Audit Report

OIG-12-018

COIN MANUFACTURING: Mint's Coin Exchange Program Lacked Proper Controls

November 22, 2011

Office of Inspector General

DEPARTMENT OF THE TREASURY

Contents

Abbreviations

OIG	Office of Inspector General
SAM	Sales and Marketing Division
SOP	standard operating procedures

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November 22, 2011

Richard Peterson, Deputy Director
United States Mint

Referred to as the coin exchange program, the United States Mint (Mint) installed coin machines in its Washington, D.C., headquarters building where the public and Mint employees can exchange bills and coins at face value for new circulating coins. After the Mint found financial discrepancies in the coin exchange program related to the John Quincy Adams Presidential $1 coin, it conducted an internal review. That review culminated in an internal Mint report entitled *Review of Coin Exchange Program Managed by Sales and Marketing (SAM)*.[1,2] The report identified a number of serious deficiencies in the program's controls and processes. Because of these serious internal control deficiencies, the Mint was not able to determine whether the $9,264 discrepancy in the John Quincy Adams Presidential $1 coin program was caused by loss or theft.

To provide more accountability over the coin exchange program, the internal report included several recommendations to improve controls. Among other things, these recommendations included enhancing controls and security of the vault and coin machines and making timely deposits and reconciliations.

[1] The internal review was conducted by the Mint's Planning, Budget and Internal Control Division. The review was prompted by an inquiry by the Treasury Office of Inspector General's (OIG), Office of Investigations after the Mint reported the financial discrepancy related to the John Quincy Adams Presidential $1 coin. OIG investigators found that the coin exchange program generally lacked comprehensive controls and written policies. As a result, the exact cause of the financial discrepancy could not be determined.
[2] The Mint issued its final report on December 2, 2010.

The fact that the Mint operated the coin exchange program for several years with an absence of proper controls and no accountability is a very serious concern. We therefore undertook this audit to determine whether the Mint took appropriate actions in response to its internal review. Our objectives, scope, and methodology are described in more detail in appendix 1.

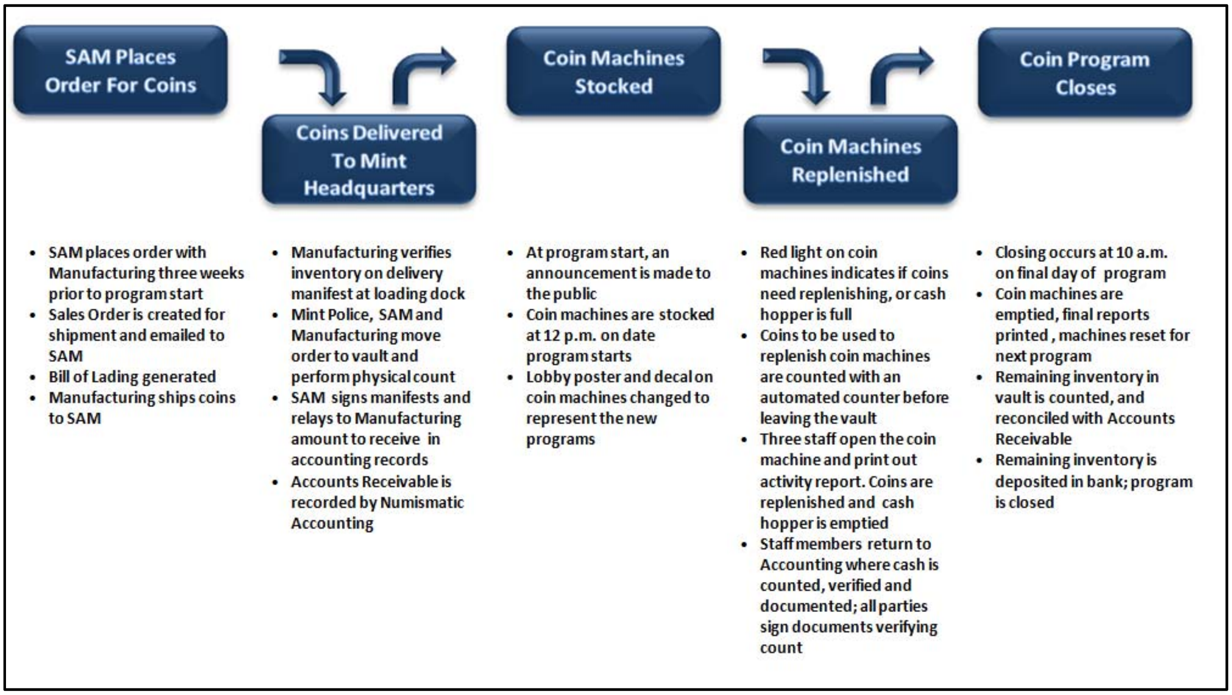
In brief, we found that the Mint has either not implemented certain recommendations identified in the internal report or needs to otherwise enhance its standard operating procedures (SOP) to (1) improve its coin exchange program vault security, (2) ensure that unused coins are deposited in a timely manner, and (3) ensure that coin exchange program reconciliations are performed on a regular and timely basis. We are making three recommendations to address these matters. Given the prior history and losses associated with the coin exchange program, heightened management attention is warranted to fully address the recommendations in our report and the internal Mint report.

