FINANCIAL MANAGEMENT: Audit of the United States Mint's Schedule of Custodial Gold and Silver Reserves as of September 30, 2000 and 1999

OIG-01-060 March 29, 2001

Office of Inspector General

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The Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

MAR 29 2001

MEMORANDUM FOR JAY W. JOHNSON, DIRECTOR
UNITED STATES MINT

FROM: William H. Pugh
Deputy Assistant Inspector General
for Financial Management and Information
Technology Audits

SUBJECT: Audited Schedule of Custodial Gold and Silver Reserves for the United States Mint as of September 30, 2000 and 1999

Attached is our report on the United States Mint's (U.S. Mint) Schedule of Custodial Gold and Silver Reserves (custodial schedule) as of September 30, 2000 and 1999. The results of our audit will be relied upon by Urbach Kahn & Werlin LLP, an independent public accountant, who performed the audits of the Mint's Fiscal Year 2000 and 1999 financial statements. In addition, the Assistant Secretary for Management/Chief Financial Officer has incorporated audited figures and related disclosures from our report in the *Fiscal Year 2000 Department of the Treasury Accountability Report* for transmission to the Office of Management and Budget.

The audit objectives were to provide reasonable assurance that the Mint's custodial schedule is free from material misstatement, significant controls have been designed and placed into operation, and the Mint complied with applicable laws and regulations.

Our report includes an unqualified opinion on the Mint's custodial schedule. Our report contains no reportable conditions related to the internal controls. We noted no instances of reportable noncompliance with laws and regulations. In accordance with *Government Auditing Standards,* issued by the Comptroller General of the United States, the opinion on the custodial schedule is dated as of the last day of audit field work.

Should you have any questions, please contact me on (202) 927-5430, or a member of your staff may contact Tom Moschetto, Director, Financial Management Audits on (202) 927-5074.

Attachment

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OIG

Report of the Office of Inspector General

The Department of the Treasury
Office of Inspector General

To the Director of the United States Mint:

We have audited the United States Mint's (U.S. Mint) Schedule of Custodial Gold and Silver Reserves (Schedule) as of September 30, 2000 and 1999. This report presents our audit conclusion on this Schedule. Our audit disclosed no material weaknesses and no instances of reportable noncompliance with laws and regulations in fiscal year 2000.

Management's Responsibilities

Management is responsible for:

- Preparing the Schedule in conformity with generally accepted accounting principles.
- Establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the benefits and related costs of internal control policies and procedures.
- Complying with laws and regulations applicable to the U.S. Mint's custodial responsibilities for the gold and silver reserves.

Scope of Audits

We conducted our audits in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and applicable Office of Management and Budget (OMB) guidance. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall custodial schedule presentation. Our responsibility is to express an opinion on the Schedule based on our audit. We believe that our audit provides a reasonable basis for our opinion.

In planning and conducting our audit of the U.S. Mint's Schedule for the year ended September 30, 2000, we considered its internal control over financial reporting and compliance with laws and regulations. Specifically, we obtained an understanding of the design of the U.S. Mint's internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the Schedule and not to provide assurance on the internal control over financial reporting and compliance with laws and regulations. Consequently, we do not provide an opinion on such controls.

As part of obtaining reasonable assurance about whether the Schedule is free of material misstatement, we performed tests of the U.S. Mint's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of custodial schedule amounts. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Results of Audits

Opinion on the Financial Statements

In our opinion, the Schedule presents fairly, in all material respects, the United States' gold and silver reserves in the custody of the U.S. Mint as of September 30, 2000 and 1999, in conformity with generally accepted accounting principles.

Internal Control

Internal control is a process, effected by the U.S. Mint's management and other personnel, designed to provide reasonable assurance that the following objectives are met:

- Reliability of financial reporting – transactions are properly recorded, processed, and summarized to permit the preparation of the Schedule for the fiscal year ended September 30, 2000 in accordance with generally accepted accounting principles, and the safeguarding of assets against loss from unauthorized acquisition, use, or disposition; and

- Compliance with applicable laws and regulations – transactions for the fiscal year ended September 30, 2000 are executed in accordance with laws and regulations that could have a direct and material effect on the Schedule.

Because of limitations inherent in any internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that internal control may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

As defined in OMB Bulletin Number 01-02, *Audit Requirements for Federal Financial Statements* (OMB Bulletin No. 01-02), reportable conditions are matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of the internal control that could adversely affect the Mint's ability to meet the internal control objectives as defined above. Material weaknesses are reportable conditions in which the design or operation of the internal control does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material in relation to the Schedule being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters nor were any brought to our attention, involving the internal control and its operation that we consider to be material weaknesses as defined above.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

Compliance with Laws and Regulations

The results of our tests of compliance in fiscal year 2000 with the laws and regulations disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

This report is intended solely for the information and use of the management of the U.S. Mint, and the U.S. Department of the Treasury, OMB, the Congress, and Urbach Kahn & Werlin LLP, and is not intended to be and should not be used by anyone other than these specified

parties. However, this report is available to the public as a matter of public record.

