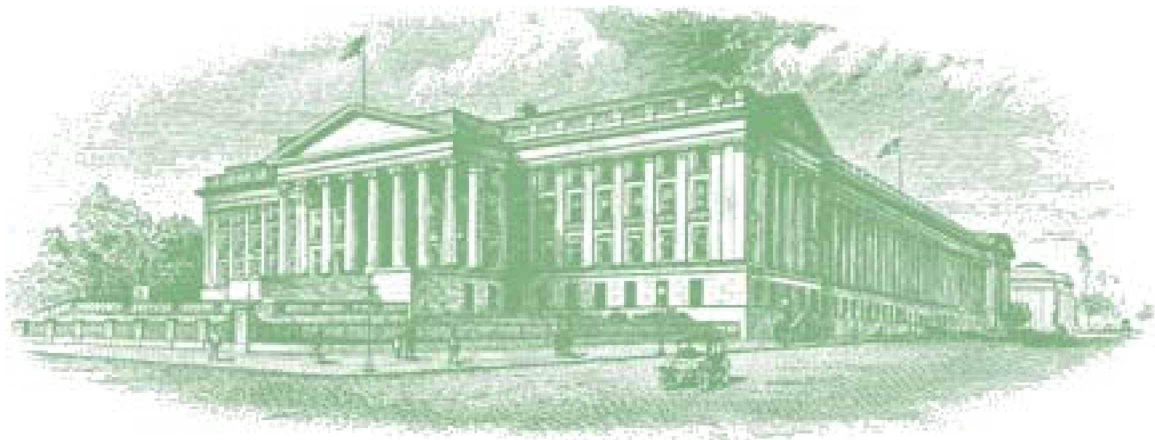
Audit Report



OIG-07-007

Management Letter for the Fiscal Year 2005 Audit of the United States Mint's Financial Statements

November 11, 2006

Office of Inspector General

DEPARTMENT OF THE TREASURY

This report has been reviewed for public dissemination by the Office of Counsel to the Inspector General. Information requiring protection from public dissemination has been redacted from this report in accordance with the Freedom of Information Act, 5 U.S.C. section 552.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 11, 2006

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

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

SUBJECT: Management Letter for the Fiscal Year 2005 Audit of the United States Mint's Financial Statements

I am pleased to transmit the attached management letter in connection with the audit of the United States Mint's (Mint) Fiscal Year (FY) 2005 financial statements. We contracted with the independent certified public accounting firm KPMG LLP to audit the Mint's financial statements for FY 2005. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*; and the *GAO/PCIE Financial Audit Manual*.

As part of its audit, KPMG LLP issued and is responsible for the accompanying management letter that discusses certain matters identified during the audit, which were not required to be included in the audit reports.

In connection with the contract, we reviewed KPMG LLP's letter and related documentation and inquired of its representatives. Our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789.

Attachment

THE UNITED STATES MINT

Management Letter

Fiscal Year 2005

THE UNITED STATES MINT

Fiscal Year 2005 Management Letter

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THE UNITED STATES MINT

Fiscal Year 2005 Management Letter

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

November 3, 2006

Inspector General
United States Department of the Treasury
740 15th Street, NW, Suite 600
Washington, DC 20220

Director
The United States Mint
801 9th Street, NW
Washington, DC 20001

Ladies and Gentlemen:

We have audited the financial statements of the United States Mint (Mint) for the year ended September 30, 2005, and have issued our report thereon dated June 16, 2006, except as to note 19, which is dated November 3, 2006. In planning and performing our audit of the financial statements of the Mint, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

As a part of obtaining reasonable assurance about whether the Mint's financial statements were free of material misstatement, we performed tests of the Mint's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations. Our separate report on internal control over financial reporting and on compliance with laws and regulations based on an audit of the financial statements performed in accordance with *Government Auditing Standards*, identified a matter we considered to be a reportable condition.

