



Audit Report



OIG-05-029

Management Letter for the Fiscal Year 2004 Audit of the United States Mint's Schedule of Custodial Gold and Silver Reserves

March 10, 2005

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

March 10, 2005

MEMORANDUM FOR ROBERT J. BYRD
ASSOCIATE DIRECTOR/CHIEF FINANCIAL OFFICER

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

SUBJECT: Management Letter for the Fiscal Year 2004 Audit
of the United States Mint's Schedule of
Custodial Gold and Silver Reserves

We have audited the Schedule of Custodial Gold and Silver Reserves (Custodial Schedule) of the United States Mint (Mint) as of September 30, 2004 and 2003 and issued our report thereon dated November 5, 2004 (OIG-05-004). In planning and performing our audit of the Mint's Custodial Schedule, we considered Mint's internal control over financial reporting related to the Custodial Schedule, in order to determine our auditing procedures for the purpose of expressing an opinion on the Custodial Schedule, and not to provide assurance on internal control over financial reporting. We have not considered the internal control over financial reporting since the date of our report.

Our report contained no reportable conditions related to internal control over financial reporting and its operation. However, during our audit, we noted a matter involving internal control over financial reporting, not required to be included in our audit report, that is presented below for your consideration. This comment and recommendation is intended to improve the quality and efficiency of internal control over financial reporting related to the Custodial Schedule.

Improvements are Needed in the Custodial Gold and Silver Reserves Inventory Verification Policies and Procedures Established by the Mint's Office of Management Services

During our observation of the gold and silver reserves inventory, we noted that the inventory verification policies and procedures need improvement. Specifically, we noted instances in which policies and procedures established by the Office of Management Services (1) were not followed, (2) were incomplete and/or require clarification, and (3) were inconsistent with other

policies and directives. These instances are presented in Attachment 1.

Standards for Internal Control in the Federal Government, published by the Government Accountability Office, states: "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals. The documentation, whether in paper or electronic form, should be purposeful and useful to managers in controlling their operations, and to auditors or others involved in analyzing operations."

Inconsistently followed and/or inadequate policies and procedures may cause errors in the gold and silver reserves inventory verification process and reporting of these balances in the Custodial Schedule. In addition, breakdowns in policies and procedures may have an adverse effect on the security of the custodial gold and silver reserves inventory.

Recommendation

We recommend that the Mint establish and adhere to clear and complete policies and procedures that are consistent with approved Mint directives related to the verification and safeguarding of the custodial gold and silver reserves inventory.

Management Response

Mint management concurred with our finding and recommendation and is revising their policies and procedures to correct this weakness. See Attachment 2 for Mint management's response to our report.

Our audit procedures were designed primarily to enable us to form an opinion on the Custodial Schedule, and therefore may not have identified all weaknesses in policies and procedures that may exist. However, we take this opportunity to share our knowledge gained during our audit of the Custodial Schedule, to make comments and suggestions we hope will be useful to you.

We appreciate the cooperation and courtesy extended to our staff during our audit. Should you or your staff have any questions,

you may contact me at (202) 927-5400 or a member of your staff may contact Mike Fitzgerald, Director, Financial Audits, at (202) 927-5789.

This memorandum is intended for the use of the management of the Mint; however, it is available as a matter of public record.

Attachments

cc: Marla Freedman, Assistant Inspector General for Audit
Thomas Moschetto, Assistant Director, Office of Management
Services
Ruth Rosenthal, Supervisory Management Analyst, Office of
Management Services
William Daddio, Associate Director of Protection
Howard Hyman, Assistant Director for Accounting
Ellen McCullom, Plant Manager, Mint of West Point

Improvements are Needed in the Custodial Gold and Silver Reserves Inventory Verification Policies and Procedures Established by the Mint's Office of Management Services

