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Report to the Subcommittee on Consumer Affairs and Coinage, Committee on Banking, Finance and Urban Affairs, House of Representatives

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FINANCIAL MANAGEMENT

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

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The Honorable Richard H. Lehman
Chairman, Subcommittee on Consumer
Affairs and Coinage
Committee on Banking, Finance and
Urban Affairs
House of Representatives

Dear Mr. Chairman:

This report presents the results of our evaluation of certain aspects of the U.S. Mint's numismatic programs and overall financial management. We undertook our review in response to a request by the former Chairman of your Subcommittee.

We found that the Mint has accounting and internal control problems which require management's attention. Internal controls are insufficient to protect coins and dies against loss or theft. The Mint's cost accounting and funds control systems do not produce reliable information. The Mint does not have management information reports needed to support decisionmaking. Furthermore, the current financing arrangements for the numismatic programs do not give the Congress adequate information about the programs' businesslike operations.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to the Director of the Mint, the Secretary of the Treasury, and the Director of the Office of Management and Budget. Copies will also be made available to other interested parties upon request.

This report was prepared under the direction of Jeffrey C. Steinhoff, Director, Financial Management Systems Issues, who can be reached at (202) 275-9454. Other major contributors to this report are listed in appendix I.

Sincerely yours,

Brian P. Crowley

Brian P. Crowley
Acting Assistant
Comptroller General

Executive Summary

Purpose

The U.S. Mint produced over 14 billion coins in fiscal year 1988. These included 53 million numismatic, or collectors', coins, which generated over $400 million in gross revenue.

Because of concerns about the Mint's accounting and internal control practices, the former Chairman of the Subcommittee on Consumer Affairs and Coinage, House Committee on Banking, Finance and Urban Affairs, asked GAO to examine certain aspects of the Mint's numismatic programs. The specific objectives of this 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.

Background

The U.S. Mint was established in 1792 to manufacture the coins needed to support the nation's commerce. These coins, such as dimes and quarters, are produced under the Mint's domestic coinage program and are circulated through the Federal Reserve Banks.

In addition, the Mint manufactures coins and medals through various numismatic programs, including commemorative coins honoring famous people or special occasions.

In carrying out some numismatic programs, the Mint must adhere to legislative requirements, such as those involving cost recovery and advance receipt of payment for certain coin sales. In addition, the nature of the Mint's coin production and shipping operations requires strict internal controls and a financial system that generates reliable and useful information.

Results in Brief

The Mint has accounting and control problems which require management attention.

The Mint made a relatively small number of Statue of Liberty coin shipments prior to payment. This resulted from a 1980 change in one of the Mint's internal control techniques; the Mint no longer held numismatic coin shipments paid by check to allow time for the checks to clear banks. In addition, controls over dies and coins were not sufficient to safeguard them. Physical inventories of dies were not frequent enough, the resolution of die inventory discrepancies was not independently reviewed, and coin shortages were not always reported to field mint security offices.

The Mint's cost accounting system is manual and decentralized and does not produce reliable cost information. Its funds control system has design and operational problems which prevent managers from ensuring that spending is maintained within approved funding levels. The Mint has not developed management information reports needed to support decisionmaking.

Although the Mint's numismatic programs are commercial in nature, the President's budget does not show them separately from Mint operations financed through the annual salaries and expenses appropriation. Other businesslike operations of the government are financed through revolving funds, which must disclose the results of their operations in separate financial statements. This permits the Congress to consider these operations separately in making budgetary decisions.

Principal Findings

Shipment of Statue of Liberty Coins

The Mint did not comply with the legal requirement that Statue of Liberty coins be shipped to customers only after payments or guarantees of payments had been made. These shipments occurred because, in 1980, the Mint revised its policy of holding numismatic coin shipments paid by checks until they had cleared banks. Its original policy has been reinstated and strengthened. GAO estimates that the number of coins shipped prior to receipt of payment represented less than 1 percent of the 15.5 million Statue of Liberty coins shipped.

Weak Internal Controls Over Dies and Coins

The Mint's centralized, automated system for maintaining die inventory control records is unreliable because data entered into it is inaccurate and untimely. Also, the Mint's written die inventory procedures are not always being adhered to. Employees failed to follow prescribed procedures in some areas, such as notifying field mint security offices when unreconciled discrepancies in die inventories occur. In other instances, die inventory procedures are weak because they do not include control techniques that would provide early detection of missing dies, such as taking quarterly die inventories through serial number verification.

Further, established coin production controls at the San Francisco Mint were not followed when its security office was not notified of missing bullion coins and coin blanks. An account reconciliation by that Mint in 1988 was not reliable in identifying coin shortages because the physical count was far greater than the corresponding amounts shown by that Mint's records.

Incorrect Revenue and Expense Reports

The Mint's June 30, 1987, reports on revenues and expenses related to numismatic programs were unreliable because they had errors and inconsistencies. Because the Mint's cost accountants were not properly trained and supervised, calculations for seigniorage, which is the difference between a coin's metal value and its face value, were not made consistently for different programs. For this reason, as well as because the Mint did not correctly account for costs, amounts reported as expenses had numerous errors.

Financial System Problems

The Mint's financial management system for both numismatic and domestic coin programs has fundamental design and operational weaknesses. Cost information produced by the Mint's cost accounting system is not reliable; in addition, it is not timely because the system is decentralized and manually operated. The funds control system, which is also predominantly manual and decentralized, has deficiencies in its design, reporting, and use of financial plans. Also, financial information provided to managers does not support decision-making because the Mint has not developed useful financial reports, such as those which could be used in determining production levels and unit prices.

Numismatic Fund Structure Does Not Disclose Results of Operations

The Mint's numismatic programs, rather than being separately reviewed by the Congress, are accounted for through its annual salaries and expenses appropriation. Information on these programs' financial results does not appear separately in the President's budget, and the financial reports normally required for other businesslike government activities are not prepared. Therefore, this information is not presented to the Congress for its use in making budgetary decisions on numismatic programs.

Recommendations

GAO is recommending that the Congress establish a revolving fund to finance the Mint's numismatic programs. Under a revolving fund, the assets, liabilities, costs, and revenues related to the operations of a businesslike program, like the Mint's numismatic coin operations, are disclosed in financial reports and are separately presented to the Congress for its use in making budgetary decisions.

GAO is recommending that the Director of the Mint improve internal controls over dies by requiring quarterly physical inventories and independent reviews of the resolution of discrepancies in die inventories. GAO is recommending further that the Director of the Mint modernize the Mint's financial management system by (1) developing an automated cost accounting system, (2) enhancing the funds control system, and (3) developing improved management information reports. This report also contains other recommendations to the Director of the Mint.

Agency Comments

As requested by the former Subcommittee Chairman and as agreed with your staff, GAO did not obtain written agency comments on this report. However, GAO discussed the audit findings with officials of the Mint throughout the review and their views have been incorporated where appropriate. Mint officials indicated that a number of actions are planned or are underway to correct the accounting and control problems discussed in this report. For example, the Mint is (1) developing on-line data entry for the die inventory system, (2) providing additional training for its cost accountants, and (3) having a contractor review its financial management system requirements.

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Abbreviations

DIS	Die Information System

Introduction

The U.S. Mint, a component of the Department of the Treasury, was established in 1792 to manufacture the coins needed to support the nation's commerce. It is also responsible for custody, processing, and movement of Treasury gold and silver bullion and for disbursing these metals for authorized purposes. In addition, the Mint manufactures collectors', or numismatic, coins and medals.

During the fiscal year 1988 budget authorization hearings, the Subcommittee on Consumer Affairs and Coinage, House Committee on Banking, Finance and Urban Affairs, examined the Mint's revenue and expense reports for certain numismatic programs. The Subcommittee became concerned about aspects of the Mint's accounting procedures, particularly the financial reporting for these programs. As a result, the former Chairman of the Subcommittee asked us to examine whether the programs' (1) overhead costs were correctly calculated and allocated, (2) advertising expenses were properly charged, (3) profits were excessive, and (4) seigniorage, the excess of a coin's face value over its metal value, was consistently determined.

We were also asked to determine whether the Mint complied with the legislative requirement that no Statue of Liberty coins be issued unless Treasury had received full payment, security, or guarantee of full payment. Further, the Subcommittee asked that we review the Mint's controls for safeguarding coins and dies, which are used to stamp images on coins.

From the outset, our work detected accounting and control problems in the Mint's numismatic programs. Also, we found that the Mint had a history of broader financial system weaknesses. Therefore, to give the Subcommittee a wide perspective on these fiscal problems, we also examined those aspects of the Mint's overall financial system relating to cost accounting, funds control, and financial information.

Several times in the past, we have recommended that the Mint's numismatic programs be financed through a revolving fund rather than through appropriations, as is currently done. To give the Subcommittee current information on the relative advantages of this approach compared to the present method, we assessed whether changes to the numismatic program fund structure were warranted.

Background

The Mint's domestic coinage program produces coins for general circulation. These coins—such as the penny, nickel, dime, and quarter—are distributed through the Federal Reserve Banks.

In addition, the Mint manufactures numismatic coins and medals, including

- proof coins, which differ from other coins in that they are struck at least twice by chromeplated dies to achieve a frosted relief against a polished background;
- uncirculated coins, which are sealed in plastic film packages so that they receive no wear or damage;
- gold and silver bullion[1] coins, which are classified by weight (such as 1-ounce coins) even though they bear a monetary face value; and
- commemorative coins and medals, which are issued in honor of famous people, such as George Washington, and special occasions, such as the bicentennial or Olympic events.