During our audit, we also noted other matters involving internal control over financial reporting and other operational matters that are not considered reportable conditions. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in Appendix A. To the extent prior year comments have continuing relevance, we have incorporated these comments into those presented in Appendix A.

Our audit procedures were designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Mint, gained during our work, to make comments and suggestions that we hope will be useful to you.

The Mint's response to our comments and recommendations are presented in Appendix B. Appendix C presents the status of prior year management letter comments.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the Mint's management and others within the organization, and the United States Department of the Treasury's Office of Inspector General, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

Inventory Management

A-1 Physical Security at Warehouse Should be Improved and Closely Monitored

During our inventory observation test work, we noted that the physical security in place at the Denver warehouse was not adequate to ensure the proper safeguarding of the Mint's assets. [SENTENCE REDACTED].

We also noted that some of the property, plant and equipment located at the warehouse was being stored for a non-disclosed third party, and that some of the Mint's assets were not properly labeled to facilitate proper identification. Furthermore, we obtained a copy of the lease agreement for the warehouse and noted that the lessor is required to obtain prior permission from the Mint to lease space to any third parties. There was no evidence that prior permission was requested from the Mint.

We recommend that the Mint implement policies and procedures to enforce compliance with the lease agreement by the warehouse storing the Mint's assets. This policy should set forth the monitoring procedures to be performed by the Mint to ensure that the warehouse meets the Mint's security requirements and that all assets are adequately safeguarded. In addition, the Mint should immediately take steps to ensure that all assets are properly tagged and designated at the warehouse, and that the appropriate permission is granted for the assets being stored for the third party.

A-2 Management Review of QPI/API Results Should be Strengthened

During our Inventory Management test work, we noted that there was no evidence of review and approval of the Quarterly Physical Inventory (QPI)/Annual Physical Inventory (API) results and adjustments prior to the entries being posted to the [REDACTED] general ledger. Specifically, we noted the following:

- The QPI adjustments posted by the facilities did not include any evidence of review by the Financial Managers, Plant Managers, the Office of the Chief Financial Officer (OCFO) or the Manufacturing Strategic Business Unit (MSBU) at Headquarters.
- The QPI/API adjustments posted by the facilities to write off obsolete inventory did not include any evidence of review by the Financial Managers, Plant Managers, Production Managers, OCFO or MSBU at Headquarters.

We also noted that the Mint-wide summary of API results, findings, and recommendations for corrective action was not prepared by the OCFO as required by the Standard Operating Procedures.

We recommend that the Mint establish policies and procedures that require the QPI/API results and adjustments be reviewed and signed-off by both a management-level reviewer at the field sites and at Headquarters.

A-3 Improvements Required over the Physical Verification of Coils Received from Vendors

During our inventory observation test work performed at the Philadelphia and Denver Mints, we noted that coils of raw materials are recorded in the [REDACTED] general ledger using the weights documented on invoices received from vendors, without validating the accuracy of the weight listed. We also noted that coils were not weighed during the QPI.

We recommend that the Mint establish policies and procedures that require the Philadelphia and Denver Mints to verify, on a sample basis, the weight of coils received from vendors when purchased and during the QPI.

A-4 Quarterly and Annual Physical Inventory Procedures Should be Standardized

During our inventory observation test work, we noted that the Mint-wide Standard Operating Procedures (SOPs) for the Quarterly Physical Inventory (QPI) and Annual Physical Inventory (API) provides the facilities the authority to develop their own procedures for performing QPI/API. We noted that the QPI/API procedures performed varied between facilities, and in some instances, were not performed in accordance with specific instructions in the SOP. Specifically, we noted the following:

