



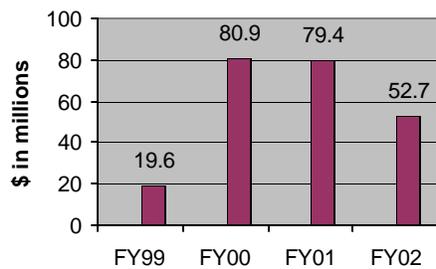
UNITED STATES MINT

Report to Congress on Operations

For the Period October 1 through December 31, 2001
1st Quarter FY 2002

Summary

**Numismatics Non-Bullion
1st Quarter Revenues**



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 is the twenty-fourth quarterly report and includes content that is prospective as well as retrospective.

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- ?? First quarter FY 2002 revenues: circulating coin \$289 million, bullion coin \$49 million and numismatic products \$52 million. Circulating and numismatic revenues saw the continuation of the downward trend from last quarter, while the bullion coin revenues realized a significant increase.
- ?? In the first quarter of FY 2002, Federal Reserve orders for 30 million Golden Dollars were shipped.
- ?? The Mint currently projects producing around 12.7 billion circulating coins for FY 2002, a reduction from the 15.9 billion level planned at the beginning of FY 2002.
- ?? To address lower revenue, the Mint is aggressively reducing G and A costs, in areas ranging from staffing, contracted services and on-site contractor support, to travel and paper usage.
- ?? On October 29, 2001, the Mint launched a new Consumer and Business Awareness Web site.
- ?? Mint goal to meet and exceed customer expectations was recently furthered by shortening shipment times; debiting upon shipment rather than order placement; offering a subscription program; and providing flexible ordering options for the annual catalog.
- ?? On December 27, 2001, the Mint achieved another milestone, with sales of silver American Eagles reaching 100,000,000 coins since program inception in Fall 1986. This world leader silver bullion coin relies on the U.S. strategic silver stockpile, which is rapidly being depleted.
- ?? Updates: New performance measures will soon be in place – the Mint continues to work with the FRB to improve demand forecasting, distribution and inventory monitoring – lost time accidents are being uniformly tracked through an electronic departmental system.
- ?? Other Highlights: Tennessee state quarter launch in mid-January with teacher lesson plans promoted – coin design display for congressional committees planned for February 2002 – additional presentations of Navajo Code Talkers Congressional Medal, other medals in design or planning.
- ?? Ahead: Coming soon to Congress – updated report on Golden Dollar, marketing plans for Golden Dollar and 50 State Quarters® - 8th “clean” audit opinion due, weaknesses being addressed.

Adjusting Mint Operations for the Economic Slowdown

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. As conditions affect the economy, the Federal Reserve adjusts its coinage orders to maintain sufficient inventory levels to meet the needs of commercial establishments and the general public. In addition to the state of the economy, factors such as storage capacity, the amount of excess coin returned to the Federal Reserve from its customers, and internal inventory management policies affect the coin ordering decisions made by the Federal Reserve.

The downward trend in the economy experienced in FY 2001 continued into FY 2002, affecting Federal Reserve coin orders and subsequent circulating coin shipments and revenues. In the first quarter of FY 2002, the Mint received revenues of \$289 million for circulating coin shipments to the Federal Reserve, compared to \$618 million for the same quarter in FY 2001. A comparison of this \$289 million figure to the previous quarter's revenues (\$395 million for July through September 2001) shows a similar, but less dramatic decrease (-27%).

U.S. Mint Revolving Fund Revenue 1st Quarter Comparisons (millions of dollars)			
Category	FY 2002	FY 2001	Change
Circulating Coin Sales	\$289	\$618	- 53%
Bullion Coin Sales*	\$ 49	\$ 35	+40%
Numismatic Coin Sales	\$ 52	\$ 79	-34%
TOTAL	\$390	\$732	- 47%

*Investment versions; proof versions are part of numismatic sales

During the first quarter of FY 2002, shipments of all denominations in response to Federal Reserve coin orders declined in comparison to a year ago. Cent shipments showed the highest decline, followed by nickel and quarter shipments. Since quarters contribute much more heavily to Mint revenues than cents and nickels, the decline in quarters significantly affected total Mint revenues for the quarter. Although Federal Reserve orders for all denominations were lower this quarter compared to a year ago, actual demand for the Golden Dollar was higher than expected. While shipments of other denominations declined by 65% or more, Golden Dollar shipments declined by only 8%. This is particularly significant in light of the fact that although the Federal Reserve did not include any Golden Dollars in its quarterly coin order submitted prior to the quarter's beginning, it subsequently requested over 30 million dollars be shipped to a variety of locations around the country.