After a 28-year hiatus, the Congress reinstituted the Mint's commemorative coin programs in 1981 when it authorized the minting of the George Washington half dollar. Since then, the Congress authorized Olympic coin programs in 1984 and 1988, the Statue of Liberty coin program in 1985, and the U.S. Constitution coin program in 1986. In addition, the Mint began offering gold and silver bullion coins in 1986 under the Gold Bullion Coin Act of 1985 and the Liberty Coin Act (enacted in 1985), respectively.

The Mint's headquarters office in Washington, D.C., formulates policy, provides program management, and handles marketing, research and development, customer services, and customer order processing. Actual manufacture of coins, medals, and dies is done at four field mints, which are located at Denver, Philadelphia, San Francisco, and West Point.

The Philadelphia and Denver Mints primarily produce domestic coins, while the San Francisco and West Point Mints produce only numismatic coins. The Philadelphia Mint performs all engraving for coins and medals and manufactures all dies, and the San Francisco Mint is the only field mint that chromeplates and polishes dies. In addition to coin production, all of the field mints store gold and silver bullion. Gold bullion is also stored at the Fort Knox Bullion Depository in Kentucky.

[1]Bullion refers to the quantity of gold and silver contained in coins rather than the value of those metals.

In fiscal year 1988, the Mint received an appropriation for salaries and expenses of about $42 million and produced 14.7 billion domestic coins. During that year, 53 million numismatic coins were produced, generating over $400 million in revenue. As a result of producing all these coins, the Mint also contributed $468 million in seigniorage to the general fund of the Treasury.

Objectives, Scope, and Methodology

As agreed with Subcommittee staff, the 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 die inventories and 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.

In reviewing whether the Statue of Liberty coin shipments complied with the legal requirement, we examined the authorizing legislation to determine what would constitute compliance. We also reviewed reports on the shipment of these coins which the Mint gave to the Subcommittee, payment methods used by direct order and consignment sales customers, and customer order processing for these coins by the Mellon Bank of Philadelphia. The Mellon Bank was selected because it was the Mint's main contractor for processing direct customer orders under the Statue of Liberty coin program.

To examine internal controls for safeguarding dies and coins, we reviewed and observed production controls currently used at each field mint and interviewed production managers at headquarters and at the field mints, as well as managers with supporting and oversight responsibilities in automated data processing, security, and management services. We examined field mint security incident reports for 1987 and 1988 for evidence of loss or theft. We reviewed 1987 field mint and headquarters risk assessment reports prepared under the Federal Managers' Financial Integrity Act to determine internal control weaknesses identified by the Mint and the status of their corrective actions.

In evaluating the Mint's cost accounting, we reviewed its policies and procedures for this area. We also reviewed sections of the Secretary of the Treasury's Federal Managers' Financial Integrity Act reports pertaining to cost accounting by the Mint, as well as reports in this area issued by Treasury's Inspector General and GAO.

To assess revenues and expenses reported for numismatic programs, we examined reports for the following five numismatic programs: gold bullion proof, gold bullion uncirculated, silver bullion proof, silver bullion uncirculated, and Statue of Liberty. These programs are also those which were of interest to the Subcommittee's former Chairman.

- Revenues: We reviewed primarily revenues for months with high sales volume from the beginning of each program through June 30, 1987. We examined bank deposit slips, Treasury deposit confirmations, computer reports showing revenue received by type of product, customer order forms, reports to Treasury, and general ledger postings. We also reviewed revenue accounting policies and procedures, schedules supporting revenue figures, and adjustments made in consolidating revenue information. Further, we interviewed revenue accountants at the Mint's Lanham, Maryland, facility and Mellon Bank officials in Philadelphia.
- Expenses: We identified which field mints produced the various types of numismatic coins and incurred the most expense for these coins. Based on those field mints and numismatic programs identified, we selected revenue and expense data for examination. The data selected represent a significant portion of numismatic program expenses for individual field mints. The expense data we examined included nonreimbursable vouchers[2] used to bill headquarters for field mint production costs, cost ledger cards, contracts, vendor invoices, receiving reports for material purchased, labor time and attendance reports, vendor invoices for supplies and services, supplies-issued reports, depreciation schedules, engineering reports used as a basis for overhead allocations, and overhead allocation schedules.

In addition, we examined expenses for material (metals) recorded by field mint bullion accountants, general and administrative overhead costs, and selling costs recorded by headquarters cost accountants. We reviewed schedules supporting expense information and adjustments made in consolidating expenditure data. We interviewed field mint cost accountants, bullion accountants, and financial managers, and headquarters cost accountants, financial systems staff, and automated data processing services staff. We also examined the Mint's cost accounting policies and procedures to determine whether they were consistent with cost accounting principles and standards and whether they provided adequate guidance and coverage.

[2] The vouchers are considered nonreimbursable because the production costs are covered by receipts from the sale of coins rather than by reimbursement from appropriated funds.

In evaluating the Mint's funds control operations, we examined the Mint's funds control policies and procedures, financial plans, fiscal year-end financial status reports prepared for managers, and monthly reports prepared for the Office of Management and Budget. Our review of year-end status of obligations reports focused primarily on fiscal years 1986 through 1988. We also examined field mint financial plans and status of obligations reports for March, July, and September 1988. We interviewed field mint budget analysts and financial managers, as well as the headquarters Acting Budget Chief and his staff.

Our assessment of the numismatic programs' fund structure included analyzing budget schedules for the Mint's salaries and expenses appropriation and other funds presented in the Budget of the United States Government for fiscal years 1988 through 1990. We also considered prior audit reports involving the Mint's fund structure and held discussions with an Office of Management and Budget official.

As requested by the former Chairman and agreed with Subcommittee staff, we did not obtain official agency comments on this report. However, we discussed the results of our work with Mint officials throughout the review and incorporated their views where appropriate. We also discussed the results with Treasury Inspector General staff and with Treasury's Comptroller. We conducted our review between October 1987 and February 1989 in accordance with generally accepted government auditing standards.

The remainder of this report is organized as follows. Chapter 2 discusses whether Statue of Liberty coins were shipped prior to the Mint's receiving payment. Internal control problems relating to dies and coins are reported in chapter 3. In chapter 4, we analyze numismatic program revenue and expense reports, while chapter 5 discusses why critical elements of the Mint's financial system should be modernized. Finally, chapter 6 assesses the need to establish a numismatic revolving fund.

Insignificant Numbers of Statue of Liberty Coins Were Shipped Without Payment

Legally, the Mint was prohibited from shipping Statue of Liberty coins to customers without first receiving payments or guarantees of payment. The Statue of Liberty-Ellis Island Commemorative Coin Act (Public Law 99-61) requires, in section 111(b), 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.

During the 1988 budget authorization hearings, the Mint advised the Subcommittee that 29,488 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. These chargebacks can occur for various reasons after payments by credit cards have been made. For example, a dispute may arise later over the quality of the coins the customer received, or the customer may not receive the coins for which payment was made.

The Subcommittee was concerned that the Mint was not complying with the act in making these shipments and that additional shipments in advance of payment might have been made. It also wanted us to determine whether making shipments based on payments received through credit card charges constituted compliance with the act and whether amounts due from consignment sales had been collected.

Our review confirmed that Statue of Liberty coins had been shipped prior to payment or guarantee of payment. We were, however, unable to determine with certainty the number of coins involved in these shipments. Overall, our work suggested that instances of the Mint's noncompliance with section 111(b) of the act were less than 1 percent of the total number of Statue of Liberty coins shipped under the program.

We found that the number of coins the Mint reported to the Subcommittee was incorrect because in some categories, such as coins returned by customers, the Mint's figure included coins for which payments had been received. We determined, further, that coin shipments made for sales charged to credit cards, including those later cancelled through credit card chargebacks, were in compliance with the act. Under this program, sales were also made to consignment customers based upon guarantees or security of payments. Regarding these sales, we found that, while the Mint had difficulty collecting amounts owed under this program by some consignees, most of these amounts had been collected at the time of our review.

Statue of Liberty Coin Payment Methods

The Mint began production and coin shipments for the Statue of Liberty coin program in October 1985 and January 1986, respectively. Production of these coins ceased on December 31, 1986. As of the end of the program, the Mint sold a total of about 15.5 million Statue of Liberty coins with a sale value of over $289 million.

These coins were sold primarily in two ways—direct customer sales and consignment sales. Payments for direct customer sales were made by either check or credit card charge. Consignment sales were made under contractual agreements, which secured or guaranteed payment, to consignees who submitted periodic payments.

Customers generally mailed direct orders paid by check or credit card to lockboxes[1] for the Mellon Bank in Philadelphia. The Mellon Bank notified the Mint of orders and payments received, and the Mint then shipped coins to the customers.

Consignment sales were handled by the Statue of Liberty Task Force, which was established independently from the Mint. The Task Force managed the program through March 1987; its responsibilities included notifying the Mint to ship orders to consignment customers. Payments from consignees were also handled by Mellon Bank.

Direct Customer Sales

The figure that the Mint reported to the Subcommittee for Statue of Liberty coins shipped prior to payment being received and on which payments were subsequently revoked through credit card chargebacks was based on information from sales reports prepared by the Mint's Numismatic Reporting Division. These reports included cumulative figures for sales related to (1) nonsufficient funds checks that had been returned, (2) customer refunds for cancelled orders, (3) coins that had been returned by customers, and (4) credit card chargebacks. The 29,488 figure the Mint reported to the Subcommittee was based on the June 30, 1987, sales report's information for these sales.

This number did not accurately represent coins for which shipment was made prior to payments.

- It is understated because it is based on coin purchase options sold rather than individual coin sales. (One option, for example, was to purchase a

[1] A lockbox is a rented postal box maintained to receive customer payments mailed to a bank or other establishment.

