



Audit Report



OIG-20-017

FINANCIAL MANAGEMENT

Management Letter for the Audit of the United States Mint's
Financial Statements for Fiscal Years 2019 and 2018

December 6, 2019

Office of Inspector General
Department of the Treasury

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OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

December 6, 2019

**MEMORANDUM FOR DAVID J. RYDER, DIRECTOR
UNITED STATES MINT**

FROM: James Hodge /s/
Director, Financial Audit

SUBJECT: Management Letter for the Audit of the United States Mint's
Financial Statements for Fiscal Years 2019 and 2018

We hereby transmit the attached subject management letter. Under a contract monitored by our office, KPMG LLP (KPMG), a certified independent public accounting firm, audited the financial statements of the United States Mint as of September 30, 2019 and 2018, and for the years then ended. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, *Financial Audit Manual*.

As part of its audit, KPMG issued the attached management letter dated December 5, 2019, that discusses certain matters involving deficiencies in internal control over financial reporting that were identified during the audit, but were not required to be included in the auditors' reports.

In connection with the contract, we reviewed KPMG's management letter and related documentation and inquired of its representatives. KPMG is responsible for the letter and the conclusions expressed in the letter. Our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards with respect to this management letter.

If you wish to discuss this report, please contact me at (202) 927-0009, or a member of your staff may contact Ade Bankole, Manager, Financial Audit, at (202) 927-5329.

Attachment

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THE UNITED STATES MINT

Management Letter

For the Year Ended September 30, 2019

**The United States Mint
Management Letter
For the Year Ended September 30, 2019**

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KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

December 5, 2019

Acting Inspector General
Department of the Treasury
875 15th Street, NW,
Washington, DC 20005

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

Gentlemen:

In planning and performing our audit of the financial statements of the United States Mint, as of and for the years ended September 30, 2019 and 2018, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, we considered the United States Mint's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the United States Mint's internal control. Accordingly, we do not express an opinion on the effectiveness of the United States Mint's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and/or significant deficiencies and therefore, material weaknesses and/or significant deficiencies may exist that were not identified. In accordance with *Government Auditing Standards*, we issued our report dated December 5, 2019 on our consideration of the United States Mint's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. During our audit, we identified deficiencies in internal control which are summarized in Appendix A. Appendix B presents the status of prior year comments.

The United States Mint's responses to the findings identified in our audit are described in Appendix A. The United States Mint's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

The purpose of this letter is solely to describe the deficiencies in internal control identified during our audit. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP

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Fiscal Year 2019 Management Letter Comments

Information Technology (IT) Findings

A-1 User Account Management for WAN/LAN and OMS II Needs Improvement

In the prior year, we reported deficiencies with Mint’s user account management controls over the Wide Area Network (WAN)/Local Area Network (LAN) and Order Management System (OMS) II. Documentation supporting new access approval for certain applications and network users was unavailable. Our testing identified certain instances in the network and one system where new user access approval forms were not retained.

During FY 2019, we continued to identify testing exceptions over WAN/LAN and OMS II new user authorization processes. Specifically, we noted the following:

- Nine of 15 iCommerce Agent (iCA) module new users did not have access approval forms,
- Three of 15 JD Edwards module new users did not have access approval forms,
- Two of two Sales Force Commerce Cloud (SFCC) new users did not have access approval forms, and
- One out of 15 new WAN/LAN users had their account enabled before manager approval was granted.

The following Mint, Department of the Treasury (Treasury), and National Institute of Standards and Technology (NIST) security standards and guidelines establish requirements over user access:

Treasury Directive Publication (TD P) 85-01, Version 3.0.1, Access Control (AC)-2, states:

“The organization:

- a. Requires approvals by [Bureau-defined personnel or roles] for requests to create information system accounts”

The NIST Special Publication (SP) 800-53, Revision (Rev.) 4, Security and Privacy Controls for Federal Information Systems and Organizations, AC-2 Account Management states:

“The organization:

[...]

