B-114877
1-16-70
48

REPORT TO THE CONGRESS

LM092346

Financial Management Of Bureau Of The Mint Operations Needs Improvement B-114877

Department of the Treasury

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

JAN. 16, 1970

~~715539~~ / 092346

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114877

To the President of the Senate and the
Speaker of the House of Representatives

We are presenting our report on the need for improvement in the financial management of the Bureau of the Mint operations, Department of the Treasury. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 66).

Copies of this report are being sent to the Director, Bureau of the Budget, and to the Secretary of the Treasury.

Elmer B. Staats

Comptroller General
of the United States

Contents

		Page
DIGEST		1
CHAPTER		
1	INTRODUCTION	4
2	NEED FOR IMPROVEMENTS IN ACCOUNTING FOR AND REPORTING ON OPERATIONS	5
	Costs of metals used in coinage not included in cost reports	8
	Property capitalization and depreciation	11
	Protection and executive direction costs not allocated to operating activities	19
	Need for improvement in accounting and reporting for reimbursable-type work	19
	Recommendation	26
3	NEED TO REVIEW DATA PROCESSING SYSTEM AND REQUIREMENTS	31
	Recommendations	33
4	STATUS OF PRIOR RECOMMENDATION TO CHANGE THE METHOD OF FINANCING BUREAU'S OPERATIONS	34
5	SCOPE OF REVIEW	40
APPENDIX		
I	Letter dated July 23, 1969, from an Assistant Secretary of the Treasury	43
II	Principal officials of the Department of the Treasury responsible for administration of the activities discussed in this report	48

ABBREVIATIONS

ADP	automatic data processing
EAM	Electronic Accounting Machines
GAO	General Accounting Office

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

FINANCIAL MANAGEMENT OF THE BUREAU OF THE MINT OPERATIONS NEEDS IMPROVEMENT
Department of the Treasury B-114877

D I G E S T

WHY THE REVIEW WAS MADE

The Bureau of the Mint manufactures, distributes, and redeems U.S. coins; receives gold and silver deposits; refines bullion; safeguards the monetary metals and coins; and manufactures U.S. medals, and coins for foreign countries. Operations of the Bureau are financed through annual appropriations, authority to spend from three funds, and revenues from reimbursable operations.

Because of the General Accounting Office's (GAO's) strong interest in the continued development, updating, and use of improved financial management systems in planning, executing, and controlling agency operations, GAO has reviewed selected facets of the Bureau of the Mint's accounting system and financial reporting.

FINDINGS AND CONCLUSIONS

Improvements are needed in the Bureau's accounting and reporting policies and procedures to provide more meaningful and reliable information for use in managing the operations of the Bureau and the resources entrusted to it.

In GAO's opinion the Bureau does not include all relevant data in its accounting records and financial reports nor does it allocate certain costs to appropriate program activities. (See pp. 6 and 7.)

Consequently, the Bureau's reports do not show, in GAO's opinion, reasonably accurate and complete costs of the performance of assigned functions. For example, the Bureau reported that its domestic coinage activity for fiscal year 1967 cost about $11.9 million. GAO believes that a more realistic cost of the domestic coinage activity was about $137.2 million for the year. (See pp. 5 and 6.) GAO believes that more complete and accurate accumulation of cost data would provide the Bureau with financial information that would enable it to assist in planning, executing, and controlling operations and to furnish the Congress with more meaningful information for acting upon appropriations and other legislation.

GAO believes that the Bureau needs to review its entire data processing requirements including the feasibility of establishing a centralized accounting system which would utilize a modern automatic data processing (ADP) system rather than utilize a piecemeal approach to data processing.

Since the establishment and implementation of long-range data processing goals require considerable time, GAO believes that, in the interim, the Bureau should actively pursue the implementation of its plans for processing accounting data and maintaining related records on Electronic Accounting Machines (EAM). GAO found that the more significant accounting records were not being processed by EAM and that many records were being processed both manually and by EAM. (See pp. 31 through 33.)

GAO believes that there is a need to revise the method of financing Bureau operations to enable the Congress to strengthen its control over Bureau activities, permit greater flexibility in planning coin manufacturing, and simplify financing procedures.

Regarding congressional control, estimates of expenditures from the Coinage Metal Fund--which, during fiscal year 1967, amounted to about $125 million, or 85 percent, of the funds expended by the Bureau--are not submitted to the Congress for approval. There is no limitation on the amount of coinage metal permitted to be on hand at any one time. (See pp. 34 through 39.)

RECOMMENDATIONS OR SUGGESTIONS

GAO is recommending that the Bureau revise its accounting and reporting policies and procedures to provide better disclosure of the results of the Bureau's activities and to supply information more useful for management purposes and for the Congress. (See p. 26.)

GAO is recommending also that the Bureau make a study of its entire data processing requirements including the feasibility of establishing centralized accounting and the installation of the type of automatic data processing equipment needed to implement the system. Because such studies and implementation of changes require considerable time, GAO is recommending further that the Bureau, in the interim, actively implement its plan for processing of accounting records by EAM and eliminate the manual records which duplicate the records processed on EAM equipment.

GAO suggested that the Secretary of the Treasury propose to the Congress that a change be made in the method of financing the operations of the Bureau which would permit greater flexibility in planning coin manufacturing operations and simplify financing procedures and that such proposal provide for affirmative congressional action normally associated with the appropriation process.

AGENCY ACTIONS AND UNRESOLVED ISSUES

On July 23, 1969, an Assistant Secretary of the Treasury advised GAO that:

--The Department of the Treasury agreed with most of GAO's proposals and recognized the need for improved financing of the Bureau of the Mint operations to provide flexibility in adapting coinage programs to meet changes in the public requirements for coins. Also, the Department of the Treasury believes that the time had come for the Bureau to undertake certain measures so as to fully achieve generally accepted standards in accounting, reporting, and financing of its industrial-type operations.

--The Bureau intended to proceed with desirable improvements in its accounting and reporting system but that certain changes would require approval by the Bureau of the Budget since the changes would affect the budget presentation. (See pp. 26 through 30.)

--The Bureau would eliminate, insofar as practicable, the manual records which duplicate the records processed on EAM equipment. Also, the Bureau would implement the rest of GAO's recommendation regarding the centralized system for processing accounting and management records on ADP equipment when the Bureau is able to employ sufficient qualified personnel.

