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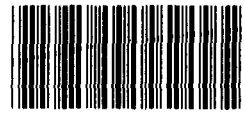

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The U.S. Mint's Accounting and Control Problems Need Management Attention

Statement of
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Before the
Subcommittee on Consumer Affairs and Coinage
Committee on Banking, Finance and Urban Affairs
House of Representatives

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to testify on the results of our review of the U.S. Mint's financial management practices. Your Subcommittee's former Chairman asked us to undertake this review because of concerns about the Mint's accounting and internal control procedures, particularly as they relate to numismatic, or collectors', coin programs.

The specific objectives of our review were to (1) determine whether the Mint complied with the legal requirement involving the shipment of Statue of Liberty coins, (2) examine internal controls for coins and dies, which are used to stamp images on coins, (3) evaluate aspects of the Mint's financial management system related to accounting for costs, controlling funds, and providing financial information to managers, and (4) assess the budgetary fund structure for numismatic programs.

We have provided a report[1] detailing the results of our review, which identified financial management problems at the Mint. Our report makes a number of recommendations to the Director of the Mint to correct these problems. A summary of our findings and recommendations follows.

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[1] Financial Management Systems: The U.S. Mint's Accounting and Control Problems Need Management Attention (GAO/AFMD-89-88, July 26, 1989).

INSIGNIFICANT NUMBERS OF STATUE OF LIBERTY COINS WERE SHIPPED WITHOUT PAYMENT

The Statue of Liberty-Ellis Island Commemorative Coin Act requires that no coin be issued unless the Secretary of the Treasury has received full payment, satisfactory security, or a guarantee of full payment from a federally insured financial institution. The Mint did not always comply with this requirement; however, the instances of noncompliance were insignificant compared to the total number of coins shipped.

During the 1988 budget authorization hearings, the Mint advised your Subcommittee that over 29,000 Statue of Liberty coins had been shipped to customers either without being paid for first or where payment was subsequently revoked through credit card chargebacks. The information the Mint gave to the Subcommittee was incorrect. For example, the number included coin purchases for which payments had been received, such as coin purchases returned by customers for refunds.

The Mint does not have the information necessary for us to determine precisely how many Statue of Liberty coins were shipped that did not comply with the legal requirement. However, our analysis suggested that instances of noncompliance were less than 1 percent of the 15.5 million coins shipped during the program, which we consider to be insignificant.

These noncompliant shipments resulted from a 1980 change in one of the Mint's internal control techniques. Previously, the Mint had a policy of holding numismatic coin shipments paid by check for 10 days to ensure that checks had cleared the bank. Due to customer complaints, the Mint discontinued this policy. The Mint has since reinstated and strengthened this control through a policy of holding numismatic coin shipments 15 days, which allows time for a check to clear the bank before coins are sent to a customer.

INTERNAL CONTROLS OVER DIES AND COINS NEED STRENGTHENING

The Mint has the important responsibility of safeguarding the dies used to strike images on coins. The Mint is also entrusted with gold and silver bullion worth hundreds of millions of dollars in the form of coins and coin blanks (unstruck coins), as well as in the coins themselves once they have been struck. While these valuable assets must be tightly controlled, die thefts and coin shortages have occurred.

The Mint's control of die shipments did not provide adequate security to prevent thefts. After experiencing two thefts, the Mint concluded, based on an internal review, that its controls over die shipments did not provide the level of security needed

to prevent theft while dies were in transit. The Mint now uses only armored couriers who inspect shipment contents at each stopping or transfer point.

The Mint also has weaknesses in its automated information system for maintaining die inventory records. Data entered into the system is unreliable because it is inaccurate. For example, when the Philadelphia Mint ships dies which it has manufactured, the die inventory system's reports show that an entire batch of 25 dies was sent. However, if dies are spoiled or flawed in the manufacturing process, they are removed from the batch before shipment. In these cases, a manual record of individual dies not shipped is kept and the die inventory system's data is corrected. To maintain these manual records, the die manufacturing staff circle the serial numbers of spoiled and unshipped dies on shipping reports. We found, however, that serial numbers for unshipped dies are sometimes not circled, resulting in incorrect die inventory system information and field mint shipping reports. In this regard, during a recent reconciliation of die inventories, the San Francisco Mint found that it had not received 22 of the dies listed on its die inventory system shipping reports.

