues were \$395 million and bullion and numismatic sales revenues were \$100.3 million. For all of FY 2001, circulating coinage revenues were \$2.02 billion and bullion and numismatic sales revenues were \$411 million.
- ?? During FY 2001, Mint formal partnerships with the private sector drew 24 million Golden Dollars into circulation from the FRB, bringing the overall commercial demand for Golden Dollars to 216 million.
- ?? The downward trend in the economy affected the demand for circulating coins, with all denominations experiencing a decrease in units shipped and revenue generated during the fourth quarter FY 2001.
- ?? During the fourth quarter FY 2001, the Mint implemented a new online catalog; a new outsourced, centralized pick and pack product distribution facility; and a new customer relationship management system to become more customer-focused. As expected at startup, the Mint has experienced some difficulties with the new system and is working to resolve the issues.
- ?? The Mint has developed new priorities and a new vision to provide value, ensure integrity and achieve world-class performance.
- ?? The Mint's current projection for FY 2002 is to produce around 15.9 billion circulating coins, which will allow for both demand and inventory reductions. FY 2001 closed at 24.5 billion circulating coins.
- ?? The Mint reduced planned capital acquisitions for FY 2002 by \$63 million or 59 percent from the President's budget due to completion of an equipment life cycle study and facility reviews, and lower coin demand forecasts.
- ?? The Mint is developing several initiatives for quickly improving Mint safety.
- ?? The Mint placed construction associated with its museum on hold and is working with Congress to resolve any outstanding issues.

## State Of The Mint

### Impact of the Economy on Mint Operations

The Mint's three lines of business are producing circulating coins; manufacturing and marketing numismatic and bullion coins; and safeguarding Mint assets, and non-Mint assets in the custody of the Mint, including bullion reserves at Fort Knox and elsewhere. The revolving fund is financed by the sale of circulating coins to the Federal Reserve Bank (FRB) and the sale of numismatic and bullion coins and products to customers worldwide.

The demand for circulating coins is significantly related to the U.S. economy. A strong economy generally fuels the demand for more coins as businesses and consumers need more coins to complete various monetary transactions. A slowing economy significantly affects the Federal Reserve orders for circulating coins. The Mint's production plan was revised in May 2001 from 27.7 billion to 23.5 billion to reflect the changes within the economy. As the economy slowed further, additional adjustments were not immediately made by either the FRB or the Mint. While the Mint shipped 23.2 billion coins to the FRB during FY 2001, the lower than expected demand from the commercial sector resulted in a build up of inventories in the Mint and Federal Reserve vaults.

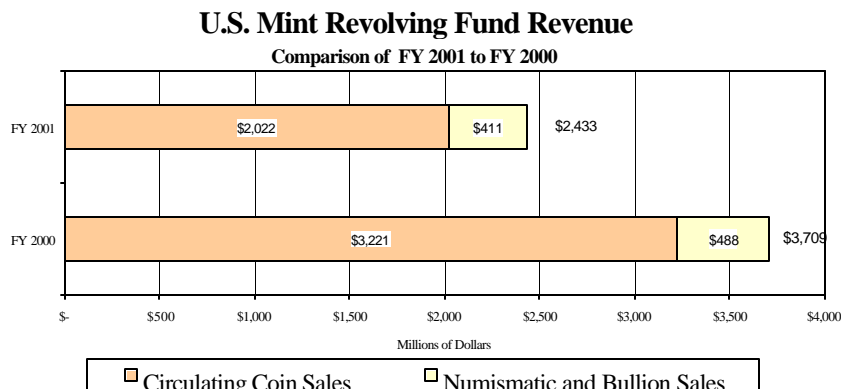
The Mint expects the downward trend in the economy to continue into FY 2002. In addition to the reduction in demand, there is the continued requirement to lower the inventory levels of coin held at the FRB. Therefore, the Mint's current projection for FY 2002 is to produce around 15.9 billion circulating coins, which will allow for both demand and inventory reductions. Adjustments to this target will be made, if necessary, as the economic repercussions from the September 11<sup>th</sup> acts of terrorism become clearer.