--The Department recognized the need for improved financing of the Bureau's operations but that the Assistant Secretary believed the Department should defer submitting any legislative proposals on this matter until (1) the new Director of the Mint has had an opportunity to review the entire Bureau operations and (2) several proposed changes in the coinage laws and other acts affecting the Bureau's operations are enacted. (See pp. 38 and 39.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report is being issued to the Congress because of its continuing interest in the improvements of financial management systems by executive agencies.

GAO believes that the Congress will be interested in the consideration by the Department to propose legislation to change the method of financing the operations of the Bureau of the Mint.

CHAPTER 1

INTRODUCTION

The General Accounting Office has made a review of selected aspects of the accounting system and the financial reports of the Bureau of the Mint, Department of the Treasury. The scope of our review is described on page 40 of this report.

The major activities of the Bureau are the manufacture and distribution of coins of the United States and the redemption of uncurrent and mutilated U.S. coins. Other activities of the Bureau include the receiving of deposits of gold and silver; the refining of gold and silver bullion; the safeguarding of the Government's holdings of monetary metals and coins; and the manufacture of medals of a national character, special medals for other Government agencies, and coins for foreign countries.

Operations of the Bureau of the Mint are financed through (1) annual appropriations by the Congress, (2) the Bureau's authority to expend from three funds--Bullion Fund, Coinage Metal Fund, and Coinage Profit Fund--and (3) revenues from reimbursable operations.

Bureau activities are performed at the Office of the Director in Washington, D.C.; the mints in Denver, Colorado, and Philadelphia, Pennsylvania, the assay offices in New York, N.Y., and San Francisco, California;[1] and the bullion depositories at Fort Knox, Kentucky, and West Point, New York.

The principal officials of the Department of the Treasury and the Bureau of the Mint responsible for the activities discussed in this report are listed in appendix II.

---

[1]The Coinage Act of 1965, approved July 23, 1965 (79 Stat. 254), authorized the use of the facilities of the San Francisco Assay Office for coinage production until such time as the Secretary of the Treasury determined the mints of the United States were capable of producing an ample supply of coins.

CHAPTER 2

NEED FOR IMPROVEMENTS IN ACCOUNTING FOR AND REPORTING ON OPERATIONS

We believe that certain improvements are needed in the Bureau's accounting system and financial reports to provide more meaningful and reliable information for use in managing the Bureau operations and the resources entrusted to it and for reporting on the discharge of Bureau responsibilities for the resources and operations for which it is accountable.

The Budget and Accounting Procedures Act of 1950 (31 U.S.C. 66a) places the responsibility for establishing and maintaining adequate systems of accounting and internal control upon the head of each executive agency. The act provides that these systems must conform to the accounting principles, standards, and related requirements prescribed by the Comptroller General.

The objectives which are applicable to Federal agency accounting are set forth in the Budget and Accounting Procedures Act of 1950, as follows:

--Full disclosure of the financial results of the agency's activities.

--Adequate financial information needed for the agency's management purposes.

--Effective control over and accountability for all funds, property, and other assets for which the agency is responsible.

--Reliable accounting results to serve as the basis for preparing and supporting the agency's budget requests, for controlling the execution of the budgets, and for providing financial information required by the Bureau of the Budget.

--Suitable integration of agency accounting with the central accounting and reporting operations of the Treasury.

The Bureau does not include, in our opinion, all relevant data in its accounting records and financial reports nor does it allocate certain costs to appropriate program activities. Consequently, the Bureau's reports do not show reasonably accurate and complete costs of performing its assigned functions, For example, the Bureau reported that its domestic coinage activity for fiscal year 1967 cost about $11.9 million. However, after adjusting the Bureau's costs for the items subsequently discussed in this report, we believe that a more realistic cost of the domestic coinage activity was about $137.2 million.

Comparisons of unit costs of production per 1,000 domestic coins reported by Bureau installations with the unit costs as adjusted by us are as follows.

	Bureau installations			
	Philadelphia	Denver	San Francisco	Average cost
1 cent:				
Bureau	$ 1.50	$ .69	$ 1.10	$ 1.06
GAO	4.23	3.82	4.62	4.14
5 cent:				
Bureau	-	.98	2.45	1.46
GAO	-	9.26	10.30	9.60
10 cent:				
Bureau	1.10	.78	1.99	.98
GAO	6.19	6.85	7.88	6.60
25 cent:				
Bureau	1.72	1.15	3.80	1.55
GAO	15.69	16.62	18.42	16.23
50 cent:				
Bureau	-	5.13	11.65	5.15
GAO	-	234.37	242.61	234.39

The above schedule shows that the Bureau's reported costs per 1,000 coins are considerably less than the unit costs as determined by us. Also, the relative cost of performance between Bureau installations shows varying relationships. For example, the Bureau reported that the unit cost for production of a 25-cent coin in Denver was 57 cents lower than in Philadelphia, but our determination of the unit costs showed that Denver's cost was 93 cents higher.

We believe that more complete and accurate accumulation of cost data would be of benefit to both management and the Congress by providing the Bureau with financial information that would enable it to assist in planning, executing, and controlling operations and to furnish the Congress with more meaningful information for acting upon appropriations and other legislation.

Following are the general deficiencies we noted in the Bureau's accounting and reporting of its operations.

--Costs, financed from the Coinage Metal Fund, for metals used in domestic coinage and for commercial fabrication of metal coinage strip and related items were not included in either cost reports or budget presentations.

--Not all property was capitalized, and depreciation was not allocated as a cost to the various Bureau operations.

--Costs of protection and executive direction of the Bureau's installations were not allocated to operating activities.

--Accounting and reporting with respect to the cost of reimbursable activities did not include all costs and revenues relating to these activities.

Although the Bureau's activities are funded from several sources, we believe that its accounting and reporting can be modified to integrate all interrelated financial data so as to provide more accurate and meaningful reports on fiscal status, financial results of operations, and cost of performance of assigned functions.

In this connection, the accounting principles and standards prescribed by the Comptroller General (2 GAO 16.4) state, in part, that:

> "Any unqualified representation as to cost implies that all significant elements of costs, in terms of financial, property, and personnel resources consumed in carrying out a given purpose, are included in the amount reported as total cost. Such factors as (a) differences in methods of financing the resources used, (b) prescribed requirements for obtaining reimbursement or setting prices for sales of goods or services, and (c) administrative policies relating to budgeting, accounting, and financial reporting do not constitute valid bases for excluding items of cost that are otherwise applicable."

