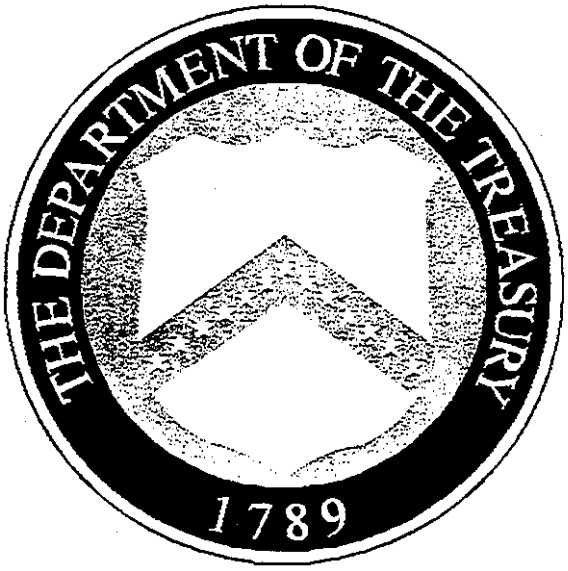
REVIEW OF SURCHARGES FROM THE SALE OF COMMEMORATIVE COINS

OIG-01-026 DECEMBER 15, 2000



Office of Inspector General

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United States Department of the Treasury

OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

December 15, 2000

MEMORANDUM FOR JAY W. JOHNSON, DIRECTOR
UNITED STATES MINT

FROM: Dennis S. Schindel
Assistant Inspector General for Audit

SUBJECT: Review of Surcharges from the Sale of Commemorative Coins

This memorandum transmits the subject final report. Our overall objective was to determine whether the United States Mint's (Mint) commemorative coin programs were properly managed.

Our review found that the Mint properly obtained and analyzed matching funds information provided by the recipient organizations and prepared and issued required quarterly financial reports to Congress. Our review also identified areas where improvements could be made. We are making recommendations in six areas that address the Mint's need to (1) develop a methodology for reconciling trial balance and profit and loss accounts, (2) document evaluations of standard cost rates, (3) fully disclose important financial related information to management prior to authorizing interim surcharge payments, (4) develop and implement follow-up procedures that ensure annual audit requirements are met, (5) reexamine its methodology for allocating General and Administrative costs, and (6) communicate its *Compliance Procedures for Surcharge Eligibility & Payments* more broadly.

Although the Mint generally agreed with all our recommendations, the Mint's response to recommendations 3 and 4, which concern annual audits of surcharge funds received and expanded, do not meet the intent of our recommendations. We have incorporated Mint comments and our response into the report as appropriate. The complete text of the Mint's comments are presented in Appendix 1.

We appreciate the courtesies and cooperation provided to our auditors during the audit. If you wish to discuss this report, please contact me at (202) 927-5400, or have a member of your staff contact Barry L. Savill, Director, Program Audits, at (202) 927-2968.

Attachment

cc: David Pickens
Associate Director
Numismatic Strategic Business Unit
U.S. Mint

Cathy Williams
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Overview

This report presents the results of our audit to determine whether the United States Mint's (Mint) commemorative coin programs and related surcharges were properly managed. Our audit work was performed from August 1999 through June 2000 and was conducted as part of the *Office of Audit Annual Plan For Fiscal Year 1999*.

Our review found that the Mint properly obtained and analyzed matching funds information provided by the recipient organizations and prepared and issued required quarterly financial reports to Congress. Our review also identified areas where improvements could be made. We are making recommendations in six areas that address the Mint's need to (1) develop a methodology for reconciling trial balance and profit and loss accounts, (2) document standard cost rate evaluations, (3) fully disclose important financial related information to management prior to authorizing interim surcharge payments, (4) develop and implement follow-up procedures that ensure annual audit requirements are met, (5) reexamine its methodology for allocating General and Administrative costs, and (6) communicate its *Compliance Procedures for Surcharge Eligibility & Payments* more broadly.

Background

Established in 1792, the Mint is an integral part of the Department of the Treasury. The primary mission of the Mint is to manufacture coins, receive deposits of gold and silver bullion, and safeguard the Government's holdings of monetary metals.

The Mint is structured into three strategic business units (SBUs). The Protection Business Unit provides multi-echelon security Mintwide. The Circulating Business Unit manufactures and distributes circulating coinage to the Federal Reserve. The Numismatic Business Unit oversees all activities associated with collector and investor products sold worldwide, including the manufacture of commemorative coins.

Commemorative coins are manufactured at the Mint's facilities in San Francisco, California; Denver, Colorado;

Philadelphia, Pennsylvania; and West Point, New York. Authorized by Congress, commemorative coins are coins that typically celebrate and honor American people, places, events, and institutions. Commemorative coins are also used to raise funds for designated recipient organizations by adding a surcharge to the price of the coin. Surcharges from the sales of these coins help fund a variety of organizations and projects that benefit the community. For instance, surcharges for the George Washington commemorative coin were paid to the Mount Vernon Ladies' Association to provide a permanent source of support for the preservation of George Washington's home and to educate the American people about the life of George Washington.

Commemorative coin programs are created by enabling legislation enacted by Congress. The enabling legislation dictates the coin specifications, mintages, cost considerations, surcharge amount to be collected, and the purpose for which the funds can be used. Historically, the Mint has been required to pay surcharges to recipients whether or not all the Mint's program costs were recovered and without any accountability requirement for the recipient organization. Congress and the Administration recognized the weaknesses inherent in paying surcharges regardless of whether the Mint's program costs were recovered. As a result, Public Law (Pub. L. No.) 104-208, *Omnibus Consolidated Appropriations for Fiscal Year 1997* (the Act), was enacted on September 28, 1996.

The Act imposed three broad requirements on the payment of surcharges to recipient organizations.

1. The designated recipient must raise matching funds from private sources in an amount equal to or greater than the maximum amount the organization may receive from the proceeds of such surcharge. Also, the matching funds raised must be for the purpose(s) specified by the enabling legislation.

