



Audit Report



OIG-10-003

Audit of the United States Mint's Schedule of
Custodial Deep Storage Gold and Silver Reserves
as of September 30, 2009 and 2008

October 21, 2009

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

October 21, 2009

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

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Audit of the United States Mint's Schedule of
Custodial Deep Storage Gold and Silver Reserves as of
September 30, 2009 and 2008

The attached report presents the results of our audits of the United States Mint's (Mint) Schedule of Custodial Deep Storage Gold and Silver Reserves (Custodial Schedule) as of September 30, 2009 and 2008. The Custodial Schedule is the responsibility of the Mint. We conducted our audits in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

We rendered an unqualified opinion on the Custodial Schedule as of September 30, 2009 and 2008. In addition, our report contains no material weaknesses related to internal control over financial reporting, and no instances of reportable noncompliance with laws and regulations.

The results of our audits will be used by KPMG LLP, an independent public accountant, who is performing the audits of the Mint's Fiscal Year 2009 and 2008 financial statements. In addition, copies of our report are being 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 agreed with our conclusions. Should you have any questions, please contact me at (202) 927-5789, or a member of your staff may contact Ade Bankole, Manager, Financial Audits at (202) 927-5329.

Attachment

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SECTION I -

REPORT OF THE OFFICE OF INSPECTOR GENERAL

*The Department of the Treasury
Office of Inspector General*

To the Director of the United States Mint:

We have audited the accompanying Schedule of Custodial Deep Storage Gold and Silver Reserves (Custodial Schedule) of the United States Mint (Mint) as of September 30, 2009 and 2008. 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.

Management's Responsibilities

Management is responsible for: (1) preparing the Custodial Schedule in conformity with U.S. generally accepted accounting principles; (2) establishing and maintaining internal control; and (3) complying with laws and regulations applicable to the Mint's custodial responsibilities for the Deep Storage 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. 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 are also responsible for obtaining a sufficient understanding of internal control over financial reporting to plan the audits, and to test certain provisions of laws and regulations that have a direct and material effect on the Custodial Schedule. We believe that our audits provide a reasonable basis for our opinion and our conclusions on internal control and compliance with laws and regulations.

In planning and performing our audit, we considered the Mint's internal control over financial reporting related to the Custodial Schedule as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Custodial Schedule, but not for the purpose of expressing an opinion on the effectiveness of the Mint's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mint's internal control over financial reporting.

Because of limitations inherent in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

As part of obtaining reasonable assurance about whether the Custodial Schedule is free of material misstatement, we performed tests of the 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. We limited our tests of compliance to those provisions and we did not test compliance with all laws and regulations applicable to the Mint. We caution that noncompliance may occur and not be detected by those tests and that testing may not be sufficient for other purposes. 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 Schedule

In our opinion, the accompanying Custodial Schedule presents fairly, in all material respects, the balance of the United States' Deep Storage Gold and Silver Reserves in the custody of the Mint as of September 30, 2009 and 2008, in conformity with U.S. generally accepted accounting principles.

Internal Control

Internal control is a process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance that the following objectives are achieved:

- Reliability of financial reporting - transactions are properly recorded, processed, and summarized to permit the preparation of the Custodial Schedule in accordance with U.S. generally accepted accounting principles, and the safeguarding of assets against loss from unauthorized acquisition, use, or disposition;
- Effectiveness and efficiency of operations; and
- Compliance with applicable laws and regulations that could have a direct and material effect on the Custodial Schedule.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Mint's Custodial Schedule will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the Scope of Audits section above and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting related to the Custodial Schedule that we consider to be material weaknesses, as defined above.

Compliance with Laws and Regulations

Our tests of the Mint's compliance with certain provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under *Government Auditing Standards*.

* * * * *

The financial management of the Mint has reviewed our report and agreed with our conclusions. Should you or your staff have any questions, you may contact me at (202) 927-5789, or a member of your staff may contact Ade Bankole, Manager, Financial Audits at (202) 927-5329. We appreciate the cooperation and courtesy extended to our staff.

This report is intended solely for the information and use of the management of the Mint, the Department of the Treasury, the Office of Management and Budget, Congress, and KPMG LLP, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is available as a matter of public record.