Following are our specific comments on the deficiencies noted in the Bureau's accounting and reporting of its resources and operations.

COSTS OF METALS USED IN COINAGE NOT INCLUDED IN COST REPORTS

The Coinage Metal Fund is used by the Bureau to purchase metals used in coinage and to pay for the costs related to the commercial fabrication of coinage metal strip. These costs were not included in the Bureau's cost reports nor in the Bureau's budget presentation to the Congress. For fiscal year 1967, the cost of metals used in the manufacture of domestic coins, excluding numismatic coin sets, was about $124.6 million, which represents about 90 percent of the total cost to manufacture coins.

The accounting principles and standards prescribed by the Comptroller General (2 GAO 16.4) state, in part, that:

> "The cost accounting system should provide for the accumulation of information on all significant elements of cost. If any significant elements of cost are omitted, the cost report should disclose the nature and estimated amounts of the omissions

and the reasons therefor so that users of the information will not be misled.

"The system also should permit identification of the costs financed by the agency's appropriations and funds, as distinguished from other costs."

The Bureau's accounting practices and procedures do not provide for including in the cost records the costs financed by the Coinage Metal Fund. The only costs included in the Bureau's cost reports are those paid from appropriated funds. For fiscal year 1967, the Bureau reported that the cost to manufacture domestic coins, excluding numismatic coin sets, was about $11.9 million, which we estimate represented only about 10 percent of the total cost of coin manufacture.

Prior to the authorization to manufacture clad coins (The Coinage Act of 1965, approved July 23, 1965 (79 Stat. 254)), expenditures from the coinage funds were, generally, only for the cost of metals, transportation of the metals, and related items. However, due to inadequate Bureau production capacity and to a lack of equipment to manufacture clad coinage metal strip, the Bureau awarded contracts to commercial manufacturers for the conversion of the basic metals--supplied by the Bureau--into coinage metal strip to be used to mint coins. The payments under the contracts and the costs to transport the metals to and from the contractors' facilities were financed from the Coinage Metal Fund--about $52.6 million during fiscal year 1967.

The exclusion of costs financed by the Coinage Metal Fund--costs of metals and commercial fabrication of coinage metal strips--from production cost reports results in a significant understatement--about $124.6 million for fiscal year 1967--of the costs of coin manufacture and makes difficult and time-consuming meaningful cost comparisons for different Bureau installations or for different operating years.

For example, the Philadelphia Mint produced 1-cent coins at reported costs of 79 cents and $1.50 per thousand coins for fiscal year 1966 and 1967, respectively. However, the Philadelphia Mint utilized contractor-furnished coinage metal strip for 60 percent of the 1-cent coins produced in fiscal year 1966 in contrast to only 7 percent during fiscal year 1967.

The Bureau's budget presentations to the Congress did not show the metal, fabrication, and transportation costs financed, or to be financed, by the Coinage Metal Fund. Consequently, the Congress, when reviewing the Bureau's performance and requests for appropriations, is not routinely informed of the costs incurred or to be incurred for metals used in the manufacture of coins and the extent of actual or planned contracting for the manufacture of coinage metal strip.

PROPERTY CAPITALIZATION AND DEPRECIATION

The Bureau's accounting procedures and practices, in our opinion, do not provide for adequate accounting for property for which the Bureau has management responsibility nor do they produce reasonably accurate or complete cost information with respect to Bureau operations.

Regarding property accounting, the accounting principles and standards prescribed by the Comptroller General (2 GAO 12.5(c)) state, in part, that:

> "Each agency should adopt accounting policies appropriate for its property and establish, as an integral part of its accounting system, an adequate and reliable system of records and related procedures to provide a proper accounting for the Government's investment in the property for which the agency has management responsibility."

Regarding cost accounting, the prescribed accounting principles and standards (2 GAO 16.4) state, in part, that:

> "Agency accounting systems shall incorporate appropriate cost accounting techniques so that needed cost information will be produced for management and reporting purposes."
>
> *　　*　　*　　*　　*
>
> "Cost data provided for management and congressional use must be reasonably accurate to be of valid use in making evaluations or decisions."

During our review, we noted the following deficiencies regarding the Bureau's accounting for property.

--The Bureau was charging current operating costs rather than capitalizing and depreciating (1) the cost of work performed by Bureau personnel relating to the installation, rebuilding, and fabrication of equipment and (2) the cost of equipment procured by the Bureau with funds from reimbursable operations.

--The Bureau excluded from the accounting records and reports (1) the value of equipment donated or loaned from other Government agencies and (2) the depreciation or rental expenses for these assets.

--The Bureau did not allocate depreciation of equipment as a cost to the various Bureau activities.

Consequently, we believe that the Bureau's reports as they relate to equipment and costs of operations are not fairly stated and are of limited use for comparing operations and for establishing rates for reimbursable operations.

Capitalizable Bureau expenditures charged to current operations

The Bureau's practice is to charge as current operating costs (1) the expenditures for work performed by Bureau personnel to install new equipment, rebuild and modernize old equipment, and fabricate new equipment--about $247,000 during fiscal year 1967--and (2) the expenditures for equipment procured by the Bureau with funds from reimbursable operations--about $566,000 on hand at June 30, 1967.

We believe that such expenditures should have been capitalized and the cost amortized over the useful life of the assets. The practices followed by the Bureau tend to overstate operating costs for the year the equipment was acquired or improved and to understate costs in succeeding years.

The accounting principles and standards of the Comptroller General (2 GAO 12.5(d)) state, in part, that:

"The basic cost of property acquired shall include the amounts paid to acquire it, including transportation, installation, and related costs of obtaining the property in the form and place to be used or managed.

"Agency accounting policies should prescribe the accumulation of all significant costs applicable to property acquisitions so that agency accounts will disclose the full extent to which public funds are applied to such purposes."

The Bureau's accounting procedures provide that items of equipment which cost more than $100 should be capitalized and that, when extensive installation of equipment is made and major complete units of equipment are manufactured by the Mechanical Division of a Bureau installation, the cost of such work may be capitalized upon approval of Bureau officials. The Bureau's Cost Accounting Manual provides for establishing an account to represent the cost of manufacturing and/or installing equipment items which are to be capitalized. The Bureau's practice, however, has been to capitalize the costs of work performed under contracts but to expense the costs incurred by the Mechanical Division in doing comparable work.

