

**FINANCIAL MANAGEMENT:  
Audit of the United States Mint's  
Schedule of Custodial Gold and  
Silver Reserves as of  
September 30, 2001 and 2000**

OIG-02-051

February 22, 2002



**Office of Inspector General**

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**The Department of the Treasury**



OFFICE OF  
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

February 22, 2002

MEMORANDUM FOR HENRIETTA HOLSMAN FORE, DIRECTOR  
UNITED STATES MINT

FROM:

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

SUBJECT:

Audited Schedule of Custodial Gold and Silver  
Reserves for the United States Mint as of  
September 30, 2001 and 2000

Attached is our report on the United States Mint's (U.S. Mint) Schedule of Custodial Gold and Silver Reserves (custodial schedule) as of September 30, 2001 and 2000. The results of our audit will be relied upon by Urbach Kahn & Werlin LLP, an independent public accountant, who performed the audits of the Mint's Fiscal Year 2001 and 2000 financial statements. In addition, the Assistant Secretary for Management/Chief Financial Officer has incorporated audited figures and related disclosures from our report in the *Fiscal Year 2001 Department of the Treasury Accountability Report* for transmission to the Office of Management and Budget.

The audit objectives were to provide reasonable assurance that the Mint's custodial schedule is free from material misstatement, significant controls have been designed and placed into operation, and the Mint complied with applicable laws and regulations.

Our report includes an unqualified opinion on the Mint's custodial schedule. Our report contains no reportable conditions related to the internal controls. We noted no instances of reportable noncompliance with laws and regulations. In accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, the opinion on the custodial schedule is dated as of the last day of audit field work.

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Your staff has reviewed our report, and have no comments. Should you have any questions, please contact me on (202) 927-5430, or a member of your staff may contact Tom Moschetto, Director, Financial Management Audits on (202) 927-5074.

Attachment

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**SECTION I**

**REPORT OF THE OFFICE OF INSPECTOR GENERAL**

*The Department of the Treasury  
Office of Inspector General*

To the Director of the United States Mint:

We have audited the United States Mint's (U.S. Mint) Schedule of Custodial Gold and Silver Reserves (Schedule) as of September 30, 2001 and 2000. This report presents our unqualified audit opinion on this Schedule. Our audit disclosed no material weaknesses and no instances of reportable noncompliance with laws and regulations in fiscal year 2001.

### **Management's Responsibilities**

Management is responsible for:

- Preparing the Schedule in conformity with accounting principles generally accepted in the United States of America.
- Establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the benefits and related costs of internal control policies and procedures.
- Complying with laws and regulations applicable to the U.S. Mint's custodial responsibilities for the gold and silver reserves.

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## Scope of Audits

We conducted our audits in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and applicable Office of Management and Budget (OMB) guidance. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. Our responsibility is to express an opinion on the Schedule based on our audits. We believe that our audits provide a reasonable basis for our opinion.

In planning and conducting our audit of the Schedule for the year ended September 30, 2001, we considered the U.S. Mint's internal control over financial reporting and compliance with laws and regulations. Specifically, we obtained an understanding of the design of its internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the Schedule and not to provide assurance on the internal control over financial reporting and compliance with laws and regulations. Consequently, we do not provide an opinion on such controls.

As part of obtaining reasonable assurance about whether the Schedule is free of material misstatement, we performed tests of the U.S. Mint's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of custodial schedule amounts. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

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## Results of Audits

### Opinion on the Schedule

In our opinion, the Schedule presents fairly, in all material respects, the United States' gold and silver reserves in the custody of the U.S. Mint as of September 30, 2001 and 2000, in conformity with accounting principles generally accepted in the United States of America.

### Internal Control

Internal control is a process, effected by the U.S. Mint's management and other personnel, designed to provide reasonable assurance that the following objectives are met:

- Reliability of financial reporting – transactions are properly recorded, processed, and summarized to permit the preparation of the Schedule for the fiscal year ended September 30, 2001 in accordance with accounting principles generally accepted in the United States of America, and the safeguarding of assets against loss from unauthorized acquisition, use, or disposition; and
- Compliance with applicable laws and regulations – transactions for the fiscal year ended September 30, 2001 are executed in accordance with laws and regulations that could have a direct and material effect on the Schedule.

Because of limitations inherent in any internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that internal control may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.



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Our consideration of internal control would not necessarily disclose all matters in the internal control that might be reportable conditions. As defined in OMB Bulletin Number 01-02, *Audit Requirements for Federal Financial Statements* (OMB Bulletin No. 01-02), reportable conditions are matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control that could adversely affect the Mint's ability to meet the internal control objectives as defined above. Material weaknesses are reportable conditions in which the design or operation of the internal control does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material in relation to the Schedule being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters, nor were any brought to our attention, involving the internal control and its operation that we consider to be material weaknesses as defined above.

### **Compliance with Laws and Regulations**

The results of our tests of compliance in fiscal year 2001 with the laws and regulations disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

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This report is intended solely for the information and use of the management of the U.S. Mint, the U.S. Department of the Treasury, OMB, the Congress, and Urbach Kahn & Werlin LLP, and is not intended to be and should not be used by anyone other than these specified

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parties. However, this report is available to the public as a matter of public record.