2. The Mint is required to recover all numismatic operation and program costs allocable to the program before any surcharges can be paid to the recipient organization.

3. The designated recipient organization must submit to an annual audit of surcharge funds received and expended.

These requirements make the recipient organizations full partners in bearing costs, risks and marketplace realities, and assure that all of the Mint's costs of operating these programs were fully recovered.

Since passing Pub. L. No. 104-208, Congress has authorized nine commemorative coin programs with issue dates during Calendar Years 1997 to 1999. The following chart lists those programs along with the name of the recipient organization, and surcharges paid by the Mint as of February 2000.

Person or Entity Honored	Recipient Organization	Surcharges Paid
Dolly Madison	National Trust for Historic Preservation	$2,102,503
Franklin D. Roosevelt	Franklin Delano Roosevelt Memorial Commission	$1,447,880
Jackie Robinson	Jackie Robinson Foundation	$1,425,430
Robert F. Kennedy	Robert F. Kennedy Memorial	$2,054,420
George Washington	Mount Vernon Ladies' Association	$ 963,115
Black Patriots	Black Revolutionary War Patriots Memorial	$ 0
Botanic Garden	National Fund for the U.S. Botanical Garden	$3,481,760
Yellowstone Park	National Park Foundation And Yellowstone Park Foundation	$ 742,500
Law Enforcement Officers	National Law Enforcement Memorial Maintenance Fund	$1,390,834

All nine commemorative coin programs were covered, in part, by this review.

Objective, Scope, and Methodology

The objective of this review was to determine whether the Mint's commemorative coin programs and related surcharges were properly managed.

To accomplish our objective, we conducted on-site work from August 1999 through June 2000. We interviewed key personnel involved in the management of the Mint's commemorative coin programs at its Headquarters and at the Mint in Philadelphia, Pennsylvania (Philadelphia Mint). We also interviewed key personnel from recipient organizations and related public accounting firms. We reviewed enabling legislation, prior Office of Inspector General and General Accounting Office audit reports, and Treasury and bureau policies and procedures related to commemorative coins. We also visited the Philadelphia Mint to observe its commemorative coin production process. In addition, we reviewed accounting information maintained by the Mint, analyzed audited financial statements submitted by recipient organizations, and examined pertinent file correspondence.

Our audit work was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, and included such tests as were deemed necessary.

Audit Results

Determining Program Cost Recovery

The Mint could not produce an audit trail for two major categories of cost with regard to its commemorative coin program's profit and loss statements. As a result, we were unable to determine the accuracy and reliability of the costs the Mint reported in its commemorative coin profit and loss statements. Therefore, we believe the commemorative coin program's profit and loss statements do not provide an acceptable basis for internal and external users who must make surcharge payment decisions, assess program performance, or determine legal compliance.

Two factors contributed to this condition. First, the Mint lacked a comprehensive methodology for assessing the

accuracy and reliability of financial information contained in its profit and loss statements. Second, the Mint did not produce documentation to support its standard cost rates, which the Mint used to project program costs for the nine programs totaling about $20.2 million as of Fiscal Year (FY) 1999.

Discussion

The Act requires the Mint to withhold surcharge payments from commemorative coin program beneficiaries until all operation and program costs are recovered. To comply with this requirement, the Mint developed and implemented a system for accumulating, reporting, and assessing each commemorative coin program's profitability prior to authorizing surcharge payments.

Office of Management and Budget (OMB) Circular A-123, *Management Accountability and Control*, states that appropriate management controls should be integrated into each system established by agency management to direct and guide its operations. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

To assess the Mint's compliance with the Act's cost recovery and OMB's management control requirements, we (1) examined commemorative coin program files maintained by the Mint and (2) requested detailed accounting information pertaining to the Mint's commemorative coin programs.

Our examination of the program files showed that the Mint prepared year-end and quarterly profit and loss statements for each commemorative coin program. The year-end statements were prepared using actual program costs. The quarterly statements were prepared using standard cost rates to estimate certain production-related costs. The Mint used the quarterly profit and loss statements, along with other relevant information, to ensure all operation and program costs were recovered prior to authorizing surcharge payments to recipient organizations.

To assess the Mint's commemorative coin program financial information, we requested detailed cost information that would allow us to establish reasonable assurance that the information was accurate and reliable. Although we made several requests for supporting documentation, the Mint could not produce the requested information. For instance, the Mint could not produce a list of the accounts from the trial balance that comprised "Manufacturing and Assembling" and "General & Administrative & Marketing,"[1] which were major cost categories included in the end-of-year profit and loss financial statements. These two cost categories represented about 47 percent of all costs associated with the production and sales of commemorative coin items as of FY 1999. Because the Mint did not produce support for the composition of these cost categories, we were unable to assess the accuracy or reliability of the actual costs the Mint reported on its end-of-year profit and loss statements.

We then requested documentation from the Mint that would show how the Mint determined the standard cost rates it used to prepare its quarterly profit and loss statements and subsequent evaluations of those rates. Again, the Mint could not produce the requested documentation. Consequently, we were unable to assess the basis, methodology, and procedures used to establish and periodically evaluate the standard cost rates the Mint used to compile the commemorative coin's quarterly financial statements. The Mint used the FY 1996 standard cost rates to compile the quarterly profit and loss statements for FYs 1997, 1998, and 1999. According to Mint officials, its standard cost reporting system provided accurate and reliable financial information on its commemorative coin programs. However, without the requested supporting documentation, we were unable to confirm the Mint's contention.

Although our review did not find any evidence that the Mint's commemorative coin programs lost money, we believe the Mint's inability to produce requested financial information regarding its year-end and quarterly commemorative coin program profit and loss statements is a significant weakness that needs to be addressed.

[1] For consistency reasons we used the account titles from the quarterly profit and loss statements.

Recommendation

1. The Director of the Mint should develop and implement a clear and complete methodology for assessing the accuracy and reliability of the financial information contained in its profit and loss statements. At a minimum, the Mint should make it possible to perform a detailed reconciliation between the trial balance and the profit and loss statement accounts and ensure that evaluations of its standard cost rates are documented and provide, where warranted, for periodic adjustments to those standard cost rates.