Further, information produced by the die inventory system was untimely because data to update the system's automated files were entered only about every 2 weeks. Mint managers advised us

that they no longer use some reports from the die inventory system because they are inaccurate and untimely. For example, the Mint's headquarters production manager was not using the die inventory system's information on dies retired from production to approve field mint requisitions for replacement dies because that information was unreliable. Instead, the manager used information provided manually by field mint production staff in weekly operational status reports which cover die usage.

According to mint managers, improvements in the Mint's die inventory system are planned. For example, the Mint began to develop an on-line data entry and system update capability. This should make more timely information from the system available to mint managers and improve the accuracy of the system's data because its files will be updated sooner than at present.

The Mint's control procedures for die inventories are weak in several areas. For instance, employees failed to follow prescribed die inventory procedures in some cases, such as verifying inventory reconciliations and notifying field mint security offices when unreconciled differences occur between die records and the number of dies identified during physical inventories. In other instances, die inventory procedures are weak because they do not include control techniques, such as quarterly inventories by serial number verification, that would provide early indications of missing dies.

Regarding internal control of coins and coin blanks, we found that the Philadelphia and West Point Mints followed their established procedures for weight and piece count controls during production. However, the San Francisco Mint omitted an essential step in its procedures for controlling coins. It failed to notify its security office when shortages were identified. Further, in 1988, that Mint's annual verification of accounting records and inventories of materials on hand, did not show whether coin and coin blank shortages existed because it showed large overages for each type of coin. That is, the physical count or weight for commemorative and bullion coins and coin blanks on hand was greater than the corresponding amounts shown in the Mint's records.

REPORTS ON REVENUE AND EXPENSE NEED IMPROVEMENT

Financial reports which reliably disclose revenues and expenses associated with carrying out operations provide key financial information on the government's revenue-producing activities. We found that the Mint's June 30, 1987, reports on revenue and expense related to numismatic program operations contained errors and inconsistencies, including the following.

-- Amounts shown on the Mint's reports of revenue and expense for different programs contained inconsistent and

incorrect calculations for seigniorage, which is the difference between the cost of metal and the coin's face value.

-- We noted instances where overhead calculations and allocations were made that used inconsistent methodologies, excluded certain costs, or contained adjustments for which supporting documentation was unavailable.

-- Incorrect cost accounting methods were used in some cases. For instance, when supply orders were received, the San Francisco Mint recorded them as expenses. Based on our accounting requirements,[2] supplies would normally be recorded as part of the inventory and would be recorded as a production expense when they were issued. Also, headquarters cost accounts charged the total amount of fixed assets, valued at over $567,000, as an overhead expense. To meet GAO's accounting requirements, these items would normally be recorded as assets, and, through a subsequent depreciation expense, a portion of these costs would be charged each year as overhead costs related to coinage programs.

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[2]GAO's Policy and Procedures Manual for Guidance of Federal Agencies, Title 2.

-- Documentation was not always available to substantiate some of the costs reported by certain field mints, including those for labor charges by the Philadelphia Mint and depreciation expenses by the West Point Mint.

Inconsistencies and inaccuracies in reporting expenses affect the amount of profit the Mint reports for its numismatic programs. They also result in the Mint and the Congress not having accurate information to oversee these programs. They are unable to determine, for example, whether these programs meet legislative requirements to operate at no net cost to the government. Problems with the Mint's cost accounting system, which caused the Mint's incorrect revenue and expense reports, are discussed in the following section.