In a written response, Mint management concurred with our findings and provided their corrective actions taken to implement the recommendations. We believe these actions are responsive to the intent of our recommendations and verified their implementation. The management response is included as appendix 2.

Background

The Mint uses its coin exchange program to promote new circulating coins such as the Presidential $1 Coins, Native American $1 Coins, and the America the Beautiful Quarters. As each new coin is introduced, it is referred to as a coin program with the unique name of the coin incorporated; for example the Yellowstone National Park Quarter coin program. Overall, the Mint's Sales and Marketing manages the coin exchange program. The Mint headquarters building has six machines to dispense the coins. Three machines are located in the building's lobby which is accessible to the public, and three machines are located in the building's interior space which is accessible only to Mint employees. Each new coin program is processed as shown in Diagram 1:

Diagram1: Coin Exchange Program Process Flowchart



Source: U.S. Mint SOP, Coin Machine Order Processing and Return of Circulating Coinage, January 20, 2011, and Mint staff interviews.

As noted in the chart above, an accounts receivable balance is recorded in the Mint's accounting records when new coins are delivered to Mint headquarters for the coin exchange program. During the close out of the John Quincy Adams Presidential $1 coin program, Mint accounting personnel noticed a discrepancy. The accounts receivable balance for the John Quincy Adams $1 coins was $9,264; however, the vault did not contain any John Quincy Adams $1 coins. Unable to resolve the difference, the Mint reported the discrepancy to the Treasury OIG.

Internal Mint Report

In addition to reporting the discrepancy to our office, at the direction of the Mint's Chief Financial Officer, the Mint's Planning, Budget and Internal Control Division conducted an internal review of its coin exchange program. The report, *Review of Coin Exchange Program Managed by Sales and Marketing (SAM)*, issued in December 2010, identified a number of serious deficiencies in the program's controls and processes including inadequate segregation of duties, poor record keeping, inadequate oversight, and lack of proper and timely reconciliations and clear SOPs. Specifically, the report identified 4 findings and 13 recommendations. The findings were as follows:

- No coin exchange program reconciliations were performed from 2005 through 2009.
- The program lacked a complete set of records/documents to demonstrate that all coins exchanged, cash proceeds, and unused coins were accounted for in the records.
- Coin machine exchange program functions were not properly segregated and the results were not reviewed and approved by management.
- The program had deficiencies related to the physical security of the vault and the coin machines.

As a result of these deficiencies, the report recommended that the Mint restrict access and enhance security to the vault and coin machines, finalize the SOPs, establish controls and oversight of cash transactions, make timely deposits, adopt reconciliation processes, and require reviews of documents retained to support the program.