Policies and Procedures Were Not Followed

- 1. Activities affecting the receipt of the assay results were not effectively performed in accordance with Mint-Wide Policy Memorandum (Policy) FIN-08, Assay Sampling of Deep Storage Assets, Responsibilities (Director's Representative).** Delays were encountered in the gold verification process that resulted in the independent laboratory not completing its assay testing timely. The initial delay, resulting from the incorrect weighing of the drill samples as documented in 2. below, postponed the delivery of the samples to be tested, and the original due date for receipt of the assay results. A second delay resulted from a modification of the assay contract to include additional testing methods, since the method agreed to in the original contract was considered inadequate. This modification was agreed to in principle in mid-September but the independent laboratory was not notified to proceed with its testing until mid October (modification was executed 10/22/04). By the time the independent laboratory was notified to proceed with its work in mid October, it did not have enough time to complete its testing and provide test results by the end of our audit fieldwork (October 27, 2004). The Director's Representative was not aware that the assayer testing had stopped during the contract modification process. The Responsibilities section of Policy FIN-08 states, *The Director's Representative is responsible for: acting as facilitator between the Plant Manager/OIC and the OIG; ensuring the contract with the independent assayer is in place; and all assay activities contained in this Policy Memo.* As a result of these delays, the assay results were not received by the end of audit field work and we were not able to use the assayer test results in our Fiscal Year (FY) 2004 audit.
- 2. The assay sample and umpire sample weights were not weighed in fine troy ounces in accordance with Policy FIN-08, Assay Sampling of Deep Storage Assets, paragraph 5b.iii.1.** The assay samples and umpire samples taken from the melts selected were weighed in ounces instead of fine troy ounces in accordance with Policy FIN-08. The scale was incorrectly set

to measure the samples in ounces rather than in troy ounces during the weighing. As a result, the samples selected for assay could not be forwarded to the contracted independent laboratory for testing at the end of the inventory observation. A subsequent trip to the West Point facility was necessary to observe the reweighing of the samples.

- 3. Griplock register was not maintained by the Plant Manager/Officer in Charge (OIC) in accordance with Policy FIN-10, Official Joint Seal, paragraph 4a.** The Plant Manager designee could not provide the griplock register used during the Fiscal Year FY 2002 audit showing the griplock number used when compartment 10-C was sealed. West Point personnel stated that maintaining the griplock register was the responsibility of the Mint Headquarters, which is not stated in Policy FIN-10, paragraph 4a. Paragraph 4a of Policy FIN-10 requires the griplock register to be maintained by the Plant Manager/OIC. As a result, the verification team could not match the griplock removed from 10-C to the register, as required in Policy FIN - 10, paragraph 3a.

Policies and Procedures Were Incomplete and/or Require Clarification

- 1. Policy FIN-10, Official Joint Seals, paragraph 6, does not properly identify the responsibilities of the Plant Manager/OIC and Director's Representative.** Policy FIN-10, paragraph 6e, states that *the Plant Manager/OIC or his/her designee will place the Seal in a protective sleeve that is clear on both sides and hang it on the compartment door in such a way that Official United States Mint Tape does not support the Seal's weight.* However, Policy FIN-10, paragraphs 6a, 6d, 6f, and 6g, do not address the party responsible for performing the steps related to preparing the Official Joint Seal (OJS), attaching the U.S. Mint Official Tape to the compartment, and attaching the griplock or button seal on the OJS. As a result, conflict arose between the Plant Manager's designee and the Director's Representative as to who should prepare the information required on the OJS and who should hang the OJS on outgoing compartment 10-C. After a delay in the process and upon request from the OIG, the Plant Manager agreed to have designees perform these steps.
- 2. Policy FIN-08, Assay Sampling of Deep Storage Assets, does not address the drilling of an umpire sample that remains with the U.S. Mint.** After the Plant Manager designee drilled and weighed each assay sample, the bar melt was drilled again to remove an umpire sample stored at the U.S. Mint in case of

dispute resulting from the independent assay results. The drilling of an umpire sample is not documented in U.S. Mint policies or Mint Directive MD 8H-3 Verification of Deep Storage Assets (MD 8H3).

3. **Policy FIN-08, Assay Sampling of Deep Storage Assets, does not identify the party responsible for the samples after drilling.** Dispute arose between West Point Management and the Director's Representative as to which party was responsible for the samples after drilling, weighing, and assaying by the independent laboratory. It was unclear who would prepare the forms required to transfer the samples for assay by the independent laboratory. The samples remained in the custody of West Point after the drilling and weighing. The Responsibilities Section in Policy FIN-08 identifies both the Plant Manager/OIC and the Director's Representative as being *responsible for all assay activities contained in this Policy Memo*.
4. **Policy FIN-08, Assay Sampling of Deep Storage Assets, paragraph 3, states, *if applicable, the Division Head for Quality Assurance at the facility should assist in the sampling process to provide maximum assurance that a proper sample has been rendered.*** This policy is unclear as to when assistance from the Division Head for Quality Assurance should be provided. If this individual had been present during the drilling and weighing of samples to be assayed, the incorrect weighing of the samples, as discussed above, may have been avoided.
5. **Policy FIN-08, Assay Sampling of Deep Storage Assets, does not document or reference to the required procedures for weighing the sample bars/melts prior to and after drilling.** Prior to drilling the assay and umpire samples, the sample bars are weighed using an electronic scale in accordance with Policy FIN-09, Deep Storage Asset Verification, paragraph 2k. However, the requirements in Policy FIN-08 describing the procedures to be performed relating to weighing the sample bars/melts prior to and after drilling are not included or referenced to Policy FIN-09, which could result in the procedures not being performed.

