

**AUDITED STATEMENTS OF
CUSTODIAL GOLD AND SILVER
RESERVES FOR THE
UNITED STATES MINT AS OF
SEPTEMBER 30, 1999 AND 1998**

OIG-00-024

DECEMBER 23, 1999



Office of Inspector General

United States Department of the Treasury



DEPARTMENT OF THE TREASURY

WASHINGTON, DC 20220

December 23, 1999

OFFICE OF
INSPECTOR GENERAL

MEMORANDUM FOR PHILIP N. DIEHL, DIRECTOR
UNITED STATES MINT

FROM:

for Dennis S. Schindel *William H. Pugh*
Assistant Inspector General for Audit

SUBJECT:

Audited Statements of Custodial Gold and Silver
Reserves for the United States Mint as of
September 30, 1999 and 1998

Attached is our report on the United States Mint's (Mint) Statements of Custodial Gold and Silver Reserves (custodial statements) as of September 30, 1999 and 1998. The results of our audits will be relied upon by Urbach Kahn & Werlin, PC, an independent public accountant, who performed the audits of the Mint's Fiscal Year 1999 and 1998 financial statements. In addition, the Assistant Secretary for Management/Chief Financial Officer will incorporate audited figures and related disclosures from our report in the *Fiscal Year 1999 Department of the Treasury Accountability Report* 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.

Our report includes an unqualified opinion on the Mint's custodial statements. Our report contains no reportable conditions related to the internal controls. We noted no instances of reportable noncompliance with laws and regulations. In accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, 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 on (202) 927-5400, or a member of your staff may contact William H. Pugh, Deputy Assistant Inspector General for Audit (Financial Management) on (202) 927-5430.

Attachment

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SECTION I -
REPORT OF THE OFFICE OF INSPECTOR GENERAL

REPORT OF THE OFFICE OF INSPECTOR GENERAL

To the Director of the United States Mint

We have audited the United States Mint's (U.S. Mint) Statements of Custodial Gold and Silver Reserves (custodial statements) as of September 30, 1999 and 1998. This report presents our unqualified opinion on these custodial statements. Our audit disclosed no material weaknesses and no instances of reportable noncompliance with laws and regulations in fiscal year 1999.

MANAGEMENT'S RESPONSIBILITIES

Management is responsible for:

- Preparing the custodial statements in conformity with generally accepted accounting principles.
- 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 *Government Auditing Standards*, issued by the Comptroller General of the United States, and applicable Office of Management and Budget (OMB) guidance. 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 audits provide a reasonable basis for our opinion.

In planning and conducting our audit of the U.S. Mint's custodial statements for the year ended September 30, 1999, 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 statements 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 statements are free of material misstatement, we performed tests of the U.S. Mint's compliance with certain provisions

REPORT OF THE OFFICE OF INSPECTOR GENERAL

of laws and regulations, noncompliance with which could have a direct and material effect on the determination of custodial statement amounts. 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 STATEMENTS

In our opinion, the custodial statements present fairly, in all material respects, the United States' gold and silver reserves in the custody of the U.S. Mint as of September 30, 1999 and 1998, in conformity with generally accepted accounting principles.

INTERNAL CONTROL

Internal control is a process, effected by the U.S. Mint's management and other personnel, designed to provide reasonable assurance that the following objectives are met:

- Reliability of financial reporting - transactions are properly recorded, processed, and summarized to permit the preparation of the custodial statements for the fiscal year ended September 30, 1999 in accordance with generally accepted accounting principles, and the safeguarding of assets against loss from unauthorized acquisition, use, or disposition; and
- Compliance with applicable laws and regulations - transactions for the fiscal year ended September 30, 1999 are executed in accordance with laws and regulations that could have a direct and material effect on the custodial statements.

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.

Our consideration of the internal control in place on September 30, 1999 would not necessarily disclose all matters in the internal control that might be material weaknesses as defined by OMB Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, as amended. Material weaknesses in internal control are conditions in which the design or operation of the internal control 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 statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control and its operation that we consider to be material weaknesses.

REPORT OF THE OFFICE OF INSPECTOR GENERAL

COMPLIANCE WITH LAWS AND REGULATIONS

The results of our tests of compliance in fiscal year 1999 with the laws and regulations disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 98-08, as amended.

This report is intended solely for the information and use of the management of the U.S. Mint, the U.S. Department of the Treasury, OMB, the Congress, and Urbach Kahn & Werlin, PC, 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.



William H. Pugh

Deputy Assistant Inspector General for Audit (Financial Management)

December 3, 1999

SECTION II -

**STATEMENTS OF CUSTODIAL GOLD
AND SILVER RESERVES AS OF
SEPTEMBER 30, 1999 AND 1998**

**DEPARTMENT OF THE TREASURY
UNITED STATES MINT
STATEMENTS OF CUSTODIAL GOLD AND SILVER RESERVES
AS OF SEPTEMBER 30, 1999 AND 1998
(IN THOUSANDS)**

	1999	1998
CUSTODIAL GOLD AND SILVER RESERVES		
United States gold and silver reserves (Note 2)	\$10,457,846	\$10,473,267
Custodial liability to Treasury (Note 2)	10,457,846	10,473,267
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, 1999 and 1998**

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 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 generally accepted accounting principles and U.S. Mint accounting policies.

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 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 do they include gold at Federal Reserve Banks.

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. 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.

**DEPARTMENT OF THE TREASURY
UNITED STATES MINT
NOTES TO THE STATEMENTS OF CUSTODIAL GOLD AND SILVER RESERVES
AS OF SEPTEMBER 30, 1999 and 1998**

At September 30, 1999 and 1998 the market value of gold was \$299.00 per FTO and \$293.85 per FTO, respectively. Gold inventories consisted of the following at September 30:

	<u>FTO</u>	<u>Statutory Value</u>	<u>Market Value</u>
1999	247,078,556.034	\$10,432,200,209	\$73,876,488,254
1998	247,477,782.820	\$10,449,056,442	\$72,721,346,482

At September 30, 1999 and 1998, the market value of silver was \$5.575 per FTO and \$5.39 per FTO, respectively. Silver inventories consisted of the following at September 30:

	<u>FTO</u>	<u>Statutory Value</u>	<u>Market Value</u>
1999	19,835,748.11	\$25,646,220	\$110,584,296
1998	18,725,238.08	\$24,210,409	\$100,929,033

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

	<u>Statutory Value</u>	<u>Market Value</u>
1999	\$10,457,846,428	\$73,987,072,550
1998	\$10,473,266,851	\$72,822,275,515

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.