In response to one of the findings, the Mint attempted to reconcile the coin exchange program activities. As a result of that effort, the Mint identified and wrote-off in September 2010, a total discrepancy, in the form of a loss, of $82,215 for unresolved differences for coin programs dating back to 2008. That amount represents differences the Mint identified from 22 coin programs in all.[3] While the Mint has implemented corrective action plans in response to its internal report, improvements are still needed.

Findings and Recommendations

Finding 1 Corrective Actions to Improve Physical Security Were Not Fully Implemented

The Mint's internal review identified deficiencies in physical security controls over coin products including a large number of

[3] The 22 coin products included 10 $1 coin programs, 8 quarter programs, and 4 penny programs.

employees with access to the vault, the lack of properly working equipment to control vault access, and the lack of verification procedures to ensure only authorized employees entered the vault.

SAM developed a corrective action plan to address the coin exchange program's physical security issues and implemented all but one recommendation. The unimplemented recommendation included adding a camera and additional card readers to record employee access to the vault used to store the new coins at its headquarters building and a controlled area outside the vault. The Mint initially committed to installing these security upgrades by December 31, 2010. However, a Mint official told us that the enhancement was delayed pending implementation of other security upgrades associated with the Treasury's Personal Identity Verification (PIV) system that was planned for March 2011.[4] As of August 2011, a Mint official confirmed that the security upgrades had not been implemented and estimated they would be completed within 2 months.

Recommendation

We recommend that the Mint Director ensure that the vault security enhancements are implemented in an expeditious manner.

<u>Management Response</u>

The Office of Protection installed an access card reader outside the vault and a camera inside the vault, and both are fully operational.

<u>OIG Comment</u>

The actions taken by the Mint are responsive to the intent of the recommendation and we verified that the access card reader and camera have been installed and are fully operational.

[4] *Homeland Security Presidential Directive 12: Policy for a Common Identification Standard for Federal Employees and Contractors*, August 27, 2004, established a mandatory, government-wide standard for secure and reliable forms of identification issued by the federal government to its employees and contractors.

Finding 2 Other Control Weaknesses Need to Be Addressed

According to the Mint's internal review report, the Mint did not deposit unused coins timely, match cash proceeds and unused coins to total sales orders timely, maintain coin exchange program documentation, or perform reconciliations of the program from 2005 through 2009. In addition to other measures, the Mint adopted an SOP in January 2011 entitled *Coin Machine Order Processing and Return of Circulating Coinage* in response to its internal review report. Although the SOP was intended to address these findings, we believe that the procedures need to be further strengthened to ensure the accuracy of recorded information and reduce potential losses and thefts of coin products.

Deposit Delays

The SOP includes a "targeted" deadline that all deposits of unused coins are made within 15 business days after a coin program ends. As shown in Table 1, the elapsed time between the coin program end date and the unused coins' deposit date ranged from 25 to 137 days for the last 4 coin programs closed out in 2010.

Table 1: Elapsed Days from Coin Program Closing to Deposits of Unused Coins

Coin Program	Coin Program Closing Date	Unused Coins Deposit Date	Elapsed Days	Unused Coins Value	Unused Coins Count
Yellowstone Quarter	7/26/2010	12/10/2010	137	$9,000	36,000
Yosemite Quarter	9/20/2010	12/10/2010	81	1,795	7,180
Grand Canyon Quarter	11/15/2010	12/10/2010	25	5,311	21,244
Buchanan Presidential $1	11/18/2010	12/29/2010	41	14,371	14,371

Source: Coin exchange program tracking documents, deposit documentation, and 2010 SAM calendar of events.

