



Audit Report



OIG-04-001

FINANCIAL MANAGEMENT: Audit of the United States Mint's Schedule of Custodial Gold and Silver Reserves as of September 30, 2003 and 2002

October 29, 2003

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

MEMORANDUM FOR HENRIETTA HOLSMAN FORE, DIRECTOR
UNITED STATES MINT

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

SUBJECT: Audit of the United States Mint's Schedule of
Custodial Gold and Silver Reserves as of
September 30, 2003 and 2002

The attached report presents the results of our audits of the United States Mint's Schedule of Custodial Gold and Silver Reserves (Custodial Schedule) as of September 30, 2003 and 2002. The Custodial Schedule is the responsibility of the U.S. Mint. We conducted our audits in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

We rendered an unqualified opinion on the Custodial Schedule as of September 30, 2003 and 2002. In addition, our report contains no reportable conditions related to internal control, and no instances of noncompliance with laws and regulations that could have a direct and material effect on the Custodial Schedule.

The results of our audits will be used by Urbach, Kahn & Werlin, LLP, an independent public accountant, who performed the audits of the Mint's Fiscal Year 2003 and 2002 financial statements. In addition, copies of our report are being provided to the Secretary of the Treasury, the Treasurer of the United States, and the Department of the Treasury's Chief Financial Officer.

Your staff has reviewed our report, and has no comments. Should you have any questions, please contact me at (202) 927-5768 or Louis C. King, Director, Information Technology Audits, at (202) 927-5774.

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 accompanying Schedule of Custodial Gold and Silver Reserves (Custodial Schedule) of the United States Mint (U.S. Mint) as of September 30, 2003 and 2002. This report presents our unqualified opinion on this Custodial Schedule. Our audit disclosed no material weaknesses and no instances of reportable noncompliance with laws and regulations.

Management's Responsibilities

Management is responsible for:

- Preparing the Custodial 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.

Scope of Audits

We conducted our audits in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and applicable provisions of the Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the Custodial Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Custodial Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall custodial schedule presentation. Our responsibility is to express an opinion on the Custodial 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 Custodial Schedule, we considered internal control over financial reporting and compliance with laws and regulations. Specifically, we obtained an understanding of the design of the U.S. Mint's internal controls, determined whether these 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 Custodial 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 Custodial 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. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the U.S. Mint. 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.

Results of Audits

Opinion on the Custodial Schedule

In our opinion, the accompanying Custodial Schedule presents fairly, in all material respects, the balance of the United States' Gold and Silver Reserves in the custody of the U.S. Mint as of September 30, 2003 and 2002, in conformity with accounting principles generally accepted in the United States of America.

Consideration of Internal Control

The objectives of internal control are the following:

- Financial reporting: Transactions are properly recorded, processed, and summarized to permit the preparation of the Custodial Schedule in conformity with accounting principles generally accepted in the United States of America, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- Compliance with applicable laws and regulations: Transactions are executed in accordance with laws and regulations that could have a direct and material effect on the Custodial Schedule.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components 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 Custodial Schedule being audited may occur and not be detected within a

timely period by employees in the normal course of performing their assigned functions. For those controls we tested, we found no material weaknesses in internal control over financial reporting and compliance with applicable laws and regulations.

Because of the 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.

Compliance with Laws and Regulations

Our test of compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that are required to be reported in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States or applicable OMB audit guidance. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

* * * * *

This report is intended solely for the information and use of the management of the U.S. Mint, and 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 parties. However, this report is available to the public as a matter of public record.

Your staff has reviewed our report, and has no comments. Should you or a member of your staff have any questions, please contact

me at (202) 927-5768, or Louis King, Director, Information Technology Audits, at (202) 927-5774. We appreciate the cooperation and the courtesies extended to our staff.

William H. Pugh
Deputy Assistant Inspector General for Financial Management
and Information Technology Audits
October 10, 2003

The 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

U.S. MINT'S SCHEDULE OF CUSTODIAL GOLD AND SILVER RESERVES AS OF SEPTEMBER 30, 2003 AND 2002

**DEPARTMENT OF THE TREASURY
UNITED STATES MINT
SCHEDULE OF CUSTODIAL GOLD AND SILVER RESERVES
AS OF SEPTEMBER 30, 2003 AND 2002
(IN THOUSANDS)**

	<u>September 30,</u>	
CUSTODIAL GOLD AND SILVER RESERVES	<u>2003</u>	<u>2002</u>
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
SCHEDULE OF CUSTODIAL GOLD AND SILVER RESERVES
AS OF SEPTEMBER 30, 2003 AND 2002**

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, including medals, proof coins, uncirculated coins, bullion coins (gold, platinum, and silver), 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 (GAAP) 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. 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.

**DEPARTMENT OF THE TREASURY
UNITED STATES MINT
SCHEDULE OF CUSTODIAL GOLD AND SILVER RESERVES
AS OF SEPTEMBER 30, 2003 AND 2002**

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 that have been held by Treasury for many years.

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, 2003 and 2002, the market value of gold was \$388.00 per FTO and \$323.70 per FTO respectively. Gold inventories consisted of the following at September 30:

	<u>FTO</u>	<u>Statutory Value</u>	<u>Market Value</u>
2003	245,262,897.040	\$10,355,539,091	\$95,162,004,052
2002	245,262,897.040	\$10,355,539,091	\$79,391,599,772

At September 30, 2003 and 2002, the market value of silver was \$5.1150 per FTO and \$4.5325 per FTO respectively. Silver inventories consisted of the following at September 30:

	<u>FTO</u>	<u>Statutory Value</u>	<u>Market Value</u>
2003	7,075,171.14	\$9,147,696	\$36,189,500
2002	7,075,171.14	\$9,147,696	\$32,068,213

**DEPARTMENT OF THE TREASURY
UNITED STATES MINT
SCHEDULE OF CUSTODIAL GOLD AND SILVER RESERVES
AS OF SEPTEMBER 30, 2003 AND 2002**

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

	<u>Statutory Value</u>	<u>Market Value</u>
2003	\$10,364,686,787	\$95,198,193,552
2002	\$10,364,686,787	\$79,423,667,985

The PEF is responsible for either replenishing the custodial reserves with purchases of newly mined gold or paying the Treasury General Fund for custodial reserves transferred to the PEF for numismatic operations. There were no such transfers during 2003 and 2002.