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PHYSICAL INVENTORY REQUIREMENTS FOR SECURITY ITEMS

1. PURPOSE AND SCOPE. This circular establishes general physical inventory requirements for maintaining physical security and accountability over all Bureau security items. This circular applies to all Bureau employees and components holding security items.

2. POLICY. The Bureau is committed to maintaining internal controls over all security items. One control method is verification through physical inventories. Attachment A identifies the security items, the responsible component, and the schedule of self-initiated inventories that the Bureau has committed to perform. Attachment B identifies the inventory commitments made to external organizations (e.g., the Department and Bureau customers). To ensure internal controls are maintained over all security items, DC Office Chiefs and Western Currency Facility (WCF) Division Managers having responsibility for security items, shall ensure physical inventories are conducted and documented. The Office of Management Control (OMC) shall monitor compliance with this policy, including periodic independent physical inventories. The Management Control Staff (MCS) is the OMC representative at the WCF.

3. DEFINITIONS.

a. Security items -BEP securities are defined in three (3) basic categories: Category I - finished securities and instruments of reproduction; Category II - securities and instruments of reproduction in process (unfinished and incomplete); and Category III - distinctive raw manufacturing materials features distinctive enough to warrant a high degree of physical protection. Additionally, selected non-security items are placed in Category IV. Bureau security items include but are not necessarily limited to: finished and unfinished currency and stamps; distinctive currency paper; high-value production materials such as color-shifting inks and ink taggents; and quality assurance displays. Instruments of reproduction include: plates; dies; rolls; altos; cylinders; and surface pieces.

b. Custodian - The individual within the Bureau component assigned immediate responsibility for the security items.

4. REFERENCES.

a. Office of Security memorandum, "Policy and Procedures Governing the Physical Protection Standards for the Storage of Securities and Instruments of Reproduction," dated June 5, 1996.

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b. BEP Circular 10.04-5, "Physical Inventory and Destruction Procedures for RFA-Produced Securities," dated April 6, 1998.

c. BEP Manual No. M-71-1, "Security Manual," dated September 28, 1993.

d. BEP Manual No. 82.00.0, "Handling and Accounting for Plate Stock," dated May 24, 1991. Note: Manual is being updated.

5. PROCEDURES.

a. All Custodians shall conduct periodic physical inventories of security items in accordance with guidelines in Attachment C.

b. All Custodians shall schedule the timing of their physical inventories in compliance with the schedule in Attachment A.

(1) Custodians shall reconcile physical inventories to official BEPMIS records. Differences between the physical count and official records must be fully explained and documented. Custodians must sign the physical inventory documentation.

(2) If the physical inventory results cannot be reconciled, the Custodian shall verbally notify their immediate supervisor during that shift, and the Manager, Product Systems & Control Division (PS&CD) in Washington, DC, or the Manager, Management Control Staff (MCS) in Fort Worth, TX, within 24 hours of discovery.

(3) Custodians shall retain written physical inventory documentation (e.g., count sheets, tags, reconciliation sheets, and written inventory procedures) supporting the inventory. Such documentation is subject to review by the Offices of Management Control (OMC) and Security (OS), the Management Control Staff (WCF), the Office of the Inspector General, and any external oversight organization, such as the General Accounting Office (GAO).

(4) Custodians shall maintain a file of all inventory documentation. Daily inventory documentation shall be retained for six months; weekly inventory documentation shall be retained for twelve months; and monthly and quarterly inventory documentation shall be retained for the two preceding fiscal years.

(5) To monitor compliance, the WCF Management Control Staff and the DC Office of Management Control shall perform unscheduled and unannounced inventories,

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6. REPORTING REQUIREMENTS. At the request of OMC or MCS, the Custodian's DC Office Chief, or WCF Division Manager shall submit a physical inventory report to the Chief, OMC. The inventory report, under the respective DC Office Chiefs or WCF Division Manager's signature, shall include: a copy of the physical inventory procedures; the date the inventory was conducted; the security items inventoried; and related reconciliation documentation.