- e. Requires approvals by [Assignment: organization-defined personnel or roles] for requests to create information system accounts”

The controls intended to provide users with access only after approval and to retain the documentation of the approvals are not always being performed.

Ineffective controls over access to programs and data, increases the risk of unauthorized access to the systems, which could lead to a compromise in data confidentiality, integrity, and availability.

We recommend that Mint management implement controls to ensure that new or modified user accounts are approved in accordance with Mint policies and procedures, and NIST and Treasury requirements. Documentation supporting such approval should be maintained.

Management Response:

Management concurs with the finding.

A-2 Timely Removal of Inactive Users from the Mint Network Needs Improvement

In prior years, we reported a deficiency with Mint’s access removal process. Our test results found that WAN/LAN user accounts had gone unused for more than 90 days and were not disabled as required by Mint policy. Furthermore, some users who were terminated still maintained an active account in WAN/LAN.

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Management took corrective action to remediate this prior-year deficiency by the implementation of an automated tool to send daily notifications regarding inactive users who need their access removed. However, twelve LAN/WAN user accounts assigned to the Oracle Transportation Management (OTM) contractors, who use web Virtual Private Network (VPN) to log into the WAN/LAN, had gone unused for more than 90 days, and management was unable to provide supporting documentation evidencing that these accounts were disabled as required by Mint policy.

Furthermore, Mint's existing information system security policies and plans do not have an established timeframe for management to remove user accounts associated with terminated employees and contractors. We noted that four terminated staff accounts were not disabled until their accounts were inactive for 90 days.

The NIST SP 800-53, Rev. 4, *Security and Privacy Controls for Federal Information Systems and Organizations*, AC-2 Account Management states:

"The organization:

[...]

- f. Creates, enables, modifies, disables, and removes information system accounts in accordance with [Assignment: organization-defined procedures or conditions];"

TD P 85-01, Version 3.0.3, states:

"2.12 Managers and Supervisors

Managers and supervisors shall---

[...]

- 4) Notify SOs [aka system owners] to revoke access privileges in a timely manner when a user under their supervision or oversight no longer requires access privileges, requires a change in access privileges, or fails to comply with stated policies and procedures."

There are insufficient controls in place to ensure that the terminated staff accounts are removed timely. In addition, the existing policies and procedures for deprovisioning inactive users' access are not designed to address a certain system limitation. Specifically, the limitation is that when users log into the Mint network using webVPN (used by OTM contractors), their last logon date does not update accordingly. Because these users' last logon dates do not update, they appear to be inactive; however, management is aware that this is not true, and does not disable these users' access.

Ineffective controls over access to programs and data, increases the risk of unauthorized access to the systems, which could lead to a compromise in data confidentiality, integrity, and availability.

We recommend that Mint management:

1. Update access management policies and procedures to include management's controls and procedures to address the system limitations over webVPN connections to WAN/LAN.
2. Configure the WAN/LAN to disable user accounts automatically after 90 days of inactivity in accordance with Mint policy.
3. Update existing information system security policies to include guidance over the removal of terminated staff accounts from Mint's systems or third-party systems.
4. Enforce termination and transfer procedures to remove system access of terminated or transferred employees and contractors in a timely manner from the network and applications hosted or managed by the Mint or by service organizations.

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Management Response:

Management concurs with the finding.

A-3 Timely Removal of Terminated Users from Oracle Federal Financial System Needs Improvement

Mint procures financial accounting services from the Bureau of the Fiscal Service's (Fiscal Service) Administrative Resource Center (ARC) in Parkersburg, WV. Mint utilizes ARC's Oracle Financial system as its core financial management system and general ledger. On an annual basis, ARC obtains an independent Systems and Organization Controls (SOC) 1, Type II, report over ARC's IT and business process controls supporting the Oracle Financials environment. In this report, ARC includes the complementary customer agency controls that Mint should implement locally in order to rely on the SOC 1 report. In the Fiscal Year (FY) 2019 ARC SOC 1 report, there is a complementary customer agency control that directs Mint to notify ARC in a timely manner when employees and contractors separate from the Mint.