Also, neither Policy FIN-08 or Policy FIN-09, are clear as to whether the bar weights prior to and after sampling should be rounded or truncated. As a result, there was inconsistent use of rounding and truncating of the sample weights taken from the Certified Schedule, which includes all the bars. These weights were used in the calculations performed in the Plant

Manager's Samples Removed Schedule. Plant Management verified that certain weights were in fact inconsistently rounded and corrections were made to the sample schedule to reflect what is in the Certified Schedule. The inconsistent recording of the weights resulted in significant time and effort being spent reconciling between various schedules being maintained by the verification team.

6. **The Policies do not address requirements to perform reconciliations of the gross troy ounce and fine troy ounce weights of the samples recorded by the Plant Manager/OIC or designee with the amounts recorded by the Director's Representative.** After discussions amongst these parties and the OIG, certain reconciliations were performed due to inconsistencies noted among the sample weights and related calculations recorded by the various parties. However, without reconciliations being required in the Policies, reconciliations may not be performed, errors may not be detected, and information included on the OJS and the recalculations of the sample bar weights on the Certified Schedule for the incoming compartment may be inaccurate.
7. **Policy FIN-08, Assay Sampling of Deep Storage Assets, does not address the tolerable allowance for the difference between sample bars weighed prior to drilling and the weights recorded in the Certified Schedule.** During the weighing of the sample bars prior to drilling, we inquired as to the weight read-outs from the electronic scale differing from the weights recorded in the Certified Schedule. According to verification policy FIN-09, Paragraph 21, *When weighing newly mined melts, also called single bar melts, the tolerance is 0.05 gross troy ounces on the short weight and 0.10 gross troy ounces on the plus side. Any weights that exceed these established tolerances will require changes to the Certified Schedule and revaluation for the actual weight.* We reviewed sample bars with differing weights to ensure that these tolerances were not exceeded. However, the assay sampling policy in place does not address these tolerances.
8. **The Policies do not specify their applicability to the U.S. Mint at San Francisco.**

Policies and Procedures Were Inconsistent With Other Policies and Directives

1. **Policies are not consistent in identifying the party with overall responsibility for the gold verification.** MD 8H-3, paragraph 5g, states that *the Director's Representative is an*

employee selected to represent the Director of the United States Mint during and as part of a verification of Deep Storage Assets. This person will be from United States Mint Headquarters and organizationally independent from the facility under review. Policy FIN-11, Rules of Conduct During Deep Storage Asset Verifications and Official Joint Seal Inspections, identifies the Director's Representative as ultimately responsible for all Deep Storage Asset verifications and Official Joint Seal inspections and therefore has decision-making authority over these activities.

However, Policy FIN-09, states that the Plant Manager/OIC and the Director's Representative, in the presence of the OIG Representative, are responsible for the overall accountability and safeguarding of the assets being verified, as well as preparing and attaching an OJS upon completion of the movement of the bars to the new vault/compartment. In addition, Policy FIN-09 states that a Director's Representative will be sent from Headquarters to observe the verification process and provide assistance to the Plant Manager/OIC, as necessary. Conflict arose between the Plant Management designee and Director's Representative over which party was responsible for certain procedures (i.e. preparing and attaching the OJS). There was also an overall misunderstanding of the decision making process.

2. **Policy FIN-08, Assay Sampling of Deep Storage Assets, paragraph 6f, is inconsistent with Policy FIN-09, Deep Storage Asset Verifications, paragraph 2n, concerning the results of the independent laboratory assay results.**

According to the assay sampling Policy FIN-08, paragraph 6f, ...To maintain the integrity and independence of the sampling process, the laboratory results shall be sent directly to the OIG as well as to the United States Mint. However, Policy FIN-09, paragraph 2n, documents that: The OIG will assign a code number to each sample so that it can be identified by the OIG with the melt from which it was taken. If the OIG number assigned to each sample is withheld from the Director's Representative and the Plant Manager/OIC or his/her designee, then the OIG will be solely responsible for controlling and identifying the assay samples and the applicable melt number to which each sample relates. These codes and corresponding melts, as well as assay results will be released to the United States Mint after the OIG has received the results from the independent assay contractor.