7. OFFICE OF PRIMARY RESPONSIBILITY. Office of Management Control.

<SIGNED>

Thomas A. Ferguson
Director

Distribution E

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Attachment A

PHYSICAL INVENTORY REQUIREMENTS – DC

AD/Office	Security Item	Component	Schedule
COO/OE	ALTOS	ENGRAVING	DAILY
COO/OE	NUMERALS	ENGRAVING	WEEKLY
COO/OE	MASTER PLATES	ENGRAVING	WEEKLY
COO/OE	MASTER PLATES	ENGRAVING	DAILY
COO/OE	SEALS	ENGRAVING	WEEKLY
COO/OE	ROLLS	ENGRAVING	WEEKLY
COO/OE	DIES	ENGRAVING	WEEKLY
COO/OE	PLATES	ENGRAVING	DAILY
COO/OPIM	INKS	OPIM	QUARTERLY
COO/OPIM	CURRENCY PAPER	OPIM	QUARTERLY
COO/OCP	CURRENCY PLATES	PLATE PRINTING SECTIONS	WEEKLY

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AD/Office	Security Item	Component	Schedule
COO/OCP	CURRENCY INK	PLATE PRINTING SECTIONS	WEEKLY
COO/OCP	CURRENCY INK	COPE	WEEKLY
COO/OCP	DCP, PCB	PLATE PRINTING SECTIONS	DAILY
COO/OCP	UBE	MECH EXAM	DAILY
COO/OCP	EBE	MECH EXAM	DAILY
COO/OCP	EBE	COPE	DAILY
COO/OCP	EBE EXCH SHTS	COPE	DAILY
COO/OCP	STAR SHEETS	COPE	DAILY
COO/OCP	STAR NOTES	COPE	DAILY
COO/OCP	FINISH PROCESS	NOTE PACKAGING	DAILY
COO/OMC	CURR CASHPACKS	FRDV	ANNUALLY
COO/OCP	CURR CASHPACKS	FRDV	DAILY
COO/OSP	BOOK/COIL/SHEET	V & S USPS VAULT	DAILY

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AD/Office	Security Item	Component	Schedule
COO/OSP	TANK WORK	V & S BEP VAULT	DAILY
COO/OSP	OFFSET PLATES	PRESS SEC.1 325-M	DAILY
COO/OSP	PRESS CYLINDERS	PRESS SEC.6 C400-M	DAILY
COO/OSP	ROLLS/PHOS. PAPER	PRESS SEC.6 C400-M	DAILY
COO/OSP	PRESS SLEEVES	PRESS SEC.8 B400-M	DAILY
COO/OSP	OFFSET PLATES	PRESS SEC.8 B400-M	DAILY
COO/OSP	ROLLS/PHOS. PAPER	PRESS SEC.8 B400-M	DAILY
COO/OSP	POSTAGE ROLLS	MECH EXAM 517 -A	DAILY
COO/OSP	ROLLS/COILS	LARGE COIL D400-M	DAILY
COO/OSP	ROLLS/COILS	AUTO COIL D400-M	DAILY
COO/OSP	PLATES	AUTO BOOK A400-M	DAILY
COO/OSP	ROLLS/BOOKS	AUTO BOOK A400-M	DAILY
COO/OSP	ROLLS/COILS	HUCK COIL 507A;5V3;5V4	DAILY

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AD/Office	Security Item	Component	Schedule
COO/OSP	CERTIFICATES, ETC.	BINDERY 411A;422A	DAILY
COO/OSP	ROLL/SHEET	GOEBEL PERF 605A; 619-A	DAILY
COO/OSP	ROLL/SHEET	OFFLINE PERF 33-M	DAILY
COO/OSP	OFFSET PLATES	FLATBED 422-A	DAILY
COO/OSP	CERTIFICATES, ETC.	SHEETFED;FLATBED 422-A	WEEKLY
COO/OSP	SHEET	SHEET SECTION B300-M	DAILY
COO/OSP	OFFSET PLATES	WEB OFFSET A300-M	DAILY
COO/OSP	CERTIFICATES, ETC.	WEB A300M; VAULT 413A	WEEKLY
TECH/STI	CURRENCY PAPER	NCD GROUP	QUARTERLY
TECH/STI	CURRENCY	NCD GROUP	QUARTERLY
TECH/STI	CURRENCY PAPER	STI	QUARTERLY
TECH/STI	CURRENCY	STI	QUARTERLY
TECH/STI	SEALS	STI	QUARTERLY