The Mint began FY 2002 with an anticipated production level of 15.9 billion circulating coins. This production level was developed using projected coin requirements provided by the Federal Reserve, as well as econometric forecasts and information on Mint inventory positions. Due to a continued decline in the economy, especially following the September 11th acts of terrorism, and a continued decline in Federal Reserve orders, the Mint has revised its FY 2002 circulating coinage production plan downwards to 12.7 billion coins.

In contrast to circulating coinage revenues, bullion coin sales rose, up 33 percent over the fourth quarter of FY 2001, and 40 percent higher than the same quarter a year ago. Both gold and silver sales were up compared to the first quarter of FY 2001, with gold up 50 percent and silver up nearly 38 percent. Platinum sales were unchanged. Aside from bullion, however, numismatic sales were experiencing declines similar to circulating coinage, but at a lesser rate, declining 34 percent compared to the first quarter of FY 2001. The recurring programs were hit hardest, with reduced revenue of \$17 million, caused by a major drop in United States Mint Silver Proof Set™ sales. American Eagle Proof program sales were off \$7 million, as a result of a major drop in proof platinum sales, which strong proof gold and silver American Eagle sales could only partly offset. With the U.S. economy in recession, one of the earliest affected sectors was the collectibles market. The Mint's major programs are scheduled to drop in May or June of FY 2002, and would be positioned to take advantage of any upturn in the collectibles market as the result of near term economic recovery.

To address the lower revenue, the Mint has been aggressively reducing general and administrative costs. This has included staffing reductions; eliminating most on-site contractor support, especially in the information technology area; sharply reducing contracted services; placing greater reliance on video and tele-conferencing in lieu of travel; and more judicious use of training funds. To reduce and control staffing, the Mint implemented a number of measures, including releasing the majority of temporary employees; canceling recruitment announcements for most vacant positions; obtaining early-out authority and offering early-outs; targeting hiring freezes; and reducing the hours of seasonal employees. In the area of contracted services, the Mint has reduced public relations contracts in favor of in-house efforts and renegotiated lower telecommunications rates for its new annex building, among other things. In addition, the Mint has been eliminating and simplifying processes from the shop floor (e.g., centralizing receiving of raw materials) to the office (e.g., reducing paper through greater use of electronic distribution).

Consumer Protections against Misleading Advertising

On October 29, 2001 the Mint launched a new Consumer and Business Awareness Web site -- www.usmint.gov/consumer -- that explains the variety of replicas and coin-related products in the market that are easily confused with authentic U.S. Mint coins and medals.

The Mint frequently receives calls and letters regarding replicas, colorized coins and other coin-related products and advertisements, which are mistaken for Mint products. The new Web site helps consumers distinguish between the many coin-related products on the market and gives information to businesses that want to produce and market coin-related products in an ethical and consumer-friendly way.

The Consumer Awareness section of the site discusses replicas and colorized versions of authentic U.S. coins, gives tips on identifying authentic U.S. coins and provides links to other helpful Web sites for consumers. It also presents "Hot Items" – products that currently appear to be causing confusion among consumers.

The Business Awareness section of the site is intended to help businesses that wish to produce and market coin-related products by providing information on U.S. laws governing copyright, trademark, false and deceptive advertising and counterfeiting.

The Mint is exploring other opportunities to protect consumers from confusing/misleading advertising and products, and will keep Congress updated in future reports and dialogues.

Customer Service Focus

Customer relationship management is key to the Mint's customer-centric strategy. The Mint goal is to meet and exceed the expectations of its customers with the kinds of products and services they want. Several recent Mint actions have furthered this goal.

Providing shipment to customers in turnaround times faster than in previous years was a goal set and met through 2000. In fact, the average customer shipments were occurring in approximately two weeks. In the late 1990's vast improvements in customer fulfillment were made. However, with the advent of the Mint's new pick and pack fulfillment center operation under the eBusiness Solutions Project (eSP) program, customers can expect even faster service. As long as inventory is available, 99% of orders are being shipped within two days. The combination of a central shipping facility and use of USPS and FedEx shipping now enables the Mint the capability of matching best in business practices with respect to order fulfillment.