3-coin proof set.) Many of the 12 purchase options available were for multiple numbers of coins; however, the Mint reported these options as individual coins.

- It is overstated by more than 21,000 coin purchase options that were either cancelled or returned for refunds.
- It is understated by an indeterminable number of coin purchase options which were paid for with nonsufficient funds checks but which were successfully redeposited after being returned to the bank the first time. The number reported by the Mint only included coin purchase options paid for by checks returned to the bank a second time.

In the case of payments by check for Statue of Liberty coins, the Mint shipped the coins before it was sure that the customer's check had cleared its bank. Nonsufficient funds checks for less than $5,000 were routinely redeposited by the bank, operating under normal banking procedures. The Mint did not require its bank to provide notification when such redeposits occurred. An official of the Mellon Bank told us that about 80 percent of nonsufficient funds checks cleared on redeposit.

The Mint's original policy on shipping numismatic coins was to hold shipments 10 days to ensure that checks had cleared the bank. However, because of customer complaints about delayed receipt of coins, it changed this policy in 1980 and began shipping coins immediately after being notified by the bank that orders and checks were received.

We informed the Mint's managers responsible for sales operations that this change of policy had resulted in noncompliance with section 111(b) of the act. The Mint now requires that its bank not redeposit nonsufficient funds checks. Further, in February 1988 the Mint established a policy of holding coin shipments 15 days, which allows time for the bank to notify the Mint when checks have not cleared the bank.

The figure presented by the Mint also included direct customer sales that were shipped based on credit card charges for which payment was later revoked through a credit card chargeback. Regarding credit card purchases by direct sales customers, the purchase of Statue of Liberty coins by credit card complied with the act because the Mint received the payments prior to shipping coins. Although some chargebacks occurred as a result of disputes over customer orders, credit card chargebacks do not constitute nonpayment for purposes of making coin shipments under section 111(b) of the act. Because sales involving credit card chargebacks were combined with those for nonsufficient funds checks in the Mint's sales reports, we could not determine the number of credit card chargebacks included in the figure the Mint provided to the Subcommittee.

Overall, because the Mint's records do not contain sufficient information, we could not determine the number of coins shipped that were not in compliance with section 111(b) of the act. Our analysis shows that the figure reported by the Mint to the Subcommittee includes overstated and understated amounts. However, we estimate that coins shipped prior to payment represent less than 1 percent of the 15.5 million Statue of Liberty coins shipped. Our estimate was based on our analysis of information from the Mint's sales reports, conversion of coin options to the greatest potential number of individual coins, and consideration of the Mellon Bank's experience with nonsufficient funds checks.

Consignment Sales

The Statue of Liberty Task Force ceased operations in March 1987 and transferred to the Mint consignment program documentation which indicated that outstanding balances were due on coins shipped to consignees. Mint officials stated, however, that they had difficulty identifying unpaid amounts from consignees because this documentation was incomplete. For example, because the documentation lacked some information on coin shipments, proof of amounts owed was not always available. Mint officials also advised us that, because of the incomplete records, extensive account reconciliations on consignment orders were made to establish unpaid amounts. In some cases, the Mint worked with consignees and used their data to resolve disputed amounts owed.

According to Mint officials, consignees owed about $300,000 for Statue of Liberty coins as of June 30, 1987. Of this, about $267,500 had been collected at the time of our review, leaving an outstanding balance due of about $32,500. The Mint is considering writing off most of this amount because available data is insufficient to support further collections. However, this amount is negligible in relation to total consignment sale collections, which were about $100 million.

Conclusions

The Mint did not comply with the legal requirement of section 111(b) of the Statue of Liberty-Ellis Island Commemorative Coin Act that Statue of Liberty coins not be shipped to customers until payment or guarantee of payment had been made. In addition, the information the Mint gave to the Subcommittee provided an unreliable basis for determining the extent of noncompliance with that legal requirement. However, while precise information is not available, our analysis of available information indicated that shipments of unpaid Statue of Liberty coins were insignificant compared to the total number of these coins shipped to customers since the program began.

By revising its policy in 1980 on holding shipments of numismatic coins paid by check, the Mint relaxed an important technique which would have ensured compliance with section 111(b) of the act. Further, it experienced problems collecting amounts due from some consignment customers. However, the Mint established a more stringent policy in February 1988 for ensuring receipt of payment before shipping coins purchased by check, and it has collected much of the amount owed by consignment customers.

Internal Controls Over Dies and Coins Need Strengthening

The Mint has the important responsibility of safeguarding the dies used to strike images on coins against theft. If lost or stolen, these dies could be used to counterfeit coins. The Mint is also entrusted with gold and silver bullion worth hundreds of millions of dollars in the form of coin blanks (unstruck coins) as well as the coins themselves once they have been struck. Because these items are made of precious metals, they also must be tightly controlled.

Die thefts and coin shortages have occurred. The Subcommittee was concerned about prior problems related to internal control of coins at the Denver and San Francisco Mints. To deter additional losses involving dies, coin blanks, and stamped coins, the Subcommittee asked us to determine the adequacy of the Mint's controls over these valuable assets.

Our examination showed that the Mint's controls over die shipments did not provide adequate security to prevent thefts. Our review also found that the Mint's system of automated die inventory records and the field mints' die inventory control procedures needed strengthening. In addition, while the San Francisco Mint had established adequate procedures for controlling bullion coins during coin production, it failed to follow one of its important controls by not notifying its security staff when coin shortages were identified. Further, it was unable to reconcile its physical inventories of coins and coin blanks with its records during its annual account settlement in 1988.

Dies Have Been Stolen

In the fall of 1987, as a result of publicity surrounding a Secret Service investigation, the former Subcommittee Chairman learned of an April 1986 theft of 44 dies for the Statue of Liberty $1 coin. The dies were stolen from an airport warehouse in Montreal, Canada, while being shipped to the Royal Canadian Mint for chromeplating and polishing.[1] During the 1988 budget authorization hearings in July 1987, the former Subcommittee Chairman had requested information from the Mint on security incidents occurring in 1985 and 1986. However, the Mint did not report this stolen die shipment to the Subcommittee at that time.

In addition, the San Francisco Mint's security incident report log reported that in January 1988 one box containing 24 dies for the 1-ounce American Eagle coin was stolen from a shipment of 11 boxes

[1] Dies were occasionally chromeplated by the Royal Canadian Mint under a contractual agreement when backlogs occurred at the San Francisco Mint.

while in transit from the San Francisco Mint to the West Point Mint. We brought this second incident of theft to the Subcommittee's attention in April 1988.

After the second die theft, the Mint's management conducted an internal review of its controls to safeguard dies during shipment. They concluded that controls over die shipments did not provide the level of security needed to prevent theft while dies were in transit. For example, one of the two principal couriers the Mint used did not provide constant surveillance services, as required by Mint policy. This level of security requires signature control throughout a shipment rather than only at the shipping and destination points. The Mint now uses only armored couriers that provide inspection of shipment contents at each stopping or transfer point.

Internal Controls Over Die Inventories Are Inadequate

Accurate and complete records and sound inventory processes are critical to proper control and safeguarding of die inventories against loss or theft. The Mint, however, had serious weaknesses in its automated information system for maintaining die inventory records and in its die inventory control procedures.

Die Information System Has Serious Problems

In 1979, the Mint established a central Die Information System (DIS). The system accounts for all the dies which are manufactured by the Philadelphia Mint and issued to the four field mints for coin production. The primary function of DIS is to maintain accurate inventory information for dies and to provide mint managers with timely reports needed to control die inventories and to determine die manufacturing requirements. However, DIS information is unreliable and untimely.

Mint headquarters in Washington, D.C., is responsible for operating DIS. Its Office of ADP Management supervises staff at the field mints who enter data into the system. The Office of ADP Management provides information from DIS to field mint managers, who use it to perform die inventories. The system tracks inventories in two ways—by the serial number engraved on the dies and by control numbers assigned to batches of 25 dies.

We found that data entered into the system is unreliable because it is inaccurate. Examples include the following:

- When the Philadelphia Mint ships dies which it has manufactured, DIS 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 DIS 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 DIS information and field mint shipping reports. For example, during a recent reconciliation of die inventories, the San Francisco Mint found that it had not received 22 of the dies listed on its DIS shipping reports.
- As an interim step in the manufacturing process, the Philadelphia Mint sends proof dies to the San Francisco Mint for chromeplating and polishing before they are shipped to their ultimate destination at one of the field mints. In these cases, the field mint to which the die will ultimately be sent is charged with accountability upon shipment from Philadelphia to San Francisco. DIS information on the location of these dies is, therefore, incorrect until they are received at their ultimate destination. In one case, the West Point Mint was charged with a shipment of dies at least a month before it could verify receipt of the dies. This situation could be further compounded if, as in the prior example, the San Francisco Mint rejects a die during its chromeplating process and DIS is not updated to show that the die was rejected and destroyed.

Further, information produced by DIS was untimely because data to update the system's automated files was entered only about every 2 weeks. Mint managers advised us that they no longer use some DIS reports because they are inaccurate and untimely. They also stated that the system's reporting requirements need to be reexamined. The following examples illustrate situations in which mint managers were not using DIS reports because they were untimely and inaccurate.