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AD/Office	Security Item	Component	Schedule
TECH/STI	SEC THREADS	STI	QUARTERLY
TECH/STI	IMAGES	STI	QUARTERLY
TECH/STI	HOLOGRAM	STI	QUARTERLY
TECH/STI	COUNTERFEITS	STI	QUARTERLY
TECH/STI	STAMP COILS	COTR	ANNUALLY
TECH/ORTS	CURRENCY PAPER	SPECIMEN VAULT	QUARTERLY
TECH/ORTS	CURRENCY	SPECIMEN VAULT	QUARTERLY
TECH/ORTS	STAMPS	SPECIMEN VAULT	QUARTERLY
TECH/ORTS	PLATE, STAMPS	PLATE VAULT	QUARTERLY
TECH/OPS	PLATES, CURRENCY	PLATE VAULT	WEEKLY
TECH/OPS	EMBOSSING DIES	PLATE VAULT	QUARTERLY
TECH/OPS	SHELLS	PLATE VAULT	QUARTERLY
TECH/OPS	SURFACE PIECES	PLATE VAULT	WEEKLY

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AD/Office	Security Item	Component	Schedule
TECH/OPS	DIES	PLATE VAULT	QUARTERLY
TECH/OPS	OFFSET PLATES	PLATE VAULT	QUARTERLY
TECH/OPS	POSTAL PROPERTY	PLATE VAULT	QUARTERLY
TECH/OPS	PHOTO MASKS	PLATE VAULT	QUARTERLY
TECH/OPS	PHOTO NEGATIVES	PLATE VAULT	QUARTERLY
TECH/OPS	TAGGENTS	INK MILL	DAILY
TECH/OPS	INKS	INK MILL	WEEKLY
TECH/ORTS	ROLLS	SPECIMEN VAULT	QUARTERLY
TECH/ORTS	SPECIAL PRODUCTS	SPECIMEN VAULT	QUARTERLY
TECH/ORTS	CURRENCY PAPER	RESEARCH & TECH	SEMI-ANNUAL
TECH/ORTS	DCP/CURR PAPER	RESEARCH & TECH	SEMI-ANNUAL
TECH/ORTS	STAMPS	RESEARCH & TECH	SEMI-ANNUAL
TECH/ORTS	STAMP SOILS	RESEARCH & TECH	SEMI-ANNUAL

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AD/Office	Security Item	Component	Schedule
CFO/OCS	SPECIMENS	OCS	ANNUALLY
CFO/OCS	MUTS, PRODUCTION	SVS	DAILY
CFO/OMC	DISPLAY FRAMES	PS&CD	ANNUALLY
OER	HISTORIC R. CENTER	OER	ANNUALLY
OER	CURRENCY SHEETS	GIFT SHOP	DAILY
OER	CURRENCY SHEETS	MO VAULT; 419M	DAILY
OER	CURRENCY SHEETS	PS VAULT; 419M	WEEKLY
OER	COINS	GIFT SHOP VAULT	DAILY
OER	CURRENCY/STAMPS	SHOW SALES	DAILY
MNGMNT/OS	CURRENCY NOTES	OS OFFICE SAFES	ANNUALLY
MNGMNT/OS	CURRENCY MUTS	DESTRUCTION UNIT	WEEKLY

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<u>Office</u>	<u>Security Item</u>	<u>Component</u>	<u>Schedule</u>
CURR. MFG. DIV.	CURR PAPER-DCP	PLATE PRINTING	MONTHLY
	PRTD CURR BACKS	PLATE PRINTING	MONTHLY
	INKS	PLATE PRINTING	MONTHLY
	UBE	MECH EXAM	MONTHLY
	SEALS	COPE	ANNUALLY
	INKS	COPE	MONTHLY
	PROCESSES	PACKAGING/FRDV	MONTHLY
	EBE SHTS/STAR SHTS & NOTES	NOTE/SHEET EXCHANGE	MONTHLY
	DCP	QUALITY ASSURANCE	MONTHLY
	PCB	QUALITY ASSURANCE	MONTHLY
	UBE	QUALITY ASSURANCE	MONTHLY
	EBE	QUALITY ASSURANCE	MONTHLY