Mint officials told us that lengthy delays were due, in part, to local banks' unwillingness to accept large volumes of coins, especially the $1 coins. In this regard, officials at these banks we interviewed stated that they had limited vault space at their branches to store the coins and limited resources to process the coins.[5] Nevertheless, we believe the above deposit delays are excessive. To eliminate delays, the Mint should establish a definitive deadline

[5] The bank officials also stated that there was limited demand for $1 coins and that the banks return most of them to the Federal Reserve Bank.

for the deposits of unused coins when a program ends and ensure the deadline is met.

No Regular Reconciliations

The SOP also had inadequate reconciliation procedures for the coin programs. For each coin program, the Mint's accounting department records the deposits of exchanged cash received and reduces the related accounts receivable balance. Outside official accounting records, the accounting department manually tracks the deposited coin program amounts and reduces the accounts receivable balances in spreadsheets to support the monthly ending balances. However, there is no step in this process for either the accounting department or SAM to reconcile the accounting department's monthly balances to SAM's sales inventory balances. At month-end, the accounting department's accounts receivable balances need to be compared to SAM's sales order inventory balances to identify any differences for prompt determination and resolution of the related cause(s) of the differences. Currently, reconciliations are only performed on balances kept by SAM and accounting after a coin program ends.[6]

As previously discussed, deposits of unused coins are often significantly delayed for closed programs and reconciliations are not performed timely, resulting in inaccurate accounting balances. Because of the delays, the reconciliation process, particularly with regard to identifying the causes of variances, is more difficult, if not impossible. Also, the Mint was not aware that coins were unaccounted for until months and, in some cases, years after a program closed.

Recommendations

We recommend that the Mint Director:

1. Enhance the coin exchange program SOP to require that unused coins be deposited within 15 days of a completion of a coin program.

[6] U.S. Mint SOP, section 2.5.1, Return of Discontinued Circulating Coins, January 10, 2011.

Management Response

SAM updated its SOP to mandate that unused coins from closed out coin programs be deposited at a designated bank within 15 days after a program ends. The Mint also purchased a coin rolling machine that has streamlined the preparation process for depositing unused coins within the 15-day time period. Because of these improvements, SAM has deposited all unused coins within 15 days of the program completion for remaining fiscal year 2011 coin programs.

OIG Comments

The actions taken by the Mint are responsive to the intent of the recommendation and we verified that the SAM SOP was updated as stated and the Mint deposited unused coins timely.

2. Ensure that reconciliations between the accounting department's accounts receivable balances and SAM's sales records are performed monthly, and any differences identified are resolved timely (i.e., the cause(s) of the differences are determined and appropriate actions are taken).

   Management Response

   SAM updated its SOP to require the SAM Retail Sales Manager or their designee, in conjunction with Accounting, to perform monthly reviews from the start of each program of all applicable Coin Exchange Program documentation maintained by SAM. The Chief of the Accounting Division will ensure that all differences are timely and properly resolved.

   OIG Comments

   The Mint's actions met the intent of the recommendation. We verified that the SAM SOP was updated as stated and monthly reviews of coin exchange documentation were performed through October 2011.

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We appreciate the courtesies and cooperation extended to our staff during this audit. The major contributors to this report are listed in appendix 3. If you have any questions, please contact me at (202) 927-5904, or Kathy Johnson, Audit Manager, at (202) 927-8783.

/s/
Kieu T. Rubb
Director, Manufacturing and Procurement Audits

The objectives of our audit were to determine whether the United States Mint (Mint) has established appropriate accountability and security of coin exchange program activities. We conducted our audit at the request of the Treasury Office of Inspector General's Office of Investigations. As part of our work, we reviewed the actions taken in response to an internal Mint report of the coin exchange program controls*.* That report was entitled *Review of Coin Exchange Program Managed by Sales and Marketing (SAM).*

To accomplish these objectives, we (1) reviewed the internal Mint report, the Mint's corrective action plan, and related standard operating procedures; (2) visited Mint headquarters in Washington, D.C., including the vault used for this program and the protection command center, to observe inventory, currency handling, and security procedures over the coin exchange program; and (3) interviewed Mint employees. We conducted our fieldwork between November 2010 and November 2011.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