A new and significant feature for Mint customers is the debit-upon-shipment feature. As a result of the system enhancement, the new ordering system will not charge customers until the order is shipped. Previously, customers were immediately charged for merchandise when they placed their order.

In September 2001, the Mint launched a subscription program for its most popular products. Due to the positive response from customers, additional products were added in the first quarter of FY 2002. The subscription program permits loyal customers to enroll in the selected subscription and receive those products automatically until the customer cancels or the

program comes to an end. Response has been favorable, with more than 10,000 customers having ordered over 65,000 subscriptions as of the end of the first quarter. Based on this initial success, the Mint plans to expand its promotional efforts and subscription product offerings.

In October 2001, the Mint mailed its annual catalog of products offering commemorative coins, annual sets, and assorted numismatic products. Approximately 3 million catalogs were mailed to the Mint's active and inactive customers. In response to recent budget cuts associated with prevailing economic conditions, the traditional re-mail effort was eliminated from the catalog campaign. Customers were given the flexibility to place catalog orders via mail, 800# or online. Sales were good despite the unknown impact of anthrax related postal system delays, since the majority of orders are via mail (just under 65 percent). Sales revenue for the 2001 catalog exceeded \$28 million, beating the Mint's initial expectations.

Error Coin Management Practices and Protection Measures

The U.S. Mint is committed to preventing the production and/or distribution of error coins. Error coins most commonly result unintentionally during the production process. The more common coin errors include double die strikes, double-struck coins, capped dies as a result of coin jams, incomplete planchets resulting in clips, incomplete strikes, and off-center strikes. Less common errors entering circulation have been medal turns, which occur when the obverse and reverse designs of a coin are aligned in the same direction, and mule errors, which occur when an obverse die is of one coin and the reverse die is of another coin. When errors are made, intentionally or unintentionally, the Mint takes every measure to ensure that the error(s) do not leave the plant. On the rare occasion when error coins intentionally leave a facility as a result of employee misconduct, the Mint takes every action, in collaboration with the Treasury Office of the Inspector General and the Department of Justice, to ensure that the individual(s) is fired, prosecuted, and convicted.

In all cases, the Mint is strengthening production and security practices and increasing accountability. These procedures include examining the first coin struck after inserting new dies into a coin press; using locked boxes for securing error coins; conducting bimonthly walk-throughs, random security reviews and weekly teleconferences with field facilities; and increasing employee training. In addition, a specific committee reviews and monitors all reports of error coins in circulation.

A report was submitted to members of Congress associated with Mint oversight at the end of September, which explained the measures in place to prevent/reduce error coin production and/or distribution.

American Eagle Bullion Coin Program and Stockpile Silver

Since the beginning of the American Eagle Silver Bullion Coin Program in 1986, the Mint, through an interagency agreement with the Defense Logistics Agency (DLA), has been using the Strategic and Critical Materials Stockpile as the source of silver as mandated by the program's enacting legislation. Sales of American Eagle Silver Bullion Coins continued to be strong in the first quarter of FY 2002, generating revenues of \$11 million. A program milestone was reached on December 27, 2001, with an order pushing the program total (since 1986) to 100,000,000 Silver Eagles sold. American Eagle Silver Bullion Coins continue to dominate both the domestic and global markets, outselling its nearest competitor by a nearly 10 to 1 margin.

This strength in the marketplace is rapidly depleting the silver stockpile. Based on current sales projections, plus current inventory of blanks, there is enough silver in the DLA stockpile to cover through the first quarter FY 2003 (end of calendar year 2002). If a technical amendment to the program's enacting legislation is not approved before then, the Mint would be required to shutdown the program when DLA silver is depleted. In order to continue the program, the Mint is proposing an amendment that will allow the Secretary to obtain silver from any other available source as a stockpile depletion contingency, similar to the bullion source provisions in commemorative coin legislation. This language was provided to Congress last quarter for consideration.

Position Review at Philadelphia Mint

In 1998 - 1999 the Mint undertook a nationwide review of its manufacturing facilities for the purpose of developing standardized Mint-wide position descriptions where appropriate. In February 2000 the standard position descriptions were issued for use to the extent applicable. In April 2001, it was discovered that Philadelphia Mint management and Human Resources personnel jointly conducted another review for over 1/3 of the positions at the facility. The review resulted in 244 non-competitive promotions between January 2000 and April 2001.

