

**AUDITED STATEMENTS OF
CUSTODIAL GOLD AND SILVER
RESERVES FOR THE
UNITES STATES MINT AS OF
SEPTEMBER 30, 1994 AND 1993**

OIG-95-076

MAY 12, 1995



Office of Inspector General

United States Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON

INSPECTOR GENERAL
OIG-95-076

MAY 12 1995

MEMORANDUM TO: Philip N. Diehl
Director of the United States Mint

FROM: Valerie Lau *Valerie Lau*
Inspector General

SUBJECT: Audited Statements of Custodial Gold and Silver
Reserves for the United States Mint as of
September 30, 1994 and 1993

We have audited the Statements of Custodial Gold and Silver Reserves for Fiscal Years (FY) 1994 and 1993 and attached our report herewith. We conducted this audit to facilitate the audit of the Mint's FY 1994 Chief Financial Officer's Annual Report. The audit of the Mint's Annual Report is conducted by the independent public accounting firm of Price Waterhouse LLP, under contract with us. During their audit, Price Waterhouse LLP will rely on the results of our work on the Custodial Gold and Silver Reserves.

Our attached report expresses an unqualified opinion on the Statements of Custodial Gold and Silver Reserves for the United States Mint. Also, we noted no reportable conditions related to the Mint's internal control structure over the Custodial Gold and Silver Reserves, and no instances of non-compliance with laws and regulations applicable to the Custodial Gold and Silver Reserves. You have reviewed a draft copy of our report and concurred with our conclusions. Your response is attached as an exhibit to our report.

Should you or your staff have any questions, please contact Richard Calahan at (202) 927-5430 or Antoine Elachkar at (202) 927-5781.

Attachment

cc: George Muñoz
Mary Ellen Withrow

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
STATEMENTS OF CUSTODIAL GOLD AND SILVER RESERVES
AS OF SEPTEMBER 30, 1994 and 1993
WITH
INSPECTOR GENERAL'S REPORT

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DEPARTMENT OF THE TREASURY
WASHINGTON

INSPECTOR GENERAL

INSPECTOR GENERAL'S REPORT ON STATEMENTS OF
CUSTODIAL GOLD AND SILVER RESERVES

Mr. Philip Diehl
Director
United States Mint
Washington, D.C.

We have audited the Statements of Custodial Gold and Silver Reserves of the United States Mint as of September 30, 1994 and 1993, and this report presents our unqualified opinion on these statements. Our audit disclosed no material weaknesses in the internal control structure and no reportable noncompliance with laws and regulations. These findings are discussed in more detail in the following sections of the report. In addition, this report describes management's responsibilities for financial reporting, maintaining an internal control structure, and complying with certain applicable laws and regulations. Finally, this report describes our responsibility for examining these custodial statements.

OPINION ON STATEMENTS

The Statements of Custodial Gold and Silver Reserves referred to above were prepared in accordance with the accounting policies described in Note 1 to the statements. In our opinion, these statements present fairly, in all material respects, the value of the United States' gold and silver reserves, in the custody of the U.S. Mint, in conformity with the accounting policies described in Note 1.

INTERNAL CONTROL STRUCTURE

In planning and performing our audit of the custodial statements, we considered the internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the statements, and to determine whether the internal control structure meets the objectives identified in the following paragraph. We obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, assessed control risk, and performed sufficient tests to assess more fully whether the controls are effective and working as designed.

The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition; and transactions are executed in accordance with laws and regulations that the Office of Management and Budget (OMB), entity management, or the Inspector General have identified as being significant for which compliance can be objectively measured and evaluated; and transactions are recorded properly and accounted for to permit the preparation of the custodial statements in accordance with applicable accounting policies and to maintain accountability over the assets.

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

Our consideration of the U.S. Mint's internal control structure over the United States' gold and silver reserves in its custody would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants and OMB Bulletin No. 93-06, Audits of Federal Financial Statements. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the custodial statements 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 involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

COMPLIANCE WITH CERTAIN LAWS AND REGULATIONS

As part of obtaining reasonable assurance about whether the custodial statements are free of material misstatement, we tested the U.S. Mint's compliance with certain provisions of laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. The results of our tests disclosed no instances of noncompliance that are required to be reported herein by Government Auditing Standards, 1994 Revision, as issued by the Comptroller General of the United States.

MANAGEMENT'S RESPONSIBILITIES

Management is responsible for:

- Preparing the Statements of Custodial Gold and Silver Reserves referred to above in conformity with the accounting policies discussed in Note 1.
- Establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures.
- Complying with laws and regulations applicable to the U.S. Mint.

AUDITORS' RESPONSIBILITIES

We conducted our audit in accordance with generally accepted auditing standards; the standards for financial audits contained in Government Auditing Standards, 1994 Revision, issued by the Comptroller General of the United States; and OMB Bulletin No. 93-06, Audits of Federal Financial Statements. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the custodial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the custodial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall custodial statements presentation. We believe that our audit provides a reasonable basis for our opinion.



