Audit Report

OIG-10-014

Management Letter for Fiscal Year 2009 Audit of the United States Mint's Financial Statements

December 1, 2009

Office of Inspector General

Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 1, 2009

MEMORANDUM FOR EDMUND C. MOY, DIRECTOR
UNITED STATES MINT

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Management Letter for Fiscal Year 2009 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 2009 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, 2009, 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,* as amended; 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 operations 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 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 Shiela Michel, Manager, Financial Audits, at (202) 927-5407.

Attachment

THE UNITED STATES MINT

Management Letter

Fiscal Year 2009

THE UNITED STATES MINT

Fiscal Year 2009 Management Letter

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

November 24, 2009

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

Gentlemen:

We have audited the financial statements of the United States Mint (Mint) for the years ended September 30, 2009 and 2008, and have issued our report thereon dated November 24, 2009. 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 2009 audit of the Mint's financial statements, we did not note any matters involving internal control over financial reporting and its operation that we considered to be significant deficiencies or material weaknesses under standards established by the American Institute of Certified Public Accountants.

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 internal control over financial reporting 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 responses to our comments and recommendations are presented in Appendix B. These responses have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it. 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 Department of the Treasury's Office of 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.

Very truly yours,

KPMG LLP

Financial Reporting

A-1 Standard Operating Procedures Should be Implemented for Manual Journal Entries

During our Manual Journal Entry test work, we noted that for 21 of 51 journal entries from the interim sample, the person who prepared the journal entry was the same person who approved it.

Per OMB Circular No. A-123, *Management's Responsibility for Internal Control*, (revised December 31, 2004), Section II, Subsection C, Paragraph 1

> Control activities include policies, procedures and mechanisms in place to help ensure that agency objectives are met. Several examples include: proper segregation of duties (separate personnel with authority to authorize a transaction, process the transaction, and review the transaction); physical controls over assets (limited access to inventories or equipment); proper authorization; and appropriate documentation and access to documentation.

The Mint did not have policies and procedures in place to prevent the same person from preparing and approving manual journal entries.

Lack of segregation of duties on manual journal entries does not allow the timely detection and correction of errors or irregularities related to amounts.

We recommend that management establish and implement policies and procedures for manual journal entries to ensure that preparation and approval are not completed by the same person.

Asset Management

B-1 Controls Over Asset Retirements Should be Strengthened

During our interim testwork over Property, Plant and Equipment (PP&E) retirements, we noted the following:

- For 2 out of 20 retirements from our sample, the assets were not retired from Oracle within 30 days of the date of disposal as stated in the Mint's Standard Operating Procedures (SOP).
- For 3 out of 20 retirements (which includes the 2 items above) from our sample, proceeds for the sale of the retired property were not properly recorded in the general ledger.

Per The United State Mint's Standard Operating Procedures, titled Recording Fixed Asset and Property Retirements

> A fixed (capital) asset is considered retired when it has been removed from service by the US Mint's Fixed Assets (FA) and Property Management Section (PM).
>
> Expected Outcome: All disposed assets, including non-tagged capital assets, should be retired (removed) from the US Mint's Enterprise Resource planning (ERP) System (i.e. Oracle, AM-ADCS) within 30 days of the date of disposal.

Per Statement of Federal Financial Accounting Standards No 6. par 38

> In the period of disposal, retirement, or removal from service, general PP&E shall be removed from the asset accounts along with associated accumulated depreciation/amortization. Any difference between the book value of the PP&E and amounts realized shall be recognized as a gain or a loss in the period that the general PP&E is disposed of, retired, or removed from service.

Per the Federal Managers Financial Integrity Act of 1982 Sec 2 (d) (1) (A) (iii)

> Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

The cause is as follows:

- Property Management is not providing the asset retirement form to the accounting division in a timely manner so that the accounting clerk can retire the asset from Oracle within 30 days of disposal.
- When the proceeds from the sale of the asset were received, the amounts were posted to G/L account 510003 ESP Misc Revenue instead of G/L Account 721001 Losses on Disposition of Assets causing the loss on the sale to not be properly calculated because it was entered in the incorrect agency location code.