Management Response and OIG Comment

In its response to the draft report, the Mint indicated concurrence with this recommendation and stated it recognized the need to update its cost standards. As part of the FY 2000 financial statement audit, the Mint planned to document and update its cost standards. The OIG considers the action planned by the Mint to be responsive to this recommendation.

Surcharge Payments

The Mint's surcharge payment process did not ensure that senior management was fully advised of all significant cost considerations prior to its authorization of interim payments. This condition was due, in part, to the Mint not requiring forecasts of its production, sales, and marketing information to be reported, along with the financial statements, to management before an interim surcharge payment decision was made. As a result, management was not provided operational information that could have influenced its surcharge payment decision.

Discussion

Section 529 of the Act, *Payment of Surcharges*, states that no amount derived from the proceeds of a surcharge imposed on the sale of any numismatic item shall be paid from the fund to any designated recipient organization unless (1) all operation and program costs have been recovered, and (2) the recipient organization submits an

audited financial statement showing the organization raised the required amount in matching funds.

To implement the Act's surcharge payment requirements, the Mint developed guidance that provided for interim surcharge payments. The Mint's guidance provided that any interim payment would depend on the financial performance of the program and the risk of loss the Mint may be exposed to by releasing surcharge funds before the termination of the coin program.

The Mint also developed general time frames for evaluating whether to make an interim payment and the maximum amount of the payment. The following chart illustrates those time frames and the maximum amount of the payments.

Interim Surcharge Payments

Time Period	Amount of Payment
6 Months After Start of Program	50 % of Surcharge Earned by the Recipient Organization
9 Months After Start of Program	Additional 25% of Total Surcharges Earned by the Recipient Organization Less Prior Payments
Program Close-Out	Remaining Balance of Surcharges Earned by the Recipient Organization

According to the Mint's guidance, the final surcharge payment may not result in the Mint incurring a loss. The final accounting of the commemorative coin program is performed after the "close of the program."[2]

To determine whether the Mint's guidance on interim surcharge payments was implemented, we reviewed file documentation for all nine commemorative coin programs. We found that the Mint had made surcharge payments totaling about $13.6 million to 8 of the 9 recipient organizations since 1997.[3] We also found that Mint personnel properly implemented its guidance concerning established time periods and maximum amounts payable. For instance, we found that each

[2] The close of a program is determined by the enabling legislation.

[3] One organization had not raised the required amount of matching funds and, thus, was not eligible to receive surcharge payments.

commemorative coin program file contained documentation showing, when appropriate:

- a profit and loss statement was prepared prior to interim and final surcharge payments,
- the authorizing memorandum contained a recommendation by the Chief Financial Officer regarding the payment,
- the Director of the Mint authorized the surcharge payment, and
- the final surcharge payment was withheld until the program closed and all related costs were recovered.

Consequently, we believe the Mint adhered to its guidance before making surcharge payments.

To determine whether the Mint's guidance concerning interim surcharge payments was appropriate, we analyzed applicable Act requirements and the Mint's guidance. Our analysis indicated that the Mint's implementing guidance was not inconsistent with the Act's surcharge payment requirements. The Mint's guidance, however, did not sufficiently address important risk factors pertaining to the interim financial reports used by management to authorize surcharge payments. For instance, the 6 and 9 month evaluation guidance did not address factors that could significantly influence the reported cost, such as:

- whether the production of the commemorative coin was complete and all reasonable costs were known,
- the likelihood of manufacturing additional coins subsequent to any interim surcharge payment,
- the possibility of a Congressional extension of the coin program to allow for additional sells or increased production, or
- consumer demand and on-hand inventory of unsold coins.

Each of these factors could generate unexpected costs after an interim surcharge payment by the Mint, which

could result in a violation of the Act's surcharge payment provision. Furthermore, a review of five memorandums used as a basis by management to authorize interim surcharge payments totaling about $6.4 million revealed that neither the memorandums nor the accompanying financial reports fully addressed the four risk factors listed above. Despite the absence of this information, however, we found no instance where the Mint authorized or made a surcharge payment that resulted in a commemorative coin program losing money.[4] Nevertheless, disclosure of pertinent information to management is (1) important for the proper understanding of the interim financial reports and (2) would further reduce the Mint's risk associated with making interim surcharge payments.

Recommendation

2. The Director of the Mint should ensure risk factors related to the Mint's production, sales, and marketing forecasts are adequately considered prior to making an interim surcharge payment. The risk factors should be included in the Mint's *Compliance Procedures For Surcharge Eligibility & Payments* guidance and each factor addressed in the Mint's surcharge authorization memorandum, which includes an interim financial report.

Management Response and OIG Comment

The Mint concurred with this recommendation. In its response, the Mint stated it had added risk factors related to production and sales to its compliance procedures and surcharge authorization memorandum. The OIG agrees with the actions being taken.

Annual Audits of Surcharge Funds Received and Expended

The Mint did not ensure that recipient organizations met the annual audit requirements of the Act. As a result, the Mint was unable to verify that surcharge funds in excess of $4.6 million paid to two recipient organizations were used for the purpose specified in the coin program's enabling legislation.

[4] Our assessment was based on available financial information.

Four factors contributed to this condition. First, the Act did not provide for specific remedies if a recipient organization did not provide for the required annual audits. Second, the Mint did not develop written guidance for following up with recipient organizations that did not submit required annual audit documentation. Third, the Mint did not obtain any formal acknowledgement from the recipient organizations that they understood their responsibilities with regard to the annual audit requirements and the possible remedies available to the Mint when the recipient organization did not meet its responsibilities. Fourth, Mint personnel did not properly determine the dates when the recipient organizations were to submit, to the Mint, the annual audit documentation.

