



Audit Report



OIG-11-043

Management Letter for the Audit of the United States Mint's
Fiscal Years 2010 and 2009 Financial Statements

December 3, 2010

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 3, 2010

**MEMORANDUM FOR EDMUND C. MOY, DIRECTOR
UNITED STATES MINT**

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Management Letter for the Audit of the
United States Mint's Fiscal Years 2010 and 2009 Financial
Statements

I am pleased to transmit the attached management letter in connection with the audit of the United States Mint's (Mint) Fiscal Years 2010 and 2009 financial statements. Under a contract monitored by the Office of Inspector General, KPMG LLP, an independent certified public accounting firm, performed an audit of the financial statements of the Mint as of September 30, 2010 and 2009, and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended; and the *GAO/PCIE Financial Audit Manual*.

As part of its audit, KPMG LLP issued and is responsible for the accompanying management letter that discusses other matters involving internal control over financial reporting and its operation that were identified during the audit but were not required to be included in the auditors' reports.

In connection with the contract, we reviewed KPMG LLP's letter and related documentation and inquired of its representatives. Our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789 or a member of your staff may contact Shiela Michel, Manager, Financial Audits, at (202) 927-5407.

Attachment



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Management Letter

Fiscal Year 2010

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KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

December 2, 2010

Inspector General
United States Department of the Treasury

Director
The United States Mint

Gentlemen:

We have audited the financial statements of the United States Mint (Mint) for the years ended September 30, 2010 and 2009, and have issued our report thereon dated December 2, 2010. In planning and performing our audits of the Mint's financial statements, we considered the Mint's internal control over financial reporting, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for expressing an opinion on the effectiveness of the Mint's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mint's internal control.

During our fiscal year 2010 audit of the Mint's financial statements, we did not note any matters involving internal control over financial reporting and its operation that we considered to be significant deficiencies or material weaknesses under standards established by the American Institute of Certified Public Accountants.

Our audit procedures were designed primarily to enable us to form an opinion on the Mint's financial statements, and therefore, may not bring to light all weaknesses in internal control over financial reporting that exist. However, we also take this opportunity to share our knowledge of the Mint, gained during our work, to make comments and suggestions that we hope can be useful to you.

Although not considered to be significant deficiencies, we noted certain matters involving internal control and other operational matters, which are presented in Appendix A, for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the Mint's internal control or result in other operating efficiencies. We have not considered the Mint's internal control since the date of our report. The Mint's response to our comments and recommendations is presented in Appendix B. This response has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it. Appendix C presents the status of prior year management letter comments.

We appreciate the courteous and professional assistance that the Mint's personnel extended to us to complete our audit timely. We would be pleased to discuss these comments and recommendations with you at any time.



This communication is intended solely for the information and use of the Mint's management, the Department of the Treasury's Office of Inspector General, the U.S. Government Accountability Office, the Office of Management and Budget, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

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Fiscal Year 2010 Management Letter Comments

Human Resources**A-1 Controls over the Segregation of Duties within WebTA should be strengthened**

We noted the following during our interim testwork over Human Resources. We noted that for one of 45 timesheets tested the person who validated the timesheet was the same person who certified the timesheet.

Criteria:

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, (revised December 31, 2004), Section II, Subsection C, Paragraph 1

Control activities include policies, procedures and mechanisms in place to help ensure that agency objectives are met. Several examples include: proper segregation of duties (separate personnel with authority to authorize a transaction, process the transaction, and review the transaction); physical controls over assets (limited access to inventories or equipment); proper authorization; and appropriate documentation and access to documentation.

Cause:

- In Fiscal Year 2009, WebTA was upgraded to only allow designated timekeepers to act in a timekeeper capacity. However, WebTA was not upgraded to prevent the same timekeeper to both validate and certify the same timesheet.
- Timekeepers had to review their list of delegates and remove any person who should not have timekeeper access. However, a delegate had access as a timekeeper but was not removed from a list of approved timekeepers. The delegate continued to have access to both validate and certify a timesheet.

Effect:

Inadequate segregation of duties within WebTA does not allow the timely detection and correction of errors or irregularities related to timekeeping.