- The Mint's headquarters production manager was not using DIS 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.
- Because of inaccurate DIS reports, two of the four field Mints had difficulty reconciling their records of die inventories with the dies for which they were accountable, as reported by DIS. In 1987, the San Francisco

Mint was unsuccessful in two attempts to complete a die inventory reconciliation. According to a San Francisco Mint official, DIS records were not useful for the 1988 die inventory reconciliation because they had not been updated for destroyed dies for about a year. As a result, DIS showed a San Francisco Mint inventory of 20,616 dies, while that Mint's non-DIS internal records showed an inventory of 7,322 dies. The 1988 reconciliation still took about 4 months to complete, and the results showed a difference of 2,902 dies between die inventories and other San Francisco Mint internal records. This was approximately 40 percent of all dies for which the San Francisco Mint believed it was accountable. San Francisco Mint officials advised us that the disposition of all but three 1987 and 1988 dies was resolved. In addition, a Denver Mint manager advised us that it took mint staff about a month to complete die inventory reconciliations using information other than DIS data. Such reconciliations resulted in numerous corrections to DIS data.

Mint headquarters officials were unaware of the magnitude of discrepancies between the San Francisco Mint's records of dies and DIS information. They advised us that poor data entry by Office of ADP Management personnel at the San Francisco Mint had been a problem for several years. These officials also told us that reconciliation problems resulted from inadequate inventory control by the San Francisco Mint. Headquarters officials were unaware of the Denver Mint's problems with out-of-date DIS reports. Actions which they initiated to correct these problems are presented later in this chapter.

Field Mint Control Procedures for Die Inventories Have Weaknesses

The Mint has issued die management directives which establish internal control policies and procedures for die inventories and for handling discrepancies found as a result of these inventories. However, some die inventory control procedures are not being followed, while others need to be strengthened.

- Although dies have a serial number for internal control purposes, field mints are not required to use the serial numbers when conducting inventories of dies. Instead, die inventories are based on the total numbers of dies. For example, field mint staff determine whether the number of dies, as well as their denominations and face (whether a die is for the obverse or reverse side of a coin), match the totals shown for these categories on DIS reports. Because of the previously discussed problems with the accuracy of DIS reports, this technique provides inadequate control of die inventories.

The Mint's die management directives require that inventories be verified by the total number of dies rather than by serial number. However, serial numbers are used to control dies during manufacture, shipping, and destruction. We believe that matching die serial numbers shown in DIS to those found during physical inventories of dies would help determine whether individual dies are actually in the field mint to which they are assigned. Serial number control is the way that most government agencies, including the Department of Defense, control sensitive items.

- Present Mint die directives, which became effective in October 1988, require that die inventories be conducted at least annually. The previous policy required quarterly die inventories, but the San Francisco Mint requested the change to an annual inventory after struggling with its 1987 inventory.

Mint officials told us that the policy was revised to help relieve long-standing problems the San Francisco Mint experienced in attempting to complete a die inventory. Annual inventories decrease control over dies because losses may not be identified until almost a year after they occur. By then, it may be impossible to locate the die or determine what happened to it.

- Because the San Francisco Mint performs chromeplating and polishing of dies for all field mints, its die inventory operations must include control of dies during these operations as well as coining operations. The Mint's die room attendants must track dies issued to chroming and polishing operations until they are returned to the die room, usually in about 10 days. However, the San Francisco Mint lacked established procedures for periodic follow-up on dies issued to chroming and polishing that were not returned to the die room within a reasonable time.

The San Francisco Mint's die room attendants prepared logs showing dies, by serial number and denomination, that were sent to the chroming unit. Based on these logs, we tested one denomination of dies to determine how long they were outstanding from the die room. We found that 47 of the dies sent to chroming between January 1, 1988 and June 30, 1988, were still out of the die room as of September 21, 1988. The San Francisco Mint's die room staff did not follow up to determine the status of long-outstanding dies, and its production managers did not know whether these dies were still with the chroming unit or whether any of them had been rejected during these operations. As a result, the dies remained outside of the die room's inventory control for a number of months, even though dies are usually returned from the chroming unit in about 10 days.

- As a control, Mint die directives require that a field Mint's security officer, as well as its resident audit staff, be notified immediately when unreconciled differences occur between die records and the number of dies found during physical inventories. This internal control requirement, however, is not being followed.

  The San Francisco Mint's Security Chief became aware of die inventory reconciliation problems only after our review was initiated. Field mints no longer have their own resident audit staffs, but representatives of Treasury's Office of Inspector General are resident at all but the West Point Mint. These officials were not notified of die inventory discrepancies. Thus, the Mint lost an opportunity to have independent assessments of the seriousness of discrepancies and of needed corrective actions. Any subsequent investigation or audit would be more difficult.
- Security chiefs at both the San Francisco and Denver Mints told us that they were unaware of the results of die reconciliations. They do not review die inventory workpapers. In addition, the Chairman of the San Francisco Mint's inventory committee advised us that his role was to review the results of the initial die inventory but not the lengthy reconciliation process. We believe that if representatives of the Mint who are independent of the die inventory process, such as security officers, review the die inventory reconciliation process and its substantiating documentation, the Mint could ensure that inventory records are accurate, that the reconciliations are complete, and that no thefts or losses have gone undetected.

Actions to Improve Die Inventory System and Controls

As outlined in the preceding sections, improvements are needed in DIS to prevent unnecessary errors and to provide timely and accurate information for mint managers to use in controlling die inventories. The managers advised us that a number of corrective actions have been initiated to correct the die inventory weaknesses we identified. We believe that the Mint's activities under the Federal Managers' Financial Integrity Act[2] could bring further improvement by monitoring the effectiveness of its die inventory controls and of actions initiated to improve these controls.

To provide more accurate and complete DIS information, field mint DIS data entry has been shifted from automated data processing staff to die

[2]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.

room staff. Mint officials stated that putting the data entry function directly with staff responsible for dies is expected to provide the incentive for better controls to ensure accurate data. They advised us that this should eliminate the poor data entry by Office of ADP Management personnel previously discussed. As of December 1988, the San Francisco Mint die room staff were performing DIS data entry, and other field mints were scheduled to make this change by mid-1989 as soon as automatic data processing equipment is installed in the die rooms.

Additionally, the Mint began to develop an on-line data entry and DIS update capability. This should make more timely information from DIS available to mint managers and improve the accuracy of the system's data because DIS automated files will be updated sooner than at present.

The Mint has also initiated several projects to improve management of die inventories. These projects include (1) the Coin Press Monitoring System, including a die tracking subsystem, which will record production and other die data and (2) the Job Shop System, which will monitor dies throughout the manufacturing process. The Mint anticipates that these projects, once developed, will be integrated with DIS. Also, to supplement DIS information, the San Francisco Mint has recently implemented its own automated die inventory system, which is updated daily. Also, a Mint official in charge of one of the projects to improve DIS advised us that control information on dies to be shipped will be updated before generating shipping reports in order to improve die inventory control procedures.

Under section 2 of the Federal Managers' Financial Integrity Act, the Mint is responsible for assessing the adequacy of its internal controls and for correcting problems associated with weak controls that may be identified. The Director of the Mint must annually report to the Secretary of the Treasury on these matters, as well as on actions taken to correct identified control weaknesses. The Mint's prior assessments under the act covered only selected aspects of control needed to inventory, manufacture, and ship dies, and they did not fully address weaknesses or needed corrective actions. We believe that the act provides a framework for the Mint to undertake a comprehensive assessment of its vulnerability to the theft and loss of dies. In addition, annual reports prepared pursuant to the act provide a vehicle for the Mint's Director and the Secretary of the Treasury to monitor progress in completing both actions to improve DIS and the other die inventory control enhancements we are recommending.

Established Coin Production Controls Not Followed by the San Francisco Mint

Each of the four field mints has its own procedures for controlling coins during production, and, except for the Denver Mint, each requires that their security staff be notified of missing bullion coins or coin blanks. Further, the Mint's directives require each field mint to conduct an annual verification of accounting records and inventories of materials on hand—a reconciliation process known as account settlement.

Each field Mint uses weight and piece counts to control bullion coins and coin blanks during production. This process involves weighing and counting the number of coin blanks at the beginning of a production shift and comparing them with the weight and count of finished coins, rejected coins, and unused coin blanks at the end of a shift. When a coin shortage is identified as a result of this process, three of the field mints require that their security staff be notified.

We observed coin weight and piece count control procedures at three field mints—West Point, Philadelphia, and San Francisco. (The Denver Mint was not producing numismatic or commemorative coins during our field visits.) We found that the West Point and Philadelphia Mints followed their established procedures for weight and piece count control, which include notifying their security officers of shortages.

At the San Francisco Mint, we observed that silver bullion coins were weighed and counted in a satisfactory manner. However, a Production Control Branch manager told us that the security office is notified only if the number of items shown on weight and piece count reports as coin shortages appears large or if there appears to be a pattern of shortages. Even though one report we observed showed a shortage, the San Francisco Mint's Security Chief said that the production control staff had not notified his office of any bullion coin or coin blank shortages. By not doing so, the production control staff failed to follow that Mint's established procedures.

San Francisco Mint and headquarters managers advised us that account settlements prior to 1988 had generally not identified coin shortages beyond established tolerance levels. We confirmed this information. At the time of our work at the San Francisco Mint, we were advised that an account settlement for 1988 would identify any shortages in bullion coins or coin blanks. Therefore, we did not attempt to determine whether there were coin and coin blank shortages and, if so, the extent of shortage.

The San Francisco Mint subsequently conducted an account settlement in December 1988. However, the results did not show whether coin and coin blank shortages existed because they 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 that Mint's records.