Discussion

Section 529 of the Act, *Annual Audits*, states that each recipient organization shall provide for an annual audit of all surcharge payments received from the Mint. The audits are to commence the first fiscal year the organization receives a surcharge payment and continue until all amounts received are fully expended or placed in trust. A copy of the annual audit report is to be sent to the Mint not later than 90 days after the end of the fiscal year for which an audit is required. The Act did not, however, provide direction on how the Mint was to enforce the annual audit requirement or remedies for noncompliance.

To implement the annual audit requirements specified by the Act, the Mint asked recipient organizations to (1) complete and submit an audited schedule of all surcharge funds received and expended during the recipient's fiscal year, (2) provide a written assertion by its Chief Executive Officer or Chief Financial Officer that it had met the compliance requirement of the Act and the specific enabling legislation, and (3) submit an auditor's compliance report.[5] Based on the documentation provided, Mint personnel should determine whether the recipient organizations used the surcharge funds received

[5] Recipient organizations may apply by letter for a waiver of audit requirements for any fiscal year, other than the first and last, when it believes surcharge funds received or expended are minimal and there are no outstanding audit findings or significant internal control risk or deficiencies.

for the purposes specified in that program's enabling legislation.

In cases where the recipient organization was unable or unwilling to have an audit conducted or audit findings were not resolved, the Mint's guidance provided it could seek reimbursement, suspend surcharge payments, or take other necessary steps. This guidance, however, did not provide proactive actions (e.g., sending follow-up letters to the recipient organization) that should be taken when a recipient organization did not provide the required audit documentation in a timely manner.

To determine whether the Mint properly implemented the Act and its policies regarding annual audits, we reviewed the program files for the nine commemorative coins covered by our review. We found, at the time of our review, that 2 of the 9 recipient organizations should have submitted the annual audit documentation to the Mint. Yet, we found no evidence in the program files that either of the two organizations submitted the required documents.

When questioned about the missing audit documentation, we were informed by Mint personnel that they had mistakenly used the Government's instead of the recipient organization's end of fiscal year to calculate when the required documentation was due. This error inadvertently extended the actual due date. According to our calculations, the two recipient organizations had received more than $4.6 million in surcharge payments from the Mint. In addition, we determined that the required audit documentation was overdue by as much as 9 months without any follow-up action by the Mint.

When we questioned the two recipient organizations about the required audit documentation, one recipient claimed that it had not spent any of the surcharge funds received from the Mint; thus, an audit was not required. We believe this organization's understanding of the Mint's guidance was incorrect. The other recipient organization claimed that it had submitted the required audit documentation. However, as of December 8, 1999, responsible Mint personnel informed us that the Mint had not received the applicable audit documentation.

Recommendations

3. The Director of the Mint should develop and implement follow-up procedures that ensure required annual audit requirements are met. This guidance should be included in the Mint's *Compliance Procedures For Surcharge Eligibility & Payments.*

4. The Director of the Mint should strengthen the Mint's position with regard to annual audit requirements. The Mint should ensure recipient organizations fully understand (a) the annual audit requirements detailed in the Act and the Mint's compliance procedures and (b) the remedies available to the Government for failure to comply with these requirements.

5. The Director of the Mint should ensure that the recipient organization's end of fiscal year is used to calculate the date of the annual audit submission to the Government.

Management Response and OIG Comment

In its response, the Mint concurred with the intent of Recommendations 3 and 4 but proposed alternative actions. The Mint responded that it does not have the legislative authority or enforcement tools to ensure that recipient organizations meet the annual audit requirements of Pub. L. No. 104-208. The Mint proposed referring the names of recipient organizations that fail to meet the annual audit requirement to the OIG for examination. The Mint also stated that it now includes wording in the initial letters sent to new surcharge recipient organizations that clearly states the annual audit requirement.

We do not believe the actions taken or proposed in the Mint's response to Recommendations 3 and 4 meet the intent of our recommendations. First, the Mint's response did not indicate any specific steps planned or taken to address Recommendation 3. Second, the Mint's response did not indicate what action, if any, it planned to take to ensure that recipient organizations understood the remedies available to the Government if the recipients failed to comply with the annual audit requirement.

Lastly, the Mint's proposed alternative of referring delinquent organizations to the OIG for audit was not agreed to by the OIG. In fact, the OIG issued a memorandum to the Mint that addressed the Mint's proposal to refer delinquent recipient organizations to the OIG.

In our memorandum, we specifically stated that the OIG would not routinely accept referrals of delinquent organizations for audit from the Mint. Our memorandum outlined the reasons why we would not accept such referrals. We, therefore, consider Recommendations 3 and 4 to be unresolved.

The Mint concurred with Recommendation 5 and stated that it now uses the recipient organization's end of fiscal year to calculate when the annual audit submission is due to the Government. The OIG agrees that the action taken by the Mint meet the intent of this recommendation.

Allocation of General and Administrative Costs

The Mint's current methodology for allocating General and Administrative (G&A) costs[6] is one of several acceptable methodologies for cost allocation. However, the current methodology may not assign G&A costs to operations and products according to the relative benefits received by each. As a result, it is possible that a disproportionate share of G&A costs were allocated to the Mint's circulating coin programs, thus, understating numismatic program costs, which includes commemorative coins. This condition existed largely because of past deficiencies with the Mint's accounting system and business structure that prevented the Mint from implementing a more precise methodology for allocating G&A costs.

[6] G&A costs are regular operating expenses of a business that are not directly related to a product and include accounting services, automated data processing, and human resources.

Discussion

The Act, Pub. L. No. 104-208, mandated several provisions reforming the Mint's Commemorative Coin Program. Among the provisions was the requirement that the Mint withhold surcharges from commemorative coin program beneficiaries until all numismatic operation and program costs allocable[7] to the program, under which the numismatic item was produced and sold, were recovered.

To ensure that shared costs would be allocated between mission activities on a fair and equitable basis, the Mint awarded a contract for a review of its G&A cost allocation procedures. As a result of this review, the Mint implemented its current methodology for allocating G&A costs. The Mint's current G&A allocation methodology was proposed as an interim solution by the contractor because the Mint was moving to an activity based approach for assigning costs to mission activities.