We recommend Mint management:

1. Request the Bureau of Public Debt's Administrative Resource Center to change the functionality of WebTA in order to restrict a timekeeper from having the ability to both validate and certify the same timesheet.
2. Review the list of timekeeper delegates in WebTA and remove delegates who should not have timekeeper access.

Asset Management**B-1 Controls over Assets Should be Strengthened**

We noted the following during our interim testwork over Property, Plant and Equipment (PP&E) additions, capitalizations and adjustments:

Timeliness of placing assets into a PP&E depreciable account:

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- For four out of 30 assets from the interim capitalized sample and one out of 30 assets from the interim additions sample, the assets should have been placed into service in the prior fiscal year, but were not moved from Construction in Progress (CIP) into a depreciable account until the current fiscal year. In addition, to correct this, the prior fiscal year's depreciation expense was recognized in the current fiscal year.
- For four out of 30 assets from the interim capitalized sample, the assets were not moved to a PP&E depreciable account in a timely manner within the current fiscal year.

Capitalizing Costs:

- For four out of 30 assets from the interim additions sample, freight and installation costs were expensed instead of capitalized.

No supporting documentation:

- For one out of 15 items from the interim adjustment sample, the Mint could not provide adequate supporting documentation for an adjustment of (\$73,037).

Criteria:

Per The United State Mint's Standard Operating Procedures, titled Determining when Construction in Process Assets become Capital Assets:

If it is determined that a CIP asset is completed and ready to be placed into production, the Engineers/Contracting Officer Technical Representative (COTR)s will issue a Project Closeout Form or an e-mail that details the relevant project closeout information in it to the Fixed Assets Accountants alerting them that the equipment has been approved for production. The memorandum or e-mail will include information about the asset and will identify the date placed into service, a description of the asset, the cost of it, along with any other relevant information.

Per Statement of Federal Financial Accounting Standards No 6:

Paragraph 26

All general PP&E shall be recorded at cost. Cost shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use. For example, the cost of acquiring property, plant, and equipment may include: transportation charges to the point of initial use, fixed equipment and related installation costs required for activities in a building or facility.

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Cause:

- The COTR's have a different interpretation of when a CIP asset is complete and ready to be placed into production than the FA Accountants. Additionally, the COTR's are not communicating to the FA Accountant in a timely manner when the CIP assets should be placed into service in the system.
- The Mint is not following accounting standards when determining the treatment of costs related to PP&E.
- The Mint is not maintaining adequate supporting documentation for adjustments to fixed assets.

Effect:

- Building Improvement's beginning balance is understated by \$1,932,407, equipment's beginning balance is understated by \$384,449, and CIP's beginning balance is overstated by \$2,316,856. The most likely error in the capitalized population is \$2,239,008.07 and the most likely error in the additions population is \$200,080. In addition, depreciation expense is overstated by \$15,273.
- PP&E is understated by \$14,312 and operating expenses are overstated by \$14,312. The most likely error in the additions population is \$45,678. In addition, depreciation expense is understated by \$727.
- CIP's beginning balance is overstated by \$73,037. The most likely error in the adjustments population is \$767,602.

We recommend Mint management:

1. Ensure the COTR's and the FA Accountants have the same interpretation of when a CIP asset is complete and ready to be placed into production.
2. Enforce compliance with the SOP for determining when CIP assets become capital assets to ensure PP&E are timely and accurately moved to a depreciable account and start being depreciated in the correct period.
3. Ensure all costs related to an asset, including the costs of acquiring the asset, are capitalized.
4. Maintain adequate supporting documentation for adjustments to PP&E.

B-2 Controls over Retirements Should be Strengthened

We noted the following during our interim PP&E testwork:

- For three out of 20 samples tested, the Mint could not provide substantiated documented evidence of when a PP&E retirement was physically disposed from the Mint's facility.
- For two out of 20 samples tested, the assets were no longer in use and should have been retired in the prior fiscal year instead of the current fiscal year.