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Office	Security Item	Component	Schedule
	STANDARDS	QUALITY ASSURANCE	MONTHLY
SEC.&POL.DIV.	DISPLAY FRAMES/STDS	PRODUCT SECURITY	ANNUALLY
	MUTILATED WORK	PRODUCT SECURITY	ANNUALLY
TECH.SUP.DIV.	DCP	GENERAL STORES	MONTHLY
	INKS	GENERAL STORES	MONTHLY
	INKS	INK MILL	MONTHLY
	DIES	PLATE MAKING	QUARTERLY
	MASTER PLATES	PLATE MAKING	QUARTERLY
	ALTOS	PLATE MAKING	QUARTERLY
	CURRENCY PLATES	PLATE MAKING	QUARTERLY
	NUMERALS	ENGRAVING	QUARTERLY
	SEALS	ENGRAVING	QUARTERLY
	MASTER PLATES	ENGRAVING	QUARTERLY

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Office	Security Item	Component	Schedule
	MASTER PLATES	PLATE VAULT	QUARTERLY
	ALTOS	PLATE VAULT	QUARTERLY
	CURRENCY PLATES	PLATE VAULT	QUARTERLY
	NUMERALS	PLATE VAULT	QUARTERLY
TECH.SUP.DIV.	SEALS	PLATE VAULT	QUARTERLY
MC&IS STAFF	MUTILATED WORK	SECURITIES VERIFICATION	MONTHLY

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Attachment B

BUREAU PHYSICAL INVENTORY COMMITMENTS FOR SECURITY ITEMS

B-1. PURPOSE AND SCOPE. This attachment identifies the physical inventories the Bureau is committed to perform, and for whom. It applies to both the Washington, DC and Ft. Worth, TX facilities.

B-2. EXTERNAL INVENTORY COMMITMENTS.

a. The Bureau is committed to the Department and the Federal Reserve System to physically inventory the Federal Reserve Depository Vault annually.

b. The Bureau is additionally committed to the Department for ensuring that:

(1) the Office of Currency Production's, Plate Printing Sections conduct weekly inventories of currency plates, and promptly return cancelled plates to the Plate Vault; and

(2) the Office of Management Control (OMC) conducts:

(a) semi-annual inventories of all plate stock (i.e., instruments of reproduction); and

(b) unscheduled, spot inventories of ACD (anti-counterfeit deterrence) securities.

B-3. INTERNAL INVENTORY COMMITMENTS.

a. Bureau Custodians shall physically inventory their security items while observing a self-initiated schedule.

b. Custodians of BEP test securities shall comply with inventory requirements, retention timeframes, destruction requirements, and reporting requirements, as set forth in BEP Circular 10-04.5, "Physical Inventory and Destruction Procedures for RFA-Produced Securities," dated April 6, 1998.

c. The Office of Management Control shall conduct annual inventories of all production areas containing securities and instruments of reproduction.

Attachment C

PHYSICAL INVENTORY GUIDELINES FOR BUREAU SECURITY ITEMS

C-1. **PURPOSE AND SCOPE.** All Bureau components having custody of security items are responsible for conducting periodic physical inventories. These are general guidelines that provide minimum requirements for conducting a physical inventory.

C-2. **BACKGROUND.** Standard accounting practices require that physical inventories be performed to ensure the accuracy of perpetual inventory records. This practice enhances internal controls and accountability for Bureau security items.

C-3. **DEFINITIONS.**

a. *Security items or securities* – Bureau security items include: finished and unfinished currency and stamps; distinctive currency paper; high-value production materials such as color shifting inks and ink taggents; and quality assurance displays. Instruments of reproduction include: plates; dies; rolls; altos; cylinders; and surface pieces.

b. *Official Bureau records* – BEPMIS (Bureau of Engraving and Printing Management Information System) is usually the official record, but in some cases an electronic spreadsheet or a manual listing of safe contents could be the official record. If there is a question as to what the official Bureau records are for specific security items or instruments of reproduction, contact the Office of Management Control.

c. *Physical inventory* – The process of periodically counting the stock of security items, matching the securities to official records, and reconciling (or explaining) any differences. For example, an acceptable reconciliation difference between the physical count and a BEPMIS printout might be that missing securities were transferred out. In this instance, a copy of the Transfer/Delivery (T/D) Schedule and BEPMIS adjustment entry would explain and document the reconciliation.

d. *Separation of duties* – No individual handles all aspects of an inventory. For example, the tasks of handling the securities, recording the count and reconciling to official records should be divided between at least two people. Separation of duties ensures that one person alone cannot misappropriate securities and then conceal this fact in accountability records.

e. *Checks and balances* – The work of one person is verified by another, preferably an independent observer.