<b>U.S. Mint Revolving Fund Revenue 4<sup>th</sup> Quarter Comparisons</b>			
<b>Category</b>	<b>FY 2001</b>	<b>FY 2000</b>	<b>Change</b>
Circulating Coin Sales	\$395	\$740	- 47%
Bullion Coin Sales	\$36.8	\$14.6	+152%
Numismatic Coin Sales	\$63.5	\$84.4	-25%
<b>TOTAL</b>	\$495.3	\$838.6	- 41%

All circulating coin denominations experienced a decrease in both the number of units shipped and revenue generated during the fourth quarter FY 2001 due to reductions in commercial demand. For example, revenue generated from Golden Dollar shipments during the fourth quarter FY 2001, was \$11 million compared to \$177 million during the same period in FY 2000. The reduction in Mint orders is a result of the FRB drawing down their inventories. The demand at the FRB level for the dollar coin was 216 million in FY 2001. Since the dollar coin produces the largest profit margin, this decline affects the deposits to the General Fund. The Mint will be providing an updated Report to Congress on the Golden Dollar, which will describe actions taken and planned for circulation of the coin.

In contrast to circulating coinage revenues, bullion coin sales were exceptionally strong during the fourth quarter. Silver and gold bullion coin sales of \$32.9 million increased 184 percent compared to revenue of \$11.6 million for the same period last year because of the strong jump in precious metal coin sales after the September 11<sup>th</sup> acts of terrorism. Platinum sales increased \$0.9 million for the same period. Apart from bullion, however, the picture for numismatic sales is much like that for circulating coinage, although the decline is not as great. Commemorative coin sales were the bright spot, with \$13.9 million for the fourth quarter FY 2001 versus \$13.4 million for the same period last year because of the popularity of the American Buffalo Commemorative Coin.

**Treasury General Fund Deposits**



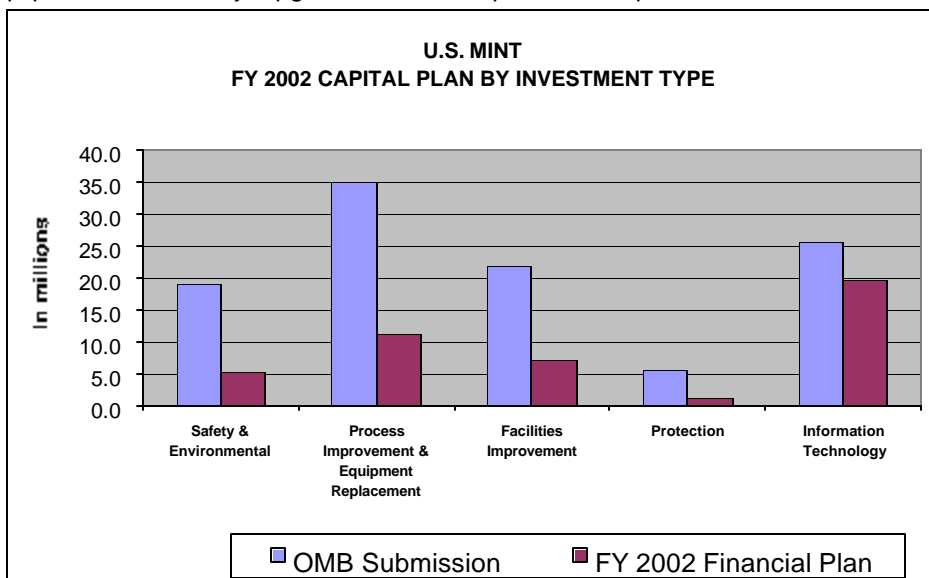
During FY 2001, the Mint transferred \$1.383 billion in profits excess to operating requirements to the Treasury General Fund -- \$1.283 billion attributable to circulating coinage, which enabled the Government to reduce the debt it issued, and \$0.100 billion attributable to numismatic operations, which was available to fund other Government operations.

**Reductions in Capital Investments**

The Mint reduced planned capital acquisitions for FY 2002 by \$63 million or 59 percent from the President's Budget. The reduction in investments is directly related to completion of an equipment life cycle study and facility reviews. This is evidenced by reduced investments for equipment and facility upgrades, which represent 60 percent of the reduction. Additional reductions are being made in the areas of information technology, protection and safety and environmental projects to be in line with current coin demand forecasts.

The Mint's current FY 2003 plan calls for reductions in investments from those contained in the most recent approved five-year Capital Plan which reflected an investment level of \$84.7 million. The FY 2003 plan, which approximates \$47 million, is presently under review with the Department.

The Congressional Budget Office (CBO), Office of Management and Budget (OMB), Treasury, and the Mint have met formally to discuss the difference in scoring amounts attributable to capital investments. All parties agreed to reconcile differences, by specific items, where possible, in scoring amounts calculated by CBO and OMB/Treasury/Mint. Resolution is expected to be reflected in the President's FY 2003 Budget submission.



