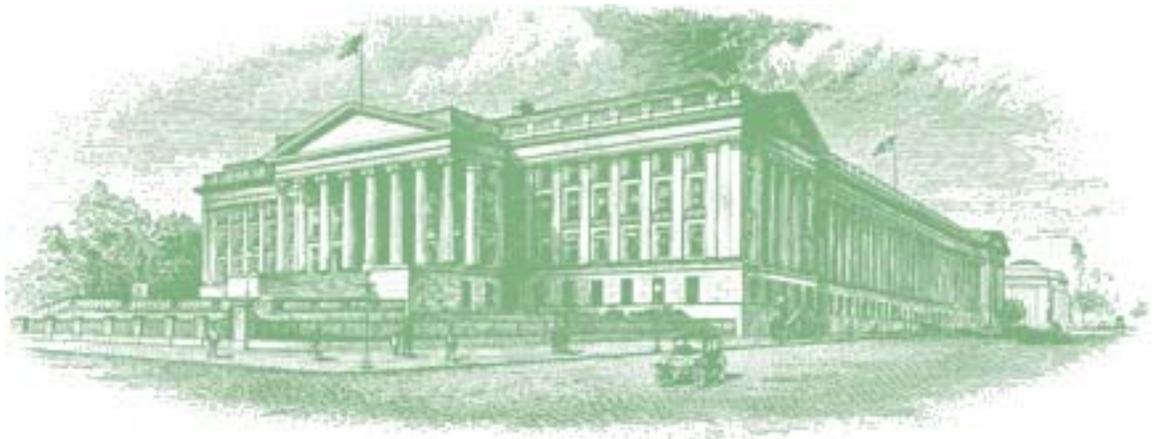




Audit Report



OIG-08-018

Management Letter for the Fiscal Year 2007 Audit of the United States Mint's Financial Statements

December 10, 2007

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 10, 2007

**MEMORANDUM FOR EDMUND C. MOY, DIRECTOR
UNITED STATES MINT**

FROM: Michael Fitzgerald /s/
Director, Financial Audits

SUBJECT: Management Letter for the Fiscal Year 2007 Audit of the
United States Mint's Financial Statements

I am pleased to transmit the attached management letter in connection with the audit of the United States Mint's (Mint) Fiscal Year 2007 financial statements. Under a contract monitored by the Office of Inspector General, KPMG LLP, an independent certified public accounting firm, performed an audit of the financial statements of the Mint as of September 30, 2007, and for the year then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*; and the *GAO/PCIE Financial Audit Manual*.

As part of its audit, KPMG LLP issued and is responsible for the accompanying management letter that discusses other matters involving internal control over financial reporting and its operation that were identified during the audit but were not required to be included in the audit reports.

In connection with the contract, we reviewed KPMG LLP's letter and related documentation and inquired of its representatives. Our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789 or a member of your staff may contact Donna Joseph, Audit Manager, Financial Audits, at (202) 927-5784.

Attachment

THE UNITED STATES MINT

Management Letter

Fiscal Year 2007

THE UNITED STATES MINT
Fiscal Year 2007 Management Letter
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KPMG LLP
2001 M Street, NW
Washington, DC 20036

December 4, 2007

Inspector General
United States Department of the Treasury
740 15th Street, NW, Suite 600
Washington, DC 20220

Director
The United States Mint
801 9th Street, NW
Washington, DC 20001

Ladies and Gentlemen:

We have audited the financial statements of the United States Mint (Mint) for the years ended September 30, 2007 and 2006, and have issued our report thereon dated December 4, 2007. In planning and performing our audits of the Mint's financial statements, we considered the Mint's internal control over financial reporting, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for expressing an opinion on the effectiveness of the Mint's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mint's internal control.

During our fiscal year 2007 audit of the Mint's financial statements, we noted one matter involving internal control over financial reporting and its operation that we considered to be a significant deficiency under standards established by the American Institute of Certified Public Accountants. In our *Independent Auditors' Report on Internal Control*, dated December 4, 2007, we reported that we considered the finding related to the Mint's financial accounting and reporting controls to be a significant deficiency, additionally we consider this significant deficiency to be a material weakness.

Our audit procedures were designed primarily to enable us to form an opinion on the Mint's financial statements, and therefore, may not bring to light all weaknesses in policies or procedures that exist. However, we also take this opportunity to share our knowledge of the Mint, gained during our work, to make comments and suggestions that we hope can be useful to you.

Although not considered to be significant deficiencies, we noted certain matters involving internal control and other operational matters, which are presented in Appendix A, for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the Mint's internal control or result in other operating efficiencies. We have not considered the Mint's internal control since the date of our report. The Mint's response to our comments and recommendations are presented in Appendix B. Appendix C presents the status of prior year management letter comments.