Valerie Lau
Inspector General

March 15, 1995

DEPARTMENT OF THE TREASURY
U.S. MINT
STATEMENTS OF CUSTODIAL GOLD AND SILVER RESERVES
AS OF SEPTEMBER 30 1994 AND 1993
(IN THOUSANDS)

CUSTODIAL GOLD AND SILVER RESERVES	1994	1993
United States' gold and silver reserves (Note 2)	\$ 10,462,844	\$ 10,457,171
Custodial liability to Treasury (Note 2)	10,462,844	10,457,171
Net custodial position	\$ 0	\$ 0

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE TREASURY
U.S. MINT
STATEMENTS OF CUSTODIAL GOLD AND SILVER RESERVES
AS OF SEPTEMBER 30, 1994 and 1993

Notes to the Custodial Statements

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Mint, established in 1792, is an integral part of the Department of the Treasury. The mission of the Mint is to manufacture coins for general circulation. In addition to manufacturing circulating coins, the 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 Mint's consolidated financial statements. The Mint is also the custodian of a significant portion of the United States' gold and silver reserves, and accordingly, they are presented in the custodial segment of the Mint's Consolidated Statements of Financial Position.

The Mint's custodial activities, including the protection of the United States' gold and silver reserves in its custody, are funded by the Mint's Salaries and Expenses Appropriation (S&E).

B. Basis of Presentation

These custodial statements have been prepared to report the net custodial position of the U.S. Mint (the Mint). The books and records of the Mint have served as the source of the information contained herein. The statements have been prepared in accordance with the guidance specified by the Office of Management and Budget (OMB) in Bulletin No. 94-01, Form and Content of Agency Financial Statements, Statement of Federal Financial Accounting Standards (SFFAS) No. 3, Accounting for Inventory and Related Property, issued by OMB, and the Mint's accounting policies.

These custodial statements include all gold and silver classified by the Mint as "custodial reserves" as defined in Note 2 below. These statements do not include gold and silver withdrawn from the "custodial reserves" for use in the operations of the Mint's Public Enterprise Fund (PEF). The Mint's PEF occasionally uses gold and silver from the custodial reserves to support its numismatic operations. The PEF later replenishes the reserves with newly mined gold. These statements do not reflect any of Treasury's gold and silver being used by the Mint in its operating inventory or any reserve amounts due to be replenished by the PEF.

DEPARTMENT OF THE TREASURY
U.S. MINT
STATEMENTS OF CUSTODIAL GOLD AND SILVER RESERVES
AS OF SEPTEMBER 30, 1994 and 1993

Notes to the Custodial Statements

Note 2. Custodial Gold and Silver Reserves

Gold and silver are classified as reserves if in bar form. The custodial reserves also include foreign gold coins held by the Treasury for many years.

The gold and silver reserves are reported in these custodial statements at the lower of cost or market value, as required by SFFAS No. 3. Absent historical cost 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 FTO of gold and \$1.292929292 per FTO of silver. An offsetting custodial liability is also reported for these assets.

At September 30, 1994 and 1993 the market value of gold was \$394.85 per FTO and \$355.50 per FTO, respectively. Gold inventories consisted of the following at September 30:

	<u>Fine Troy Ounces</u>	<u>Statutory Value</u>	<u>Market Value</u>
1994	247,274,090	\$10,440,456,095	\$97,636,174,549
1993	247,098,032	\$10,433,022,543	\$87,843,350,515

At September 30, 1994 and 1993 the market value of silver was \$5.62 per FTO and \$4.03 per FTO, respectively. Silver inventories consisted of the following at September 30:

	<u>Fine Troy Ounces</u>	<u>Statutory Value</u>	<u>Market Value</u>
1994	17,315,621	\$22,387,873	\$ 97,313,787
1993	18,667,209	\$24,148,311	\$ 75,269,154

The change in the number of gold and silver FTOs between years is due to the use of these metals in the Mint's numismatic operations (the PEF). Upon shipment of products to its customers, the Mint's PEF replenishes the reserves for metals used in its operations.



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

DIRECTOR
OF THE
MINT

April 19, 1995

MEMORANDUM FOR VALERIE LAU
INSPECTOR GENERAL

FROM: Philip N. Diehl *JP*
Director *for*
United States Mint

SUBJECT: Draft Audit Report on the Statements of Custodial
Gold and Silver Reserves

The purpose of this memorandum is to provide the Mint's comments on the April 13, 1995, draft audit report for the Statements of Custodial Gold and Silver Reserves, as of September 30, 1994 and 1993. This audit was conducted by the Office of Inspector General and represents a significant portion of the effort required in achieving the unqualified financial statement opinion for FY 1994.

We recognize the tremendous effort and cooperation displayed by staff from the Office of Inspector General and the Mint in the audit of the Statements of Custodial Gold and Silver. The positive result of this audit affirms the direction of our financial management improvement program and the dedicated efforts of the Mint's financial management staff.

We concur with the draft audit report and propose no changes to it. We look forward to continuing to work together with the Office of Inspector General on future audits and related audit follow-up activity. If there are any questions, please call Jay Weinstein, Chief Financial Officer, at 874-6200.