Upon discovery, headquarters Mint management immediately rescinded classification authority and established an independent project team composed of two outside expert consultants and a senior classifier from the Denver Mint to study actions and recommend appropriate changes. The Project Team conducted on-site visits to gather information through interviews, observation, and detailed review of classification and job grading standards that were used to upgrade the impacted positions. The review findings indicated that position descriptions supported the higher grades on paper but did not necessarily reflect the work being performed. Recommendations were as follows: downgrade 88 positions, change title and series for 23 positions, change title only for 16 positions, promote 6 positions, and effect no change for 18 positions.

New position descriptions were developed and certified by supervisors and Corporate Human Resources personnel. All impacted employees were found to be eligible for grade and pay retentions and were notified in writing and at briefing sessions about the new classification determination, appeal rights and grade/pay retention eligibility. To ensure that actions and recommendations were appropriate, the Office of Personnel Management (OPM) provided classification specialists, who validated all findings. Reclassification decisions were effective on December 2, 2001. As a final step, Mint management is reviewing delegation authorities and practices to ensure proper oversight in the future.

Update On Mint Activities

Performance Measures

At the end of the quarter the Mint was finalizing 10 new high-level performance measures, covering people, processes, results, customer satisfaction, and protection of people and assets. The Mint was in the process of collecting data and establishing benchmarks for these measures, and was developing graphical displays for the Mint Intranet for three of the measures. The Mint expects substantial progress on the Intranet project during the second quarter FY 2002. Upon the Secretary's concurrence with the performance measures, these measures will be included in the Department's FY 2004 budget call (April/May 2002).

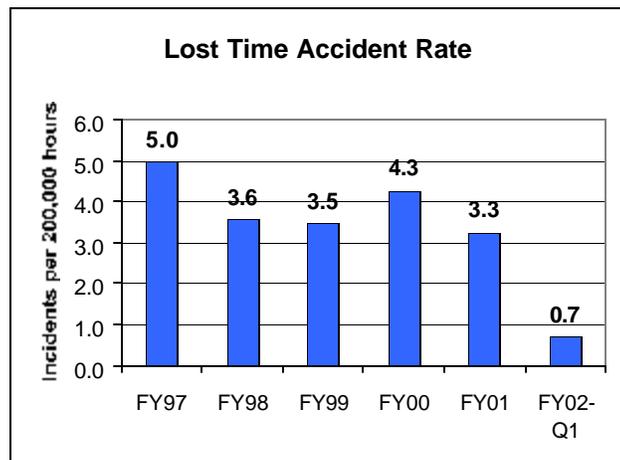
Inventory Management System

The Mint is continuing to work collaboratively with the Federal Reserve on a number of circulating coin initiatives to both reduce the cost of and streamline the processes associated with coin manufacturing and distribution throughout America. During the first quarter, a joint Coin Efficiencies Workgroup developed and implemented a single forecasting model used by both the Mint and the Federal Reserve to determine coin demand. The collaboration has also made significant progress in enhancing order processing and inventory monitoring, as well as establishing metrics that facilitate performance monitoring. In addition, the workgroup has developed a shared pallet tracking application accessed via the Mint Extranet that will be rolled out to Mint and FRB personnel in January.

During the second quarter, the group's efforts will focus on building forecasting models and inventory performance metrics for use by individual FRB offices, developing relationships with armored carriers and depository institutions to gain better visibility of system-wide inventories, and expanding our use of the Extranet by adding the monthly FRB Coin Shipment Schedule and other shared applications.

The Mint is aware that representatives from private companies and financial institutions for whom the handling and distribution of U.S. coinage is also of significant importance have formed an ad-hoc committee and are meeting periodically to address these issues. The Mint is staying abreast of their efforts.

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. FY 02 is first quarter data only.

The Mint is continuing its efforts to improve workplace safety through such initiatives as better tracking and more timely reporting of incidents, including follow-up to correct deficiencies that may have had an impact. As part of the Mint efforts to carry out Secretary's O'Neill's mandate to standardize an effective safety program based on compliance and behavior, the Mint recently implemented a Mint-wide uniform, mandatory causal factor analysis for all lost time and significant accidents. This process utilizes the Safety Health and Information Management System (SHIMS) that the Treasury Department established, an electronic reporting and tracking system that is designed to promote quick action to correct safety issues related to work injuries. In addition, the automatic notification features will ensure faster action by supervisors and safety officers, quicker follow-up by the workers' compensation office, easier on-line filing of claims, and faster receipt of OWCP claim numbers.