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f. *Audit trail* – An audit trail documents the movement of securities in and out of areas of responsibility. The audit trail should be documented so that auditors can easily review the file and understand the logic of the inventory process.

C-4. INVENTORY PROCEDURES. Inventory procedures vary by how often they are performed; complexity; and documentation requirements. Persons conducting these inventories shall be at a high enough grade level to ensure accountability and internal controls. The DC Office Chief or the WCF Division Manager are ultimately responsible for ensuring inventory procedures are properly followed and inventory adjustments are documented. For the purposes of this circular there are three levels of inventory complexity: (1) Routine; (2) Periodic; and (3) Special.

a. Routine Inventories are performed daily and weekly, and are essentially a spot check of the movement of security items. Routine inventories may be performed solely by the person accepting custody of the security items. Use of a BEPMIS printout or inventory record list while conducting the inventory is acceptable.

(1) Routine Inventories should be conducted when operations are stopped or when activity is at a minimum. This reduces the movement of securities in or out of the area, and makes the reconciliation process easier.

(2) Routine Inventories should be reconciled by comparing and matching the physical count to official records. Differences between the physical count and the official records shall be explained or reconciled, and copies of all BEPMIS adjustment transactions should be retained. Differences may be attributed to a miscount, incomplete official records (e.g., missing T/D Schedules), or theft! Reconciling adjustments (e.g., annotating the BEPMIS printout) should be documented and filed. Daily inventory documentation shall be retained for six months, and weekly documentation for one year.

b. Periodic Inventories are performed monthly, quarterly, or annually. They shall be performed by two persons, in accordance with documented inventory procedures, providing for Separation of Duties (C-3.d), Checks and Balances (C-3.e), and Audit Trails (c-3.f).

(1) Periodic Inventories should be conducted when operations are stopped or when activity is at a minimum. This reduces the movement of securities in or out of the area, and makes the reconciliation process easier.

(2) Periodic Inventories require a team(s) of two to count the securities: one to count and uniquely describe the securities (e.g., currency denomination, serial

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number range, or specimen number) and another to record the information. Also, to the extent possible, at least one inventory team member should be an independent participant and who is not responsible for the securities.

(3) Periodic Inventories shall be conducted using a "blind count." A blind count is done without the aid of a list or BEPMIS printout of the securities. Application of formal inventory practices is expected (to the extent possible), and the use of count sheets, tags, and reconciliation sheets is strongly suggested.

(4) Periodic Inventories are reconciled by comparing and matching the physical count to official records. Explain or 'reconcile' any differences between the physical count and the official records. Differences may be due to a miscount, incomplete official records (e.g., missing T/D Schedules), or theft! Thoroughly document all reconciling adjustments, including BEPMIS transactions. The Custodian shall retain inventory documentation from the two previous fiscal years.

c. Special Inventories require that formal physical inventory procedures be followed. Special Inventories are usually large and complex. They include the Federal Reserve Depository Vault (FRDV) inventory, and the semi-annual plate stock inventories performed by OMC. Special Inventories may also be conducted because of a specific request by Bureau management, the Custodian, or OMC/MCS. Special Inventories are conducted by the Custodian or OMC/MCS.

(1) A written Inventory Plan is required and must be approved by OMC/MCS.

(2) The person responsible for conducting a Special Inventory shall be in a higher job position than those responsible for conducting Routine Inventories. The Custodian should observe and assist in the Special Inventory.

(3) Standard inventory procedures shall be followed, including: using two-person teams to count the securities; uniquely describing each security; using inventory teams with at least one independent participant not responsible for the securities; documenting work to provide an audit trail; taking 'blind counts' of the securities; using count sheets, tags (if required), and reconciliation sheets.

C-5. INVENTORY RECORDS. Special and Routine Inventory documentation shall be retained by the DC Office of WCF Division conducting the inventory for two fiscal years. Official inventory records shall be complete and accurate.

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C-6. INTERNAL CONTROL REVIEW. OMC and MCS will review inventory procedures, and monitor physical inventories on a random basis to ensure internal control and operating procedures are in place and followed and that physical inventories of **all** security items are performed.