Inconsistencies as to which party receives the results directly were also noted within Policy FIN-08, paragraphs 2.r and 2.u. Paragraph 2.r documents that *the Independent Laboratory will submit the assay sample testing results to the Director's Representative and the OIG who will evaluate the results and draw conclusion as to the results...* Paragraph 2.u states that *the OIG will notify the Director's Representative of the results of the assays.*

3. **Policy FIN-10, Official Joint Seals, is inconsistent with MD 8H-3 in establishing the OIG's responsibility related to the removal of the OJS from the compartment to be verified.** After the OJS was removed from outgoing compartment 10-C, the Plant Manager designee and Director's Representative signed the removed OJS. Inquiry was made regarding the OIG Representative signing the removed OJS as witness to its removal. The OIG Representative was instructed not to sign the seal in accordance with Policy FIN-10, paragraph 3b, which states that *after inspecting and removing both the Seal and griplock, the Plant Manager/OIC and Director's Representative should sign the removed Seal and initial the griplock register.* Reference to the OIG is not made in the sections discussing the procedures to be performed within Policy FIN-10. However, within Policy FIN-10, under the Responsibilities Section and documented in MD 8H-3, paragraph 7f, *the United States Mint understands the Office of the Inspector General Representative to be the official responsible for signing the Seal removal certification on the lower part of the Seal as well as all Seal copies.*
4. **Policy FIN-10, Official Joint Seals, does not address the requirements discussed in MD 8H-3, paragraph 8a, for documenting the acceptable methodologies under which a seal is removed.** We noted upon review of Policy FIN-10 the six methodologies listed in MD 8H-3 were not documented in Policy FIN-10.
5. **Policy FIN-09, Deep Storage Asset Verifications, paragraph 2v, and MD 8H-3 paragraph 6a, both include the requirement that the Director's Representative submit a written report to the Chief Financial Officer (CFO) notifying the CFO of the completion of the verification.** However, MD 8H-3, paragraph 6a, specifies that this report is to be submitted *within 30 working days*; whereas Policy FIN-09, paragraph 2v, does not specify a timeframe for submission of the report.
6. MD 8H-3, paragraphs 6c and 6d, refer to melting of the samples taken from the verified compartments instead of the term

drilling used throughout the policies. It is unclear as to whether these are the same process.

7. Allowable losses from assaying samples discussed in MD 8H-3, paragraphs 6c and 6d, which refer to melting of the samples, are not discussed in any of the Policies.
8. Policy FIN-10, Official Joint Seals, paragraph 7b, related to changing combinations of locks is not consistent with MD 8H-3, paragraph 8b(3). MD 8H-3, paragraph 8b(3), states that *...All compartments must have combination locks for both the Plant Manager/OIC and Director's Representative. The combinations will be changed annually. The combination change will occur concurrently with annual Seal inspections unless already changed within the one-year timeframe for a reason other than inspection.* Policy FIN-10, paragraph 7b, does not refer to the combination change occurring concurrently with Seal inspections.



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

Attachment 2

March 3, 2005

MEMORANDUM FOR WILLIAM H. PUGH
DEPUTY ASSISTANT INSPECTOR GENERAL FOR
FINANCIAL MANAGEMENT AND INFORMATION
TECHNOLOGY AUDITS

FROM:

Robert J. Byrd *RJ Byrd*
Associate Director/Chief Financial Officer

SUBJECT:

Draft "Management Letter for the Fiscal Year 2004 Audit of the
United States Mint's Schedule of Custodial Gold and Silver
Reserves"

The United States Mint has reviewed the Office of Inspector General's (OIG) draft
"Management Letter for the Fiscal Year 2004 Audit of the United States Mint's Schedule
of Custodial Gold and Silver Reserves".

We appreciate the OIG's observations and recommendations intended to improve the
quality and efficiency of internal control over financial reporting for the Custodial
Schedule.

We concur with the recommendation that "...the Mint establish and adhere to clear and
complete policies and procedures that are consistent with approved Mint directives
related to the verification and safeguarding of the custodial gold and silver reserves
inventory." We will forward a copy of the revised policy and procedures to the OIG
upon issuance.

Thank you for the opportunity to review the draft letter prior to finalization. We look
forward to working with you in the coming year.