Mint management did not notify the ARC Service Desk staff of the need to remove the access of three of 99 terminated staff from the Oracle Federal Financial system. Furthermore, Mint's existing information system security policies do not have an established time frame for management to remove Oracle Federal Financial accounts associated with terminated staff.

Report on the Bureau of the Fiscal Service Administrative Resource Center's Description of its Financial Management Services and the Suitability of the Design and Operating Effectiveness of its Controls for the Period July 1, 2018 to June 30, 2019, Complementary Customer Agency Controls, states: "Notify ARC timely regarding exiting employees"

TD P 85-01, Version 3.0.3, states:

"2.12 Managers and Supervisors

Managers and supervisors shall---
[...]

4) Notify SOs [aka system owners] to revoke access privileges in a timely manner when a user under their supervision or oversight no longer requires access privileges, requires a change in access privileges, or fails to comply with stated policies and procedures."

NIST SP 800-53, Rev. 4, *Security and Privacy Controls for Federal Information Systems and Organizations*, states:

"AC-2 Account Management

The organization:

[...]

- f. Creates, enables, modifies, disables, and removes information system accounts in accordance with [Assignment: organization-defined procedures or conditions];

Personnel Security (PS)-4 Personnel Termination

The organization, upon termination of individual employment:

- a. Disables information system access within [Assignment: organization-defined time period];"

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There are insufficient controls in place to ensure that the terminated staff accounts are removed timely. Furthermore, due to competing priorities, management relied on the Oracle system to automatically disable accounts that had been inactive for over 90 days.

Ineffective controls over access to programs and data, increases the risk of unauthorized access to the systems, which could lead to a compromise in data confidentiality, integrity, and availability.

We recommend that Mint management:

1. Update existing information system security policies to include guidance over the removal of terminated staff accounts from Mint's systems or third-party systems, including Oracle Financials.
2. Enforce termination and transfer procedures to remove system access of terminated or transferred employees and contractors in a timely manner from the network and applications hosted or managed by the Mint or by service organizations.

Management Response:

Management concurs with the finding.

A-4 HRConnect User Account Recertification Needs Improvement

HRConnect is an enterprise-wide human resources management system owned and administered by Treasury. Treasury's HRConnect Program Office (HRCPO) is the Bureau of the Fiscal Service ARC's partner as a designated shared service center through the Human Resources (HR) Line of Business. HRConnect allows managers to electronically initiate, approve, track personnel actions, awards, and performance appraisals, and view a variety of personnel data on employees reporting to them or their subordinate supervisors. Employees can review and request changes to their own personnel information. HRConnect is a front-end system for sending personnel action data to the United States Department of Agriculture (USDA) National Finance Center's Payroll/Personnel System.

On a quarterly basis, ARC provides the Mint with a listing of Mint's HRConnect user accounts and requests that Mint notifies ARC of any changes to Mint's HRConnect users' access. Internally, Mint's Human Capital Directorate (HCD) and the Human Resources department provide the HRConnect user listing to responsible Mint parties and asks these parties to validate whether the HRConnect users' access needs to be adjusted. Then, the Mint consolidates the responses and notifies ARC of any changes to Mint's users' access privileges in HRConnect.

Management did not complete the review and recertification of HRConnect user access privileges during the second quarter (Q2) of FY 2019.

Standard Operating Procedures: Account Management for United States Mint Information Systems, states:

“8. Human Capital Systems – WEBTA, HRConnect, National Finance Center (NFC):

Continuous Monitoring Processes

8.1.3 Analyze and Summarize Review

1. HCD and US Mint HR points of contacts for each US Mint facility reviews the users' access listing for the specified system(s) and provides a response to BFS-ARC with the changes annotated in the spreadsheets for the specified system.

8.1.4 Follow-up Process

1. BFS-ARC will complete update per the US Mint response for WEBTA and HRConnect.
2. For NFC [...]

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3. HCD Washington DC facility will request an updated listing through the BFS-ARC OracleSupportTeam@fiscal.treasury.gov to validate completion of changes for WEBTA and HRConnect.
4. HCD Washington DC points of contacts will provide ISD Compliance with completed user access review documentation.
5. ISD Compliance team will create folder in ISD file share for management of user access”

TD P 85-01, Version 3.0.3, states:

“2.12 Managers and Supervisors

Managers and supervisors shall---
[...]