Mint Museum

The Mint Museum and Visitors Center project is pending final congressional approval. The work on the baseline designs for the project had been previously approved, so while no further work is currently being done, the project architects have submitted the draft designs to the Mint. The Mint is not currently working with any of the architects, museum consultants or curators from the Smithsonian on the museum project. The only work currently ongoing on the first floor of the headquarters building at 801 9th Street, NW, is baseline construction that is necessary regardless of the final use for the space. For every month the space is not utilized, the Mint pays almost \$50,000 in rent, with no potential for offsetting revenue. Other costs due to the delay are an estimated \$20,000 thus far. Since the delay halted all work on the A/V designs, the architects have projected a minimum of a two to three month delay once the project is approved. Once congressional approval is obtained, the Mint must submit a request to OMB for funding approval.

OMB/CBO/Mint Scoring Resolution

OMB/Treasury/Mint continue to work on the scoring adjustment with CBO. CBO is currently reviewing development of the scoring amount under their assumption and methodology. After reviewing their calculations, the Mint plans to meet with OMB/Treasury and CBO to reconcile differences, if any.

Other Highlights

Tennessee Quarter Launch

In mid-January the next state quarter, Tennessee, will be released, with the launch taking place at the Country Music Hall of Fame in Nashville. Governor Sundquist, First Lady Martha Sundquist, Treasurer Marin, Director Fore and local schoolchildren will participate. In addition, Isaac Hayes, Ricky Skaggs, Marty Stuart and Ruby Wilson – all musicians with Tennessee connections – will join in the celebration as will Tennessee Poet Laureate Margaret Britton Vaughn. Later that day, an open house will be held on the first floor of the State Capitol. About 1,000 of the quarters will be available to children at the event.

The Mint plans to use this forum to promote its 50 State Quarters® Lesson Plans with teachers in the state. The 2001 lesson plans, enhanced with additional math lesson plans based on Mint teacher survey recommendations, and created by experienced education professionals using standards set by various national, educational, advisory organizations, are

downloadable from the Mint Web site. Nearly 262,700 individual and complete lesson plans have been downloaded from the Mint's site from August 29 through December 31.

Coin Design Display for Senate Banking and House Financial Services

The Mint plans to provide both the Senate Banking and the House Financial Services Committees with the opportunity to review different circulating coins from around the world, including the new Euro coins, in February 2002, to enable them to begin to assess future coin designs for this country. This visual display will aid Congress in determining what role it will take in any redesign process and is consistent with previously reported efforts underway at the Mint through its Coin Redesign Task Force. The Mint looks forward to working with Congress on this endeavor.

Medals

Presentation of silver versions of the Navajo Code Talkers Congressional Medal took place during the first quarter of FY 2002. Also during the quarter the Mint began design work on the President's medal, which is part of the Mint's presidential series. In the second quarter, the Mint will begin design work on the Congressional Medal for General Shelton.

A Look Ahead

Golden Dollar

The updated report to Congress on the Golden Dollar is in progress and will be submitted in the second quarter, providing information on usage of the Golden Dollar, efforts to promote its use, and challenges/opportunities for its success. Also under development, consistent with 2002 Appropriation Committee report language, is a marketing plan for increasing circulation of the coin, which will be submitted to Congress for review and approval. Additionally, the General Accounting Office (GAO) is currently conducting a review of the marketing and promotion of the Golden Dollar. The Mint is in the process of collecting and providing the materials they are requesting.

2001 Financial Audit

The Mint was recently advised by its external auditors that it will receive an unqualified opinion on its annual financial statements for FY 2001 -- the eight consecutive "clean" opinion that the Mint has received. However, the auditors have identified weaknesses that the Mint considers material in its computer security controls, both at the general control and application levels. These weaknesses will be reported as material in the Mint's FFMIA and FMFIA statements. The Mint is aggressively developing remediation plans to address these weaknesses and is coordinating its plans with the external auditors.

50 State Quarters® Program

The Mint plan for marketing the 50 State Quarters® Program has been under development and will soon be submitted to Congress for review and approval.

New European Euro

The Mint is monitoring the introduction of the new European Euro and assessing its problems and successes for relevance for future Mint activities