  
William H. Pugh

Deputy Assistant Inspector General for Financial Management and  
Information Technology Audits  
January 18, 2002

**United States Department of the Treasury**

Secretary of the Treasury  
Treasurer of the United States  
Assistant Secretary for Management and  
Chief Financial Officer  
Director, Office of Accounting and Internal Control

**United States Mint**

Director  
Deputy Director  
Chief Financial Officer

**Independent Public Accountant**

Urbach Kahn & Werlin LLP

**SECTION II**

**SCHEDULE OF CUSTODIAL GOLD  
AND SILVER RESERVES AS OF  
SEPTEMBER 30, 2001 AND 2000**

**DEPARTMENT OF THE TREASURY  
UNITED STATES MINT  
SCHEDULE OF CUSTODIAL GOLD AND SILVER RESERVES  
AS OF SEPTEMBER 30, 2001 AND 2000  
(IN THOUSANDS)**

<b>CUSTODIAL GOLD AND SILVER RESERVES</b>	<b><u>2001</u></b>	<b><u>2000</u></b>
United States gold and silver reserves (Note 2)	\$10,364,687	\$10,364,687
Liability to Treasury (Note 2)	\$10,364,687	\$10,364,687
Net gold and silver reserves custodial position	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of this Schedule. —

**DEPARTMENT OF THE TREASURY  
UNITED STATES MINT  
NOTES TO THE SCHEDULE OF CUSTODIAL GOLD AND SILVER  
RESERVES AS OF SEPTEMBER 30, 2001 AND 2000**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The United States Mint (U.S. Mint), established in 1792, is an integral part of the Department of the Treasury. The mission of the U.S. Mint is to manufacture coins for general circulation. In addition to manufacturing circulating coins, the U.S. Mint manufactures numismatic products, which include medals, proof coins, uncirculated coins, gold and silver bullion coins, and commemorative coins. These manufacturing operations are reported in the manufacturing segment of the U.S. Mint's consolidated financial statements. The U.S. Mint is also the custodian of a significant portion of the United States' gold and silver reserves, which are presented in the reserves segment of the U.S. Mint's Statements of Financial Position. The U.S. Mint uses the term custodial to identify gold and silver reserves held for the U.S. Treasury. The custodial reserves are not assets of the U.S. Mint, but are assets of the U.S. Treasury.

The U.S. Mint's custodial activities, including the protection of the United States' gold and silver reserves, are funded by the U.S. Mint's Public Enterprise Fund (PEF).

**B. Basis of Presentation**

This Schedule has been prepared to report the gold and silver reserves custodial position of the U.S. Mint. The books and records of the U.S. Mint have served as the source of the information contained herein. The Schedule has been prepared in accordance with accounting principles generally accepted in the United States of America and U.S. Mint accounting policies.

This Schedule includes all gold and silver classified by the U.S. Mint as "custodial reserves" as defined in Note 2. This Schedule does not include gold and silver withdrawn from the "custodial reserves" for use in the operations of the U.S. Mint's PEF. The U.S. Mint's PEF is authorized to use gold and silver from the custodial reserves to support its numismatic operations. The PEF would later replenish the custodial reserves with newly mined gold. This Schedule does not reflect any United States' gold and silver reported by the U.S. Mint in its operating inventory or any reserve amounts due to be replenished by the PEF, nor does it include gold held at Federal Reserve Banks.

**Note 2. Gold and Silver Reserves**

The gold and silver reserves reported in this Schedule are exclusive of the gold and silver reserves considered to be operating inventory in the Mint's financial records, and of the Treasury gold held by the Federal Reserve Banks. The custodial gold and silver reserves included in this Schedule are primarily in bar form, but may occasionally be in coin or other form. The custodial reserves also include foreign gold coins held by Treasury for many years.

**DEPARTMENT OF THE TREASURY  
UNITED STATES MINT  
NOTES TO THE SCHEDULE OF CUSTODIAL GOLD AND SILVER  
RESERVES AS OF SEPTEMBER 30, 2001 AND 2000**

The gold and silver reserves are reported in this Schedule at the lower of cost or market value. Absent historical records to determine the acquisition cost of the gold and silver over the decades, the reserves are valued at the rates stated in U.S. Code Title 31, Sections 5116 and 5117 (statutory rates) which are \$42.2222 per Fine Troy Ounce (FTO) of gold and \$1.292929292 per FTO of silver. An offsetting liability is also reported for these assets.

At September 30, 2001 and 2000, the market value of gold was \$293.10 per FTO and \$273.65 per FTO respectively. Gold inventories consisted of the following at September 30:

	<u>FTO</u>	<u>Statutory Value</u>	<u>Market Value</u>
2001	245,262,897.040	\$10,355,539,091	\$71,886,555,122
2000	245,262,897.040	\$10,355,539,091	\$67,116,191,775

At September 30, 2001 and 2000, the market value of silver was \$4.5825 per FTO and \$4.8875 per FTO respectively. Silver inventories consisted of the following at September 30:

	<u>FTO</u>	<u>Statutory Value</u>	<u>Market Value</u>
2001	7,075,171.14	\$ 9,147,696	\$32,421,972
2000	7,075,171.14	\$ 9,147,696	\$34,579,899

The combined gold and silver custodial reserves consisted of the following at September 30:

	<u>Statutory Value</u>	<u>Market Value</u>
2001	\$10,364,686,787	\$71,918,977,094
2000	\$10,364,686,787	\$67,150,771,674

In prior years, custodial gold and silver FTOs have been transferred to the PEF for numismatic operations. The PEF is responsible for either replenishing the custodial reserves with purchases of newly mined gold or the PEF pays the Treasury General Fund for the custodial reserves used. In addition, the Defense Logistics Agency has transferred silver to the custodial reserves.