



Audit Report



OIG-16-021

FINANCIAL MANAGEMENT

Management Letter for the Audit of the United States Mint's
Fiscal Years 2015 and 2014 Financial Statements

December 11, 2015

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 11, 2015

**MEMORANDUM FOR RHETT JEPSON, PRINCIPAL DEPUTY DIRECTOR
UNITED STATES MINT**

FROM: Adé Bankole
Acting Director, Financial and Procurement Audit

SUBJECT: Management Letter for the Audit of the United States Mint's
Fiscal Years 2015 and 2014 Financial Statements

We contracted with the independent certified public accounting firm KPMG LLP (KPMG) to audit the financial statements of the United States Mint as of September 30, 2015 and 2014, 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. 15-02, *Audit Requirements for Federal Financial Statements*, and the Government Accountability Office/President's Council on Integrity and Efficiency *Financial Audit Manual*.

As part of its audit, KPMG issued the attached management letter dated December 9, 2015, that discusses certain matters involving 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. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, a conclusion about the effectiveness of internal control. KPMG is responsible for the letter and the conclusions expressed in the letter. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5329.

Attachment

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UNITED STATES MINT

Management Letter

Fiscal Year 2015

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

December 9, 2015

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

Principal Deputy 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 (Mint), as of and for the years ended September 30, 2015 and 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Mint's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 Mint's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mint's internal control.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in Appendix A.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Mint's organization gained during our work to make comments and suggestions that we hope will be useful to you.

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 Department of the Treasury's Office of the Inspector General, the U.S. Government Accountability Office, the 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.

The Mint's written response to our comments and recommendations has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Very truly yours,

KPMG LLP

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Fiscal Year 2015 Management Letter Comments

Financial Resources**A-1 Controls over the Review of Service Providers Reports Should be Strengthened**

The Mint uses the Bureau of the Fiscal Service Administrative Resource Center (ARC) as a service provider. ARC uses the Fiscal Service's Invoice Processing Platform (IPP) electronic processing solution (mandated for all Treasury Bureaus by the Department of the Treasury). IPP is a web-based electronic invoicing and payment information system that is hosted by the Federal Reserve Bank of Boston. Purchase orders are interfaced from Oracle to IPP. Invoices are submitted in IPP by either the vendor or ARC personnel and are routed to the customer for approval. Upon approval, the invoice interfaces from IPP to Oracle and the invoice is scheduled for payment.

The Mint received a Service Organization Controls Reports (SOC 1 report) for IPP. In the SOC 1 report, it notes that Federal Reserve Bank of Boston uses two subservice organizations:

1) Federal Reserve Information Technology (FRIT)

- Hosts the Treasury Website Application Infrastructure (TWAI) for Treasury
- Responsible to make changes to the IPP production environment and administering user accounts for the IPP system

2) Hewlett-Packard (HP)

- Assists FRIT in the maintenance of TWAI infrastructure and IPP production application
- Assists FRIT in making changes to the production IPP application

However, management did not follow its process to review SOC 1 reports from its service providers.

The Mint's Standard Operating Procedures (SOP), titled *Compliance Standards for 3rd Party Information Systems*, states:

The Contracting Officer's Representative (COR) is responsible for reviewing and distributing all Statement on Standards for Attestations Engagements (SSAE) No. 16/FISCAM documentation provided to the United States Mint to the Information Technology Department (ITD), Financial Department (FD) and any other relevant subject matter experts (SMEs) for their review and input, and documenting all responses in the COR file.

The ITD and FD are responsible for providing technical review and input of all SSAE No. 16/FISCAM Documentation to the COTR in a timely manner and denote any deficiencies.

If deficiencies are noted in the SSAE No. 16/FISCAM Documentation, the contractor will negotiate a designated time frame from the Government's official notice to remedy the deficiencies.

In addition to the above stated SSAE No. 16 review, the Internal Control Branch (ICB) shall review all relevant SAS 70's on an annual basis on/around the start of each calendar year as part of the United States Mint's annual A-123 Assessment of Internal Control over Financial Reporting. The review shall include a) validation that the COR obtained and documented the requisite SAS 70 reviews per this SOP and b) a review of all the SSAE No. 16's within the A-123 scope to determine if they are in compliance with the standards outlined in this SOP. If, as a result of the ICB review SSAE No. 16's are determined to be out of compliance for either of these

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Fiscal Year 2015 Management Letter Comments

categories, the ICB shall notify the COR and corresponding SMEs from the corresponding business unit in writing of the discrepancy/issue and have them develop a corrective action with a tangible due date to address the discrepancy. Any corrective actions shall be included and monitored as part of the ICB's annual A-123 Corrective Action Report.

We recommend that management:

- Follow their SOP to review service provider SOC 1 reports.
- Update the SOP to be more inclusive of what the review should encompass, such as, but not limited to, results of the control testing, time period covered by the report, complementary user entity controls identified in the report, subservice organization not covered by the report.

Inventory Management**B-1 Controls over the San Francisco Cycle Count Should be Strengthened**

During the San Francisco Cycle Count, conducted on September 23, 2015, we noted that all the inventory to be counted was not identified and therefore a substantial amount of inventory was omitted from the initial count, which resulted in a significant difference. The cycle count was subsequently re-performed including all the appropriate inventory.

The Mint's SOP, titled *Inventory Counting*, states:

“Section 2 Background, Perform Cycle Counts of material at the end of each month for material currently in production (for example, clad material used in the production of the 11 coin proof set). When the production schedule changes over to a new product (for example, silver proof set) the material used in the countable material for the work orders being closed are counted.

Section 6.1.1 Inventory Checklist,

- All counts, regardless of inventory type (Cycle Count, Annual Physical Inventory or Quarterly Physical Inventory) will be done using blind counts.
- Ensures the accuracy of the plant's inventory system records.

Section 6.1.2 Roles, Responsibilities, and Accountability, Determines/assesses that the assigned staff has the necessary training and skills required to accomplish the objectives of the counting activity.”

We recommend management perform a Quarterly Physical Inventory procedures for San Francisco inventory counts and ensure all inventory is identified and counted.

General IT Controls**C-1 Controls over the Review of Terminated Users Should be Strengthened**

During our fiscal year 2015 audit, we noted that management's controls for removing terminated employees and contractors from WAN/LAN needs improvement. During testing, we noted four terminated individuals still had active WAN/LAN user accounts.

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Mint's WAN/LAN System Security Plan (SSP), Version 9.3, Control AC-2, states, "All user accounts are removed whenever the user is permanently transferred to another location or terminates employment."

We recommend that management ensure that Mint supervisors adhere to the documented policies for removing terminated users from the system in a timely manner.



DEPARTMENT OF THE TREASURY
UNITED STATES MINT
WASHINGTON, D.C. 20220
December 9, 2015

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

Ladies and Gentlemen:

We have reviewed the fiscal year 2015 auditors' report and are in agreement with the reported observations. The United States Mint recognizes the need for strong internal controls and is taking corrective actions to address the noted deficiencies.

Sincerely,

A handwritten signature in black ink, appearing to read 'DM', is written over the typed name.

David Motl
Associate Director/Chief Financial Officer
United States Mint



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