

**AUDITED STATEMENTS OF
CUSTODIAL GOLD AND SILVER
RESERVES FOR THE
UNITED STATES MINT AS OF
SEPTEMBER 30, 1996 AND 1995**

OIG-97-043

FEBRUARY 27, 1997



Office of Inspector General

United States Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON

February 27, 1997

INSPECTOR GENERAL

MEMORANDUM FOR 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, 1996 and 1995

Attached is our report on the Mint's Statements of Custodial Gold and Silver Reserves (custodial statements) as of September 30, 1996 and 1995, which are incorporated in Section III. We have submitted a copy of the attached package to the Secretary of the Treasury and to the Assistant Secretary for Management/Chief Financial Officer for transmission to the Office of Management and Budget.

The audit objectives were to provide reasonable assurance that the Mint's custodial statements are free from material misstatement, significant controls have been designed and placed into operation, and the Mint complied with applicable laws and regulations. The results of our audit of the custodial statements will be relied upon by Urbach Kahn & Werlin PC, an Independent Public Accountant, who conducted the audit of the Mint's Fiscal Year 1996 financial statements.

Our report includes an unqualified opinion on the Mint's custodial statements. Our report contains no reportable conditions related to the internal control structure. We noted no instances of reportable noncompliance with laws and regulations. In accordance with generally accepted government auditing standards, the opinion on the custodial statements is dated as of the last day of audit field work.

Should you have any questions, please contact me at (202) 622-1090 or a member of your staff may contact Danny L. Athanasaw, Director, Financial Audits at (202) 927-5791.

Attachment

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SECTION I -
REPORT OF THE INSPECTOR GENERAL

SECTION I - REPORT OF THE INSPECTOR GENERAL

To the Director of the United States Mint

We have audited the accompanying Statements of Custodial Gold and Silver Reserves (custodial statements) of the United States Mint (U.S. Mint) as of September 30, 1996 and 1995. This report presents our unqualified opinion on these statements. Our audit disclosed no material weaknesses in the internal control structure and no reportable instances of noncompliance with laws and regulations.

This report describes our responsibility for examining these statements, and management's responsibilities for financial reporting, maintaining an internal control structure, and complying with certain applicable laws and regulations.

AUDITOR'S RESPONSIBILITIES

We conducted our audit in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We obtained an understanding of the internal control structure. Specifically, our consideration included: obtaining an understanding of significant internal control policies and procedures; assessing the level of control risk relevant to all significant cycles, classes of transactions, or account balances; and performing tests of the internal control structure.

We also performed tests of the U.S. Mint's compliance with certain laws and regulations that may directly affect the custodial statements. However, the objective of our audit of the custodial statements was not to provide an opinion on overall compliance with such laws and regulations. The independent public accountant auditing the U.S. Mint's entity financial statements is responsible for testing overall compliance with laws and regulations.

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MANAGEMENT'S RESPONSIBILITIES

Management is responsible for

- preparing the custodial statements in conformity with the accounting policies described in Note 1 to the accompanying custodial statements.
- establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the benefits and related costs of internal accounting policies and procedures.
- complying with laws and regulations applicable to the U.S. Mint's custodial responsibilities for the gold and silver reserves.

OPINION ON THE CUSTODIAL STATEMENTS

In our opinion, the custodial statements referred to above present fairly, in all material respects, the value of the United States' gold and silver reserves in the custody of the U.S. Mint as of September 30, 1996 and 1995, in conformity with the accounting policies described in Note 1 to the statements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

INTERNAL CONTROL STRUCTURE

In planning and performing our audit of the custodial statements for the year ended September 30, 1996, we obtained an understanding of the Mint's internal control structure. Specifically, we obtained an understanding of the design of relevant policies and procedures and whether they had been placed in operation. We assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the custodial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion. Our consideration included: obtaining an understanding of the significant internal control structure policies and procedures; assessing the level of control risk relevant to all significant cycles, classes of transactions, or account balances; and performing tests of the internal control structure.

The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that

- transactions, including those related to obligations and costs, are executed in accordance with laws and regulations that could have a direct and material effect on

SECTION I - REPORT OF THE INSPECTOR GENERAL

the custodial statements that the OMB, entity management, or the Inspector General have identified as being significant for which compliance can be objectively measured and evaluated;

- funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; and
- transactions are properly recorded 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 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 internal control structure 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, *Audit Requirements for 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 LAWS AND REGULATIONS

As part of obtaining reasonable assurance about whether the custodial statements are free of material misstatement, we tested compliance with those laws and regulations directly affecting the custodial statements and certain other laws and regulations designated by the OMB and the U.S. Mint. However, as stated previously, our objective was not to provide an opinion on overall compliance with laws and regulations.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein by the *Government Auditing Standards*.