From the cost accounting records at the Philadelphia Mint, we determined that, of the $966,466 charged as mechanical costs during fiscal year 1967, $149,255, or about 15 percent, should have been capitalized. For example, we found that the costs of the following Mechanical Division projects were being charged to current operations instead of being capitalized.

--Four proof coin presses had been rebuilt and the costs, about $31,300, had been charged to the Coinage Division.

--A new coin press had been installed and the cost, about $12,200, had been charged to the Coinage Division.

--Work had been performed to renovate the spectrograph room and install new equipment and the costs, about $11,000, had been charged to the Assay Division.

--A cloth spreader had been installed in the sewing room and the cost, about $2,200, had been charged to the Sewing Unit of the Coinage Division.

We found also that at the Philadelphia Mint certain items classified as supplies and valued at about $11,700 had been charged to current operations. In our opinion, these items should have been capitalized because they became integral parts of new equipment. These items included six industrial truck batteries costing about $9,000 which had been sent to a manufacturer for installation on six new fork-lift trucks that were being procured by the Bureau.

The records of the three other Bureau installations we reviewed were of such a nature that the costs of work performed by Bureau personnel which should have been capitalized were not readily determinable. We were able, however, to identify costs of about $53,000 at the San Francisco Assay Office, $44,000 at the Denver Mint, and $500 at the New York Assay Office which, in our opinion, should have been capitalized but had been charged to current operations during fiscal year 1967. We noted that, during fiscal years 1965 and 1966, the Bureau had charged current operations with costs of $270,500 in connection with the reactivation of the San Francisco Assay Office. Of the amount, about $206,000 in our opinion, should have been capitalized and depreciated because it pertained to installation of equipment.

We found further that the Bureau had not capitalized equipment purchased with reimbursable funds. We were able to identify many of these items, which, in our opinion, should have been capitalized. The costs of these items as of June 30, 1967, were as follows:

Installation	Costs
Philadelphia Mint	$439,871
San Francisco Assay Office	123,400
New York Assay Office	2,616
Total	$565,887

Value of equipment acquired through donation or loan not shown in accounting records or reports

The Bureau's accounting procedures do not provide for the inclusion in its accounting records or reports (1) the value of equipment donated or loaned by other Government agencies--about $1.3 million as of June 30, 1967--and

(2) the depreciation or rental expenses for such equipment--about $78,000 for fiscal year 1967. In our opinion, these items should have been capitalized and the depreciation or rental costs thereon charged to current operations.

The accounting principles and standards prescribed by the Comptroller General (2 GAO 12.5) state, in part, that:

> "Property accounting for Federal agencies must include appropriate procedures for:
>
> (1) Recording in accounts all transactions affecting the agency's investment in property, including:
>
> (A) All acquisitions, whether by purchase, transfer from other agencies, authorized donation, or other means, as of the date the agency takes custody of the property."
>
> *   *   *   *   *
>
> "Property transferred on a nonreimbursable basis shall be accounted for by the receiving agency on the basis of estimated useful value for its operations.
>
> "Transportation, installation, and related costs incurred by the receiving agency shall be added to the accounting basis."

The Bureau, generally, has set up a property record for each donated or loaned item of equipment but has not assigned values to these items. The following schedule shows, by Bureau installation, the estimated replacement cost and book value (replacement cost less accumulated depreciation) for the donated and loaned equipment at June 30, 1967, and the depreciation expense applicable to fiscal year 1967.

Installation	Donated and loaned equipment: Replacement cost (note a)	Donated and loaned equipment: Book value at June 30, 1967 (note b)	Deprecia-tion for fiscal year 1967
Denver Mint	$ 608,206	$504,988	$30,108
San Francisco Assay Office	480,662	63,349[c]	28,997
Philadelphia Mint	231,553	62,323	17,413
New York Assay Office	20,500	7,000	1,400
Total	$1,340,921	$637,660	$77,918

[a]Replacement cost values established by officials of the Bureau's installations.

[b]Depreciation based on Bureau criteria.

[c]Book value for loaned items is based on the remaining period the item is to be on loan.

Depreciation expense not allocated to production as a cost element

The Bureau's policy and practice is to include depreciation of equipment in cost reports as a separate cost item but not to allocate the depreciation as a cost to the various Bureau operations. As a result, the costs of producing domestic coinage, foreign coinage, medals, and numismatic coin sets; of accepting and processing bullion deposits; of refining gold and silver; of storing and shipping coin and bullion; and of other activities were understated by about $714,000 for fiscal year 1967.

The purpose of accounting for depreciation of long-lived capital assets is to systematically allocate their costs over the period of their usefulness or capacity to render service so that all significant costs will be included in total costs of performance reported for the information and use of management officials and the Congress. In this connection, the accounting principles and standards prescribed by the Comptroller General (2 GAO 12.5h) state, in part, that:

"Regardless of the fact that depreciation is not represented by current expenditures of funds and although there is no precise way to arrive at an accurate measure of depreciation as a current cost, it is nonetheless a real cost of carrying out operations. Accounting for depreciation as a cost is an integral part of the accrual basis of accounting. ***

"Procedures shall be adopted by each agency to account for depreciation (or amortization of cost) of capital assets whenever a periodic determination of the cost of all resources consumed in performing services is needed. The principal circumstances in which such information is needed include the following:

(1) The financial results of operations in terms of costs of performance in relation to revenues earned, if any, are to be fully disclosed in financial reports.

(2) Amounts to be collected in reimbursement for services performed are to be determined on the basis of the full cost of performance pursuant to legal requirements or administrative policy.

"Another circumstance requiring consideration, where the investment in fixed property assets used is substantial, is the need to assemble total costs to assist management and other officials in making cost comparisons, evaluating performance, and devising future plans."

The installations' monthly cost reports show depreciation as a single line item and their annual reports show the depreciation allocated to the budget activities (e.g., coinage, cash and deposits, protection). However, equipment depreciation is not shown in the reports as part of the costs of manufacturing the various coins nor allocated to reimbursable and nonreimbursable operations.

The installations' depreciation of equipment for fiscal year 1967 as shown in their records and the increases, as computed by us, of the items not capitalized, as previously discussed on pages 12 through 16, are shown below.

Installation	Depreciation according to installation records	Increases according to GAO computations	Adjusted depreciation
Philadelphia Mint	$232,632	$ 82,396	$315,028
Denver Mint	133,951	30,108	164,059
San Francisco Assay Office	129,804[a]	70,430	200,234
New York Assay Office	32,830	1,619	34,449
Total	$529,217	$184,553	$713,770

[a]Property records showed depreciation was $129,804 but depreciation reported was only $65,000.