- The count instructions for the sales kiosks, VIP and Convention Sales, the Philadelphia and Denver Mints, did not provide a detailed description of the steps to be performed by the count teams during the inventory counts.
- Count sheets were not distributed to the count teams prior to the start of the count at the point of sales kiosks, VIP and Convention sales, and the Denver Mint. We also noted that for all sites, the count sheets were not pre-numbered or sequentially numbered and the team did not use pre-numbered count tags to mark the items that had been counted. As a result, the Denver Mint count teams had difficulty keeping track of the weigh and count sheets. We also identified inventory within the hoppers and in various locations throughout the Denver plant that was not counted. However, the quantity of items not counted did not appear to be significant.
- We noted that numismatic inventory items were moved during the inventory count at the Denver Mint. Although the items were not double counted, the movement added unneccessary confusion during the inventory count.
- We noted that the Philadelphia Mint did not perform a reconciliation of the Costed Inventory By Account (CIBA) subsidiary ledger to the [REDACTED] general ledger prior to the inventory count to identify reconciling items, nor after the count to ensure that the adjustments were posted correctly.
- We did not receive the Form 9050s at the Philadelphia and Denver Mints for the materials on hand that were not recorded in [REDACTED].
- We did not receive the Form 601s at the Philadelphia and Denver Mints to support the Temporarty Asset Transfers made at these facilities.

We recommend that the Mint review and revise the SOP to standardize the procedures performed during the QPI and API. Further, the procedures should require management to perform inventory control monitoring procedures at each Mint facilities.

A-5 Sampling Methodology for Physical Inventories Should be Strengthened

During our inventory observation test work at the West Point and San Francisco Mint facilities, we noted that the API was not conducted for a full metal invetory count, as required in the Mint established policies and procedures. A statistician developed a sampling methodology for these facilities during May 2001 to select items for recount during the API. However, the methodology has not been included in the Mint-wide policies nor has it been subsequently reviewed or updated to ensure the previous criterias are still applicable and are sufficient to provide adequate coverage of the total inventory on hand as of the count date.

(Continued)

We recommend that the Mint re-evaluate its policies and procedures and determine whether the API at the West Point and San Francisco Mints should be conducted for "full metal" counts or on a sample basis. If the Mint deems recounting physical inventory on a sample basis is sufficient, the sampling methodology should be reviewed on an annual basis for these facilities to take into account the inventory on hand at the date of the count to ensure that the samples selected for the physical inventory are adequate.

A-6 Standard Operating Procedures Should be Implemented for Heritage Assets

During our Inventory Management test work, we noted that special collectibles and museum quality pieces that are not available for sale to the public are not recorded consistently among the Mint facilities. We identified various collectible coins maintained in work in process and finished goods accounts that included a number of museum quality pieces on hand during the physical inventory counts. We noted that items on hand at West Point are maintained [REDACTED] at the standard cost of the metal, while items on hand in San Francisco are tracked on Microsoft Excel spreadsheets maintained outside of the [REDACTED].

We recommend that the Mint develop standard operating procedures to ensure compliance with Statement of Federal Financial Accounting Standards #29 'Heritage Assets and Stewardship Land'. These procedures should require the removal of all museum quality pieces from operating inventory as well as the implementation of tracking procedures to ensure that the coins are properly presented as required supplementary information (RSI). Tracking, at a minimum, should include a description of major categories, physical unit information for the end of the reporting period, physical units added and withdrawn during the year, a description of the methods of acquisition and withdrawal, and condition information.

A-7 Improvements Needed to Monitor Slow-moving and Obsolete Inventory

During our Inventory Management test work, we identified a number of inventory items on hand totaling approximately $7,115,448 that were slow moving or are not currently available for sale to the public, but were not classified as 'obsolete' during fiscal year 2005. We noted that these items were recorded at original cost, although some should have been written-off or have an allowance for impairment recorded against them as of September 30, 2005.

We recommend that the United States Mint enhance its existing policies and procedures to ensure that slow moving items are identified by the production facilities and communicated to the Office of Corporate Accounting (OCA). The Mint should designate a senior official in the OCA to perform a detail review of all inventory listings on a monthly basis to ensure that the production facilities are properly identifying the slow moving items. Further, an allowance methodology should be developed by OCA, to ensure that the appropriate entries are recorded for impairment, if required, on a timely basis.