These overages occurred for several reasons. For example, in April 1988, a headquarters cost accountant stopped preparing some of the critical accounting information on commemorative coin sales that the San Francisco Mint needed to accurately reflect coin balances. As a result, the San Francisco Mint's records were incorrect. Also, the silver bullion account, which tracks coin blanks and coins by ounces from the beginning to the end of a program, had a surplus of over 6,300 ounces. Based on a chemist's report of the gold and silver content in coin blanks, the Mint determined that about 1,000 ounces of this overage was attributable to using a higher silver content in the silver bullion coin and coin blanks than was specified. However, the reason for the remaining 5,300-ounce discrepancy is unknown. While the San Francisco Mint is working to resolve remaining differences found during its 1988 account settlement, determining the correct amounts for the various categories of coins and coin blanks will require extensive reconciliation. According to our fiscal procedures,[3] unreconciled amounts above $750, like those found in the Mint's account settlement, must be reported to the Comptroller General within 2 years.

Conclusions

Both the dies the Mint uses in its coinage operations and precious metals in the form of coins and coin blanks are valuable assets. It is, therefore, vital that the Mint exercise the utmost care in ensuring that its systems and processes provide an adequate control environment for safeguarding these assets against loss and theft.

To maintain effective control of dies, the Mint needs accurate information about the number and specific types of dies for which it is accountable. It also needs to provide information to its managers in a timely manner in order to control and manage die inventories. The Mint's present system for maintaining die inventories does not provide accurate and timely information. Improvements in that system, however, are planned. Further, the Mint's die inventory control practices are weak in

[3] GAO's Policy and Procedures Manual for Guidance of Federal Agencies, Title 7.

several areas, including the failure to verify inventory reconciliations and to notify security officers of unreconciled discrepancies.

Procedures established by the field mints must provide effective control to identify and resolve shortages in bullion coins and coin blanks. However, the San Francisco Mint omitted an essential step in these procedures by failing to notify its security office when shortages were identified. Further, the Mint's account settlement for 1988 did not provide reliable data for identifying bullion coin and coin blank shortages.

Recommendations

To ensure that field mints have adequate internal control procedures for die inventories, we recommend that the Director of the Mint

- conduct physical inventories of dies quarterly so that lost dies can be identified sooner than under the present annual inventory procedures,
- match serial numbers of dies in inventory to serial numbers recorded in die inventory records,
- ensure that the San Francisco Mint implements adequate internal controls over dies released by its die room to its chroming unit,
- ensure that independent representatives from Treasury's Office of Inspector General and the field mints' security offices are notified of all unreconciled differences between die records and the number of dies found during physical inventories, 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 so that complete resolution is assured.

To ensure that the San Francisco Mint follows established bullion coin control procedures, we recommend that the Director of the Mint direct the San Francisco Mint to notify its security office of bullion coin shortages shown on weight and piece count reports.

We also recommend that the Director of the Mint, through the Mint's Federal Managers' Financial Integrity Act program, direct (1) that a current and comprehensive assessment of its vulnerability to theft and loss of dies be undertaken and (2) that annual reports made under the act discuss progress on initiatives to improve its die inventory control system and practices.

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, such as those of the Mint. The difference between revenues and expenses represents the financial results—that is, the profit or loss—from these operations. Because these reports are critical in assessing the financial results of operating the Mint's various coinage programs, the Subcommittee asked us to review the accuracy of the Mint's revenue and expense reports for selected numismatic programs.

We found that the Mint's reports on revenue and expense related to numismatic program operations contain errors and inconsistencies. Thus, the Mint and the Congress do not have accurate information for overseeing numismatic programs. As a result, they are unable to determine whether these programs operated at no net cost to the government.

Reported Profits Were Incorrect

Revenue-producing operations usually have financial reports which show amounts for one reporting period or cumulative totals through one fiscal year. Financial reports for the Mint's numismatic programs, however, show amounts of revenue, expense, and profit which have accumulated from the beginning of a program through the reporting date, even though more than one fiscal year may be involved. We reviewed the Mint's June 30, 1987, reports on revenue and expense. As shown in Table 1, coin program profits varied considerably.

Table 1: Profit Reported for Selected Numismatic Programs as of June 30, 1987

(Dollars in millions)

	Program profit	
Numismatic program	**Amount**	**Percent**
Gold bullion proof	$58.1	23.7
Gold bullion uncirculated	11.1	1.0
Silver bullion proof	15.1	49.6
Silver bullion uncirculated	1.0	1.2
Statue of Liberty	36.4	12.6

The authorizing legislation for these programs provides for a pricing mechanism to result in the programs' operating at no net cost to the government. Profit or loss from coin programs is determined by revenues reduced by expenses. We noted that sales for certain coinage programs, such as the gold and silver bullion proof programs, were far greater than anticipated. Increased sales levels, along with lower than anticipated costs, caused revenues and profits to be larger than expected.

As explained in the following sections, we found that amounts shown on the Mint's reports of revenue and expense did not consistently and correctly show seigniorage or accurately report some elements of expense. We believe that, because of these problems, the Mint's reported profits are incorrect. As a result, these reports do not provide a sound basis for the Congress and others to evaluate the profits of the Mint's coinage programs. We reviewed revenue and expense data for only selected test months; these reports, however, were cumulative from the inception of the programs. Therefore, we could not determine what the correct profits should have been.

Seigniorage Calculations Were Inconsistent

The Mint defines seigniorage as the difference between the cost of metal used in making a coin, including its fabrication and transportation costs, and the face value of a coin. When the metal cost is less than the face value of minted coins, seigniorage represents an increase in the government's assets. The Mint, therefore, records it as general fund revenue in its bullion account.

However, seigniorage is not relevant to those numismatic coin programs where the cost of metal exceeds the face value of the coin. This was the case for the gold and silver bullion proof programs.

We examined the Mint's June 30, 1987, revenue and expense reports for two coin programs which included seigniorage—the Statue of Liberty and the gold bullion uncirculated coin programs. We found inconsistencies in the way seigniorage was calculated and reported for these programs.

- For the Statue of Liberty coin program, seigniorage was correctly calculated as the difference between the face value of the coin and the cost of metal, including its fabrication and transportation costs. For the gold bullion uncirculated coin program, however, it was calculated as the difference between the face value of the coin and the cost of production, which, in addition to the costs of metal, transportation, and fabrication, included labor and overhead costs. As a result of this error in calculating seigniorage for the gold bullion uncirculated coin program, material costs were overstated by about $525,000. Correcting this error would have reduced the net reported profit.

- The Mint properly accounts for seigniorage as an adjustment of revenue in its bullion accounting system. Its revenue and expense reports should also present seigniorage in the same way, but this was not the case. For the Statue of Liberty coin program, seigniorage was reported in the expense category as an adjustment to materials. For the gold bullion uncirculated coin program, seigniorage was reported as an adjustment to net profit. Correcting either report would not have affected the amount of profit reported for these programs. However, as prepared by the Mint, these reports reflected inconsistent and incorrect information regarding seigniorage for these two coin programs.

Erroneously Reported Expenses

Coin production expenses consist of elements related to manufacturing, materials, and packaging—including expenses for labor, transportation, supplies, and overhead. We found numerous problems with the expense amounts the Mint reported in its June 30, 1987, reports on revenue and expense.

These problems included (1) inconsistencies, exclusions, and undocumented adjustments in calculating and allocating overhead expenses, (2) incorrect methods for reporting some costs, (3) undocumented costs, (4) the exclusion of certain costs, and (5) the use of estimates instead of actual costs. The following examples demonstrate the kind of problems we noted with expense figures reported by the Mint.

- We found a number of errors related to calculating and allocating overhead costs. First, about $64,000 in annual leave expense was unrecorded for headquarters staff.

  Second, the San Francisco Mint recognized that it did not allocate about $5.4 million in overhead costs to coinage programs in fiscal year 1985; through July 1986, an additional $3.2 million in overhead was not allocated. At that time, the San Francisco Mint began allocating overhead to coinage programs. To correct these exclusions, the Mint allocated $8.6 million in overhead costs to the programs. Documentation was unavailable to determine the accuracy of the amounts involved in the correction, including over $1.65 million to the Statue of Liberty coin program.

  Third, field mints used different methods to allocate factory overhead costs to applicable programs. The Philadelphia and Denver Mints used standard rates, and the San Francisco and West Point Mints' method varied from year to year. The Mint's accounting manual prescribed the use of a standard rate and, in a July 1988 letter to field mints, the Mint emphasized its requirement to use standard rates.

Finally, automatic data processing and other general overhead costs were improperly allocated. First, the same ratios (87 percent numismatic programs and 13 percent domestic programs) were used in fiscal years 1986 and 1987 to determine the costs of automatic data processing services to be allocated between numismatic and domestic programs. However, based on direct labor hours, the ratio between these programs varied significantly in these years. For fiscal year 1986, the ratio was about 72 percent for numismatic programs and 28 percent for domestic programs. The ratio for fiscal year 1987 was about 87 percent for numismatic programs and 13 percent for domestic programs. Second, other general overhead costs were improperly allocated to numismatic and domestic programs, based on the number of full-time employees. According to a Mint official, the ratio would have been more appropriate if it had been based on direct labor hours. Using this basis, the ratio would have been 57 percent numismatic programs and 43 percent domestic programs in fiscal year 1986 and 66 percent numismatic programs and 34 percent domestic programs in fiscal year 1987. The net effect of these variances was to understate numismatic program costs by about $175,000 as of June 30, 1987.

