



Audit Report



OIG-07-003

Audit of the United States Mint's Schedule of
Custodial Deep Storage Gold and Silver Reserves
as of September 30, 2006 and 2005

October 23, 2006

**Office of
Inspector General**

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

October 23, 2006

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

FROM: Michael Fitzgerald *Michael Fitzgerald*
Acting Deputy Assistant Inspector General for Financial
Management and Information Technology Audits

SUBJECT: Audit of the United States Mint's Schedule of
Custodial Deep Storage Gold and Silver Reserves as of
September 30, 2006 and 2005

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, 2006 and 2005. 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, 2006 and 2005. In addition, our report contains no reportable conditions related to internal control, and no instances of noncompliance with laws and regulations that could have a direct and material effect on the Custodial Schedule.

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 2006 and 2005 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.

Our report has been reviewed by your staff. Based on mutual agreement, we are issuing this report as final. Should you have any questions, please contact me at (202) 927-5789. We appreciate the cooperation and courtesy extended to our staff.

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, 2006 and 2005. 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 accounting principles generally accepted in the United States of America; (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 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 conducting our audit of the Mint's Custodial Schedule, we considered internal control over financial reporting. Specifically, we obtained an understanding of the design of the Mint's internal control related to the Custodial Schedule, 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 Schedule and not to provide assurance on the internal control over financial reporting. Consequently, we do not provide an opinion on such control.

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 these 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 these 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, 2006 and 2005, in conformity with accounting principles generally accepted in the United States of America.

Internal Control

Internal control is a process, effected by 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 Schedule in accordance with accounting principles generally accepted in the United States of America, and the safeguarding of assets against loss from unauthorized acquisition, use, or disposition; and
- Compliance with applicable laws and regulations that could have a direct and material effect on the Custodial Schedule.

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 internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting related to the Custodial Schedule that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the Custodial Schedule 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 over financial reporting related to the Custodial Schedule and its operation that we consider to be material weaknesses as defined above.

Compliance with Laws and Regulations

The results of our tests of compliance with laws and regulations disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

* * * * *

We have reviewed our report with the financial management of the Mint. Based on mutual agreement, we are issuing this report as final. Should you or your staff have any questions, you may contact me at (202) 927-5789. We appreciate the cooperation and the 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
Acting Deputy Assistant Inspector General for
Financial Management and Information Technology Audits
October 11, 2006

Appendix 1
Major Contributors to This Report

Financial Audit Division

Donna Joseph, Audit Manager
Susan Barron, Audit Manager
Catherine Yi, Auditor
Rafael Cumba, Auditor
Susan Sebert, Program Analyst
Myung Han, Program Analyst

Appendix 2
Report Distribution

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, 2006 AND 2005**

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
SCHEDULE OF CUSTODIAL DEEP STORAGE GOLD AND SILVER RESERVES
AS OF SEPTEMBER 30, 2006 AND 2005
(IN THOUSANDS)

CUSTODIAL DEEP STORAGE GOLD AND SILVER RESERVES

	<u>2006</u>	<u>2005</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, 2006 AND 2005

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 mission of the United States Mint is to manufacture coins for general circulation. 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.

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 USC§5116 and 5117 (statutory rates) which are \$42.2222 per fine troy ounce (FTO) of gold and \$1.29292929 per FTO of silver. An offsetting liability is also reported for these assets.

**DEPARTMENT OF THE TREASURY
UNITED STATES MINT**
**NOTES TO THE SCHEDULE OF CUSTODIAL DEEP STORAGE GOLD AND SILVER
RESERVES**
AS OF SEPTEMBER 30, 2006 AND 2005

At September 30, 2006 and 2005, the market value of gold per the London Gold Fixing (PM) was \$599.25 per FTO and \$473.25 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>
2006	245,262,897.04	\$10,355,539,091	\$146,973,791,051
2005	245,262,897.04	\$10,355,539,091	\$116,070,666,024

At September 30, 2006 and 2005, the market value of silver per the London Gold Fixing was \$11.5500 per FTO and \$7.5300 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>
2006	7,075,171.14	\$ 9,147,696	\$81,718,227
2005	7,075,171.14	\$ 9,147,696	\$53,276,039

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

	<u>Statutory Value</u>	<u>Market Value</u>
2006	\$10,364,686,787	\$147,055,509,278
2005	\$10,364,686,787	\$116,123,942,063