We appreciate the courteous and professional assistance that the Mint's personnel extended to us to complete our audit timely. We would be pleased to discuss these comments and recommendations with you at any time.



This communication is intended solely for the information and use of the Mint's management, the United States Department of the Treasury's Office of Inspector General, the U.S. Government Accountability Office, Office of Management and Budget, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

THE UNITED STATES MINTFiscal Year 2007 Management Letter Comments

Inventory Management**A-1 Controls over Reconciliation Reviews Should be Strengthened**

During our reconciliation test work, we could not verify Mint management review and approval of reconciliations performed from the sub ledger to the general ledger.

We recommended that the Mint enforce the practice of signing-off the reconciliations on a timely basis in order to adequately document that a formal review and approval of the reconciliations is being made.

The Mint has corrected the finding noted above as of fiscal year-end.

A-2 Controls over Quarterly Physical Inventory Procedures at Philadelphia Should be Strengthened

During our first inventory observation we noted several findings. During our second inventory observation several of the findings noted were cleared. The following are the findings from the first inventory observation that were not cleared as of year-end:

Numismatic Physical Inventory

1. Historically, the Numismatic Section performed a cycle count of their inventory. The Mint conversion to ARC delayed implementing the cycle counts this fiscal year. According to the Mint an Annual Physical Inventory (API) of all numismatic items would replace the cycle count control for the current fiscal year. However, the numismatic count team was informed that only inventory located on-sight needed to be supported.

Circulating Inventory

1. The Mint did not perform proper Quarterly Physical Inventories (QPI)'s prior to the QPI 3rd Quarter that KPMG attended. The Mint only inventoried raw material and finished goods; however, they should have included all inventory items, except work-in-process (WIP). Please note that WIP is only performed once a year in the third or fourth quarter per the Inventory Standard Operating Procedures (SOP).
2. Circulating coins held at third party locations are in the general ledger and supporting documentation for this inventory was provided; however, there was no reconciliation of the supporting documentation to the general ledger.

We recommend that Mint management implement the following recommendations to correct the conditions noted above:

Numismatic Physical Inventory

1. Ensure all sections/count teams receive instructions on the procedures being performed prior to the physical inventory.

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Fiscal Year 2007 Management Letter Comments

Circulating Inventory

1. Develop clear inventory instructions and conduct training session on the proper procedures that should be performed during a QPI.
2. Prepare before the QPI by acquiring the proper documentation for coins held at third party locations but are still in the Mint's GL, and perform a reconciliation of the documentation to the GL.

During our second inventory observation, we noted the following:

Circulating Inventory

1. Six count sheets prepared by the Mint were incorrect: four coil count sheets, one condemned count sheet, and one WIP count sheet.
2. Sufficient documentation was not provided to support the mutilated count sheets conversion into the ending balances noted in the final Consolidated Inventory by Account (CIBA) report.
3. There were three separate occasions when the Mint's final count did not agree to the ending balance in the final CIBA report. There was no explanation provided for these differences.
4. The review and approval of all count sheets was not performed in a timely fashion. Specifically on condemned count sheets, we noted that not all of the count sheets were signed or dated.
5. The QPI ended on September 21, 2007, reconciliations for the QPI were not received until October 4, 2007. Reconciliations should be provided within five business days of the end of the QPI.
6. Documentation for cutoff test work of last five shipments received at the Mint were not signed or dated.

We recommend that Mint management implement the following recommendations to correct the conditions noted above:

Circulating Inventory

1. Ensure that all inventory material is verified and counted.
2. Perform a reconciliation of mutilated material to the CIBA.
3. Develop training related to the proper recording of inventory from the count sheets into the subsidiary ledger in Oracle.
4. Establish a policy and procedure that requires the timely sign-off and dating of count sheets.
5. Develop training related to the proper recording of inventory movements in Oracle so that the QPI reconciliation is performed in the required time allotted.
6. Prepare before the QPI by acquiring the proper documentation for cutoff test work with shipments properly dated and signed.

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A-3 Controls over Quarterly Physical Inventory Procedures at Denver Should be Strengthened

During our inventory observations, we noted the following:

Numismatic Physical Inventory

1. Inventory testcounts were not “blind” counts, the total amount of inventory on-hand was listed on the count sheet.
2. The initial Numismatic inventory count scheduled for 9/17/07 was performed; however, the inventory test counts could not be validated as there was no plan on how to count the inventory that was still in production. Therefore, the count was reperfomed on 9/18/07 and the counts were able to be validated with production shut down.
3. A pre-inventory reconciliation of the CIBA subsidiary ledger to the Oracle general ledger was unable to be performed in accordance with Mint policies and procedures.