The effect for both conditions identified above is as follows:

The Mint's October 1, 2008 beginning balance for equipment is overstated by $54,135. In addition, depreciation expense and accumulated depreciation were overstated by $2,803, the loss on sale was overstated by $16,510, Cumulative Results of Operations (CRO) was overstated by $9,690 and miscellaneous revenue were overstated by $24,289.

We recommend the following:

- Property Management forwards the asset retirement form to the accounting division in a timely manner so that the asset can be removed from the asset accounts as stipulated in the Mint's SOP.
- Ensure the proper G/L accounts are used when cash is received from the sale of PP&E to ensure proper recording of account balances and determination of gains/losses on sale of assets.

B-2 Controls Over Assets Should be Strengthened

Movement of property from Construction in Progress (CIP) to a depreciable account was not done timely. During our interim testwork over PP&E additions, capitalizations and adjustments, recategorizations and transfers, we noted assets were placed into service in the prior fiscal year (FY), but were not moved from CIP into a depreciable account until the current FY. In addition, to correct this, the prior FY's depreciation expense was recognized in the current FY.

Per The United State Mint's Standard Operating Procedures, titled *Determining when Construction in Process Assets become Capital Assets*

> Each month, the Fixed Assets (FA) Accountant meets with the U.S. Mint Engineers to get status of each CIP asset.
>
> The FA Accountant uses the information given by the Engineers to update the status of each CIP asset and tracks the information in an Excel spreadsheet.
>
> If it is determined that a CIP asset is completed and ready to be placed into production, the Engineers issue a Project Closeout Form to the fixed asset accountant alerting them that the equipment has been approved for production. The memorandum will include information about the asset and will identify the date placed into service, a description of the asset, the cost of it, along with any other relevant information.
>
> The Accounting Office will then communicate to the U.S. Mint field office(s) that this equipment should begin to be capitalized from the date the asset was placed into service.

Per <u>Statement of Federal Financial Accounting Standards No 6. par 35</u>

> Depreciation expense is calculated through the systematic and rational allocation of the cost of general PP&E, less its estimated salvage/residual value, over the estimated useful life of the general PP&E.

The FA Accountant is not accurately tracking the status of each CIP since no meeting is being held with the Engineers to get the status of each CIP asset as stated in the Mint's SOP. Also, the Contracting Officer Technical Representative (COTR) is not issuing the project closeout form to the FA Accountant when the asset is complete and ready to be placed into service.

The Mint's October 1, 2008 beginning balance for CIP was overstated by $4,630,606, beginning balance for equipment was understated by $4,594,416, and beginning balance for building, improvements and renovations was understated by $36,190, and in the current year, depreciation expense was overstated by $242,223.

We recommend that Mint management enforce compliance with the SOP for determining when CIP assets become capital assets to ensure PP&E are timely and accurately moved to a depreciable account and start being depreciated in the correct period.

Inventory Management

C-1 Controls Over Standard Cost Updates Should be Strengthened

The Mint did not review the standard cost of inventory update, which resulted in miscalculations of the cost of inventory. In addition, financial manager approval of the new standard was not obtained.

Per <u>OMB Circular No. A-123, *Management's Responsibility for Internal Control*, (revised December 31, 2004), Section II, Subsection E, Paragraph 1</u>

> Monitoring the effectiveness of internal control should occur in the normal course of business. In addition, periodic reviews, reconciliations or comparisons of data should be included as part of the regular assigned duties of personnel.

In accordance with The United States Mint's Standard Operating Procedures, titled Updating Standard Costs

> Standards updates will be completed at least one time during the fiscal year. All calculations, estimates, testing and approval of standards will be completed two weeks prior to the target date of March 31.
>
> The financial manager will approve the new standards and sign one of the standards worksheets for his/her Fund and maintain the signed copy as validation that a review was completed and the new standards approved.

The Mint did not comply with the SOP requirement to review and approve the updates to the standard cost of inventory. Therefore, several errors in the calculation of the standard cost of inventory were not identified.

Inadequate internal controls and implementation of polices and procedures does not allow for timely detection and correction of errors or irregularities related to amounts.

We recommend that the Mint comply with the SOP requirement to review and approve updates to the standard cost of inventory to ensure that the amounts are complete and accurate and inventory is valued properly.