CRITICAL ELEMENTS OF THE MINT'S FINANCIAL SYSTEM NEED MODERNIZATION

The Mint's financial management system for both numismatic and domestic coin programs has fundamental design and operational weaknesses. The Mint's cost accounting system is decentralized and manually operated, and the cost information it produces is not accurate or timely. Further, the Mint sometimes uses figures which reflect obligations rather than costs. In addition, in accounting for costs, the Mint does not meet the Comptroller General's internal control standards for federal

agencies. Under these requirements, agencies must (1) have adequate documentation of their internal control systems, which would include their cost accounting systems, (2) give necessary training to staff, which in the case of the Mint would include training in cost accounting principles and techniques, and (3) provide continuous supervision. Some examples of the problems the Mint is experiencing in meeting these requirements follow.

-- The Mint's written cost accounting policies and procedures are inadequate and outdated. The Mint's Cost Accounting Manual has not been updated since 1974, although accounting instructions have been issued since that time. The manual does not cover cost accounting for numismatic coins, nor does it adequately cover methodologies for recording and allocating costs. For example, the manual does not cover accounting for unfinished units of work for numismatic programs, and it does not specify a standard methodology for allocating general and administrative overhead costs.

-- The Mint's cost accountants were not adequately trained. In certain instances, they could not readily explain what they were doing or why they were using a particular method for calculating or allocating costs. Further, headquarters cost accountants did not completely and

consistently account for costs, and they did not reconcile cost accounts with appropriate general ledger accounts, a basic accounting requirement. During our review, the Mint recognized the need to further train its cost accounting staff and, in January 1989, began holding regular, in-house training sessions. In addition, it held a week-long cost accounting training session for field mint staff in March 1989.

-- The Mint's supervisory controls were not always adequate to ensure that cost accounting reports were accurate or to prevent their being initiated or changed without approval. We identified instances where cost information was amended, revised, or prepared more than a year after the close of the accounting period. These reports and financial records did not indicate their date, thus we could not always tell which report was the official, final version. In one case, we noted that, without a supervisor's knowledge, a staff member adjusted an official log on gold prices after we identified missing data. Also, we determined that, without supervisory approval, a headquarters manager directed the San Francisco Mint staff to prepare the 1986 cost ledger cards for our review in early 1988--over a year after the close of the fiscal year they were intended to cover.

The Mint has been aware of its cost accounting system problems for many years and, since 1984, has recognized these problems in its Federal Managers' Financial Integrity Act[3] reports. However, the Mint's targeted completion date for enhancing the quality and timeliness of its cost reporting through an automated cost accounting system has been consistently postponed and now stands at 1993. While the Mint has been slow to initiate actions to correct its cost accounting problems, it has recently hired a public accounting firm to review its overall automated financial management system in order to identify system requirements, including those for cost accounting.

The Mint's funds control system is predominantly manual and decentralized. We found basic problems in that funds control reports (1) contain errors, (2) are not regularly prepared as an integral function of the Mint's accounting system, and (3) do not show critical information, such as available balances, needed to monitor obligations.

Also, written policies and procedures for carrying out the Mint's funds control system are out-of-date and incomplete. This guidance has not been updated since it was issued in

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[3]The Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512 (b) and (c)) requires agencies to report material weaknesses in agency internal control and accounting systems to the President and the Congress each year, along with plans to correct the problems.

December 1971. The funds control policies and procedures (1) reflect a process timed to meet requirements of the old fiscal year, which began on July 1 and ended on June 30, and not the current October 1 to September 30 fiscal year, (2) do not cover the Mint's current programs, activities, and legislative authority, (3) exclude important information, such as how to distribute obligations that are not related to a specific program between appropriated and numismatic programs, and (4) do not address how to handle authorized transfers of funds.

The Mint's system for controlling obligations of funds does not meet Comptroller General principles and standards for agency accounting systems. Agency accounting systems must provide information to assist in preventing overobligation and overexpenditure of approved funding levels. The Mint's funds control system does not meet its intended purpose of helping managers ensure that spending does not exceed approved funding levels. A Mint official advised us that an automated funds control system is being developed, with implementation planned for the beginning of fiscal year 1990.