- 4) Notify SOs [aka system owners] to revoke access privileges in a timely manner when a user under their supervision or oversight no longer requires access privileges, requires a change in access privileges, or fails to comply with stated policies and procedures.”

NIST SP 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*, AC-2, Accounting Management states:

“The organization:

[...]

- j. Reviews accounts for compliance with account management requirements [Assignment: organization-defined frequency];”

There are insufficient controls in place to ensure that responsible parties complete their review and recertification of Mint’s HRConnect user accounts timely.

Not performing periodic review and recertification of HRConnect user access privileges increases the risk of unauthorized access, disclosure, and modification of sensitive data.

We recommend that Mint management implement controls to ensure that responsible parties complete their review and recertification of Mint’s HRConnect user accounts within a specified timeframe

Management Response:

Management concurs with the finding.

A-5 HRConnect User Account Management Needs Improvement

On an annual basis, Treasury obtains a SOC 1, Type II, report over Treasury’s IT controls supporting the HRConnect environment. In this report, HRConnect management includes the complementary user entity controls (CUECs) that Mint should implement locally in order to rely on the SOC 1 report. In the FY 2019 HR Connect SOC 1 report, there is CUEC that directs Mint to grant access to users who have been vetted by Mint’s security requirements.

One out of two HRConnect users tested was granted a privileged role; however, Mint management did not retain documentation of the approval for the privileged role addition.

TD P 85-01, Version 3.0.3, states:

“2.12 Managers and Supervisors

Managers and supervisors shall---
[...]

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4) Notify SOs [aka system owners] to revoke access privileges in a timely manner when a user under their supervision or oversight no longer requires access privileges, requires a change in access privileges, or fails to comply with stated policies and procedures.”

NIST SP 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*, AC-2, Accounting Management states:

“The organization:

[...]

j. Reviews accounts for compliance with account management requirements [Assignment: organization-defined frequency];”

The controls in place to provide users with access only after approval and to retain the documentation supporting the approvals were not being followed.

Ineffective controls over access to programs and data, increases the risk of unauthorized access to the systems, which could lead to a compromise in data confidentiality, integrity, and availability.

We recommend that Mint management implement controls to ensure that new or modified user accounts are approved in accordance with Mint policies and procedures, and NIST and Treasury requirements. Documentation supporting such approval should be maintained.

Management Response:

Management concurs with the finding.

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Non-IT Findings**A-6 Untimely Review of the Open Obligations Report**

In the prior year, we reported a control deficiency related to the untimely review of the Mint's open obligations report.

During our testing of the current fiscal year's undelivered orders balance, we noted that management did not perform a complete review of the second quarter open obligations for all the departments within the Mint. Although, the Mint training department did not complete its review timely for the second quarter, the Mint-wide review of open obligations was considered complete.

The *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States, Principle No. 5, *Enforce Accountability*, states, "Management enforces accountability of individuals performing their internal control responsibilities. Accountability is driven by the tone at the top and supported by the commitment to integrity and ethical values, organizational structure, and expectations of competence, which influence the control culture at the entity. Accountability for performance of internal control responsibility supports day-to-day decision making, attitudes, and behaviors. Management holds personnel accountable through mechanisms such as performance appraisals and disciplinary actions."

The *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States, Principle No. 14, *Communicate Internally*, states, "Management receives quality information about the entity's operational processes that flows up the reporting lines from personnel to help management achieve the entity's objectives."

The existing policies and procedures are insufficient to ensure that (1) open obligations are appropriately and timely reviewed by each Contract Specialist/Contracting Officer or their supervisor, and (2) all reviews from the departments within the Mint have been received in order to complete the Mint-wide review.

Inadequate controls over open obligations increase the risk that the financial statements could be misstated at fiscal year-end.