Circulating Inventory

1. The physical inventory count was performed by the manufacturing personnel who work with the inventory daily. Independent Mint personnel (typically personnel from Accounting) were not in attendance to observe all the counts performed and corroborate the results of the QPI. In addition, the weighing of WIP and condemned tanks were conducted by plant floor employees only, a third party is to be in attendance to verify this count.
2. The review and approval of the count sheets was not performed in a timely fashion. Specifically on WIP count sheets, we noted that all of the count sheets were signed; however, they were not dated, so we were unable to verify when they were approved.
3. A pre and post-inventory reconciliation of the CIBA subsidiary ledger to the Oracle general ledger was not performed in accordance with Mint policies and procedures.
4. After the inventory was counted and/or weighed, various inventory items were not cordoned off or locked with a numbered seal. As a result, it was difficult to track and monitor which items had been counted.
5. The Mint was unable to locate two tanks of Quarter WIP that was sealed on July 5, 2007. The seal was then broken and the tanks were put into production. The seal number was never recorded and documentation does not support the tanks removal from WIP into Finished Goods.
6. There was one tank of webbing that was not counted during the QPI.
7. The Mint count team counted an extra tank in condemned that was not on the count sheets.
8. The Mint counted two tanks of condemned inventory, which were still classified as WIP in Oracle because the production team had not notified the manufacturing team to move them from WIP to Condemned in Oracle. This resulted in overstating the amount of WIP in Oracle.

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9. There were ten 50 cent coils located at the warehouse that did not have a count sheet. The Mint stated that a count sheet was not prepared as the coils were received from Philadelphia on 2/28/07 and entered into Oracle on 4/3/07, based on weights submitted received with the shipment. Further review by the Denver Mint indicated that the weight received from Philadelphia was incorrect and they adjusted the inventory value on 8/15/07.

We recommend that Mint management implement the following recommendations to correct the conditions noted above:

Numismatic Physical Inventory

1. Develop policy and procedures that require the inventory quantities from the inventory taker's count sheets to be blank to ensure the inventory counts are "blind" counts.
2. The person in-charge of the inventory should plan and execute the inventory in accordance with Mint policy, which includes working with all parties involved in the inventory: production, manufacturing, and accounting.
3. Develop a process for performing a pre-inventory CIBA subsidiary ledger to Oracle general ledger reconciliation.

Circulating Inventory

1. Ensure that independent Mint personnel participate in the inventory observation.
2. Develop clear inventory instructions and conduct training session on the proper procedures that should be performed during a QPI.
3. Establish a policy and procedure that requires the timely sign-off and dating of count sheets.
4. Develop a process for performing a pre and post-inventory CIBA subsidiary ledger to Oracle general ledger reconciliation.
5. Develop a clear and consistent system for marking inventory items counted to ensure that the QPI count is complete, and that they have control over inventory movement during the QPI count. Management should consider the use of rope/tape and grip locks to seal off all tanks that have been counted.
6. Develop training related to the proper recording of inventory movements in Oracle and on the count sheets for the production, manufacturing, and accounting sections.
7. Establish a policy and procedure related to partial shipping and receipting of inventory between Mint facilities, including the certification of the inventory weights.

A-4 Physical Inventory Procedures at West Point Should be Strengthened

During our inventory observation testwork at the West Point Mint facility, we noted the following:

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1. The Mint uses an outdated sampling methodology that is not part of the inventory SOP. A statistician developed a sampling methodology for the Mint during May 2001 to select a sample of items for counting during the API. However, the methodology has not been subsequently reviewed or updated to ensure the previous criteria are still applicable and are sufficient to provide adequate coverage of the total inventory on hand as of the count date.
2. The Mint has not updated their SOP to reflect the API inventory procedures to include the use of statistical sampling.

We recommend that Mint management implement the following recommendations to correct the conditions noted above:

1. Update the sampling methodology on an annual basis to take into account the inventory on hand at the date of the count to ensure that the samples selected for the physical inventory are adequate.
2. Include the use of statistical sampling in the API policies and procedures.

Asset Management**B-1 Controls Over Asset Retirements Should be Strengthened**

During our Asset Management test work we noted that for 2 of 11 asset retirements from the interim sample and 8 of 13 asset retirements from the final sample, the Mint did not complete the Excess Property report.

We recommend that Mint establish and implement policies and procedures for the retirement of assets to ensure that Excess Property forms are properly completed, filed and are available for examination for a reasonable time period after the retirement transaction.