To determine whether the Mint was appropriately recouping G&A costs related to the production of commemorative coins, we reviewed the Mint's profit and loss statements and assessed the composition of the G&A pool. Our review showed that in 1998 the Mint allocated about 14 percent or $5.6 million of its total G&A costs to numismatic programs. The remaining 86 percent or $35.4 million of G&A costs were allocated to the Mint's circulating coin programs. Sales from numismatic and circulating coin programs during the same period were $672 and $923 million, respectively. Based on this initial assessment, our opinion was that G&A costs may have been too heavily weighted to the Mint's Circulating Coin Program, thus, understating the G&A costs allocated to its Numismatic Coin Program, which included commemorative coins. Additional analysis disclosed the following issues:

- The allocation methodology of G&A gives the impression it is based more on the programs' ability to bear-the-cost rather than on any relationship to the program.

[7] A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Implicit in this definition is that the cost is distributed in reasonable proportion to the benefits received.

- All G&A costs were fully allocated between the Numismatic and Circulating Business Units based on sales less metal, fabrication, and surcharges. The allocation to one business unit was, therefore, dependent on the sales of the other business unit. This approach may not adequately distinguish between variable and fixed G&A costs. For example, if sales, cost of metal, fabrication, and surcharges for numismatic products remained constant but the sales and cost of metal and fabrication for circulating coins increased, then: (1) the total dollar allocation of G&A to circulating coins would increase even though there was no commensurate increase in G&A, and (2) the total dollar allocation of G&A to the numismatic products would decrease despite no commensurate decrease in sales or product costs.

- The composition of the G&A pool appeared too diverse to use a single allocation base. For example, the G&A pool consists of costs associated with activities that fall under the Office of the Director, Chief Financial Officer, and Chief Information Officer. Consequently, many of these costs have no direct relationship to the numismatic or circulating programs. Therefore, the cost behavior pattern for each activity may relate to a cost driver other than sales, such as, the number of personnel, labor hours, or percent of time devoted to a program.

- If the allocation of G&A costs were revised, it could have a significant impact on the profitability of the Commemorative Coins Program.

Our review also noted that the Mint had undertaken many initiatives to change its operations since implementing its current methodology for allocating G&A costs. For instance, the Mint reorganized its business activities to better identify direct costs and implemented a new management information and accounting system. In addition, during the past year, the Mint took a major step in implementing Activity Based Costing (ABC).[8]

[8] Activity-Based Costing (ABC) is an accounting system that assigns costs to products based on the resources they consume. The costs of all activities are traced to the product for which they are performed. Overhead costs are also traced to a particular product rather than spread arbitrarily across all product lines.

With the business initiatives implemented during the last 3 years, the Mint now has the means, through ABC, to more precisely trace G&A activity costs to the appropriate business unit or program.

Recommendation

6. The Director of the Mint should ensure that the Mint's implementation of ABC provides for an equitable and cost effective methodology for allocating G&A costs. The Mint should also ensure that its implementation of ABC with regard to G&A activities is completed in a timely manner.

Management Response and OIG Comments

The Mint's response indicated agreement with this recommendation. According to the Mint, it was in the process of implementing ABC technique in its corporate finance business units. In addition, the Mint planned to implement ABC in its other corporate offices. The OIG considers the actions planned or taken by the Mint to be responsive to the recommendation.

Surcharge Eligibility and Payments Guidance

The Mint developed and issued surcharge eligibility and payment guidance that was consistent with provisions of the *Commemorative Coin Program Restrictions of 1996*. In addition, the Mint routinely provided this guidance to those organizations that were authorized by enabling legislation to receive surcharge payments. However, the Mint has not communicated this guidance to potential recipients and the general public–guidance that potential recipients and the public could, prospectively, be required to comply with. In addition, the Mint did not seek public comment on its implementing guidance. Consequently, recipient organizations have found some aspects of the Mint's guidance confusing and organizations contemplating financial support from a commemorative coin program may not be aware or fully understand the stringent procedural requirements they must meet to receive surcharge payments from the Mint.

We believe two factors have contributed to this situation. First, the Mint's management did not widely disseminate its implementing guidance or solicit public comment with

regard to surcharge payments. Second, until recently, no commemorative coin program had gone through a full life cycle as outlined in the Mint's guidance.

Discussion

Historically, the Mint was required to make surcharge payments to recipient organizations whether or not all commemorative coin program costs were recovered. The Congress recognized the weaknesses inherent in this process and enacted Pub. L. No. 104-208 (the Act). Section 529 of the Act, *Commemorative Coin Program Restrictions*, significantly modified surcharge eligibility and payment requirements. The Act imposed three new requirements: first, recipient organizations must raise matching funds from private sources; second, the Mint is required to recover its operation and program cost before making surcharge payments; and third, recipient organizations must submit annual audited financial statements.

The Mint, in turn, developed and issued *Compliance Procedures for Surcharge Eligibility & Payments* as a guide for carrying out its responsibility under the Act. The Mint's guidance was intended for use by the Mint and recipient organizations subject to the Act. The guide details the sequential steps that occur in the life of a commemorative coin program and describes requirements and specific compliance actions, many of which are statutorily required. The guide covers four broad areas: Matching Funds, Determining Program Cost Recovery, Surcharge Payments, and Annual Audits of Surcharge Funds Received and Expended.

In assessing how effective the Mint has been in implementing the 1996 *Commemorative Coin Program Restrictions*, we first reviewed the Mint's implementing guidance. Our review found that the Mint's guidance was consistent with the legal provisions of the Act. Our review also disclosed that the Mint had not publicly notified potential recipients of the Mint's guidance.

To assess how the implementation of the Mint's surcharge eligibility and payments guidance affected the recipient organizations, we contacted representatives from seven[9] of

[9] We were unable to contact two of the recipient organizations.

the nine organizations covered by our review. Based on our discussion with these representatives, we learned that none had had an opportunity to comment on the Mint's compliance procedures. The representatives told us they were interested and could provide valuable constructive comments. Most representatives also told us that it would have been helpful to have known what the Mint's surcharge eligibility and payment requirements were prior to the Congress enacting the legislation for their commemorative coin program.

