GAO Highlights

Highlights of GAO-14-601T, a testimony before the Subcommittee on Monetary Policy and Trade, Committee on Financial Services, House of Representatives

Why GAO Did This Study

Efficiently managing the nation's inventory of circulating coins helps to ensure that the coin supply meets the public's demand while avoiding unnecessary production and storage costs. This testimony is based on GAO's October 2013 report on the Federal Reserve's management of the circulating-coin inventory. It addresses (1) how the Federal Reserve manages the circulating coin inventory and the related costs, (2) the extent to which the Federal Reserve follows key practices in managing the circulating-coin inventory, and (3) actions taken to respond to potential changes in demand for currency (coins and notes).

What GAO Recommends

GAO's October 2013 report included several recommendations to the Federal Reserve to ensure the efficient management of the coin inventory and potentially to reduce costs. These included recommendations (1) to develop a process to assess factors influencing coin operations costs and identify practices that could lead to cost-savings and (2) to establish additional performance goals and metrics relevant to coin inventory management. The Federal Reserve generally agreed with the report's recommendations and, in response, has developed a plan for addressing them.

View GAO-14-601T. For more information, contact Lorelei St. James, (202) 512-2834, stjamesl@gao.gov.

June 11, 2014

U.S. CURRENCY

Actions Needed to Improve Coin Inventory Management

What GAO Found

In 2009, the Federal Reserve centralized coin management across the 12 Reserve Banks and established national inventory targets to track and measure the coin inventory. However, based on GAO's analysis of Federal Reserve data, from 2008 to 2012, total annual Reserve Bank coin-management costs increased by 69 percent, and more specifically, costs at individual Reserve Banks increased at rates ranging from 36 percent to 116 percent. GAO found in October 2013 that the Federal Reserve did not monitor coin management costs by each Reserve Bank—instead focusing on combined national coin and note costs—thus missing potential opportunities to improve the cost-effectiveness of coin-related operations. Furthermore, the agency had not taken steps to systematically assess factors influencing coin management costs and identify practices that could lead to cost savings.

In managing the circulating-coin inventory, the Federal Reserve followed two of five key inventory management practices GAO identified and partially followed three. For example, the agency followed the key practice of collaboration because it has established multiple mechanisms for sharing information related to coin inventory management with partner entities such as depository institutions. The Federal Reserve partially followed the key practice of performance metrics, which involves identifying goals, establishing performance metrics, and measuring progress toward goals. While the Federal Reserve had developed some performance metrics of upper and lower national coin-inventory targets, it had not developed goals or metrics to measure other aspects of its coin supply-chain management, such as costs. Establishing goals and metrics, such as those related to coin management costs, could aid the Federal Reserve in using information and resources to identify additional efficiencies.

To collect data and information on potential changes in the demand for currency (coins and notes), the Federal Reserve has conducted studies and outreach with groups such as depository institutions and merchants, and found a general consensus that the use of currency may decline slightly in the near term. This expectation is due, in part, to an increase in alternative payment options (e.g., additional forms of electronic payments), but interrelated factors—such as technological change and economic conditions—make it difficult to predict long-term currency demand. In 2010, the Federal Reserve began to develop a long-term strategic framework to consider potential changes to currency demand over the next 5 to 10 years and how this change could affect operations. This effort includes, among other things, examining internal operations for distributing coins and processing notes as well as conducting research into the use of payment types to understand currency use in the United States to better position the agency to adapt to future changes in demand.