Asset Management

B-1 Controls over Asset Retirements Should be Strengthened

During our Asset Management test work, we noted that for 4 of 8 asset retirement sample items, the Mint could not locate the Excess Property report that had been signed by the Property Manager. Therefore, the retirement date in the asset management module could not be agreed to Property Manager's date per the Excess Property forms.

We recommend that Mint establish and implement a method to ensure that Excess Property forms are properly filed and to ensure that the forms are available for examination for a reasonable time period after the retirement transaction.

B-2 Controls over Monthly Property, Plant and Equipment Reconciliations Should be Strengthened

During our Asset Management test work, we noted that the monthly reconciliation, which verifies that the property, plant and equipment balances in the subsidiary ledger agrees with the property, plant, and equipment balances in the general ledger, were not prepared timely during fiscal year 2005. We noted that the reconciliations for the months from October 2004 through May 2005 were not reconciled until June and July 2005.

We recommend that the Mint establish policies and procedures that require reconciliations be prepared timely.

Revenue Generation and Collection

C-1 Improper Revenue Recognition for Consignment Sales

During our Revenue test work, we noted that revenue on consignment sales is improperly recognized when products are shipped to the consignee, for future sales, and not when the products are ultimately sold by the consignee. The consignee does not have an obligation to pay the Mint until the products are ultimately sold and has the right to return the products to the Mint at any time.

We recommend that the Mint review and revise the revenue recognition policy for consignment sales to ensure that revenue is recognized when the products are ultimately sold by the consignee, and not when products are shipped.

C-2 Controls over Signatures on Bullion Release Authorization Memos Should be Strengthened

During our Revenue test work, we noted that 3 of the 67 Bullion Release Authorization Memos were not signed by the armored carrier driver as required.

We recommend that the Mint establish an internal review process to ensure that all Release Authorization Memos are signed by the armored carrier drivers.

C-3 Controls over Monthly Revenue Reconciliations Should be Strengthened

During our Revenue test work, we noted an unreconciled difference of $1,831,402 in the Unrecorded Revenue account, and some of the reconciling items had been carried forward from fiscal year 2003. We understand that this difference was identified on the ESP Fund Balance with Treasury reconciliation, and relates to kiosk sales that were improperly recorded in the general ledger.

We recommend that the Mint investigate and resolve the unreconciled difference identified on the Unrecorded Revenue account in a timely manner. Once resolved, applicable adjustments should be promptly recorded in the general ledger. Further, the Mint should strengthen its reconciliation policy to ensure that all discrepancies that are not related to timing are researched and corrected in a timely manner.

C-4 Controls over Monitoring the MOA with the USPS Should be Strengthened

During our Revenue test work, we noted that the Mint is not complying with the terms in the *Memorandum of Agreement between the United States Postal Service and the United States Mint for a Joint Product Partnership* (MOA). The MOA is dated August 22, 2002 and specifies the terms for splitting revenues generated through the sales efforts undertaken by both the Mint and the United States Postal Service (USPS), but these terms have not been followed by the Mint and amounts due to/from the USPS have not been calculated, accrued, or paid to date.

We recommend that the Mint review the terms of the MOA with the USPS and implement policies and procedures that require the calculations and reconciliation of amount due to/from the USPS on a regular basis. Once amounts due/from the USPS are determined, applicable adjustments should be promptly recorded in the general ledger.