**Performance Measures**

The Mint is in the process of developing new performance measures which can be benchmarked against the best in business, consistent with those used in the private sector. The new measures are being developed in consultation with a broad group of government and non-government partners. They will provide a complete snapshot of the Mint's finances, customers, workforce, and processes. The Mint will report on its progress in implementing these new measures in the next quarterly report.

## **New Priorities and Vision**

The Mint Director and Senior Management Team recently composed a New Mint Vision.

<p style="text-align: center;"><b>NEW MINT VISION</b> Provide <b>VALUE</b> to the American people; Ensure <b>INTEGRITY</b> in our commitments and communications; Achieve world-class <b>PERFORMANCE</b></p>
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To bring about this vision, sixteen taskforces looked at several important issues based on the themes of business results, stakeholders, products, and involving people important to the Mint and its partners.

To achieve **excellent business results that are prudent and thoughtful, providing the best return to the American people**, four task forces are focusing on performance measures, strategic budgeting, issues regarding safety and productivity improvements, and procurement. To include **stakeholders, ensuring honest, open, accurate, and timely communications**, three task forces are focusing on improving relations with Congress, the Inspector General, and the Press. To meet the **highest levels of quality, innovation, and efficiency in its products**, five task forces are focusing on coin redesign, commemoratives, licensing, web presence, and jewelry. To provide a **safe workplace, tools, and training in an innovative and flexible working environment where everyone can contribute**, four task forces are focusing on human resources and equal employment opportunity, internal communications, new era values, and paperwork reduction and clearance.

In September each task force submitted final reports to Senior Management for review and implementation guidance. Senior Management identified and chartered the taskforces to address immediate actions, committing the Mint to move swiftly. Subsequent reports will discuss resulting changes.

## **Update On Mint Activities**

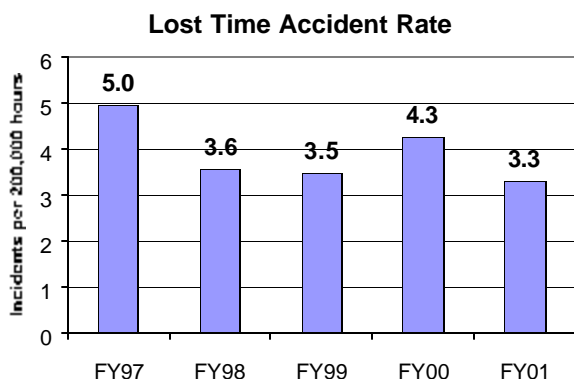
### **Circulation of Golden Dollars**

The commercial demand for Golden Dollars at the Federal Reserve level was 216 million in FY 2001. Besides general encouragement to various business sectors, in FY 2001 the Mint entered into over two-dozen formal partnerships to promote the Golden Dollar's circulation. The result of these partnerships yielded orders to the Federal Reserve banks of approximately 24 million Golden Dollars. Some key partnerships occurring during the fourth quarter FY 2001 include the nationwide retail nutritional supplement chain Vitamin World, which ordered 1.144 million, and entertainment giant Clear Channel Entertainment (formerly SFX) who ordered 10.0 million Golden Dollars.

Moreover, the Mint has focused on encouraging the banking sector to make the Golden Dollar available to its customers. In addition to those who are doing so, in July 2001 the Mint entered into a formal partnership with Sovereign Bank for a special promotion. Sovereign Bank is promoting the use of the Golden Dollar for new customers as they open new accounts.

## Safety

With the confirmation of Paul H. O'Neill as Treasury Secretary this past January, workplace safety has taken on a new urgency. The Secretary correctly focused the Mint's attention, as well as the attention of the entire Treasury Department, on reducing the Lost-Time Accident Rate to zero. He is supported in the belief that to care about co-workers means ensuring that the workplace is safe, dignified, and livable, and that workplace safety is everyone's responsibility – this means management and workers.



Safety has always been a priority for the Mint. Since the beginning of its Strategic Planning process more than seven years ago, safety has been included and measured. In the late-1990's, the Mint saw an overall improvement in safety. In the last several years, however, the Mint's injury statistics have remained relatively constant. The Mint must reach zero lost time accidents and has a long way to go, as shown by the chart. A taskforce is developing several initiatives to work on quickly improving Mint safety.