We believe that the Bureau should allocate depreciation of equipment to its various operations so as to facilitate comparisons between installations and provide reliable information for estimating costs of reimbursable operations.

PROTECTION AND EXECUTIVE DIRECTION COSTS NOT ALLOCATED TO OPERATING ACTIVITIES

The Bureau has established protection and executive direction at its field installations as separate operating functions and does not allocate the cost of these functions to the operating activities. We are of the opinion (1) that protection and executive direction are operating functions only at the Fort Knox and West Point bullion depositories and that the costs should be treated as separate elements of expense of operating the depositories and (2) that the costs of protection and executive direction at the mints and assay offices--about $1.6 million for fiscal year 1967--should be allocated to these various activities such as manufacturing of domestic coins, refining of bullion, and storing and handling of bullion and coin. We are of the opinion, therefore, that the costs of the various activities have been significantly understated.

Although Bureau procedures do not provide for allocating the costs of protection and executive direction to operational activities, the procedures provide that the rates charged for the manufacture of foreign coins be based on estimated costs that include protection and executive direction costs. We believe that, similarly, the costs of the other activities of the mints and assay offices should include protection and executive direction costs. Since the major activity at the Fort Knox and West Point bullion depositories is the protection of bullion, we believe that protection and executive direction costs should continue to be treated as a separate cost element of operating those installations.

NEED FOR IMPROVEMENT IN ACCOUNTING AND REPORTING FOR REIMBURSABLE-TYPE WORK

The Bureau performs various services and manufactures items for sale. The revenues are used to reimburse the Bureau's appropriations for the work performed or are deposited into the general fund of the Treasury. Although the charges assessed for reimbursable work are intended to cover the cost of performing such work, the Bureau's accounting for and reporting of costs incurred for reimbursable work is not done on that basis.

The Bureau's accounting and reporting procedures and practices provide for accumulating certain of the costs of performing reimbursable work. For work with respect to which reimbursements accrue to the Bureau's appropriations, the costs accumulated do not include equipment depreciation or general and administrative expenses allocable to the work performed. Therefore, the total cost of such work is not readily available and cannot be easily compared with the corresponding revenues.

For work with respect to which reimbursements accrue to the general fund of the Treasury, equipment depreciation and general and administrative expenses, except for the cost of executive direction and protection, are accumulated and reported. These costs, however, are not shown separately for individual activities so as to permit a ready comparison of the costs with the charges for the work.

Because of the manner of accounting for and reporting of the cost of various reimbursable-type operations, neither the operations nor the adequacy of the rates charged for such work can readily be evaluated. We believe that the accounting for and reporting of costs of reimbursable-type work should disclose all significant elements of costs incurred in accomplishing the work and that such costs should be compared with the amounts charged for the work.

The accounting principles and standards prescribed by the Comptroller General (2 GAO 16.4) state, in part, that:

> "Accounting for costs *** is required where reimbursement for services performed is to be at cost or where sales prices are primarily based on cost. Adequate cost accounting is also required where full recovery of cost from customers or users of services is a statutory requirement."

The prescribed accounting principles and standards (2 GAO 17.2(b)) also state, in part, that:

> "Agencies carrying on business-type activities should prepare statements of operations disclosing revenues and costs.

"Applicable costs incurred to produce revenues from sales of materials or services should be compared or matched with the amount of such revenues in preparing financial reports on revenue-producing operations."

Activities financed by reimbursements

The revenues received for manufacturing coins for foreign countries, numismatic coin sets, and medals are used to reimburse Bureau appropriations for the costs incurred. The Bureau's accounting for such reimbursable work consists of accumulating only the direct costs--labor, material, and other direct expenses--and factory overhead. The Bureau does not allocate depreciation nor general and administrative-type expenses to this type of reimbursable work.

The difference between the revenues from this type of reimbursable work and the direct costs of the work is included in the administrative overhead accounts which, in turn, is allocated to the other activities of the installations.

The results of each month's reimbursable operations are shown as attachments to the installations' monthly functional cost reports, but, except for numismatic coin sets, the costs are not included in the annual cost reports. Since depreciation and general and administrative expenses are not allocated to reimbursable work, it cannot be readily determined whether the rates charged for the work were adequate to recover the total costs of such work.

To determine the total costs of reimbursable work for fiscal year 1967, we adjusted the direct costs recorded by the Bureau to include depreciation and general and administrative expenses. A comparison of the revenues, recorded direct costs, and the costs as adjusted by us for several reimbursable items follows.

	Revenue	Recorded cost	GAO adjusted cost
Foreign coins	$100,442	$80,449	$ 85,545
List medals	43,598	59,560	68,670
Other medals	99,801	97,305	107,431
Dies manufactured	10,327	8,582	9,068

An analysis of the data in the above table shows that the adjusted costs for the reimbursable items ranged from about 6 to 15 percent greater than the recorded costs for the items. The above data shows also that, although the revenues from the sales of other medals were adequate to recover recorded costs, they were not sufficient to cover cost when depreciation and general and administrative expenses were included.

Bureau officials advised us that the rates charged for reimbursable work are generally based on estimated costs. However, the actual costs recorded do not include depreciation and general and administrative expenses. We believe that the Bureau should have complete cost data on reimbursable work so that it can evaluate the reimbursable operations and the adequacy of the rates.

An analysis of the data in the table shows also that the adjusted cost for list medals exceeded the revenue by about 58 percent. In this connection, a Bureau's internal audit report on this operation, dated March 13, 1968, stated that, during the auditors' visit to the Philadelphia Mint in November and December 1967, they had reviewed the cost chargeable to list medals manufactured in conjunction with an actual observation of the entire production process. The report pointed out that the cost of producing list medals exceeded the sales price of the medals and that the prices should possibly be increased or operations improved to reduce production costs.

By letter dated June 11, 1968, the Director of the Mint transmitted copies of the internal audit report to the Superintendent of the Philadelphia Mint and stated, in part:

"that current costs applied to list medals are in excess of the sales price ***. I feel that this indicates an immediate need for a comprehensive study of the medal operation to determine whether it has become antiquated and not in pace with available modern techniques. *** I do not believe we should increase the selling price of our medals without a comprehensive study, and will defer the recommendation to increase the unit selling price until such a survey has been made."