In addition, we learned that all seven recipient organizations found it necessary to contact the Mint to obtain additional guidance or clarification after reading the Mint's implementing guidance. For example, one organization did not believe that it needed to submit audited financial statements until it had actually spent the surcharge funds it had received from the Mint. Therefore, it had not submitted the required audited financial statements and accompanying attestations. Had the public been provided an opportunity to comment on the Mint's guidance, the confusion experienced by the recipient organizations may have been minimized.

Surcharge eligibility and payments guidance is important to potential recipients and the public because it outlines the requirements organizations must abide by to receive surcharge payments under the Mint's Commemorative Coin Program. With the experience gained by the recipient organizations and the Mint in implementing the 1996 Act restrictions, we believe it is now appropriate for the Mint to solicit constructive comments regarding its surcharge eligibility and payments procedures.

Recommendation

7. The Director of the Mint should seek comment on the Mint's Commemorative Coin Program compliance procedures from interested parties, modify its procedures where appropriate, and make the procedures more accessible to potential recipient organizations and the public.

Management Response and OIG Comment

The Mint agreed with this recommendation. In its response, the Mint stated that it planned to send copies

of its compliance procedures to potential surcharge recipients, place these procedures on its web site, seek feedback from surcharge recipients on the procedures at the end of a program, and modify the procedures, where appropriate, based on the feedback it received. The OIG considers the actions planned by the Mint responsive to the recommendation.

MANAGEMENT RESPONSE

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
WASHINGTON, D.C. 20220

NOV 15 2000

MEMORANDUM FOR DENNIS S. SCHINDEL
ASSISTANT INSPECTOR GENERAL FOR AUDIT

From: Jay Weinstein
Associate Director/Chief Financial Officer

Subject: Draft Audit Report entitled "Review of Surcharges from the Sale of Commemorative Coins (A-DO-99-060)

The purpose of this memorandum is to respond to the draft audit report entitled " Review of Surcharges from the Sale of Commemorative Coins" (A-DO-99-060) dated August 2000. We appreciate the opportunity to review the draft report and provide our response for the record.

Summary of Our Response

The Mint agrees with the general intent of the seven recommendations in your report; however, the Mint does not have the legislative authority to ensure that recipient organizations meet the annual audit requirements of Public Law 104-208. As an alternative to the OIG's recommendation, the Mint intends to continue the practice adopted during the audit of referring to the OIG the names of the recipient organizations that fail to meet the annual audit requirements so that the OIG can exercise the authority granted it by Public Law 104-208 to examine the books and records of recipient organizations. We believe that this will help motivate recipient organizations to comply with the Public Law's annual audit requirements and allow, when they do not, that the annual audits be conducted by the OIG. It is unfortunate that the OIG's draft audit report fails to acknowledge that during the audit the Mint referred two recipient organizations to the OIG for failure to file the annual audits and is silent on the OIG's legislated authorities to conduct audits of recipient organizations' use of surcharge proceeds.

Despite concurrence with the remainder of the recommendations, we take exception to the erroneous background commentary that accompanies recommendations one and two, and the fact that the issues outlined in recommendation five were substantially corrected at the time that fieldwork was conducted for this audit. While we recognize the need to update our cost standards (recommendation one), the background commentary included in the audit report unfairly questions the credibility of the Mint's Enterprise Resource Planning System (ERP) and it's underlying internal controls. Also, the background wording points to a continued lack of understanding on the part of the Office of Inspector General of the principles underlying the application of standard costs in a manufacturing

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environment. The effectiveness of the Mint's ERP system is evident by our earning of a sixth consecutive unqualified opinion on our financial statement audit. The sixth unqualified opinion was rendered at the end of the first year of implementation of our comprehensive ERP system.

We are pleased that the IG concluded that "Mint personnel properly implemented its guidance concerning established time periods and maximum amounts payable" and that the OIG ...believe(s) the Mint adhered to its guidance before making surcharge payments." Nonetheless, the tone of the narrative accompanying recommendation two is such as to cast doubt on the overall integrity and effectiveness of the Mint's surcharge payments process, which we believe is unwarranted.

This audit report includes a recommendation to ensure that the surcharge recipient's end of fiscal year is used to calculate the date of its annual audit submission to the Government (recommendation five). We acknowledge that we experienced some confusion very early in our administration of the program regarding this issue. However, we long ago resolved this issue and so informed the Office of Inspector General at the start of this audit.

The Mint is currently strengthening our position with respect to annual audit requirements (recommendation four). This effort involves enhancing the communications of audit requirements to surcharge recipients, including notification that failure to comply with annual audit requirements will result in their referral to the Office of Inspector General. The Mint is committed to the implementation of Activity Based Costing (recommendation six). Finally, we will seek direct feedback regarding the relevant compliance procedures from surcharge recipients. We will incorporate this feedback, as appropriate, to continually improve our procedures and guidance.

Determining Program Cost Recovery

Recommendation #1: The Director of the Mint should develop and implement a clear and complete methodology for assessing the accuracy and reliability of the financial information contained in its profit and loss statements. At a minimum, the Mint should make it possible to perform a detailed reconciliation between the trial balance and the profit and loss statement accounts and ensure that evaluations of its standard cost rates are documented and provide, where warranted, for periodic adjustments to those standard cost rates.

> **Mint Response:** We concur with this recommendation. Fieldwork for this audit began during the first year of implementation of the COINS System, the Mint's comprehensive Enterprise Resource Planning (ERP) System. Only three of the nine commemorative coin programs analyzed for this audit were fully accounted for within the COINS system. The vast majority of the accounting for the other commemorative coin programs included in this audit was performed with the Mint's legacy systems (IFMS and FMIS). Our current reconciliation efforts

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benefit from the more robust functionality of the COINS system, as contrasted with the limited functionality in the Mint's legacy systems. An important feature of the Mint's ERP system is the timely provision of relevant standard cost information. Accordingly, as part of the FY 2000 financial statement audit we are documenting and updating the cost standards upon which this crucial financial information is based.

