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**FINANCIAL MANAGEMENT:  
Audit of the United States Mint's  
Schedule of Custodial Gold  
and Silver Reserves as of  
September 30, 2002 and 2001**

OIG-03-015

November 13, 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

NOV 13 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: Audit of the United States Mint's Schedule of  
Custodial Gold and Silver Reserves as of  
September 30, 2002 and 2001

The attached report presents our opinion on whether the United States Mint's (U.S. Mint) Schedule of Custodial Gold and Silver Reserves (Custodial Schedule) is fairly presented as of September 30, 2002, and 2001. The Custodial Schedule is the responsibility of the U.S. Mint. The attached report also presents the results of our consideration of internal control over financial reporting, and of our evaluation of the compliance with laws and regulations applicable to the U.S. Mint's custodial responsibilities for the Gold and Silver reserves. We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

The results of our audit were used by Urbach, Kahn & Werlin, LLP, an independent public accountant, who performed the audits of the Mint's Fiscal Year 2002 and 2001 financial statements. In addition, copies of our report were 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 on (202) 927-5430, or a member of your staff may contact Louis C. King, Director, Financial Audits, on (202) 927-5774.

Attachment

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## **SECTION I**

# **REPORT OF THE OFFICE OF INSPECTOR GENERAL**

To the Director of the United States Mint:

We have audited the accompanying Schedule of the Custodial Gold and Silver Reserves (Custodial Schedule) of the United States Mint (U.S. Mint) as of September 30, 2002 and 2001. 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 in fiscal year 2002. However, we noted a matter involving internal control and its operation that we have reported to the management of the U. S. Mint in a separate letter dated October 31, 2002.

### **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.

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## Scope of Audits

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, 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 U.S. Mint's Custodial Schedule as of September 30, 2002, we considered its 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 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 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 as of September 30, 2002, and certain other laws and regulations. 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.

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## 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, 2002 and 2001, 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. Material weaknesses are conditions in which the design or operation of one or more 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.

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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We noted a matter involving internal control and its operation that we have reported to the management of the U. S. Mint in a separate letter dated October 31, 2002.

## Compliance with Laws and Regulations

Our tests of compliance with selected provisions of laws regulations disclosed no instances of noncompliance that are required to be reported in accordance with auditing standards generally accepted in the United States of America, 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.

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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.

Your staff has reviewed our report, and has no comments. Should you have any questions, please contact me on (202) 927-5430, or a member of your staff may contact Louis King, Director, Financial Audits on (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 31, 2002

**Financial Audits Division**

Louis C. King, Director  
Kimberly Fleming, Audit Manager  
Mary Yarborough, Auditor-in-Charge  
Heshmat Ansari, Statistician  
Arlene Williams, Program Analyst  
Ehab Bestawrose, Auditor  
Robert Long, Auditor  
Todd Zelnick, Auditor

**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, 2002 AND 2001**

**DEPARTMENT OF THE TREASURY  
UNITED STATES MINT  
SCHEDULE OF CUSTODIAL GOLD AND SILVER RESERVES  
AS OF SEPTEMBER 30, 2002 AND 2001  
(IN THOUSANDS)**

	<u>September 30,</u>	
	<u>2002</u>	<u>2001</u>
<b>CUSTODIAL GOLD AND SILVER RESERVES</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, 2002 AND 2001**

**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 gold 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**

This Custodial 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. This Custodial Schedule has been prepared in accordance with generally accepted accounting principles and U.S. Mint accounting policies.

This Custodial 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 occasionally uses gold and silver from the custodial reserves to support its numismatic operations. The PEF later replenishes the reserves with newly mined gold. This schedule does not reflect any 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, nor does it include gold at Federal Reserve Banks.

**NOTE 2. Custodial Gold and Silver Reserves**

The gold and silver reserves reported in this Custodial 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 Custodial 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 the 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, 2002 AND 2001**

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, 2002 and 2001, the market value of gold was \$323.70 per FTO and \$293.10 per FTO respectively. Gold inventories consisted of the following at September 30:

	<u><b>FTO</b></u>	<u><b>Statutory Value</b></u>	<u><b>Market Value</b></u>
2002	245,262,897.040	\$10,355,539,091	\$79,391,599,772
2001	245,262,897.040	\$10,355,539,091	\$71,886,555,122

At September 30, 2002 and 2001, the market value of silver was \$4.5325 per FTO and \$4.5825 per FTO respectively. Silver inventories consisted of the following at September 30:

	<u><b>FTO</b></u>	<u><b>Statutory Value</b></u>	<u><b>Market Value</b></u>
2002	7,075,171.14	\$ 9,147,696	\$32,068,213
2001	7,075,171.14	\$ 9,147,696	\$32,421,972

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

	<u><b>Statutory Value</b></u>	<u><b>Market Value</b></u>
2002	\$10,364,686,787	\$79,423,667,985
2001	\$10,364,686,787	\$71,918,977,094

Custodial gold and silver FTOs are transferred to the PEF for numismatic operations. The PEF replenishes the custodial reserves with purchases of newly mined gold. In addition, the Defense Logistics Agency transferred silver to the custodial reserves.