We believe that this situation points out the need for inclusion of cost information relating to reimbursable operations in the annual cost reports so that an evaluation can be made, on a timely basis, of such operations and the adequacy of the charges assessed.

<u>Activities financed by appropriations with reimbursements deposited into the general fund of the Treasury</u>

The costs relating to the acceptance and processing of bullion deposits, the parting and refining of bullion, commercial assays, and the processing and recovery of bullion from sweeps and scrap are financed from appropriations. However, the revenues from such activities are deposited into the general fund of the Treasury.

Equipment depreciation and general and administrative expenses, as determined by the individual installations, were allocated to the budgeted activities. The costs of the individual activities, however, were not shown separately in any of the cost reports nor compared with the charges assessed for the services performed.

Relating to the assaying, melting, parting and refining, stamping and related services, the Code of Federal Regulations (31 CFR 90.1(b)) provides that:

"The charges for the various operations on bullion deposited, for the preparation of bars, and for the assay of samples of bullion and ores are fixed from time to time by the Director of the

Mint, with the concurrence of the Secretary of the Treasury, so as to equal but not exceed in their judgment the actual average costs. The U.S. Mints and Assay Offices shall impose appropriate charges for services performed under these regulations."

The installations, however, do not show the costs and charges applicable to each of these activities in their cost reports. Therefore, comparisons of costs with the amounts collected cannot be readily made to ensure that the charges assessed are adequate. The costs relating to (1) acceptance and processing of bullion deposits are included in the cash and deposits operations, (2) parting and refining are included in the refining operations, (3) commercial assays are allocated to the coinage, refining, and cash and deposits operations, and (4) processing and recovery of bullion from sweeps and scrap are also allocated to the coinage, refining, and cash and deposits operations.

The charges for bullion deposits included amounts for the acceptance and processing of the deposits and for the parting and refining of the bullion, but the charges were not segregated in the records. Thus it was not possible to readily identify the charges collected during the year for each operation from the records.

However, we analyzed the Bureau's installations' records and identified the various charges for bullion deposits and special assays during fiscal year 1967. We also isolated the direct costs for these operations and included depreciation and general and administrative expenses in these costs and compared them to the charges for selected operations as shown in the following schedule.

	Charges	Reported costs	GAO adjusted costs
Acceptance and processing of deposits	$194,625	$426,212[a]	$675,404[b]
Commercial and Government assays	16,346	18,705	23,415

[a]Includes assay costs of $191,204.

[b]Includes a portion of the office and incidental expenses of the Cash and Deposits Division.

Had the above operations been accounted for and reported upon separately, or had the costs been analyzed, we believe that it would have been apparent that the charges, which were effective June 30, 1966, were not adequate. It was not until April 15, 1968, however, that the charges were revised.

We were informed by Bureau officials that no systematic reviews had been made of the charges and that the revision of the charges had been prompted by complaints from private industry that the Bureau's charges were not competitive. The Bureau then reviewed the factory costs incurred in the preceding year, which did not include an allocation of depreciation and general and administrative expenses, and estimated the new rates to be charged for these activities. The rates were significantly increased at that time, but we did not evaluate their adequacy.

We determined that the costs for the recovery of bullion from sweeps and scrap was about $121,000 for fiscal year 1967, but the value of the bullion recovered from this work was not readily determinable.

RECOMMENDATION

To provide better disclosure of the results of the Bureau's activities and thus supply more meaningful information for management purposes and for inclusion in reports to the Congress, we recommend that the Secretary of the Treasury require the Bureau to revise its accounting and reporting policies and procedures to provide for:

--Inclusion of the cost of metal used in domestic coinage, commercial fabrication of metal coinage strip, transportation, and other related items in the operational cost reports and budget presentations.

--Capitalization of (1) the costs relating to the construction and installation of equipment by Bureau personnel, (2) equipment purchased from funds received from reimbursable operations, and (3) equipment donated or loaned by other Government agencies.

--Allocation of field installations' depreciation, protection, and executive direction expenses to the installations' operating activities.

--Accumulation and reporting of all costs and revenues relating to reimbursable-type activities.

- - - -

An Assistant Secretary of the Treasury, in commenting on our draft report in July 1969 (see app. I), stated that:

> "While we hold that the Bureau of the Mint has maintained a modern and business-like accounting system and budget pattern for many years, we have recognized some inconsistencies, particularly in respect of fixed assets. However, for the most part the inconsistencies were influenced by the budget format in use, as well as the awkward system of financing which you have described and made the subject of your most significant recommendation. Now, however, with increased acceptance of accrual accounting and cost budgeting concepts that have been developed in the Federal

Government over the past few years, we believe that the time has come for the Bureau to undertake such measures as to fully achieve generally accepted standards in accounting, reporting and financing of its industrial type operations.

"While these corrective measures could best go hand in hand with the proposed new financing system, you will note that the Bureau intends to proceed with desirable improvements in its accounting and reporting systems."

The Assistant Secretary's specific comments on our recommendation follow.

Regarding the inclusion of metal, fabrication, and transportation costs in the Bureau's reports, the Assistant Secretary stated that:

"*** the Bureau has *** recognized that the omission of metal costs and fabrication costs (as well as transportation), has tended to lose comparability of unit costs as between the various plants and varying periods of time. Consequently, we are considering reflection of these costs as elements of unit cost for each denomination of coinage. Likewise, we expect to pursue the matter of showing such costs in the "Program by Activities" schedule of the budget with the Bureau of the Budget for their consideration."

Regarding capitalization of equipment, the Assistant Secretary stated that:

"Action will be taken to record the value of equipment donated or loaned in the accounts and to provide for its depreciation. We are also preparing to capitalize costs of installation and construction of equipment and will provide for consistent treatment of all other equipment whether purchased from reimbursement funds or not. Again, we will seek agreement of budget review authorities for treatment of equipment as any other cost in the "Program by Activities" schedule of the budget document.

Regarding the allocation of the field installations' depreciation, protection, and executive direction expenses to their operating activities, the Assistant Secretary stated that:

> "*** In conjunction with future incorporation of all capital costs as such in the accounts, we would take steps to apply depreciation to the organizational segments where applicable, including reflecting it in the unit costs for coinage. As already stated, its treatment in the budget would depend upon approval of the pattern proposed.
>
> "With regard to application of protection costs to coinage and other budgetary functions, we *** would like to consider it further before making a change. ***
>
> While it may be feasible to allocate executive direction expenses to other Bureau operations, it appears as a separate activity at the request of the Bureau of the Budget in the budgets of the several Treasury Bureaus, which procedure we intend to retain.