- In some cases, incorrect methodologies were used to report expenses. For example, when supply orders were received, the San Francisco Mint recorded them as expenses. Based on our accounting requirements, supplies would normally be recorded as part of the inventory and would be recorded as a production expense when they were issued from inventory. Also, headquarters cost accountants charged the total amount of fixed assets, valued at over $567,000, as an overhead expense. To meet our 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 related to coinage programs. Had this requirement been followed, the costs for the Statue of Liberty coin program would have been $478,000 less than was reported. For the gold bullion proof and uncirculated coin programs, costs were overstated by about $54,000. Profits were thereby understated by the same amounts for these programs.
- The Philadelphia Mint did not retain documentation needed to substantiate labor charges. Computer reports needed to trace labor charges to time and attendance cards were not kept. The National Archives and Records Administration's records retention regulations, which are legally binding on federal agencies, require that records such as these be retained for up to 3 years. Because these records were not retained, we

were unable to perform a detailed examination of labor charges totaling over $14,700 or 16.9 percent of the costs for the test month we selected to review. At the West Point Mint, total depreciation expenses of over $16,400 for the test months we examined were not supported through documentation showing how the depreciation was calculated. These situations do not necessarily affect profits reported for Mint programs. However, they suggest that the accuracy of labor or depreciation expenses shown on Mint revenue and expense reports, at least at the Philadelphia and West Point Mints, may not withstand scrutiny through independent verification.

- Due to an accounting error by a headquarters cost accountant, the material costs for the Statue of Liberty coin program excluded the cost of damaged and rejected copper-nickel blanks used in the proof and uncirculated half dollar coins. This exclusion understated material costs by almost $200,000 and, correspondingly, overstated profits by the same amount.
- Silver costs related to the Statue of Liberty $1 and $5 coins were not recorded at the actual cost of silver used for the coins produced, as was the case for the silver bullion program. Silver costs for these coins were recorded at an average unit cost agreed upon by the Mint and the General Services Administration for quantities ordered. Because headquarters cost accountants did not adjust these costs to actual silver costs based on quantities received until the end of the program, the June 30, 1987, revenue and expense report showed an understatement of about $250,000 in expenses for these coins and a corresponding overstatement of profits.

With regard to the Subcommittee's concern that $5.3 million in advertising expenses may have been improperly charged to the gold bullion coin program, we determined that the program's June 30, 1987, revenue and expense report erroneously reported that amount as an expense. It was actually an amount obligated in anticipation of future expenses. The error overstated expenses and understated profits.

Raw material in the form of metal is the greatest expense associated with manufacturing coins. Depending on the program involved, these expenses comprised from 57 percent to almost 100 percent of total numismatic program expenses. The dollar amount of errors that we found in this area was relatively small.

Overall, the problems identified in our review of the Mint's reported expenses indicate its need for an improved cost accounting system. We believe that these problems are caused by basic weaknesses in the design and operation of the Mint's cost accounting system, which is decentralized, manual, and fragmented. Because these weaknesses are discussed in more detail in chapter 5, we are not making specific recommendations for improved reporting of expenses in this chapter.

Conclusions

The amount of profits that the Mint reported for numismatic coin programs varied widely at June 30, 1987. Some coin programs operated near the break-even point, while others showed profits which ranged from almost 13 percent to 50 percent.

There were, however, errors in the amounts which the Mint included on its reports of revenue and expense. For example, the Mint was inconsistent in calculating and reporting seigniorage, a key factor in determining net revenues, for different programs. Likewise, there were inconsistencies and inaccuracies in reporting expenses, which affected the amount of profit reported. In several cases, profits were overstated; in the case of advertising expenses for the gold bullion coin program, profits were understated.

Better cost information would assist the Congress and other decisionmakers who need accurate numismatic coin program profit and loss figures to exercise oversight responsibilities. As discussed in the next chapter, the Mint could improve its reporting of revenue and expense information through an improved cost accounting system.

Critical Elements of the Mint's Financial System Need Modernization

The Mint's financial management system structure has a number of subsystems, including those for formulating its budget, maintaining its general ledger, and accounting for its collections. Accounting for program costs and controlling funds are critical elements of these subsystems.

In the preceding chapters, we reported problems involving the need for better internal controls over dies and coins and improved cost accounting for numismatic programs. In the next chapter, we discuss the need for a revised funding structure and enhanced financial reporting for numismatic programs. Since problems in these areas strongly indicated the potential for more severe financial management system problems, we further examined two aspects of the Mint's financial management structure—cost reporting and funds control for all of the Mint's operations. We selected these aspects because we considered them to be particularly relevant to the Subcommittee's need for reliable cost and funds control information with which to oversee the Mint's programs. In addition, we studied whether mint managers were getting financial information useful to them in managing operations. In both the cost accounting and funds control areas, we found the Mint's financial management system to be in need of modernization.

Cost Accounting System Needs to Be Updated

In chapter 4, we discussed a number of situations which led to errors in the Mint's accounting for the expenses (costs) of its numismatic programs. These conditions ranged from inconsistent cost allocations, undocumented adjustments, and excluded costs to the use of incorrect cost accounting methodologies.

We believe that these problems stem from fundamental design and operational weaknesses underlying the Mint's cost accounting system for both domestic and numismatic programs. The Mint has known for many years that its cost accounting system needed substantial improvement but only recently began to address its need for complete, reliable, and timely information on the cost of its operations.

Cost Accounting System's Design and Operation Need Changes

The Mint's cost accounting is a manual, decentralized, and fragmented operation. Various elements of cost related to producing coins are recorded and accounted for as part of four separate appropriation and fund accounts, as follows.

- The cost of raw materials for nonprecious coinage metals, such as copper and nickel, and for gold and silver coin blanks is recorded in the Coinage Metal Fund.
- The value of gold and silver bullion and finished coins is accounted for in the Bullion Fund.
- Costs related to wastage and coin distribution are recorded in the Coinage Profit Fund. This fund also accounted for the cost of the Statue of Liberty coin program.
- Production and overhead costs are accounted for as part of the salaries and expenses appropriation unless otherwise specified in legislation.

At the field mints, production costs. such as manufacturing and overhead, are recorded on manual cost ledger cards, and summary information is forwarded to Mint headquarters. The same process is used to account for field mint administrative overhead costs. Administrative overhead costs for Mint headquarters are obtained from the automated accounting system and are recorded on schedules and spreadsheets maintained on personal computers. Headquarters cost accountants consolidate cost information prepared by the field mints (and costs taken from records of the Mint's various appropriations and fund accounts maintained at headquarters) into reports for each of the numismatic coin programs.

Further, in reporting costs, the Mint sometimes uses figures which reflect obligations rather than costs. This is the case, in particular, when accounting for costs related to some capital equipment and overhead.

In accounting for costs, the Mint does not meet the Comptroller General's internal control standards for federal agencies. Under these standards, 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.

- 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. Their lack of training was evident, in certain instances, in their inability to readily explain to us 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 their cost accounting staff and, in January 1989, began holding regularly scheduled, 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's History of Cost Accounting Problems

The Mint has been aware of its cost accounting system problems for many years. We and the Treasury Office of Inspector General have reported on cost accounting deficiencies in the Mint's overall financial system. The Mint itself recognized these problems in its Federal Managers' Financial Integrity Act reports. However, until recently, the Mint failed to initiate actions to correct the problems.

In 1970, we reported that more complete and accurate accumulation of cost data would assist the Mint in planning, executing, and controlling operations and enable it to furnish the Congress with more meaningful financial information.[1] We recommended that the Mint study the feasibility of establishing centralized accounting and installing the automatic data processing equipment needed to implement such a system.

More recently, a 1987 Treasury Inspector General report on the Mint's cost accounting system discussed the need for more uniform and timely financial information. It called for the Mint to update its Cost Accounting Manual and provide additional guidance on how to distribute overhead costs.

Since 1984, the Secretary of the Treasury's Federal Managers' Financial Integrity Act reports have stated that the Mint's need for cost information is not satisfied because cost accounting is predominantly manual and reporting is not timely. For each of the past 5 years, the Secretary's report has indicated that this problem will be corrected through automated cost accounting to enhance the quality and timeliness of reporting. However, the targeted completion date has been consistently postponed and now stands at 1993.

While it has been slow in initiating the proposed corrective action, Mint management acknowledged to us that an automated, integrated cost accounting system is needed to adequately respond to those legislative requirements—for example, that numismatic programs operate at no net cost to the government—which necessitate accounting for program costs. During our review, the Mint contracted with a public accounting firm to review its cost distribution methodologies because the agency was concerned that the existing cost accounting system produced information that was neither timely nor of high quality. In early 1989, the Mint contracted for a review of its overall automated financial management system to identify system requirements, including those for cost accounting.

Funds Control System Needs to Be Streamlined

Heads of federal agencies are required by law (31 U.S.C. 1514) to establish and maintain a system of accounting and internal control to ensure that obligations and expenditures do not exceed available funding. The Mint has established a system to assist in ensuring that obligations which it incurs do not exceed available funds. This funds control system involves preparing financial plans, or operating budgets, for the Mint's

[1] Financial Management Of Bureau Of The Mint Operations Needs Improvement (B-114877, January 16, 1970).

headquarters components and its field facilities. The plans provide specific funding targets to carry out each of the Mint's programs. Reports are then prepared to show the status of obligations incurred in relation to amounts authorized by financial plans. Mint managers are to use these reports to monitor obligations at various operational levels, such as facility, program, or fund level, to determine whether the Mint is operating within authorized amounts. This system is supposed to detect or prevent situations where more funds may potentially be obligated than are authorized by financial plans.

The Office of Management and Budget requires agencies to maintain an administrative system of controls to ensure that obligations do not exceed available funds. Comptroller General accounting principles and standards for federal agencies[2] state that agency accounting systems must provide information to assist in preventing overobligation and overexpenditure of approved funding levels. Agency accounting system records must show the status of each appropriation and its administrative subdivisions or statutory limitation. This includes complete and accurate information on obligations, expenditures, disbursements, and unobligated balances. Further, the Joint Financial Management Improvement Program's[3] Core Financial System Requirements, issued in January 1988, emphasizes that, while obligations are to be controlled at the appropriation level, they are to be monitored at appropriate levels, such as the facility or program level, to ensure against overobligation.