William H. Pugh
Deputy Assistant Inspector General for Financial Management and Information Technology Audit
January 26, 2001

United States Department of the Treasury

Secretary of the Treasury
Treasurer of the United States
Chief Financial Officer

United States Mint

Director
Deputy Director
Chief Financial Officer

Independent Public Accountant

Urbach Kahn & Werlin LLP

SECTION II

SCHEDUE OF CUSTODIAL GOLD AND SILVER RESERVES AS OF SEPTEMBER 30, 2000 AND 1999

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
SCHEDULE OF CUSTODIAL GOLD AND SILVER RESERVES
AS OF SEPTEMBER 30, 2000 AND 1999
(IN THOUSANDS)

	2000	1999
CUSTODIAL GOLD AND SILVER RESERVES		
United States' gold and silver reserves (Note 2)	$10,364,687	$10,457,846
Custodial liability to Treasury (Note 2)	10,364,687	10,457,846
Net gold and silver reserves custodial position	$ 0	$ 0

The accompanying notes are an integral part of this schedule.

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
NOTES TO THE SCHEDULE OF CUSTODIAL GOLD AND SILVER RESERVES AS OF SEPTEMBER 30, 2000 AND 1999

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The United States Mint (U.S. Mint), established in 1792, is an integral part of the Department of the Treasury. The mission of the U.S. Mint is to manufacture coins for general circulation. In addition to manufacturing circulating coins, the U.S. Mint manufactures numismatic products, which include medals, proof coins, uncirculated coins, gold and silver bullion coins, and commemorative coins. These manufacturing operations are reported in the manufacturing segment of the U.S. Mint's consolidated gold financial statements. The U.S. Mint is also the custodian of a significant portion of the United States' gold and silver reserves, which are presented in the custodial segment of the U.S. Mint's Statements of Financial Position.

The U.S. Mint's custodial activities, including the protection of the United States' gold and silver reserves in its custody, are funded by the U.S. Mint's Public Enterprise Fund (PEF).

B. Basis of Presentation

This Schedule has been prepared to report the gold and silver reserves custodial position of the U.S. Mint. The books and records of the U.S. Mint have served as the source of the information contained herein. The schedule has been prepared in accordance with generally accepted accounting principles and U.S. Mint accounting policies.

This Schedule includes all gold and silver classified by the U.S. Mint as "custodial reserves" as defined in Note 2. This schedule does not include gold and silver withdrawn from the "custodial reserves" for use in the operations of the U.S. Mint's PEF. The U.S. Mint's PEF occasionally uses gold and silver from the custodial reserves to support its numismatic operations. The PEF later replenishes the reserves with newly mined gold. This schedule does not reflect any United States' gold and silver being used by the U.S. Mint in its operating inventory or any reserve amounts due to be replenished by the PEF, nor do they include gold at Federal Reserve Banks.

NOTE 2. Custodial Gold and Silver Reserves

Gold and silver are classified as reserves if in bar form. The custodial reserves also include foreign gold coins held by Treasury for many years.

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
NOTES TO THE SCHEDULE OF CUSTODIAL GOLD AND SILVER RESERVES AS OF SEPTEMBER 30, 2000 AND 1999

The gold and silver reserves are reported in this Schedule at the lower of cost or market value. Absent historical records to determine the acquisition cost of the gold and silver over the decades, the reserves are valued at the rates stated in U.S. Code Title 31, Sections 5116 and 5117 (statutory rates) which are $42.2222 per Fine Troy Ounce (FTO) of gold and $1.292929292 per FTO of silver. An offsetting custodial liability is also reported for these assets.

At September 30, 2000 and 1999, the market value of gold was $273.65 per FTO and $299.00 per FTO respectively. Gold inventories consisted of the following at September 30:

	FTO	Statutory Value	Market Value
2000	245,262,897.040	$10,355,539,091	$67,116,191,775
1999	247,078,556.034	$10,432,200,209	$73,876,488,254

At September 30, 2000 and 1999, the market value of silver was $4.8875 per FTO and $5.575 per FTO respectively. Silver inventories consisted of the following at September 30:

	FTO	Statutory Value	Market Value
2000	7,075,171.14	$ 9,147,696	$34,579,899
1999	19,835,748.11	$25,646,220	$110,584,296

The combined gold and silver reserves consisted of the following at September 30:

	Statutory Value	Market Value
2000	$10,364,686,787	$67,150,771,674
1999	$10,457,846,428	$73,987,072,550

Custodial gold and silver FTOs are transferred to the PEF for numismatic operations. The PEF replenishes the custodial reserves with purchases of newly mined gold. In addition, the Defense Logistics Agency transferred silver to the custodial reserves.