B-2 Controls Over Property, Plant and Equipment Should be Strengthened

During our property, plant and equipment testwork, we noted that:

1. From the property, plant and equipment items selected for testing, 4 out of 36 did not have a property identification number attached. During our review, once this issue was discovered, property identification numbers were created and attached to the property items.
2. The Mint was unable to timely locate a property, plant and equipment item selected for review. The item was identified after significant efforts to locate it.
3. KPMG noted several property items were physically received by the field site; however, these items were not included in the field site's general ledger.

We recommend that the Mint:

1. Ensure that all property, plant and equipment have a property identification number and the property identification number should be assigned timely as the property is received.
2. Assign a location identifier to all property items to ensure that these items can be tracked properly.

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3. Establish and implement a reconciliation process between property, plant and equipment received at the field site and assets recorded in the general ledger.

B-3 Controls Over Property, Plant and Equipment Inventory Should be Strengthened

The Mint performed an extensive physical inventory of property, plant and equipment at all facilities during fiscal year 2007. Based on the results of the physical inventory, we noted that improvement is still required to ensure that all property is adequately safeguarded and properly accounted for. Specifically, we noted the following:

1. 38 accountable property items physically inspected were not included in the Asset Management Module of Oracle until after the physical inventory was completed.
2. The Mint was unable to physically locate 158 accountable property items.
3. We noted there is inconsistency, between the facilities, in the documentation as well as the support that is needed to support the results of the inventory.

We recommend that the Mint:

1. Ensure that accountable property items are properly and timely included in the Asset Management Module of Oracle.
2. Implement adequate security and physical control procedures to ensure that all assets are adequately safeguarded and properly accounted for.
3. Review and revise the existing policies and procedures to standardize the procedures performed during the physical inventory. This should include specific details on how to perform the inventory, what reports are required to support the inventory, and what support is expected in communicating the results of the inventory to the Property Management Group at Headquarters. Further, the procedures should require the Property Management Group at Headquarters to perform inventory control monitoring procedures at each Mint facility.

Revenue Generation and Collection**C-1 Controls Over the Preparation of Shipping Documents Should be Strengthened**

During our walkthroughs and control testwork, we noted that the Mint prepares Government Bill of Lading (GBL) documentation for all shipments prior to the shipment date. As reported in the fiscal year 2006 Management Letter, the Mint prepared GBLs are pre-populated using the shipment date scheduled with the third party carrier.

We recommend that the Mint leave the shipment date on GBLs blank and require truckers from third party carrier sign and date the GBLs when the inventory is loaded on the truck and physically leaves the Mint's loading dock.

As of April 1, 2007 we noted the Mint had stopped pre-populating the GBLs and requiring truckers from the third party carrier to sign and date the GBLs.

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The Mint has corrected the findings noted above as of fiscal year-end.

C-2 Controls Over the Sign-off of Shipping Documents Should be Strengthened

For the revenue control testwork performed, we noted that the Mint prepares GBL documentation for all shipments prior to the shipment date. KPMG noted that Mint updated their process for preparing the GBL during the current fiscal year and it no longer contains a pre-populated shipping date where the third party carrier is supposed to sign and date it. During our testwork we noted 4 out of 15 GBL's were not signed and /or dated by the third party carrier. During our cut off testwork for year end we noted that 1 out of 20 GBLs was not dated by the third party carrier.

We recommend that the Mint require the third party carrier to date the GBLs when the inventory is loaded on the truck and physically leaves the Mint's loading dock.

Human Resource Management**D-1 Controls Should be Developed for Monitoring Payroll Processed by Service Providers**

The Mint outsourced certain payroll functions to the Bureau of the Public Debt's Administrative Resources Center (ARC) during fiscal year 2006. ARC submits the Mint's payroll information to the National Finance Centre (NFC), who processes the payroll. However, as noted in fiscal year 2006, the Mint has not updated the SOP to address the ARC's involvement in the human resources function. We noted that no user controls have been established to verify that the payroll and human resources information is properly processed by NFC and ARC at the employee level.

We recommend that the Mint implement adequate controls over the human resources and payroll process to ensure that payroll processed by NFC and ARC are complete and accurate. Further, an enhanced SOP should be developed to provide a clear audit trail of the processes and controls that are performed at ARC and the Mint.

As of the end of May, KPMG noted that the Mint implemented a new policy and procedure to review changes made to the human resources and payroll information. KPMG reviewed the design of the new process in June, noting it was designed effectively. The new policy requires the Mint to review all ARC actions for each pay period. At the end of the pay period, the Mint will print a report identifying "applied" and "suspended" actions. All "suspended" actions will be investigated until they are resolved and changed to "applied" status. These reports will be signed off by a reviewer and maintained on file.