The Mint's system for controlling obligations of funds, however, meets neither these requirements nor the system's intended purpose of helping managers ensure that spending does not exceed approved funding levels. Like its cost accounting system, the Mint's funds control system is predominantly manual and decentralized. Other basic problems are that 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. Its financial plans do not always reflect known or planned operations. Moreover, funds control is, in actuality, maintained at the appropriation or fund account level. This is a level higher than that intended by the controls established through the Mint's financial plans

[2] GAO's Policy and Procedures Manual for Guidance of Federal Agencies, Titles 2 and 7.

[3] The Joint Financial Management Improvement Program is a cooperative undertaking of the Office of Management and Budget, the General Accounting Office, the Department of the Treasury, and the Office of Personnel Management to improve financial management practices throughout the government.

and reporting, which are at the facility, program, and fund levels. As a result of these weaknesses, information on the status of funds for various organizational and program levels is not always reliable, and Mint managers tend to ignore some available funds control reports.

Funds Control System Is Inefficient and Outdated

The Mint's funds control system is not fully automated, and funds control reports are not generated from the Mint's automated accounting system. Field mint budget staffs use monthly reports on obligations generated by that system to prepare reports mint managers need in order to know the status of their obligations against the financial plans at the program level. Mint headquarters staff also use the monthly obligation information to prepare consolidated status of obligations reports at the facility and fund total levels. These consolidated reports are not prepared for the various programs.

Field mint officials advised us that field mint staffs spend as much as 3 days each month to complete status of obligations reports. Further, these reports are prepared separately at the facility, program, and fund account levels, which results in redundant information. Moreover, they are not standardized and, therefore, are not used in preparing consolidated reports. For example, these reports use inconsistent formats and terminology. Most importantly, the status of obligations reports do not contain the balance of funds remaining available for obligation, which is an essential element relevant in maintaining funds control.

In addition, written policies and procedures for carrying out the Mint's funds control system are out-of-date and incomplete. This guidance is necessary to document and understand operation of the Mint's funds control process, yet it has not been updated since it was issued in 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.

We believe that reports on the status of obligations generated routinely and automatically through information recorded in the accounting system would provide useful information to mint managers. The content of these reports would be more useful if they were standardized, eliminated redundancy, and provided the balance of unobligated funds. Updated written policies and procedures for maintaining funds control would also improve funds control. A Mint official advised us that an automated funds control system is being developed, with implementation planned for the beginning of fiscal year 1990.

Funds Control Reports Contain Errors

Without consistent and reliable reports, the Mint does not have a sound basis for making decisions involving funds control. We identified several instances where the Mint's funds control reports were incorrect.

- The 1988 fiscal year-end status of obligations report omitted a $2.6 million unobligated balance related to research and development, while the report prepared for the Office of Management and Budget showed the correct balance.

  Funds control reports prepared for both internal and external purposes must contain consistent information. Our financial management systems standards, which are part of our accounting requirements for agencies, require that all financial reports be accurate and that reports prepared from the same source data agree.
- Monthly reports submitted to the Office of Management and Budget also contained errors. We found that nine monthly reports for the salaries and expenses appropriation prepared for fiscal year 1987 were incorrect because information on monthly changes in obligations, outlays, and accrued expenditures was omitted or incorrectly reported. Most of the monthly 1987 reports prepared for the Mint's other fund accounts had the same problems.
- Obligations related to general and administrative overhead and to automatic data processing equipment were incorrectly distributed between appropriated and numismatic programs. Based on discussions with us, Mint officials recalculated these items and determined that numismatic program obligations in fiscal year 1988 needed to be reduced, and appropriated fund program obligations increased, by over $624,000.
- From fiscal years 1986 through 1988, anticipated reimbursements from annual numismatic program revenues totaling about $650,000 a year were made available to the Mint's no-year Research and Development portion of the salaries and expenses appropriation account—which is authorized to remain available until expended—rather than to the annual portion of the salaries and expenses account. This was done even though the transfers were used to fund annual research and development costs incurred for the numismatic programs and were, therefore,

treated as annual budget authority. Under the circumstances, the research and development costs for the numismatic programs should be accounted for in the annual portion of the appropriation account.

The Mint's action to develop an automated funds control system may eliminate many of the funds control reporting errors we found. In addition, Mint officials said that correct methodologies are being developed, documented, and used in order to correct the identified weaknesses.

Financial Plans Not Used to Maintain Funds Control

The Mint does not use its financial plans to monitor and control funds. We found that the Mint's financial plans, which are approved by headquarters, did not cover all programs. Furthermore, in some cases, the financial plans showed levels of approved funding that significantly exceeded program needs and, in other cases, levels of approved funding were inadequate to carry out programs. Also, financial plans were not revised to reflect known changes in program activity. As a result, field mint obligations differed significantly from spending levels authorized in financial plans. Because the financial plans are not updated, the status of obligations reports, which compare planned amounts to obligations incurred, had limited usefulness to field mint managers. For example, as of March 31, 1988, the San Francisco Mint's actual second quarter obligations for the silver bullion program exceeded the financial plan by $1.4 million.

As previously discussed, agencies are required to control funds at the appropriation level and monitor other appropriate levels. The Mint headquarters budget staff monitors and controls obligations at the overall fund level. Headquarters budget staff prepare consolidated status of obligations reports at the facility and appropriation levels using information from the accounting system. These reports are not prepared by program and do not show balances between financial plans and obligations to date. In addition, fiscal year 1988 financial plan amounts were changed on these reports to coincide with obligations at year-end.

Both field mint and headquarters budget officials told us that, if a field mint obligated more than the funds authorized by its financial plan, there would be no problem. They explained that there are usually offsetting underobligations of funds in other areas, and the funding level for the entire fund, therefore, would not be exceeded. We believe, however, that if one field mint significantly overobligated funds or if several field mints did so, the Mint's total obligations might exceed available funds.

Current Management Information Reports Inadequate

The Mint could improve financial and program management by developing management information reports on the status of its programs. 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 agreed that the current reports were not adequate to support decisionmaking. For example, they noted that the reports do not support decisions to shift production from one field mint to another. In addition, the Mint Director said that, because she could not rely on any one report to determine coin prices, she sometimes performed her own analyses in making these decisions.

Such analyses must be based on accurate unit cost data which current reports do not provide. If costs are overstated, coin prices may be inflated and sales may be slow. Conversely, if all relevant cost factors are not included, coin prices may not be sufficient to cover costs. For example, we informed the Mint Director that the cost of rejected half dollar coins was not included in the Statue of Liberty coin program revenue and expense report provided to the Subcommittee. She expressed concern that, while this program had an adequate profit margin and was not, therefore, significantly affected, this kind of omission could have resulted in the costs exceeding revenues for the silver bullion uncirculated coin program, which had a very small profit margin. (This was not the case, however, as the silver bullion program included this cost.)

Management information reports not only would permit effective pricing decisions, but would also enable managers to track key indicators of program performance and historical trends. Examples include the following:

- Mint officials said that the commemorative coin programs reinitiated in 1982 drew a good response from the public and international markets. They are concerned that, as more of these programs are legislated, the market is becoming saturated and sales have slowed. For instance, sales for the 1988 Olympic coins were considerably lower than estimated; as a result, production was halted in September 1988 for the gold coins and in November 1988 for the silver coins.

Reports on program results would help the Mint better forecast sales and production volumes. Thus, it would be easier to avoid some of the millions of dollars in costs required to melt down over-produced coins, such as the almost $1.2 million in close-out costs incurred at the end of the Statue of Liberty coin program.

- The Mint's fiscal year 1988 budget estimate indicated that its $46.5 million appropriation request would allow production of 13.3 billion domestic coins. However, even though the Mint received only $42 million in appropriated funds, it was able to produce 14.7 billion coins. If the Mint had more accurate data on production trends and productivity, it could make better cost and production estimates and provide more accurate budget estimates to the Congress. The Chief of the Mint's Cost Accounting and Analysis Division, which was recently reorganized and given additional staff, said that the cost analysis capability needed for management information reports would be developed during 1989.

Conclusions

Critical elements of the Mint's financial management system need to be improved, including its cost accounting operations and funds control system. Both of these areas provide essential financial information for managing mint operations at headquarters, as well as at field mints. In addition, the Mint's financial system would be improved by generating a greater range of management information reports.

Good cost information is vital for any well-run business operation, and the Mint's coin manufacturing activities are no exception. The Mint's recent actions to begin solving its cost accounting problems are encouraging first steps. However, since problems in accounting for the costs of the Mint's programs, such as those chronicled in this chapter, have existed for years, further cost accounting system development and implementation will be needed to provide accurate and timely information to its managers on the cost of programs.

An efficient and effective funds control system is the cornerstone for government agency efforts to ensure that funds are not overspent. The Mint's funds control system has serious deficiencies in its design, reporting, and use of financial plans. By providing detailed financial plans, the Mint has established a basis for maintaining funds control at the facility and program levels. However, these financial plans would be more effective management tools if they were complete, used to monitor obligations below the fund account level, and integrated with reporting of obligations incurred in order to show balances remaining. As with the cost accounting system, the Mint has indicated that an automated funds control system is being developed to help address the identified weaknesses and streamline the system.

Finally, additional 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. If the Mint's financial system were able to generate this type of information, its managers would be able to more effectively operate programs.

Recommendations

To modernize critical elements of the Mint's financial management system through improved cost, funds control, and management information, we recommend 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 are not 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 comply with the Comptroller General's internal control standard that control systems be documented, we also recommend that the Director of the Mint initiate projects that will update the Mint's written policies and procedures for cost accounting and for funds control.