C-5 Standard Operating Procedures Should be Established for Sales Made to FRB

During our Revenue testwork, we noted that the Mint does not maintain a shipping log at the production facilities for sales of circulating coins to the Federal Reserve Banks (FRB). As a result, it was difficult to determine the actual dates the shipments were loaded on the carrier, the dates accepted by FRB, and the dates collections were received from FRB. Specifically, we noted the following:

- The production facilities do not prepare pre-numbered invoices for transactions sold to FRB.
- The Mint prepares bill of lading which are pre-dated, and may not necessarily reflect the actual dates the coins are loaded on the carrier at the production facilities. Further, there is no evidence that the Mint traced and agreed the dates shipped into the dates recorded in the [REDACTED] general ledger. In addition, the Mint does not retain copies of the bill of lading that are signed off by FRB evidencing acceptance of the circulating coins.
- The SF-215 deposit tickets are issued along with the bill of lading, and are also not pre-numbered or chronologically numbered to ensure completeness. The deposit tickets are pre-dated with the expected collection dates, and do not reflect the actual date of collection.
- The carriers sign off on the Transfer Authorizations (TAs) when goods are picked up at the Mint. However, the TAs are also pre-dated by the Mint instead of being dated by the carrier when the coins are collected.

- The sales are recognized [REDACTED] based on estimated shipment dates versus the date that physical movement of goods occurs.
- Further, we noted that the Mint does not have a signed contract with the FRB for the circulating coins sold.

We recommend that the Mint establish internal policies and procedures to ensure adequate audit trail exists for FRB sales. This will include the establishment of a log to identify actual dates shipped, actual dates received by the FRB, and the dates that actual payments are received from the FRB. Further, the Mint should also perform a review to ensure that the shipping dates per the bill of lading agree to the dates the revenue is recognized [REDACTED]. The Mint should also consider reviewing the relationship with FRB to determine if a formal agreement should be established.

Human Resource Management

D-1 Control over Time and Attendance Reports Should be Improved

During our Human Resources test work at the Mint, we noted the following:

- 24 of 135 timesheets were not signed by the employee or approved by the supervisor. Of these 24 timesheets, 20 were from the San Francisco Mint facility.
- 4 of 135 timesheets requested were not provided. Of these 4 timesheet, 3 were from the San Francisco Mint facility.
- 6 of 135 SF-50's tested did not include the signature of the appropriate signing official or someone authorized to sign in his/her place. All of the unsigned SF-50's were from the San Francisco Mint facility.

We recommend that the Mint formalize its policies and procedures to require all employees and supervisors to sign time and attendance reports timely; and implement policies and procedures to ensure that all personnel actions are properly signed and approved.

D-2 Management Review of the HR Connect Mismatch Reports Should be Strengthened

The Chief Operations Branch runs daily batches of payroll information between HR Connect and the National Finance Center (NFC). A Mismatch report is generated daily by the NFC and is available through HR Connect for each Mint facility to review and ensure that data has been accurately transmitted. However, we noted that the reports were not reviewed, as the responsibilities were not delegated at each facility.

During our review of the Mismatch Reports, we noted that there was no evidence of review, as the exceptions identified on the September 30, 2005 reports were not appropriately followed up as follows:

Employee ID	Discrepancy Noted on Report (overstatement)	Mint Location
3211xx	$6,050	Headquarters
3211xx	$2,149	Headquarters
3207xx	$.52/hour	Philadelphia
3223xx	$.92/hour	San Francisco

In addition to the salary discrepancies noted above, we also noted that the Mismatch Reports at all Mint locations identified other items to be corrected, such as performance anniversary and evaluation dates, authentication dates, Service Computation Date (SCD) Leave dates, SCD Thrift Savings Plan dates, and SCD Wage Grade Increase dates.

We recommend that the Mint formalize its policies and procedures to require the timely follow-up and correction of discrepancies identified on the HR Connect Mismatch Reports.

Procurement

E-1 Control over Disbursements Should be Strengthened

During our Procurement test work, we noted that for 9 of 120 disbursements reviewed, the invoices were not date-stamped as required. Of these 9 invoices, 8 were from Headquarters and 1 was from the Philadelphia Mint Facility.

We recommend that the Mint establish an internal review process to ensure that all invoices are date-stamped when received prior to being approved for payment.

