Audit Report

OIG-19-026

FINANCIAL MANAGEMENT

Management Letter for the Audit of the United States Mint’s Financial Statements for Fiscal Years 2018 and 2017

December 17, 2018

Office of Inspector General
Department of the Treasury

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 17, 2018

MEMORANDUM FOR DAVID J. RYDER, DIRECTOR
UNITED STATES MINT

FROM: James Hodge /s/
Director, Financial Audit

SUBJECT: Management Letter for the Audit of the United States Mint's Financial Statements for Fiscal Years 2018 and 2017

We contracted with the certified independent public accounting firm KPMG LLP (KPMG) to audit the financial statements of the United States Mint (Mint) as of September 30, 2018 and 2017, and for the years then ended. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*, and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, *Financial Audit Manual*.

As part of its audit, KPMG issued the attached management letter dated December 7, 2018, that discusses certain matters involving deficiencies in internal control over financial reporting that were identified during the audit, but were not required to be included in the auditors' reports. These matters relate to the untimely review of the open obligations report and accounting and reporting of derivative contracts.

In connection with the contract, we reviewed KPMG's management letter and related documentation and inquired of its representatives. KPMG is responsible for the letter and the conclusions expressed in the letter. Our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards with respect to this management letter.

Should you have any questions, please contact me at (202) 927-0009, or a member of your staff may contact Ade Bankole, Manager, Financial Audit, at (202) 927-5329.

Attachment

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KPMG

THE UNITED STATES MINT

Management Letter

For the Year Ended September 30, 2018

The United States Mint
Management Letter

For the Year Ended September 30, 2018

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KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

December 7, 2018

Mr. Eric Thorson
Inspector General
Department of the Treasury
875 15th Street, NW,
Washington, DC 20005

Mr. David Ryder
Director
United States Mint
801 9th Street, NW
Washington, DC 20001

Mr. Thorson and Mr. Ryder:

In planning and performing our audit of the financial statements of the United States Mint, as of and for the years ended September 30, 2018 and 2017, 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 Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements,* we considered the United States Mint's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the United States Mint's internal control. Accordingly, we do not express an opinion on the effectiveness of the United States Mint's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and/or significant deficiencies and therefore, material weaknesses and/or significant deficiencies may exist that were not identified. In accordance with *Government Auditing Standards*, we issued our report dated December 7, 2018 on our consideration of the United States Mint's internal control over financial reporting in which we communicated certain deficiencies in internal control that we consider to be a significant deficiency.

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, misstatement on a timely basis. During our audit, we identified deficiencies in internal control which are described in Appendix A. Appendix B presents the status of prior year comments.

The United States Mint's responses to the findings identified in our audit are described in Appendix A. The United States Mint's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

The purpose of this letter is solely to describe the deficiencies in internal control identified during our audit. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP

THE UNITED STATES MINT

Management Letter Comments

A-1 Untimely Review of the Open Obligations Report

During our testing of undelivered orders balance, we noted the following:

1. Management did not perform a complete review of the second quarter Open Obligations for all the departments within the United States Mint (Mint). Although, the Mint training department did not complete its review timely for the second quarter, the Mint-wide review of open obligations was considered complete.

2. One out of 13 undelivered order balances sampled, in the amount of $37 thousand, was not timely de-obligated even though the period of performance ended in 2016.

The United States Government Accountability Office's (GAO) publication, *Standards for Internal Control in the Federal Government*, Principle No. 5, *Enforce Accountability,* provides the following guidance regarding communications throughout the entity:

"Management enforces accountability of individuals performing their internal control responsibilities. Accountability is driven by the tone at the top and supported by the commitment to integrity and ethical values, organizational structure, and expectations of competence, which influence the control culture at the entity. Accountability for performance of internal control responsibility supports day-to-day decision making, attitudes, and behaviors. Management holds personnel accountable through mechanisms such as performance appraisals and disciplinary actions."

Principle No. 14, *Communicate Internally*, states: "Management receives quality information about the entity's operational processes that flows up the reporting lines from personnel to help management achieve the entity's objectives."