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, the Mint combines information on numismatic and domestic coinage program operations for accounting and financial reporting purposes. Other businesslike operations of the government, such as manufacturing done by the Federal Prison Industries, Inc., and electricity generated and sold by the Tennessee Valley Authority, 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.

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. This financing method creates budget presentation and reporting problems for the Mint's programs. Also, it exempts the Mint from preparing the same financial reports for its numismatic programs that are required for other businesslike activities of the government.

Several times during the past 30 years, we have proposed that the Congress consider changing the method of financing the Mint's programs by establishing a revolving fund to finance all of its operations. The President's fiscal year 1990 budget indicates that the Office of Management and Budget will submit legislation proposing to finance the Mint's numismatic programs through a public enterprise revolving fund. We continue to 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.

Budgetary Problems Created by the Current Financing Method

Currently, production, marketing, and administrative and overhead costs of the Mint's numismatic and domestic coinage programs are funded together through the Mint's annual salaries and expenses appropriation account. In addition, the cost of metals and certain other costs related to both numismatic and domestic coinage programs are accounted for through three other fund accounts: the Coinage Metal

Fund, which accounts for nonprecious metal costs and gold and silver coin blanks; the Bullion Fund, which accounts for the value of gold and silver bullion and finished coins; and the Coinage Profit Fund, which accounts for and finances costs related to coin distribution, as well as waste and recoinage losses. The Coinage Metal Fund and Bullion Fund are not reported in the President's budget.

In addition to financial reporting problems, which are discussed in the next section, the current funding method creates the following budgeting problems.

- Outlays from the Mint's salaries and expenses account differ significantly from the amount appropriated to the account. Generally, outlays from an agency's salaries and expenses appropriation account are close to the account's appropriation. 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.

  For example, in fiscal year 1987, the Mint's salaries and expenses appropriation was about $43 million. The Mint, however, had total budget authority of about $163 million, with the addition of numismatic sales revenue of about $120 million. The revenue was deposited to the salaries and expenses appropriation account to offset numismatic program production and overhead expenses. Because actual receipts associated with these numismatic program costs exceeded expenditures, outlays from the salaries and expenses appropriation were reduced to about $19.4 million, or 45 percent of the budget authority appropriated.

  An Office of Management and Budget official confirmed the expectation that outlays for an agency's salaries and expenses account would have a consistent relationship to the annual appropriation for the account. Because of the negative outlay situation created by numismatic program revenues, the Mint's current method of reporting the numismatic programs under the annual appropriation account does not present a clear picture of outlays that have been made against the budget authority appropriated.

- For budgetary purposes, the Mint's numismatic programs are being incorrectly treated as though they were reimbursable programs. According to Office of Management and Budget Circular A-11, reimbursable government programs are those in which the performing agency is repaid for goods or services it provided to the receiving entity. These repayments are treated in the budget as receipts which offset obligations made in carrying out reimbursable programs. Businesslike programs, such as the Mint's numismatic programs, are typically financed through a revolving fund. Numismatic programs, however, are not financed as a revolving fund.

  Further, obligations for the numismatic programs dominate the financial activity of the Mint's salaries and expenses appropriation account. For fiscal years 1986 through 1988, reimbursable numismatic program obligations accounted for about one-half to three-fourths of the total obligations in this account. For example, reimbursable obligations were about 70 percent of total obligations for fiscal year 1988.
- Start-up costs of new numismatic programs are initially borne by appropriated funds. In these cases, appropriated funds finance start-up costs for the numismatic programs, such as coin design and die manufacturing costs, which are incurred before coins are produced and sold and before revenues are received. Sales revenue from the numismatic programs is eventually deposited in the appropriation account to reimburse it for funds advanced to start up a program. However, this reimbursement can trail the corresponding expenditures by 10 months, and, therefore, could result in improper charges to one fiscal year and incorrect reimbursements for the following years.
- Numismatic program obligations and receipts included in the budget schedules for the salaries and expenses appropriation do not include revenues and expenses associated with coinage metal. This understates numismatic program financial activity by about $250 million.

Improved Financial Reporting Is Needed for Numismatic Programs

Accounting for numismatic programs is a fragmented process. Because these programs are accounted for through four different appropriations and funds, a single financial process or system does not account for all aspects of the programs. Also, a complete set of financial statements showing the financial results of numismatic program operations is not prepared. Instead, financial reports are prepared from a combination of manual and automated data. These reports are not standardized, and they are not prepared in accordance with Treasury requirements or Comptroller General standards. Furthermore, as discussed in chapter 4, they do not contain complete and reliable information on the financial results of the Mint's numismatic programs.

Preparing and issuing financial statements would help instill discipline in accounting for numismatic program operations because financial data would be subject to the scrutiny of Mint management, the Office of Management and Budget, and the Congress. The concept of preparing and issuing financial statements for businesslike operations is not new. The Congress requires audited financial statements for government corporations under the Government Corporation Control Act (31 U.S.C. 9101-9110). Also, since 1956 Treasury has required agencies to prepare the following reports for their revolving funds: Statement of Financial Position, Statement of Operations, and Statement of Changes in Financial Position.

Further, our accounting principles and standards (see footnote 2, chapter 5) call for agencies to prepare a complete set of financial statements for their operations, including a balance sheet that clearly discloses financial position and a statement of operations that reports items such as expenses and revenues. By establishing a separate numismatic revolving fund and requiring that financial statements be prepared, issued, and annually audited for the fund, the Congress would receive comprehensive financial information on the results of the Mint's numismatic operations.

Information presented in the President's budget is not sufficient for the Congress to fully assess the results of these programs because it is incomplete and, therefore, understates the costs of the programs. The Office of Management and Budget requires agencies to prepare business-type budget statements for revolving funds, including a Statement of Revenue and Expense and a Statement of Financial Condition. These financial reports are not required for budget accounts which receive appropriations and, therefore, are not currently prepared for the Mint's numismatic program operations, which are included in the Mint's salaries and expenses appropriation account.

Because the Mint's numismatic programs are treated as reimbursements to the salaries and expenses appropriation account, no detailed financial or program information is required to be included for them in the budget. Establishing these programs under a revolving fund would, therefore, improve budgetary reporting to the Congress because separate budget schedules, as well as budgetary reports and program information, would be prepared for these operations.

Prior Proposals for a Mint Revolving Fund

We have proposed that the Congress consider changing the method of financing the Mint's operations on three previous occasions. In a 1959 report, we recommended that the Congress consider financing all operations of the Mint, except for gold and silver purchases, directly from seigniorage and by permitting the Mint to retain all revenues.[1] Under this proposal, the Mint would have estimated its obligations, expenditures, and costs in advance of annual approval by the Congress and the Bureau of the Budget (now the Office of Management and Budget).

On March 2, 1967, a Senate bill (S. 1156) was introduced to provide for financing all Mint operations through a Mint Operating Fund. In commenting on the bill, we advised that although we agreed with the need for a revision in the method of financing the Mint's operation, we would recommend that any such revision include the provision for affirmative congressional action normally associated with the appropriations process.[2] We also recommended that excess profits be reported in the budget.

In a 1970 report, we again expressed our view that there was a need to change the method of financing the Mint's operations. (See footnote 1, chapter 5.) We stated, "The present methods of financing the various activities of the Bureau—annual appropriations, authority to expend from three funds, and revenues from reimbursable operations—are subject to different types of congressional controls." We recommended, at that time, that the Congress consider changing the Mint's method of financing.

We continue to believe that it would be appropriate for the Congress to consider changing the method of financing the Mint's operations. 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. We believe that the operations financed by this fund should be reviewed and approved through the annual appropriations process.

A public enterprise revolving fund is an expenditure account authorized by the Congress to be credited with collections, primarily from the public, that are generated by and earmarked to finance a continuing cycle of

[1] Audit of the Bureau of the Mint For Fiscal Years 1956-1958 (B-114877, August 7, 1959).

[2] Letter to the Chairman of the Senate Committee on Banking and Currency, (April 21, 1967, B-114877).

business-type operations. Establishing such a fund for the Mint's numismatic operations, which are currently financed through four separate funds, would consolidate (1) all accounting and budgeting for sale revenues, (2) the cost of production, marketing, and administration, (3) the cost of raw materials, and (4) the cost of distribution, recoinage and waste for numismatic programs. Office of Management and Budget and Treasury regulations require that financial statements be prepared on the results of the operations financed by public enterprise funds.

Such a fund could be subject to the appropriations process. Therefore, in establishing the fund, the Congress could specify any provisions, limitations, or approvals that it deems appropriate, such as a ceiling on using retained earnings to fund program start-up costs. Further, the Congress could require that revenue and expense reports be prepared for each numismatic program financed through the revolving fund to ensure that the programs operate at no net cost to the government. Also, independently audited financial statements for the fund could be required as an integral part of the Mint's overall reporting to the Congress.

If a public enterprise revolving fund subject to the appropriations process were established for the Mint's numismatic operations, it would ensure that the Office of Management and Budget and the Congress receive complete information on the programs and their operations. The President's fiscal year 1990 budget indicates that the Office of Management and Budget will submit legislation proposing to finance these programs through a public enterprise revolving fund.

Conclusions

Currently, the Mint's annual salaries and expenses appropriation finances both domestic and numismatic coinage operations. The Congress does not receive separate or complete information on numismatic program results. Also, accounting for the numismatic programs is a fragmented process which contributes to the Mint's accounting problems, and the financial reports required for commercial activities are neither required nor prepared. Such reports would be required if the Mint's numismatic programs were financed through a public enterprise revolving fund.

Recommendation to the Congress

We recommend that the Congress establish a public enterprise revolving fund, subject to the appropriations process, to finance the Mint's numismatic program operations.

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