NOTE: Rate is number of employees who lost one or more days of work due to injury for every 200,000 hours worked. Each employee equals 2,000 working hours.

## Use of First Floor Space

In response to committee report and bill language requiring the Mint to obtain Congressional approval before construction or operation of a museum, the Mint has placed construction associated with the museum on hold. However, plans and drawings that had been started are being finalized pending conference on the appropriations bill. In addition, the Mint has identified some elements of construction that are common to any use of the space on the first floor of the Mint Headquarters building. Work on these elements will be completed within the next 90 days.

Both the Department of the Treasury and the Office of Management and Budget approved the project. Congressional staffs have been briefed on the museum plans, and a tour of the space was provided. The Mint is working with Congress to resolve any outstanding issues, and will continue to work with Congress. The total project budget is still estimated at \$10.4 million. The Mint has the required capital funding within its already approved FY 2002 apportionments schedule.

While working with Congress, the Mint continues to engage in dialogue with critical business partners and stakeholders. The Mint obtained status as an affiliated museum of the Smithsonian Institution, and is working with Smithsonian to identify suitable objects from its collections. The Secretary of the Smithsonian has encouraged collaboration.

With the necessary approvals, the Visitor Center could open sometime early in 2003.

## Accounting Treatment of Gold

The Mint renamed the Gold Bullion Reserves in May 2001 to differentiate between the Treasury Reserve Gold used for making coins ("Working Stock") and the Treasury Reserve Gold held in vaults for safekeeping ("Deep Storage"). The Mint previously renamed the Treasury Reserve Gold in West Point from Gold Bullion Reserve to Custodial Gold Bullion and from individual coins by program to Public Enterprise Fund (PEF) Gold. The earlier renaming of the West Point gold was to bring the terminology into line with the audited financial statements, and was not actually reclassified. Beginning with the May 2001 *Status Report of U.S. Treasury Owned Gold*, the Mint added explanatory footnotes to further clarify the terms used to categorize Mint-held gold. The ownership of the gold has not changed.

## **ESP Launch**

In last quarter's report, the Mint discussed its eBusiness Solutions Project (eSP) and its focus to transform the Mint's Numismatics business to become more customer-focused. During the fourth quarter FY 2001, three major elements of the eSP system were implemented to accomplish this goal: a new online catalog; a new outsourced, centralized pick and pack product distribution facility; and a new customer relationship management system that is integrated with the order entry, order processing, inventory management, and customer value assessment (CVA) applications. Due to budget cutbacks, the Mint stopped further development on applications not yet implemented, most notably, the CVA application. CVA applications allow enterprises to measure the value of individual customers and make profitable management decisions based on those valuations. In lieu of the new CVA system, the Mint will instead revert back to its existing MARCUS system for customer assessment. Although MARCUS is currently not integrated with the present architecture, the Mint plans to complete an integration in the first quarter of FY 2002.

The redesigned catalog, launched on August 24, 2001, enhances the customer's ability to place and monitor orders. Features such as online accounts, personal order histories, product status, order status, subscription services for recurring products, and e-gift certificates, will make the customer's retail experience more fulfilling and enjoyable.

On August 21, 2001, the first product shipments were made from the outsourced pick and pack fulfillment center. The center is a secure, state-of-the-art, contractor-operated warehouse facility. The inventory management system is integrated with the new web catalog, order processing and customer service systems to allow up-to-date information on product availability and deliveries. The system integration and order flexibilities will improve customer satisfaction. At the same time, the fulfillment center's consolidation of multiple product orders will reduce packing, postage and delivery costs and reduce the volume of customer inquiries related to order status.

During the launch, the Mint experienced some difficulties with the new system and continues to address integration and stabilization issues in both the online catalog and order entry systems. The system issues were not beyond the scope of expectations for a new computer system. The industry standard is typically 60 – 90 days to resolve system issues after startup. We are working on these issues. In addition, we are carefully assessing our customer service processes and making systemic corrections. This will take more time.

## **Other Highlights**

### **Vermont and Kentucky Quarter Launches**

The Vermont state quarter, 14<sup>th</sup> in the 50 State Quarters™ series, was released August 6, 2001 with a launch ceremony on August 13 in the state capital, Montpelier. Governor Dean, Treasurer Marin, Mint Director Fore, and local children and other state residents participated.