As discussed above, the Mint has corrected the findings noted above as of fiscal year-end.

D-2 Controls over Reconciliation Reviews Should be Strengthened

During our reconciliation test work, we could not verify the review and approval of reconciliations performed from the sub ledger to the general ledger.

We recommended that the Mint enforce the practice of signing-off the reconciliations on a timely basis in order to adequately document that a formal review and approval of the reconciliations is being made.

The Mint has corrected the findings noted above as of fiscal year-end.

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Financial Reporting**E-1 Standard Operating Procedures Should be Implemented for Heritage Assets**

During fiscal year 2006, we noted that the Mint adopted the provisions of Statement of Federal Financial Accounting Standards (SFFAS) #29, *Heritage Asset and Stewardship Land*. The Mint removed museum quality pieces from operating inventory at the West Point Facility and created a new heritage asset footnote as required by SFFAS # 29.

The Mint has completed a draft policy and procedure for the accounting treatment of heritage assets; however, it has not been finalized.

We recommend that the Mint finalize and issue the Heritage Assets policy and procedure. The policy and procedure should require the implementation of tracking procedures to ensure that the coins as well as the property, plant, and equipment items are properly presented. Tracking, at a minimum, should include a description of major categories, physical unit information for the end of the reporting period, physical units added and withdrawn during the year, a description of the methods of acquisition and withdrawal, and condition information.

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Response to Management Letter Comments FY 2007

The United States Mint management generally concurs with the conditions reported and will review the noted conditions and analyze the recommendations to develop corrective action plans to address the issues. While the final resolution may not specifically follow the recommendation, we will, in consultation with our auditors, ensure that the corrective action will resolve the reported concern.

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Status of Prior Year Management Letter Comments

Fiscal Year 2007 Management Letter

Fiscal Year 2006 Management Letter Comment		Fiscal Year 2007 Status
Inventory Management		
A-1	Controls Over Tracking Die Steel Rods Should be Strengthened	Closed.
A-2	Physical Inventory Procedures at West Point Should be Strengthened	Repeated: See fiscal year 2007 revised comment at A-4.
A-3	Security at Denver Warehouse Should be Strengthened	Closed.
A-4	Improvements Needed to Monitor Slow-moving and Obsolete Inventory	Closed.
A-5	Procedures Should be Enhanced to Observe Physical Inventory at PFS Web	Closed.
A-6	Quarterly Physical Inventory Procedures Should be Strengthened	Partial repeat: See fiscal year 2007 revised comment at A-2.
Asset Management		
B-1	Controls over Asset Retirements Should be Strengthened	Repeated: See fiscal year 2007 revised comment at B-1.
B-2	Policies and Procedures for Performing Impairment Analysis Should be Reviewed	Closed.
Revenue Generation and Collection		
C-1	Controls over Monitoring the MOA with USPS Should be Strengthened	Closed.
C-2	Controls over the Preparation of Shipping Documents Should be Strengthened	Repeated: See fiscal year 2007 revised comment at C-1.
C-3	Improper Recognition of Consignment Sales	Closed.
Human Resource Management		
D-1	Controls Should be Developed for Monitoring Payroll Processed by Service Providers	Repeated: See fiscal year 2007 revised comment at D-1.
Procurement		
E-1	Controls over Disbursements Should be Strengthened	Closed.
E-2	Controls over Document Retention of Purchase Orders Should be Strengthened	Closed.
E-3	Accounts Payable Module Should be Enhanced to	Closed.

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Status of Prior Year Management Letter Comments

Fiscal Year 2007 Management Letter

Fiscal Year 2006 Management Letter Comment		Fiscal Year 2007 Status
	Automatically Calculate Prompt Pay Penalty Interest	
Manufacturing		
F-1	Management Review of Variances Should be Formalized and Strengthened	Closed.
F-2	Controls Over Document Retention for Standard Costs Should be Strengthened	Closed.
Information Technology		
G-1	Improvements Needed in Specialized Training for Employees	Closed.
G-2	Improvements Needed in Audit Reviews of the Windows Environment	Closed.
G-3	Improvements Needed in Network Account Management	Closed.
G-4	Improvements Needed in Data Security Controls	Closed.
G-5	Improvements Needed in Internal System Device Controls	Closed.
Financial Reporting		
H-1	Standard Operating Procedures Should be Implemented for Heritage Assets	Repeated: See fiscal year 2007 revised comment at E-1.