E-2 Controls over Approving Invoices Should be Strengthened

During our disbursement test work, we noted that the procedures for approving invoices for the purchase of physical goods varied between the Mint's production facilities. We noted that the Contracting Officer (CO) and the Contracting Officer's Technical Representative (COTR) at Headquarters signed invoices evidencing the receipt of goods and services. However, at the Mint production facilities there was no evidence of approval by the CO and COTR for 33 of the 120 invoices reviewed.

We recommend that the Mint update its Mint-Wide policies and procedures for disbursements to ensure that all invoices are appropriately signed-off by both the CO and COTR.

E-3 Controls over Updating Vendor and Customer Contact Information Should be Strengthened

During the Procurement and Inventory Management test work, we sent confirmations to vendors to confirm the Mint's accounts payable balances and the inventory maintained off site on behalf of the Mint as of September 30, 2005, and experienced delays in obtaining responses, due to the following:

- 2 of the 13 inventory confirmations mailed were returned to sender due to incorrect address.
- 3 of the 30 accounts payable confirmations mailed were returned to sender due to incorrect address.

The Mint attempted to provide the proper addresses for the confirmations noted above; however, the second confirmations were returned to sender due to incorrect listing of the recipients' address in the Mint's database.

We recommend that the Mint establish consistent procedures to monitor the review and maintenance of third party vendor addresses and points of contact information.

Manufacturing

F-1 Policies over the Timing for Updating Inventory Standard Costs Should be Reviewed

During our Manufacturing test work, we noted that the Mint updated the standard cost of inventory during fiscal year 2005; however, the update did not take place at year-end as required by Mint-wide Policy Memo.

We recommend that the Mint perform annual inventory standard cost updates at year-end to ensure compliance with established policies and procedures. If the Mint determines that year-end is not an appropriate time to change inventory standard costs, the policy memorandum should be updated to change the time frame that inventory standard cost update is required.

F-2 Management Review of Variances Should be Formalized and Strengthened

During our Manufacturing test work, we noted that the monthly review of variances between standard cost rates and over/under applied overhead, which ensures that costs associated to the production and manufacture of coins are allocated to inventory balances on a monthly basis, were not formally documented.

We recommend that the Mint establish policies and procedures that require proper documentation of the monthly review and approval of variances between standard cost rates and over/under applied overhead. The analysis should be signed-off by both the preparer and a management-level reviewer.

Budgetary Resources

G-1 Controls over Budgetary Resources Should be Strengthened

Our initial testing of the undelivered order (UDO) balances preliminarily identified numerous errors, primarily due to the exclusion of the Mint's field site accruals from the Mint's initial UDO report. The errors were also partly due to the Mint not considering open purchase orders with values less than $100 thousand as part of the accrual process. Based on our communication of the preliminary results to the Mint, they reperformed their analysis and determined that they had overstated the FY2004 UDO balance by approximately $9 million. The Mint adjusted the UDO balance presented on their financial statements to include the field site accruals.

During our Budget test work on the balances, as adjusted to include the field site accruals, we noted the following errors:

- 48 of 103 FY2004 sample items did not have an accurate UDO balance at September 30, 2004, resulting in a $1.8 million overstatement of the UDO balance.
- 60 of 122 FY2005 sample items did not have an accurate UDO balance at September 30, 2005, resulting in $1.3 million dollar overstatement of the UDO balance.
- For 11 of 41 items sampled for obligations test work, the obligation amounts recorded did not agree to the supporting documentation provided, resulting in obligations being understated by $869 thousand.

We recommend that the Mint evaluate the need to review open purchase orders with values less than $100 thousand as part of the accrual process and amend the policy as needed.