The Mint's Policy, Planning, Budget Division Program Statement Number 1104.02 4.B.6 states:
"Provide quarterly status review reports with complete and signed certifications from each Contract Specialist/Contracting Officer or their supervisor to Policy, Planning & Budget Division (PP&B). The report shows that reviewers have complied with the requirements of this policy and that certifications are valid."

There are no adequate policies and procedures in place to ensure that (1) open obligations are appropriately and timely reviewed by each Contract Specialist/Contracting Officer or their supervisor, and (2) all reviews from the departments within the Mint have been received in order to complete the Mint-wide review.

Inadequate controls over open obligations increase the risk that the financial statements could be misstated at fiscal year-end.

We recommend that management strengthen their policies and procedures over the review of open obligations to ensure that the balance is appropriately stated. We also recommend that the Mint implement controls to ensure that the Mint-wide review of open obligations is not completed until all reviews from the departments within the Mint have been received.

<u>Management's Response:</u>

The United States Mint concurs.

A-2 Accounting and Reporting of Derivative Contracts

The Mint has a forward contract with a counterparty that allows the two parties to enter into spot deferred transactions in order for the Mint to economically hedge its silver market price risk exposure. The spot deferred transactions meet the Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) Topic 815, *Derivatives and Hedging* (ASC Topic 815), definition of a derivative instrument.

Based on our review of the Mint's accounting policy related to the derivative contract, we noted that the Mint does not report the fair value of the derivative contract in its annual financial statements in accordance with ASC Topic 815. Specifically, we noted that in determining the fair value of the derivative contract, the Mint multiplies the spot price of silver at the date of the financial statements times the amount of ounces of silver related to outstanding spot-deferred sales. This does not represent the price that would be paid to transfer the derivative (i.e., the contract with A-Mark) as of that date, because the outstanding spot-deferred silver sales are not settled as of the date of the financial statements. Rather, the outstanding sales are settled at future dates based on the terms of the contract, and the fair value of the derivative should reflect that variable settlement provision.

FASB ASC 815-10-30-1 states "all derivative instruments shall be measured initially at fair value."

FASB ASC 820-10-35-2 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

FASB ASC 815-10-25-1 states "An entity shall recognize all of its derivative instruments in its statement of financial position as either assets or liabilities depending on the rights or obligations under the contracts."

The GAO *Standards for Internal Control in the Federal Government*, Principle No. 13, *Use Quality Information*, states "Management should use quality information to achieve the entity's objectives."

The Mint did not perform a sufficiently detailed analysis that takes into consideration the applicable FASB standards and the terms of the contract with its counterparty.

The Mint's accounting for and presentation of the derivative contract in its financial statements is not in accordance with U.S. generally accepted accounting principles.

We recommend that the Mint management perform the following:

- Perform a comprehensive analysis of its derivative contract that takes into consideration the applicable FASB standards and the terms of its derivative contract to determine whether the Mint's accounting and reporting policy related to the derivative contract, as reflected in the Mint's annual financial statements, is in accordance with FASB standards.
- If it is determined that such accounting and reporting policy is not in accordance with FASB standards, management should assess the impact of such policy on the Mint's annual financial statements and accompanying notes as a whole, and determine whether an adjustment of the annual financial statements is necessary.
- Document the above analysis and related results. Such documentation should be maintained, and reviewed and approved by an appropriate supervisor.

<u>Management's Response:</u>

The United States Mint concurs and will perform a comprehensive analysis of its derivative contract and document the analysis and related results.

THE UNITED STATES MINT

Status of Prior Year Management Letter Comments

Fiscal Year 2017 Management Letter Comments	Fiscal Year 2018 Status
General IT Controls	
A-1 Controls over User Account Management Should be Strengthened	Reported in the fiscal year 2018 independent auditors’ report as a significant deficiency
A-2 Controls over Timely Removal of Inactive Users from the Mint Network Should be Strengthened	
A-3 Controls over Mint’s WebTA User Access Review and Recertification Should be Strengthened	
A-4 Controls over Terminated Individuals’ HR Connect Access Should be Strengthened	

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