While we generally concur with this recommendation, we take exception to the manner in which it is characterized in the report. Much of the analysis leading up to this recommendation is flawed in that the Mint's proper application of standard cost methodologies is not fully taken into account. Additionally much of the analysis can be interpreted as unfairly questioning the credibility of the Mint's Enterprise Resource Planning System (ERP).

Page 4 of the audit report states "Office of Management and Budget (OMB) Circular A-123, Management *Accountability and Control,* states that appropriate management controls should be integrated into each system established by agency management to direct and guide its operations. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination." The context in which this language is included could lead a casual reader to believe that the Mint has weak and undocumented controls in place for the surcharge payment process.

Nothing could be further from the truth. The Mint uses profit and loss data on the program that takes into consideration the total cost of the program to-date as well as anticipated costs to close the program. By retaining 25% of surcharges received, the Mint mitigates the risk of not recovering the total costs of the program. The Mint has well documented processes to notify the surcharge recipients of relevant legislative requirements and we have well documented and proven controls in place for surcharge payments.

On page 5 the report states, "To assess the Mint's commemorative coin program financial information, we requested detailed cost information that would allow us to establish reasonable assurance that the information was accurate and reliable. Although we made several requests for supporting documentation, the Mint could not produce the requested information. For instance, the Mint could not produce a list of accounts from the trial balance that comprised "Manufacturing and Assembling" and General & Administrative & Marketing," which were major cost categories included in the end-of year profit and loss financial information. Again, the context of the OIG's comments can lead a reader to have totally unfounded doubts about the integrity of the Mint's financial information.

We consider all field costs to be "Manufacturing and Assembling" and all headquarters costs are included in "General & Administrative & Marketing." We explained to the OIG that 100 percent of the expense accounts in the Mint's consolidated trial balance were either "Manufacturing and Assembling" or "General & Administrative & Marketing." We further explained that the accounts for "Manufacturing and

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Assembling" resided in the trial balances of each Mint field location and that "General & Administrative & Marketing" expenses resided in the trial balance for Mint headquarters.

There seems to be continuing confusion with your auditors on the use of standard cost methodologies in a manufacturing environment. We explained many times to your auditors that the Mint's ERP system is a standard costing system and that differences between standard and actual cost are captured in variance accounts. In addition, we explained that the amounts reported in the variance accounts are allocated to the products sold by the Mint, thereby arriving at actual cost. These practices are the normal convention used in costing products manufactured in a continuous process operation.

Surcharge Payments

Recommendation #2: The Director of the Mint should ensure risk factors related to the Mint's production sales, and marketing forecasts are adequately considered prior to making an interim surcharge payment. The risk factors should be included in the Mint's Compliance Procedures for Surcharge Eligibility & Payments guidance and each factor addressed in the Mint's surcharge authorization memorandum, which includes an interim financial report.

> **Mint Response:** The Mint concurs with the intent of this recommendation. While we have always considered these factors prior to making interim surcharge payments, we have added them to our compliance procedures and surcharge authorization memo. Since the onset of legislative reform in 1997, production and sales factors have always been included in the Mint's Surcharge Payments Checklist that accompanies the surcharge authorization memorandum. As a result of this audit, the possibility of a Congressional extension has recently been added. Unsold costs are included in the interim financial report in determining the profitability of each program.

The report correctly states that "Mint personnel properly implemented its guidance concerning established time periods and maximum amounts payable. The OIG noted that 1) a profit and loss statement was prepared prior to interim and final surcharge payments, 2) the authorizing memorandum contained a recommendation from the Chief Financial Officer regarding the payment, 3) the Director of the Mint authorized the surcharge payment, and 4) the final surcharge payment was withheld until the program closed and all related costs were recovered. Finally, the OIG correctly concludes that "... we believe the Mint adhered to its guidance before making surcharge payments".

While the Mint concurs with the intent of this recommendation, we are concerned with the manner in which the OIG characterizes background commentary in support of this recommendation. On page 6 of the draft report the OIG states that "The Mint's surcharge payment process did not ensure that senior management was fully advised of all significant cost considerations prior to its authorization of interim payments "; on page 8 the OIG states that "the Mint's guidance, however, did not sufficiently address important

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risk factors pertaining to the interim financial reports used by management to authorize surcharge payments. For instance, the 6 and 9 month evaluation guidance did not address factors that could significantly influence the reported cost such as 1) whether the production of the commemorative coin was complete and all reasonable costs were known, 2) the likelihood of manufacturing additional coins subsequent to any interim surcharge payment, 3) the possibility of a Congressional extension of the coin program to allow for additional sells or increased production, or 4) consumer demand and on-hand inventory of unsold coins". Again, the context in which this phrasing is cast cannot but help to cast unwarranted doubt on the integrity and effectiveness of the Mint's surcharge payment process.

For reasons explained below, including the comparable improbability of these risk factors, they were not part of the surcharge payment checklist reviewed by the auditors. The absence of these factors from the checklist does not mean they were not considered, for in reality the effects of these risk factors were taken into account. The fact that the OIG could not identify a situation where the payments made by the Mint were incorrect for any of the factors the OIG identified shows that these factors were considered even though they were so remote as to have no impact on surcharge payments. Nevertheless, to satisfy the needs of the auditors and to formally document what had previously been considered but not formally documented, we modified our checklist and reflected this modification in the related surcharge payment recommendation memo.

The modern era of commemorative coins began in 1982. Since that time, our experience tells us that the final manufacturing requirements for a commemorative coin are known within six to nine months after the start of a program. In fact, the Mint has performed numerous analyses which enable us to forecast, with reasonable accuracy, the number of commemorative coins that will be sold within a short period after this initial "drop date". Sales levels of commemorative coins cannot be legislated, only maximum mintages can be prescribed by legislation. Sales of commemorative coins are subject to the vagaries of the marketplace and must face keen competition from other collectibles. Accordingly, the Mint strives to manufacture commemorative coins in response to projected consumer demand. The costs of any unsold coins are included with the profit and loss information that is used to determine program profitability for interim surcharge payment purposes. This very conservative approach reflects a "worst case" scenario where all unsold coins remain unsold. Such an approach helps to ensure that commemorative coins are produced and sold by the Mint at "no net cost" to the government.