(Continued)

Information Technology

H-1 Improvements Needed Related to Access Control Policies and Procedures

During our Information Technology (IT) test work, we noted the following:

- The Mint was not able to produce dial-up access authorization forms or justification for the selected sample of users with dial-up access to the network.
- [SENTENCE REDACTED].
- [SENTENCE REDACTED].
- Using a social engineering testing technique, KPMG successfully obtained the user account password of another contractor. The CIO Help Desk failed to confirm the identity of the KPMG caller prior to providing a reset password.

We recommend that the Mint:

- Periodically review the justification for users that have dial-up access.
- [SENTENCE REDACTED].
- Configure all computers to automatically lock after a certain period of inactivity.
- Formalize and implement policies and procedures for all CIO Help Desk staff to verify the identity of callers prior to distributing user account passwords.

H-2 Improvements Needed Related to Security Plan Policies and Procedures

The network user accounts were not properly and timely disabled for all separated employees [LOCATION REDACTED].

We recommend that the Mint strengthen its policies to ensure that field offices properly follow the out-processing procedures for separated employees.

H-3 Improvements Needed Related to Service Continuity Policies and Procedures

During our IT test work, we noted the following:

- Backup/restore procedures are not detailed and comprehensive enough for cross-training or to be successfully completed by a new hire.
- Discrepancies between the backup/offsite storage facility's inventory records, as compared to the Mint's records.

We recommend that the Mint:

- Revise and expand the existing backup/restore procedures so that they can be utilized as a cross-training aid and include detailed instructions on how to perform a successful backup/restore process.

 (Continued)

- We recommend that a physical inventory and reconciliation of all tapes in inventory be performed regularly.

H-4 Improvements Needed Related to Patch Management [REDACTED]

During our IT Testwork we noted the following:

- Multiple buffer overflows, which are weaknesses in the program code for a software program, were identified [REDACTED] , and
- The current version [REDACTED] in production is no longer supported by the vendor.

We recommend that the Mint:

- Apply the appropriate patch as specified by the vendor for each [REDACTED] vulnerability identified.
- Develop compensating controls, if possible, to lessen the risk associated with each database vulnerability until the [REDACTED] application [REDACTED] is phased out and replaced in October 2006.

H-5 Improvements Needed Related to Password Policy

During our IT Testwork we noted the following:

- Weak password combinations were found on four [REDACTED] systems and one [REDACTED]. This included user accounts [REDACTED],
- The [REDACTED] password policy setting regarding password length configured on seventeen computers does not adhere to Federal guidance regarding password length. The user accounts identified on these seventeen computers were not required to have a password that was eight characters or longer, and
- The [REDACTED] password policy setting regarding password expiration configured on sixteen computers does not adhere to federal guidance regarding password expiration. The user accounts identified on these sixteen computers did not have to change their passwords periodically.

We recommend that the Mint:

- Review the user accounts identified as weak and disable them if they are no longer required. If required, the password should be changed to comply with recommended password policy,
- Configure the password policy settings on US Mint computers to comply with Federal guidance pertaining to password policy regarding the use of strong passwords. Specifically, passwords should be eight or more characters long and changed every 90 days, and
- Develop a procedure for conducting periodic password audits in order to ensure users are complying with Federal guidance.

Financial Reporting

J-1 Management Approval for use of Facsimile Signature

During our Financial Reporting testwork we noted that subsequent to issuing the FY 2005 financial statements, we were informed by United States Mint (Mint) Management that the Acting Director did not review the Director's letter and the final FY 2005 Annual Report prior to issuance on June 16, 2006. We noted that the final review was performed by the Chief Financial Officer (CFO) only, and it appears that the Acting Director's Facsimile signature was affixed to the Directors Letter without the appropriate sign off and approval. As a result, the FY 2005 Annual Report was recalled and a new Director's letter issued.

We recommend that the Mint establish and implement a policy to ensure proper approval is received in writing from the signator prior to affixing their facsimile signature to Mint issued documents.