SECTION I - REPORT OF THE INSPECTOR GENERAL

This report is intended for the information and use of the management of the U.S. Mint, the Department of the Treasury, the OMB, and the Congress. However, this report is a matter of public record, and its distribution is not limited.

Valerie Lau

Valerie Lau
Inspector General

January 10, 1997

SECTION II -
MANAGEMENT'S RESPONSE

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DIRECTOR
OF THE
MINT

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

January 23, 1997

MEMORANDUM FOR VALERIE LAU
INSPECTOR GENERAL

FROM:

Philip N. Diehl 
Director
United States Mint

SUBJECT:

FY 1996 Draft Audit Report Comments

We received and reviewed the draft audit report for the FY 1996 Statements of Custodial Gold and Silver Reserves, and concur with the draft report without comment.

The cooperation, expertise, and professionalism displayed by your staff during this audit is appreciated. We look forward to continuing to work with the OIG on future audits and related audit follow-up activity. If there are any questions, please contact Jay Weinstein, Chief Financial Officer, at 202-874-6200.

SECTION III -

**STATEMENTS OF CUSTODIAL GOLD
AND SILVER RESERVES AS OF
SEPTEMBER 30, 1996 AND 1995**

DEPARTMENT OF THE TREASURY
 UNITED STATES MINT
 STATEMENTS OF CUSTODIAL GOLD AND SILVER RESERVES
 AS OF SEPTEMBER 30, 1996 AND 1995
 (IN THOUSANDS)

CUSTODIAL GOLD AND SILVER RESERVES	1996	1995
United States' gold and silver reserves (Note 2)	\$ 10,468,013	\$ 10,474,569
Custodial liability to Treasury (Note 2)	10,468,013	10,474,569
Net gold and silver reserves custodial position	\$ 0	\$ 0

The accompanying notes are an integral part of these statements.

**DEPARTMENT OF THE TREASURY
UNITED STATES MINT
NOTES TO THE STATEMENTS OF CUSTODIAL GOLD AND SILVER RESERVES
AS OF SEPTEMBER 30, 1996 and 1995**

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 custodial segment of the U.S. Mint's Statements of Financial Position.

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

B. Basis of Presentation

These custodial statements have been prepared to report the net 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 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*, agreed to and published by the Principals of the Joint Financial Management Improvement Program, and the U.S. Mint's accounting policies, which constitute a comprehensive basis of accounting other than generally accepted accounting principles.

These custodial statements include all gold and silver classified by the U.S. Mint as "custodial reserves" as defined in Note 2. These statements do 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 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 the United States' gold and silver being used by the U.S. Mint in its operating inventory or any reserve amounts due to be replenished by the PEF.

**DEPARTMENT OF THE TREASURY
UNITED STATES MINT
NOTES TO THE STATEMENTS OF CUSTODIAL GOLD AND SILVER RESERVES
AS OF SEPTEMBER 30, 1996 and 1995**

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 Fine Troy Ounce (FTO) of gold and \$1.292929292 per FTO of silver. An offsetting custodial liability is also reported for these assets.

At September 30, 1996 and 1995 the market value of gold was \$379 per FTO and \$384 per FTO, respectively. Gold inventories consisted of the following at September 30:

	<u>FTO</u>	<u>Statutory Value</u>	<u>Market Value</u>
1996	247,531,465.307	\$10,451,323,035	\$93,814,425,351
1995	247,570,393.366	\$10,452,966,663	\$95,067,031,053

At September 30, 1996 and 1995, the market value of silver was \$4.88 per FTO and \$5.53 per FTO, respectively. Silver inventories consisted of the following at September 30:

	<u>FTO</u>	<u>Statutory Value</u>	<u>Market Value</u>
1996	12,908,975.14	\$16,690,392	\$62,995,799
1995	16,708,016.82	\$21,602,284	\$92,395,333

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

	<u>Statutory Value</u>	<u>Market Value</u>
1996	\$10,468,013,427	\$93,877,421,150
1995	\$10,474,568,947	\$95,159,426,386

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

SECTION IV -
MAJOR CONTRIBUTORS TO THIS REPORT

MAJOR CONTRIBUTORS TO THIS REPORT

Financial Audits

William H. Pugh, Deputy Assistant Inspector General for Audit
(Financial Management)

Maurice S. Moody, Director, Financial Audit Division

Kimberly A. Whitten, Auditor-in-Charge