In mid-October the next state quarter, Kentucky, will be released, with the launch taking place at the historic site depicted on the reverse of the coin, Federal Hill, located in My Old Kentucky Home State Park, Bardstown. Governor Patton, First Lady Judi Patton, Treasurer Marin, Director Fore and children from the surrounding schools will participate.

### **Foreign Travel**

Following a practice instituted by Director Fore on her arrival at the Mint August 9, 2001, the Mint issued an updated travel policy on September 25, requiring stricter justification for undertaking foreign travel. In addition to all foreign travel requiring approval by the Director or Deputy Director, written justification must also be provided as to why the purpose of the travel cannot be accomplished through an alternate, less costly means.

## **A Look Ahead**

### **Leasing**

Commencing November 1, 2001, the Mint will be moving the Office of the Chief Information Officer (OCIO) to a building that is closer to the Mint headquarters building. Currently, OCIO is spread out among three buildings – 801 9<sup>th</sup> St NW (headquarters), 10 G St NE, and One Mass Avenue NW. This causes fragmentation and makes communication and team building more difficult.

The Mint is leasing 147,644 square feet of space on seven floors (currently the OCIO occupies 94,536 square feet spread over the three buildings (53,108 square feet more), but will be subleasing two of the seven floors to another Federal agency due to internal budget cutbacks and staffing reductions. When this approximately 41,000 square feet are subtracted from the lease total, the OCIO will end up occupying about 107,000 square feet, or about 12% more space than currently occupied, with no loss resulting from the sublease. The additional space is attributable to more support space such as training rooms, improved data center, meeting rooms, conference center and storage.

Since co-location was the key factor in selecting this space, the lease was not selected based on lower cost than present locations and will not result in cost savings for the Mint. The rate is \$3 to \$8 higher per square foot in comparison with the current prices, with slightly more space on a net basis, resulting in a higher cost to the Mint. Despite the higher cost, the lease is below market. The Mint expects to sublease the excess space at a rate which will fully recover all its costs.

### **Annual Financial Statement Audit**

The Mint's FY 2001 annual financial audit is currently underway. The audit fieldwork should be completed by mid-December, with the auditor's opinion issued by early January 2002.

### **Coin Redesign**

The Mint is exploring innovations and new technologies through its Coin Redesign Task Force to ensure that the Nation's coinage invokes pride in America, symbolizing our past, present, and future. The Task Force is assessing coinability and cost efficiencies associated with coin redesign, reviewing technological capabilities and advances, and determining roles for stakeholders in any redesign process in response to an impetus by Senators Gramm, Sarbanes and Enzi.

### **Organizational Reassessment and Realignment**

The reorganization of the Mint into Strategic Business Units in 1998 enabled the Mint to meet or exceed many of its strategic goals and objectives. This structure worked well and was crucial in many accomplishments. Business models must continue to evolve to align resources, infrastructure, and management, driving continuous improvement. As such, the Mint is moving forward to realign the Circulating Strategic Business Unit and the Numismatic Strategic Business Unit, while maintaining existing leadership. Circulating will be renamed "Manufacturing" and will be responsible for manufacturing all Mint coinage, including numismatic and bullion, and wholesale distribution of those coins. Numismatics will be renamed "Sales and Marketing" and will be responsible for all customer service, customer relationship management, and business development, including promotion of the Golden Dollar as well as all numismatic products.

### **Total Productive Manufacturing**

The Mint is moving toward Total Productive Manufacturing, a production philosophy that is widely recognized as the pinnacle in private sector manufacturing. The new focus will be on creating a safe and clean working environment, optimizing current facilities, upgrading equipment, and improving management tools, including the Supervisory Control and Data Acquisition system (SCADA). Total Productive Manufacturing entails full employee involvement through team-

based problem solving and training. The primary measure for success will be overall equipment effectiveness, which combines three critical components of manufacturing efficiency (Performance, Availability and Quality).

#### **Coin Management System Initiative**

The Mint is reaching out to the Federal Reserve to work collaboratively on an initiative that will streamline manufacturing and distribution processes, reduce the overall cost to the U.S., eliminate the potential for coin shortages and build confidence throughout the supply chain. Initial meetings have been held and a joint workgroup has been formed. The team is working towards implementation of a pilot program during FY 2002.

#### **Commemoration of the September 11 Tragedy**

The Mint is working with Congress to provide technical assistance and guidance on legislation commemorating the heroes and victims of the September 11 tragedy. Internally, the Mint is preparing to address design, capacity, production, numismatic interest and marketing for any coin or medal program that may be passed into law.