C-2 Controls Over Classification of Inventory Held at Coin Wrap Should be Strengthened

We noted weaknesses in the Mint's internal controls over financial accounting and reporting. Specifically, we noted that the Mint does not have a policy to record inventories maintained at third party locations. We noted, that for inventory held at Coin Wrap, the Denver facility recorded its inventory of $6,022,045 as work-in-process (WIP) while the Philadelphia facility recorded its inventory of $4,920,800 as finished goods. The Mint later determined that the inventory held at Coin Wrap should be recorded as WIP.

Per OMB Circular No. A-123, *Management's Responsibility for Internal Control*, (revised December 21, 2004):

- Section II, Subsection C, Paragraph 1: Control activities include policies, procedures and mechanisms in place to help ensure that agency objectives are met. Several examples include: proper segregation of duties (separate personnel with authority to authorize a transaction, process the transaction, and review the transaction); physical controls over assets (limited access to inventories or equipment); proper authorization; and appropriate documentation and access to that documentation.
- Section II, Subsection E, Paragraph 1: Monitoring the effectiveness of internal control should occur in the normal course of business. Periodic reviews, reconciliations or comparisons of data should be included as part of the regular assigned duties of personnel.

The Mint does not have policies and procedures in place to properly account for inventories held by third party vendors.

As a result of the Philadelphia facility recording its third party inventory as finished goods instead of WIP, the Mint's inventory is understated for WIP and overstated for Finished Goods by $4,920,800.

We recommend the Mint develop policies and procedures to properly record inventories held by third party vendors.

C-3 Controls Over Calculation of the Weighted Average Should be Strengthened

During our inventory valuation test work of the Mint's circulating inventory, we noted the calculation of the weighted average was not done correctly. The total adjustment of $9,652,095 was applied to raw materials instead of the weighted average amount of $1,964,487. In addition, the weighted average amount for WIP and finished goods should be $1,395,644 and $4,619,026, respectively.

Per the Federal Managers Financial Integrity Act of 1982 Sec 2 (d) (1) (A) (iii)

> Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

In accordance with The United States Mint's Standard Operating Procedures, titled Inventory Raw Materials Weighted Average

> The United States Mint uses a "weighted average" method of calculating raw materials inventory. During the course of the year, a standard cost is used when purchasing inventory. This needs to be converted to a weighted average when the difference between the standard cost and the weighted average is materially different. This SOP addresses how to convert existing standard cost inventory to a weighted average. The SOP only applies to base metals used in circulating coins.

The Mint did not calculate the weighted average for raw materials, WIP, and finished goods correctly. In addition, the Mint's SOP does not include policies and procedures related to the adjustment of work in process and finished goods inventory.

The effects are as follows: (1) raw materials is understated by $7,687,608; (2) WIP is overstated by $1,395,644; (3) finished goods is overstated by $4,619,026; and (4) Cost of Goods Sold is overstated by $1,672,938.

We recommend the Mint correctly calculates the weighted average for raw materials, WIP, and finished goods. We also recommend the Mint establish and implement policies and procedures to adjust the value of WIP and finished goods inventory.

Revenue and Related Accounts Receivables

D-1 Controls Over Numismatic Accounts Receivables Should be Strengthened

During our testwork over the Mint's Numismatic Accounts Receivable, we noted the following:

- For 1 out of 10 accounts selected, the account was not removed from the accounting system even though the customer signed a certificate of non receipt.
- For 1 out of 10 accounts selected, the account was greater than $100, more than 180 days overdue and was not referred to Debt Management Service (DMS).
- For 3 out of 10 accounts selected, the accounts were referred to the Mint police because they were results of identity theft. These accounts have been open since Fiscal Year 2007 and there have been no follow up communication between accounting and the Mint police to determine if the accounts should be written off if the Mint police have exhausted all collection efforts.

Per The United States Mint's Standard Operating Procedures (SOP), Titled Receivable Write Off

> Numismatic receivables are processed by the Numismatic Accounting Group in headquarters adhering to the following policy:

- Automatic Write Off
    - Certificate of non receipt is provided by the customer.
- General Debt collection process
    - After 180 days all debt greater than $100 is referred to the Debt Management Service (DMS) debt management service for collection.