We continue to recommend that management strengthen their policies and procedures over the review of open obligations to ensure that the balance is appropriately stated. We also continue to recommend that the Mint implement controls to ensure that the Mint-wide review of open obligations is not considered complete until all reviews from the departments within the Mint have been received.

Management Response:

Management concurs with the finding.

A-7 Insufficient Controls over the Accounting and Reporting of New Lease Obligations

During our audit of the Mint's new lease obligations, we noted that management did not obligate the full amount of the lease contracts for new operating leases executed in FY 2019 in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and more specifically Office of Management and Budget (OMB) Circular No. A-11, *Preparation, Submission, and Execution of the Budget* (OMB A-11).

Statement of Federal Financial Accounting Standards 7 (SFFAS 7), *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, paragraph 78 requires "Recognition and measurement of budgetary resources should be based on budget concepts and definitions contained in OMB Circular A-11."

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OMB A-11, Appendix B – *Budgetary Treatment of Lease-Purchases and Leases of Capital Assets*, Paragraph 1(a) states: “For operating leases, budget authority is required to be obligated up front in the amount necessary to cover the Government’s legal obligations, consistent with the requirements of the Antideficiency Act. This will include the estimated total payments expected to arise under the full term of the contract or, if the contract includes a cancellation clause, an amount sufficient to cover the lease payments for the first year plus an amount sufficient to cover the costs associated with cancellation of the contract.”

Controls are not sufficiently designed to ensure that the new leases are accounted for in accordance with OMB A-11.

Inadequate controls over lease obligations increases the risk that the lease obligations reported in the Mint’s financial statements could be misstated at fiscal year-end.

We recommend that Mint management design and implement controls to ensure that lease obligations are recorded in compliance with OMB A-11, Appendix B requirements.

Management Response:

Management concurs with the finding.

A-8 Insufficient Review Controls over the Year-End Accruals Process

During the FY 2019 audit, we noted certain instances where expenses and related accruals were not recorded and reported in the Mint’s financial statements in accordance with U.S. GAAP. Specifically, we noted the following:

- For two out of 18 accounts payable and other related samples tested, accrued expenses were understated by \$231 thousand for goods and services received in FY 2019 but not yet paid.
- Accounts payable balance as of September 30, 2019 was overstated by certain accruals from prior year totaling \$2.8 million that remained in the account although payments for the related goods and services received were previously made.
- Two invoices for a total of \$160 thousand in a sub-expense account with \$8.2 million of expenses with budget fiscal years prior to FY 2019 were recorded as FY 2019 expenses although the related goods and services were received in FY 2018.

The *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States, Principle No. 10, *Control Activities*, states, “Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.”

SFFAS No. 1, *Accounting for Selected Assets and Liabilities*, Paragraph 77 states “When an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of the goods. If invoices for those goods are not available when financial statements are prepared, the amounts owed should be estimated.”

Controls are not sufficiently designed and implemented to ensure that expenses and related accruals are accounted for and reported in the Mint’s financial statements in accordance with U.S. GAAP.

In addition to the misstatements noted above, inadequate controls over expenses and related accruals increases the risk that other expenses and related accruals may not be reported in the Mint’s financial statements in accordance with U.S. GAAP.

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We recommend that Mint management design and implement controls to ensure that expenses and related accruals are accounted for and reported in the Mint's financial statements in accordance with U.S. GAAP.

Management Response:

Management concurs with the finding.

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Status of Prior Year Management Letter Comments

Fiscal Year 2018 Management Letter Comments	Fiscal Year 2019 Status
IT Findings	
Controls Over Access to Financial Management Systems Need to be Strengthened (Reported in FY 2018 as a Significant Deficiency)	Re-issued as a control deficiency, A-1 and A-2 (We specifically closed 5 of the 7 Notifications of Findings and Recommendations (NFR) issued to management last year that were part of the Significant Deficiency)
Non-IT Findings	
A-1 Untimely Review of the Open Obligations Report	Re-issued, A-6
A-2 Accounting and Reporting of Derivative Contracts	Closed



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