Michael Fitzgerald
Director, Financial Audits

October 21, 2009

Financial Audits Division

Ade Bankole, Manager
Catherine Yi, Manager
Rafael Cumba, Auditor

The 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

KPMG LLP

SECTION II -

**UNITED STATES MINT'S SCHEDULE OF CUSTODIAL
DEEP STORAGE GOLD AND SILVER RESERVES
AS OF
SEPTEMBER 30, 2009 AND 2008**

**DEPARTMENT OF THE TREASURY
 UNITED STATES MINT
 SCHEDULE OF CUSTODIAL DEEP STORAGE GOLD AND SILVER
 RESERVES
 AS OF SEPTEMBER 30, 2009 AND 2008
 (IN THOUSANDS)**

CUSTODIAL DEEP STORAGE GOLD AND SILVER RESERVES	<u>2009</u>	<u>2008</u>
Deep storage gold and silver reserves (Note 2)	\$10,364,687	\$10,364,687
Liability to Treasury (Note 2)	\$10,364,687	\$10,364,687
Net deep storage 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 DEEP STORAGE GOLD AND
SILVER RESERVES
AS OF SEPTEMBER 30, 2009 AND 2008**

Note 1 Summary of Significant Accounting Policies

A. Reporting Entity

The United States Mint, established in 1792, is an integral part of the Department of the Treasury. The men and women of the United States Mint serve the Nation by exclusively and efficiently creating the highest quality, most beautiful and inspiring coins and medals that: enable commerce; reflect American values; advance artistic excellence; educate the public by commemorating people, places and events; and fulfill retail demand for coins. In addition to manufacturing circulating coins, the United States Mint manufactures numismatic products, including medals, proof coins, uncirculated coins, bullion coins (gold, platinum, and silver), and commemorative coins. These manufacturing operations are reported in the United States Mint's financial statements. The United States Mint is also the custodian of a significant portion of the United States' gold and silver reserves. The United States Mint uses the term custodial to identify gold and silver reserves held for the United States Treasury. The custodial reserves are not assets of the United States Mint, but are assets of the United States Treasury.

The United States Mint's Public Enterprise Fund (PEF) funds all custodial activities, including the protection of the United States' gold and silver reserves.

B. Basis of Presentation

This Schedule has been prepared to report the deep storage gold and silver reserves custodial position of the United States Mint. The books and records of the United States Mint have served as the source of the information contained herein. This Schedule has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and United States Mint accounting policies.

This Schedule includes all gold and silver classified by the United States Mint as "custodial deep storage reserves" as defined in Note 2. Deep storage is defined as that portion of the U.S. Government-owned gold and silver bullion reserve which the United States Mint secures in sealed vaults. Deep storage gold comprises the vast majority of the reserves and consists primarily of gold bars. This Schedule does not reflect any United States gold and silver reported by the United States Mint as working stock, or any reserve amounts due to be replenished by the PEF, nor does it include Treasury-owned gold held at Federal Reserve Banks (FRB). Upon approval from the Secretary of the Treasury, the PEF may use gold and silver from the custodial deep storage reserves to support its numismatic operations. The United States Mint did not use deep storage reserves to produce coins in fiscal years 2009 and 2008.

Note 2 Deep Storage Gold and Silver Reserves

The gold and silver reserves reported in this Schedule are exclusive of the gold and silver reserves considered to be working stock in the United States Mint's financial records and of the Treasury-owned gold held by the FRB. The custodial deep storage gold and silver reserves included in this Schedule are primarily in bar form, but may occasionally be in coin or other form. The custodial deep storage reserves also include foreign gold coins that have been held by Treasury for many years.

The deep storage gold and silver reserves are reported in this Schedule at the values stated in 31 U.S.C. §5116 and §5117 (statutory rates) which are \$42.2222 per fine troy ounce (FTO) of gold and no less than \$1.292929292 per FTO of silver. Accordingly, the United States Mint values the silver at \$1.292929292 per FTO. An offsetting liability is also reported for these assets.

At September 30, 2009 and 2008, the market value of gold per the London Gold Fixing (PM) was \$995.75 per FTO and \$884.50 per FTO respectively. Deep storage gold inventories consisted of the following at September 30:

	<u>FTO</u>	<u>Statutory Value</u>	<u>Market Value</u>
2009	245,262,897.04	\$10,355,539,091	\$244,220,529,728
2008	245,262,897.04	\$10,355,539,091	\$216,935,032,432

At September 30, 2009 and 2008, the market value of silver per the London Gold Fixing was \$16.4500 per FTO and \$12.9600 per FTO respectively. Deep storage silver inventories consisted of the following at September 30:

	<u>FTO</u>	<u>Statutory Value</u>	<u>Market Value</u>
2009	7,075,171.14	\$ 9,147,696	\$116,386,565
2008	7,075,171.14	\$ 9,147,696	\$ 91,694,218

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

	<u>Statutory Value</u>	<u>Market Value</u>
2009	\$10,364,686,787	\$244,336,916,293
2008	\$10,364,686,787	\$217,026,726,650