We are not taking issue with the Bureau's practice of showing executive direction as a separate program activity in its budget presentation. We are of the view, however, that the executive direction program activity costs as shown in the budget should not include the executive direction activity costs of the field installations but should be limited to the executive direction costs of the Bureau's headquarters office. As previously pointed out, we believe that both the executive direction and protection costs at the mints and assay offices should be allocated to their operating activities and that the executive direction and protection costs at the Fort Knox and West Point depositories should be treated as separate elements of cost.

In this connection, we have noted that the budget presentations of the other Treasury bureaus limit the amounts included in their executive direction budget activity to the costs of policymaking officials at their headquarters offices.

Therefore, we believe that, in accordance with the requirements in the Bureau of the Budget Circular No. A-11 (sections 11.4 and 32.2), the Bureau of the Mint should consult with and obtain approval of the Bureau of the Budget to exclude the costs of the top officials of the field installations from the executive direction activity in the Bureau of the Mint's budget.

Regarding the accumulation and reporting of all costs and revenues for reimbursable-type activities, the Assistant Secretary stated that:

> "A change in accounting treatment of equipment required for reimbursable operations, and the allocation of costs through a systematic charging of depreciation, would result in the showing of all direct costs of reimbursable operations in the accounts. The Mint does normally include an amount to cover administrative costs, when preparing estimates for reimbursable work, and the amount of administrative costs applicable to each order is shown in the cost report, Form 1074c, upon completion of the reimbursable job. We prefer to continue treating administrative costs in this manner, rather than applying a portion of actual administrative cost directly to the reimbursable accounts. With respect to charges on bullion deposits, we note that the report shows a substantial difference between amounts charged and reported costs during fiscal year 1967. The Mint hopes to review costs and update the Table of Charges more frequently than has been the practice."

Although an amount for administrative costs is included in the cost estimates for reimbursable work, we remain of the opinion that the cost accounts for all items of reimbursable work should show all direct and indirect costs applicable to the work. The maintenance of the cost accounts on this basis would enable management to be provided with complete cost data on a timely basis for evaluation of the effectiveness of the reimbursable operations and the adequacy of the rates charged for the work.

We believe that current cost and revenue data, if properly used and effectively evaluated on a continuing basis by Bureau management, would (1) have highlighted the deficiency and would have prompted action concerning the list medals operation at the Philadelphia Mint prior to the disclosure of the situation by the Bureau's internal auditors (see p. 22) and (2) enable the Bureau to continually update its predetermined charges for reimbursable work.

Although the intended actions on our recommendation as outlined by the Assistant Secretary, if put into effect and properly implemented, would help to provide full disclosure of the results of the Bureau's activities, we believe that the Bureau should also adopt and implement the other parts of our recommendation--to allocate protection and executive direction of the bureau's installations expenses to Bureau operations and to accumulate and report all cost and revenues relating to reimbursable operations--to provide a better disclosure of the results of the Bureau's activities and make it more useful for management purposes.

CHAPTER 3

NEED TO REVIEW DATA PROCESSING

SYSTEM AND REQUIREMENTS

We believe that the Bureau needs to review its entire data processing requirements including the feasibility of establishing a centralized accounting system which would utilize a modern automatic data processing system. Since the establishment and implementation of long-range data processing goals require considerable time, we believe that, in the interim, the Bureau should actively pursue the implementation of its plans for processing accounting data and maintaining related records on EAM.

The Bureau's accounting and other management data are being processed both manually and through utilization of EAM. The field installations have utilized EAM equipment to process some of these data since 1965, and various records were converted to EAM processing. In March 1967 the Bureau established a plan for the conversion of various other records at the field installations to EAM processing.

We noted, however, that, as of May 1969, the more significant accounting records--the allotment ledgers, general ledgers, cost ledgers, and bullion accounting ledgers--were not being maintained by EAM. We were informed by Bureau officials that, with the exception of the allotment ledger for which a pilot study was under way, these records would not be processed by EAM in the near future.

We also found that certain records at the field installations which were being maintained on EAM were also being maintained manually. Most of the duplicate manual records are not needed and could be eliminated and the others could be eliminated by providing for the inclusion of additional data on the EAM records. These records include (1) leave records at the Philadelphia, Denver, and San Francisco installations, (2) equipment and plant ledgers at the Philadelphia, Denver, and New York installations, (3) stores inventory records at the Philadelphia, New York, and San Francisco installations, (4) die inventory records at the

Philadelphia and San Francisco installations, and (5) the listing of bullion stored at the New York installation.

To obtain the benefits of EAM's processing of accounting data and records as planned, the Bureau should require the elimination of the duplicate manual records and the acceleration of the conversion of other records to EAM processing.

During February 1968, the Bureau installed EAM equipment in its Washington office. Part of the plan for this equipment is to obtain information from the Bureau's field installations on punched cards to facilitate the preparation of consolidated reports. Although this is a step in the right direction, we believe that the Bureau needs to establish some long-range data processing goals.

In this connection, the Bureau has proposed that the San Francisco Assay Office transfer the processing of orders for numismatic coin sets from EAM to a different type of ADP equipment. The report on the feasibility study for this function recommended that the Bureau rent one of the latest type ADP equipment for installation at San Francisco. We believe that, rather than considering a piecemeal approach to data processing, the Bureau should consider its entire data processing needs including the desirability of a centralized accounting system utilizing a modern ADP system.

The Bureau has an integrated accounting system under which records are maintained at the field installations and overall control accounts are maintained at the central office in Washington, D.C. The various records maintained and reports prepared by the installations' operating units are tied into the installations' accounting records. It appears to us that efficiencies and possible savings could be realized by processing the accounting and related data at a central location utilizing modern ADP techniques and equipment. We believe that this would be particularly desirable because of the interrelationship between the records and reports of the various field installations and those of the Bureau's central office and between the records of various operating divisions and those of the installation's accounting division.

RECOMMENDATIONS

We recommend that the Bureau make a study of its entire data processing requirements including the feasibility of establishing centralized accounting and the installation of the type of ADP equipment needed to implement the system. Because such studies and implementation of changes require considerable time, we recommend also that the Bureau, in the interim, actively implement its plan for processing of accounting records by EAM and eliminate the manual records which duplicate the records processed on EAM equipment.