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

November 3, 2006

KPMG LLP
2001 M Street, N.W.
Washington, DC 20036

Ladies and Gentlemen:

We have reviewed the fiscal year 2005 draft management letter and agree substantially with the noted observations. The United States Mint has developed corrective action plans to address all issues and has made significant progress toward mitigating the reported concerns. We will continue to work with KPMG and the Office of Inspector General to identify the specific actions to ensure that we have taken appropriate corrective action.

Sincerely,

Patricia M. Greiner

Patricia M. Greiner
Chief Financial Officer

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THE UNITED STATES MINT

Status of Prior Year Management Letter Comments

Fiscal Year 2005 Management Letter

Fiscal Year 2004 Management Letter Comment		Fiscal Year 2005 Status
Inventory Management		
1	Physical inventory procedures were not consistent at Philadelphia	Repeated: See fiscal year 2005 revised comment at A-2 and A-4
2	Proper use of Form 9050 for documenting physical inventory not recorded [REDACTED]	Repeated: See fiscal year 2005 revised comment at A-4
3	Proper use of Form 9050 for documenting physical inventory not recorded [REDACTED] and 601's (Note: this finding was applicable to the FY 2003 audit and only related to West Point)	This issue was closed in FY 2004
4	Physical inventory sampling	Repeated: See fiscal year 2005 revised comment at A-5
5	Proper Accounting for Temporary Asset Transfers	Repeated: See fiscal year 2005 revised comment at A-4
6	Asset confirmations	This issue was closed in FY 2004
7	Inventory counting procedures not followed	This issue was closed in FY 2004
8	Security at warehouses	Repeated: See fiscal year 2005 revised comment at A-1
Accounts Payable and Accrued Liabilities		
9	The Mint accruals process needs improvement	Closed
10	Liabilities not recorded in the proper period	Closed
Revenue and Collections		
11	Proper reconciliations not performed for unearned revenues and advances	Repeated: See fiscal year 2005 revised comment at C-3 and C-4
Property and Equipment Management		
12	The Mint needs to continue to address the discrepancies with accounting for personal property and equipment and use of the asset management module	This issue was closed in FY 2004
13	Discrepancies noted in the in-service and retirement dates between the Mint's property management department and accounting department	Repeated: See fiscal year 2005 revised comment at B-1

(Continued)

THE UNITED STATES MINT

Status of Prior Year Management Letter Comments

Fiscal Year 2005 Management Letter

Fiscal Year 2004 Management Letter Comment		Fiscal Year 2005 Status
Procurement		
14	Controls over cash disbursement need to be strengthened	Repeated: See fiscal year 2005 revised comment at E-1 and E-2
15	The Mint form misc. 1099 process for compliance with the IRS guidelines needs to be strengthened	This issue was closed in FY 2004
Manufacturing		
16	Standard costs have not be updated timely and the Mint does not have a standard operating procedures (SOP) for Directive surrounding the controls over changes to Headquarters recommendations when updating standard costs	Partially Resolved: See fiscal year 2005 revised comment at F-1
Human Resources Management		
17	Payroll data should be easily accessible	Repeated: See fiscal year 2005 revised comment at D-1
18	Payroll data review procedures need to be strengthened	Repeated: See fiscal year 2005 revised comment at D-2
19	Payroll documentation lacked proper authorization	Repeated: See fiscal year 2005 revised comment at D-1
Custodial Gold and Silver		
20	The use of United States Treasury Silver as working stock without a delegation of authority from the secretary of the Treasury	Closed
Information Technology		
21	Regular and routine review of audit logs not adequate	This issue was closed in FY 2004
22	IT personnel are performing financial transactions	This issue was closed in FY 2004
23	Separation of duties and responsibilities	This issue was closed in FY 2004
24	Potential network security vulnerabilities detected	Repeated: See fiscal year 2005 revised comment at H-2 and H-4
25	Fire detection equipment in the Philadelphia server room is inadequate	Closed
26	Remote access numbers are not periodically changes	Closed