Criteria:

Per The United State Mint's Standard Operating Procedures, titled Recording Fixed Asset and Property Retirements:

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When the disposition of the capital asset is approved and the asset is physically disposed of, it should be removed from the G/L account balances and the subsidiary AM Module of the United States Mint's Enterprise Resource Planning (ERP) system within 30 days of disposal.

Cause:

- The Mint did not have policies and procedures to ensure the facilities properly documented when assets were removed from the facility.
- The Mint did not perform a timely review of software to determine if it is still in use.

Effect:

- Inadequate internal controls do not allow the timely detection and correction of errors or irregularities related to amounts.
- The beginning balances for internal use software, USSGL 183001, and accumulated amortization on internal use software, USSGL 183901, are overstated by \$276,380, respectively. This results in a most likely misstatement of \$4,393,192.

We recommend Mint management:

1. Update their policies and procedures to ensure the facilities adequately document when an asset is removed from the facility.
2. Develop policies and procedures to ensure software is retired when no longer in use.

Revenue and Accounts Receivable**C-1 Controls over Numismatic Accounts Receivable should be strengthened**

During our testwork over the Mint's Numismatic Accounts Receivable, we noted the following:

- For 4 out of 20 accounts selected, the account was greater than \$100, more than 180 days overdue and was not referred to Debt Management Service (DMS).
- For 6 out of 20 accounts selected, the accounts were referred to the Mint police because they were results of identity theft. These accounts have been open since Fiscal Year 2007. The Mint police have exhausted all collection efforts, and these accounts should be written off.

Criteria:

Per The United States Mint's Standard Operating Procedures (SOP), Titled Receivable Write Off

After 180 days all debt greater than \$100 is referred to the Debt Management Service (DMS) debt management service for collection.

Cause:

- The Mint did not follow their SOP and the DCIA of 1996 for referring overdue accounts to DMS.

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- The Mint does not have policies or procedures regarding accounts receivable where identity theft occurred.

Effect:

Inadequate internal controls and lack of policies and procedures do not allow for timely detection and correction of errors or irregularities.

We recommend the Mint management:

1. Refer all accounts, which are overdue by 180 days and greater than \$100, to DMS for collection as stated in the Mint's SOP and the DCIA of 1996.
2. Include in their SOP procedures for identity theft cases. Specifically, the procedures should address the follow up communication between accounting and the Mint police to determine if the account should be written off if the Mint police have exhausted all collection efforts.

Inventory Management**D-1 Controls over Quarterly Physical Inventory Procedures should be Strengthened**

We noted the following during the fourth quarter physical inventory at the Mint Denver facility:

1. Items not counted during the inventory

- A tank of 518 kg of condemned pennies was not counted. During the final walk through process, we informed Mint management that the tank was not counted. Although the Mint accounted for the tank, the Mint incorrectly accounted for the tank as Inventory Work in Process (WIP) instead of Inventory Raw Materials.
- A tank of 549 kg of Upset Golden Dollar Blank was not counted until noted during the final walk through.

2. Inaccurate quantity of inventory

- A subinventory location for Golden Dollar Coils existed in the Costed Inventory By Account (CIBA) for inventory returned to the vendor. The facility had 1,585 kg of coil returned to the vendor; however, the supporting documentation evidenced that 7,546 kg was returned to the vendor.

3. Discrepancies noted during the reconciliation process

- The Mint provided the explanation for the adjustment of \$284,636 for quarters in WIP, subinventory location CWIP, 30 days after the inventory was completed.
- An inventory adjustment of 3,359 kg of WIP nickels was not processed until after production resumed.
- An adjustment of 2.068 boxes of AZ Grand Canyon Quarters Rolled in Box, was not made.

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Criteria:

Per The United States Mint's Standard Operating Procedures (SOP), Inventory Counting SOP:

Section 6.3 Any variance results in an adjustment to the perpetual records.

Section 6.5.4 Explain and forward information on large differences found on the Reconciliation Report within ten business days of the end of the API to the OCFO.