Additionally, Congress has never enacted legislation to extend the life of a commemorative coin program or increase its coin mintage levels. Such legislation would in effect close down the commemorative coin program because the majority of coin collectors who purchase these coins base their decision on the coins' perceived secondary market value. This value is calculated based on the length of the program and the maximum amount of coins that can be sold.

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Annual Audit of Surcharge Funds Received and Expended

Recommendation #3: The Director of the Mint should develop and implement follow-up procedures that ensure required annual audit requirements are met. This guidance should be included in the Mint's Compliance Procedures for Surcharge Eligibility & Payments.

Recommendation #4: The Director of the Mint should strengthen the Mint's position with respect to annual audit requirements. The Mint should ensure recipient organizations fully understand (a) the annual audit requirements detailed in the Act and the Mint's compliance procedures, and (b) the remedies available to the Government for failure to comply with these requirements.

> **Mint Response:** The Mint concurs with the intent of these two recommendations. However, the Mint does not have the legislative authority to ensure that recipient organizations meet the annual audit requirements of Public Law 104-208. As an alternative to the OIG's recommendation, the Mint intends to continue the practice adopted during the audit of referring to the OIG the names of the recipient organizations that fail to meet the annual audit requirements so that the OIG can exercise the authority granted it by Public Law 104-208 to examine the books and records of recipient organizations. We believe that this will help motivate recipient organizations to comply with the Public Law's annual audit requirements and allow, when they do not, that the annual audits be conducted by the OIG.

Public Law 104-208 (Omnibus Consolidated Appropriations Act for Fiscal year 1997) requires that surcharge recipient organizations file annual audited statements of the funds received and how those funds are used. The authorizing legislation does not, however, grant the Mint any enforcement tools should an organization not file the annual audited statements. However, Public Law 104-208 does grant the Office of Inspector General the authority to examine recipient organizations' books and records, effectively granting it the authority to conduct those audits should a recipient organization fail to voluntarily file the required audited statements.

The Mint now includes wording in the initial letters sent to new surcharge recipient organizations, along with a copy of the Compliance Procedures, that clearly states the annual audit requirement. We will also inform the recipient organization that failure to comply with the annual audit requirement will result in the referral of the non-compliance to the Office of Inspector General. In our periodic conversations with officials of these organizations, we will remind them of this audit requirement.

Recommendation #5: The Director of the Mint should ensure that the recipient organization's end of fiscal year is used to calculate the date of the annual audit submission to the Government.

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Mint Response: The Mint concurs with this recommendation and, in fact, implemented corrective action during the early part of the OIG's audit.

We acknowledge that early in the program we experienced some uncertainty regarding audit submission dates for the first two programs subject to annual audit requirements (Botanical Gardens and Jackie Robinson). As we informed your staff in the July 28, 2000 exit conference, this issue was resolved at the beginning of the audit (summer 1999), and we have since been using the correct date for the subsequent administration of the program. Our initial misunderstanding in no way impeded our follow-up with recipient organizations regarding their annual audit submissions.

Allocation of General and Administrative Costs

Recommendation #6: The Director of the Mint should ensure that the Mint's implementation of ABC provides for an equitable and cost effective methodology for allocating G&A costs. The Mint should also ensure that its implementation of ABC with regard to G&A activities is completed in a timely manner.

Mint Response: The Mint not only believes in the merits of activity based costing to better understand our costs, but we are in the process of implementing this costing technique in our corporate finance and circulating business units and plan to implement activity based costing in our numismatic business unit and other corporate offices. The Mint's implementation of activity based costing will result in a more precise costing system as compared to our current already acceptable costing approach. The Mint-wide implementation of activity based costing will form the basis of the long-term revision of the Mint's G&A allocation methodology.

Currently, the Mint allocates G&A expenses with a methodology based on a study conducted in 1996 by Coopers & Lybrand, and subsequently reviewed by our independent public accountants. The Mint has received four consecutive unqualified opinions since the implementation of this allocation methodology.

Surcharge Eligibility and Payments Guidance

Recommendation #7: The Director of the Mint should seek comment on the Mint's Commemorative Coin Program compliance procedures from interested parties, modify its procedures where appropriate, and make the procedures more accessible to potential recipient organizations and the public.

Mint Response: The Mint concurs with the general intent of this recommendation. In order to make our compliance procedures more accessible to potential surcharge recipient organizations we will send them copies of these procedures once the potential recipient organization has obtained the mandatory

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number of sponsors for pending legislation. Furthermore, in order to ensure the widest distribution possible, the Mint will place the compliance procedures on our web site. Finally, we will seek feedback from surcharge recipients at the end of a program regarding our compliance procedures. We will modify our compliance procedures, where appropriate, based on this feedback. As a customer focused organization we are always receptive to input and feedback that improves upon and strengthens our customer relationships.

The Mint believes that we have always effectively communicated relevant legislative requirements to surcharge recipients. Specifically, requirements in the areas of 1) matching funds, 2) determining program cost recovery, 3) surcharge payments and 4) annual audits of surcharge funds have been adequately communicated. However, in response to this audit, the Mint will enhance communications procedures by informing potential surcharge recipients (identified in pending legislation) of the specific compliance requirements that all surcharge recipients must adhere to and by posting the compliance procedures on our web site. We will also seek feedback regarding our procedures from surcharge recipient organizations at the end of a program, beginning with the Library of Congress program in early 2001.

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We appreciate the opportunity to comment on this draft audit report. We would also appreciate receiving information about how many resources were spent on this audit so that we can assess whether the audit was value added. I am requesting that you include our complete response in your final report. If you have any questions, please do not hesitate to call me.

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