Per The Debt Collection Improvement Act (DCIA) of 1996 §285.12 (c)(1)

> A creditor agency shall transfer any debt that is more than 180 days delinquent to Treasury for debt collection services.

The causes are as follows:

- The Mint did not follow their SOP for the write off of receivables where the customer provided a certificate of non receipt.
- The Mint did not follow their SOP and the DCIA of 1996 for referring overdue accounts to DMS.
- The Mint does not have any policies or procedures regarding accounts receivable where identity theft occurred.

Inadequate internal controls and lack of polices and procedures does not allow for timely detection and correction of errors or irregularities.

We recommend the Mint:

- Properly removed the receivable from the accounting system upon receipt of a certificate of non receipt from the customer as stated in Mint's SOP.
- Refers any accounts, which are overdue by 180 days and greater than $100, to DMS for collection as stated in the Mint's SOP and the DCIA of 1996.
- Include in their SOP procedures for identity theft cases. Specifically, the procedures should address the follow up communication between accounting and the Mint police to determine if the account should be written off if the Mint police have exhausted all collection efforts.

Budgetary Resources

E-1 Controls Over Review of Open Obligations Should be Strengthened

During our testwork over the Mint's Undelivered Orders (UDOs), we noted the following:

- Four orders, totaling $3,951,498, should have been deobligated in FY 2008. Two of the four orders were deobligated in FY 2009.

- Three orders, totaling $2,056,331, were not deobligated as of September 30, 2009.

Per The United States Mint's Standard Operating Procedures (SOP), Open Obligation Review

> Based on delegated authority, close purchase orders and de-obligate the remaining funds on an ongoing basis upon the occurrence of one of the following events:
>
> - The invoice payment completes the purchase order.
> - The Contracting Officer's Technical Representative (COTR) provides notice of final payment for a purchase order, delivery order or contract.
> - The purchase document is cancelled (for example training authorization is cancelled).
> - The amount remaining open on the purchase order after payment for all units or services ordered is less than $100.

Metals

Due to the market dependent nature of metals contracts, every line item of a contract that is open at the expiration of the contract period of performance is allowed to remain open for up to four months after the period of performance has expired or until the contract has been completely reconciled, whichever occurs first.

The Mint did not properly review undelivered orders which resulted in orders not being deobligated as required by their SOP.

The effects are as follows:

- As of October 1, 2008, the Mint's Undelivered Orders – Obligations Unpaid beginning balance was overstated by $3,951,498. Of this amount, $3,600,366 was deobligated in FY 2009.
- As of September 30, 2009, the Mint's Undelivered Orders – Obligations Unpaid balance was overstated by $2,056,331.

We recommend the Mint comply with their SOP by properly reviewing the undelivered orders report and deobligating orders that meet the criteria stated in the SOP.

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

November 24, 2009

KPMG LLP
2001 M Street N.W.
Washington, DC 20036

Ladies and Gentlemen:

We have reviewed the fiscal year 2009 Management Letter Comments 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. We have made significant progress toward resolving the reported issues and will continue to work with KPMG and the Office of Inspector General in identifying the specific actions that will ensure we have taken appropriate corrective action.

Sincerely,

Patricia M. Greiner

Patricia M. Greiner
Associate Director/Chief Financial Officer
United States Mint

Appendix C

THE UNITED STATES MINT

Status of Prior Year Management Letter Comments

Fiscal Year 2009 Management Letter

Fiscal Year 2008 Management Letter Comment		Fiscal Year 2009 Status
Asset Management		
A-1	Controls Over Asset Retirements Should be Strengthened	Closed.
A-2	Controls Over Property, Plant and Equipment Inventory and Accountable Property Should be Strengthened	Closed.
Human Resources Management		
B-1	Controls over Reconciliation Reviews Should be Strengthened	Closed.
Inventory Management		
C-1	Controls Over Numismatic Inventory Should be Strengthened	Closed.
C-2	Controls Over Inventory System Access Should be Strengthened	Closed.
Procurement		
D-1	Controls Over Accounts Payables Should be Strengthened	Closed.