DEPUTY DIRECTOR

November 4, 2011

MEMORANDUM FOR KIEU T. RUBB
AUDIT DIRECTOR
OFFICE OF INSPECTOR GENERAL

THROUGH: Rosie Rios /s/
Treasurer of the United States

FROM: Richard A. Peterson /s/
Deputy Director
United States Mint

SUBJECT: Management Response to Office of Inspector General (OIG) Draft Report—United States Mint's Coin Exchange Program Lacked Proper Controls

Thank you for the opportunity to comment on the OIG's draft audit report entitled *Mint's Coin Exchange Program Lacked Proper Controls*, dated October 7, 2011. We have reviewed the draft report and concur with the two findings and recommendations outlined in the report.

The United States Mint is committed to strengthening its controls on its Coin Exchange Program and has implemented the OIG recommendations. Attached is our response to each recommendation and a completion date for each corrective action.

If you have any questions, please contact Tom Noziglia from the United States Mint's Internal Control Branch (ICB) at (202) 354-7722, or via e-mail at tom.noziglia@usmint.treas.gov

Attachment

Attachment

RECOMMENDATION #1:

The OIG recommends that the United States Mint Director ensure that the vault security enhancements included in the Sales and Marketing (SAM) Department's corrective action plan be implemented in an expeditious manner.

RESPONSE: The Office of Protection installed an access card reader outside the 5th floor vault and a monitoring camera inside the vault, and both are fully operational.

Completion Date: October 18, 2011

RECOMMENDATION #2:

1. Enhance the coin exchange program Standard Operating Procedure (SOP) to require that unused coins be deposited within 15 days of completion of a coin program.

RESPONSE:

SAM has updated its SOP entitled "Coin Machine Order Processing and Return of Circulating Coinage" to mandate that unused coins from closed out coin programs be deposited at a designated bank within 15 days after a program is completed.

The United States Mint purchased a coin rolling machine that has streamlined the preparation process for depositing unused coins to banks within the 15-day time period. By rolling its own coins, the United States Mint will realize a savings of 8.9 cents per dollar versus the costs of processing the unused coins through standard "Coinstar" machines. This will result in significant savings over the life of each coin program. As a result of these improvements, SAM has deposited all unused coins within 15 days of the completion of the Fiscal Year (FY) 2011 coin programs. Tables A and B below provide listings of deposit dates for all FY 2011 programs:

Table A:

Presidential $ Coin Program	Program End Date	Deposit Date
Abraham Lincoln	2/17/11	2/18/11
Andrew Johnson	5/19/11	5/20/11
Ulysses Grant	8/18/11	9/2/11

Table B:

ATB Quarters	Program End Date	Deposit Date
Gettysburg	4/4/11	4/12/11
Mt. Glacier	6/13/11	6/17/11
Olympic	8/29/11	9/2/11

SOP Completion Date: November 17, 2011

1. Ensure that reconciliations between the Accounting Department's accounts receivable balances and SAM's sales records are performed monthly, and any differences identified are resolved in a timely manner (i.e., the cause(s) of the differences are determined and appropriate actions are taken).

RESPONSE:

SAM has updated its SOP entitled "Coin Machine Order Processing and Return of Circulating Coinage" to require the SAM Retail Sales Manager or their designee, in conjunction with Accounting, to perform monthly reviews from the start of each program of all applicable Coin Exchange Program documentation maintained by SAM. The Chief of the Accounting Division will ensure that all differences are timely and properly resolved.

Monthly Review Completion Date: October 13, 2011

SOP Completion Date: November 17, 2011

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Department of the Treasury

Deputy Secretary
Treasurer of the United States
Office of Strategic Planning and Performance Management
Office of Accounting and Internal Control

United States Mint

Deputy Director
Acting Chief Financial Officer
Audit Liaison

Office of Management and Budget

OIG Budget Examiner