Cause:

- The facility did not follow their procedures to ensure all inventory is counted, and did not properly account for the tank when they discovered the tank was not counted.
- The facility did not follow their procedures to ensure all inventory is counted. Oracle consumed more coil than was used for production, and the facility did not reconcile items returned to the vendor to amounts recorded in Oracle.
- The facility did not follow the SOP during the reconciliation. Specifically they:
 - Did not provide an explanation to Headquarters within the timeframe established in the SOP.
 - Did not adjust all variances resulting from the inventory observation.
 - The facility resumed production before all inventory adjustments were posted.

Effect:

- USSGL 152501 Inventory Raw Materials is understated by \$1,014 and USSGL 152601 Inventory WIP is overstated by \$2,159.
- USSGL 152501 Inventory Raw Material is understated by \$59,133.
- USSGL 152601 WIP is overstated by \$39,227.

We recommend Mint management:

1. Ensure all inventory is counted during the physical inventory and properly adjusted.
2. Ensure the amounts returned to the vendor reconcile to the amounts in Oracle.
3. Strengthen the reconciliation procedure. Specifically management should:
 - a. Provide timely explanations for all adjustments greater than the tolerance thresholds.
 - b. Ensure all inventory adjustments are processed before production resumes.
 - c. Reconcile the final counts to the final amounts recorded in the CIBA.

D-2 Controls over the Calculation of the Weighted Average Adjustment should be Strengthened

During our inventory valuation test work of the circulating inventory, we noted that the calculation of the weighted average was not done correctly. The total adjustment of \$2,617,050 was only applied to raw materials and not to finished goods and work in process (WIP) as stated in the Mint's Standard Operating Procedures. The

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weighted average adjustment amounts should be \$120,552 for raw materials, \$106,913 for WIP, and \$1,474,418 for finished goods.

Criteria:

In accordance with The United States Mint's Standard Operating Procedures, titled Inventory Weighted Average

Compute the weight of each denomination by the face value of the coins based on the account where the material is currently held (Raw Material – account 152501; Work-in-Process – account 152601, or Finished Goods – 152701.)

The journal entry will be a debit/credit to raw materials, work-in-process or finished goods inventory accounts for the difference between the standard cost and the weighted average.

Cause:

The Mint did not create separate USSGL accounts for the weighted average adjustment as stated in their SOP.

Effect:

Raw materials is understated by \$2,496,499; WIP is understated by \$106,913; finished goods is overstated by \$1,474,418; and Cost of Goods Sold is overstated by \$1,128,994.

We recommend the Mint management:

1. Create separate USSGL accounts for the weighted average adjustment .
2. Make the correcting adjustment to the proper accounts.



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

December 2, 2010

KPMG LLP
2001 M Street N.W.
Washington, DC 20036

Ladies and Gentlemen:

We have reviewed the fiscal year 2010 Management Letter Comments and are in agreement with the reported observations. The United States Mint recognizes the need for strong internal controls and is taking corrective actions to address the noted deficiencies. We have made significant progress toward resolving the reported issues and will continue to work with KPMG and the Office of Inspector General in identifying the specific actions that will ensure we have taken appropriate corrective action.

Sincerely,

A handwritten signature in blue ink that reads "Patricia M. Greiner".

Patricia M. Greiner
Associate Director/Chief Financial Officer
United States Mint

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 Status of Prior Year Management Letter Comments
 Fiscal Year 2010 Management Letter

Fiscal Year 2009 Management Letter Comment	Fiscal Year 2010 Status
Financial Reporting	
A-1 Standard Operating Procedures Should be Implemented for Manual Journal Entries	Closed.
Asset Management	
B-1 Controls Over Asset Retirements Should be Strengthened	Closed.
B-2 Controls Over Assets Should be Strengthened	Closed.
Inventory Management	
C-1 Controls Over Standard Cost Updates Should be Strengthened	Closed.
C-2 Controls Over Classification of Inventory Held at Coin Wrap Should be Strengthened	Closed.
C-3 Controls Over Calculation of the Weighted Average Should be Strengthened	Repeated: See fiscal year 2010 revised comment at D-2.
Revenue and Related Accounts Receivable	
D-1 Controls Over Numismatic Accounts Receivable Should be Strengthened	Repeated: See fiscal year 2010 revised comment at C-1.
Budgetary Resources	
E-1 Controls Over Review of Open Obligations Should be Strengthened	Closed.