Currently, separate management reports provide detailed information by function, such as production, sales, and accounting. However, because these reports are cumulative, they do not allow monthly, quarterly, and annual comparisons. Also, no summary reports are prepared on coin program results to

indicate the number of coins produced and sold, program costs and revenues, and unit costs for comparison between time periods. The current reports, therefore, cannot be used to assess productivity, determine reasonable production levels and unit prices, or prepare accurate budget estimates.

Mint managers agree that the current reports were not adequate to support decision-making. For example, they noted that the reports do not support decisions to shift production from one field mint to another.

Financial management information, such as data for assessing productivity and determining production levels, would enable the Mint to better review program productivity and efficiency and to better estimate costs and determine prices for coins. The Chief of the Mint's Cost Accounting and Analysis Division plans to develop the cost analysis capability needed for improved management information reports during 1989.

A NUMISMATIC REVOLVING FUND SHOULD BE ESTABLISHED

The Mint's numismatic programs are operated essentially as a business. These programs produce products for sale, generate revenues from product sales, and deposit profits in the general

fund of the Treasury. Numismatic programs are an industry with gross revenues of over $400 million in fiscal year 1988.

However, the Mint's numismatic programs are not shown separately in the President's budget. Also, for accounting and financial reporting purposes, the Mint combines information on numismatic and domestic coinage program operations.

Certain costs of the Mint's numismatic programs, such as field mint production costs and both field and headquarters overhead costs, along with its domestic coinage program, are financed primarily through an annual appropriation account for salaries and expenses. Thus, the Mint does not prepare the same financial reports for its numismatic programs that are generally required for other businesslike activities of the government.

This financing method also creates budget presentation problems. For example, outlays from the Mint's salaries and expenses account differ significantly from the amount specifically appropriated to the account. Generally, outlays from an agency's salaries and expenses appropriation account are close to the account's appropriations. However, outlays reported in the budget for the Mint's salaries and expenses appropriation account represent the net effect of expenditures of appropriated and numismatic program funds. When receipts from the Mint's numismatic programs exceed expenditures for those programs, the

net effect is to reduce outlays reported for the appropriation. Thus, excess receipts produce "negative" outlays. This situation masks the relationship between the appropriation for the salaries and expenses account and its outlays.

Other businesslike operations of the government are financed through revolving funds. Under a revolving fund, the assets, liabilities, costs, and revenues related to a program's operations are generally disclosed in financial reports and presented to the Congress for its use in making budgetary decisions. We believe that, because the Mint's numismatic programs are operated much like a manufacturing business, a revolving fund would be the most appropriate financing method for them. While financing for the Mint's domestic coinage program could still be handled through annual appropriations, financing for the Mint's revenue-producing numismatic programs would be more appropriately handled through a public enterprise revolving fund that should be reviewed and approved through the annual appropriations process.

In summary, the Mint has serious accounting and internal control problems which need management attention. To modernize critical elements of the Mint's financial system through improved cost, funds control, and management information, we have

recommended in our report to your Subcommittee that the Director of the Mint

-- develop an automated cost accounting system to provide accurate and timely information on the cost of operations;

-- enhance the Mint's funds control system in order to (1) provide data to help managers ensure that funds not be overobligated or overexpended, (2) generate standard, consistent, and reliable funds control reports from information in the accounting system, and (3) use the Mint's financial plans as the basis for controlling funds at both the headquarters and field mint levels; and

-- develop management information reports that will give mint managers a range of program and financial information, including summarized or comparative reports on programs showing, by time period, information such as the numbers of coins produced and sold, revenues and expenses, and unit costs.

To improve internal controls over dies, we have recommended that, among other improvements, the Director of the Mint conduct quarterly physical inventories of dies through serial number verification and ensure that the resolution of discrepancies

identified during field mint die inventories are reviewed by mint representatives who are independent of the inventory process.

Also, it would be appropriate for the Mint's numismatic programs to be financed through a public enterprise revolving fund, similar to other businesslike operations of the government. We have, therefore, recommended that the Congress establish this financing arrangement for the Mint's numismatic programs, subject to the appropriations process.

Mr. Chairman, that concludes my formal statement. I will be happy to answer any questions you or members of the Subcommittee may have.