An Assistant Secretary of the Treasury, in commenting on our draft report in July 1969, stated that:

> "Insofar as practicable we will eliminate manual records which duplicate the records processed on EAM equipment. The implementation of the plan to process accounting records by EAM equipment is seriously hampered by the lack of sufficient qualified personnel to develop EAM programs and to operate the equipment. In view of the 70% limitation on filling personnel vacancies, and because of the great need of the Country for coins for circulation, priority has been given to the hiring of personnel to the extent possible for production operations. When these personnel restrictions are eased, the Mint will attempt to employ sufficient qualified personnel to implement this recommendation."

We recognize that the manufacturing of coins is a necessary priority and that expertise in the area of automatic data processing is essential for the accomplishment of our primary recommendation. We believe, however, that the Bureau should attempt to obtain the necessary expertise from the Department to advise and assist the Bureau in (1) implementing the planned conversion of its installation records to EAM processing, (2) establishing a centralized accounting system utilizing modern ADP equipment, and (3) establishing long-range data processing goals. We believe also that the Bureau should actively pursue the elimination of duplicate records.

CHAPTER 4

STATUS OF PRIOR RECOMMENDATION

TO CHANGE THE METHOD OF FINANCING BUREAU'S OPERATIONS

We believe that there is a need to revise the method of financing the operations of the Bureau to enable the Congress to strengthen its control over Bureau activities, permit greater flexibility in planning coin manufacturing, and simplify financing procedures.

In our report to the Congress on the audit of the Bureau of the Mint for fiscal years 1956-1958 (B-114877, August 7, 1959), we recommended that the Congress consider financing all operations of the Bureau, except for gold and silver purchases, directly from seigniorage--the difference between the face value and cost of metals used in coins produced--and through retention of all revenues. The plan we recommended would have the Bureau estimate obligations, expenditures, and costs in advance for annual approval by the Congress and apportionment by the Bureau of the Budget but would grant authority to the Bureau of the Mint to exceed those estimates upon the prior approval of the Secretary of the Treasury and the Director, Bureau of the Budget. The recommended plan would permit the Congress to strengthen its review and control through providing for all Bureau activities the same type of review and affirmative congressional action normally associated with the appropriation process.

On March 2, 1967, a Senate bill (S. 1156) was introduced for the administration to provide for the financing of the operations of the Bureau by means of a Mint Operating Fund into which revenues of the Bureau would be credited and from which all costs and expenses of the Bureau would be paid except for certain stated costs. The bill provided for excess revenues, as determined by the Secretary of the Treasury, to be deposited into the general fund of the Treasury and for the fund to be available without further appropriation action, since the revenues of the Bureau far exceed the funds required to finance its operations. The bill was referred to the Senate Committee on Banking and Currency.

A report of the House Committee on Appropriations accompanying a bill making appropriations for, among others, the Department of the Treasury for fiscal year 1968 (H. Rept. 144, 90th Cong., 1st sess., dated March 20, 1967) stated that:

"PROPOSED MINT REVOLVING FUND

> "The Committee goes on record as being opposed to the establishment of a revolving fund at this time to finance the operations of the Bureau of the Mint. In view of the recent coin crisis, the removal of silver from the coinage, the existing silver shortage, and the current construction and modernization program for the Mint, the Committee feels that such a proposal at this time is, to say the least, untimely.
>
> "A Commission on the Coinage has recently been appointed for the purpose of considering coinage problems and the Committee understands that the Commission will be convened in the near future. It seems to be a poor time to initiate such a basic change in the method of operating the Mint before the Commission even has an opportunity to consider the matter."

The Chairman and a minority member of the Treasury and Post Office Subcommittee of the Senate Appropriations Committee informed the Chairman of the Subcommittee on Financial Institutions of the Senate Committee on Banking and Currency, by letter dated May 5, 1967, that they fully concurred in the above statement contained in House Report 144.

In commenting on Senate bill 1156, we informed the Chairman of the Senate Committee on Banking and Currency, by letter dated April 21, 1967, that, although we had been in agreement with the need for a revision of the financing operations of the Bureau, we recommended that any such revision include provision for affirmative congressional action normally associated with the appropriation process.

On May 2, 1967, the Senate Committee on Banking and Currency held hearings on the bill, but it was not reported out.

Regarding the concerns of the House Appropriations Committee, expressed in House Report 144, it should be noted that:

--At a July 14, 1967, meeting of the Joint Commission on the Coinage, the Treasury reported that the volume of clad coinage in circulation and in inventory was finally deemed sufficient to meet the country's trading needs even if all silver coins were withdrawn from circulation by private holders. There was, therefore, no longer any justification for selling surplus supplies of Treasury silver to private users at prices substantially below prevailing market prices. The Joint Commission, therefore, approved a resolution which recommended, and Treasury complied, that the future sales of Treasury silver be made at going market prices. It appears to us, therefore, that the major coin crisis and the transition from silver to nonsilver coins problems have been alleviated.

--The construction of the new Philadelphia Mint was nearing completion and was scheduled to begin operating about August 1969. This is the major part of the Bureau's construction and modernization program.

--At a meeting of the Joint Commission on the Coinage on December 5, 1968, the Department of the Treasury presented briefing material citing (1) the benefits of the proposal to establish a Mint Operating Fund contained in Senate bill 1156 and (2) the belief that the proposal should be reintroduced and kept alive in the next (91st) Congress. There was brief discussion of the matter by the Joint Commission; however, any discussion in depth was apparently deferred until the next meeting of the Joint Commission.

We are still of the opinion that there is a need to change the method of financing Bureau operations. 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 control.

--The Congress appropriates funds for manufacturing and other activities annually, $21.2 million for fiscal year 1967, and revenues from the sale of numismatic coin sets, foreign coins, and medals are used to reimburse the appropriated funds for the costs incurred, about $2.8 million during fiscal year 1967. However, the revenues received from the processing of bullion deposits are deposited into the general fund of the Treasury, although the costs of the operation are financed from appropriated funds.

--The Bureau estimates of expenditures from the Coinage Profit Fund for transportation costs and metals lost in coinage and recoinage, about $1.4 million for fiscal year 1967, are submitted annually to the Congress, but the limitation on expenditures is exercised only through apportionment by the Bureau of the Budget.

--Estimates of expenditures from the Coinage Metal Fund--which, during fiscal year 1967, amounted to about $125 million, or 85 percent, of the funds expended by the Bureau--are not submitted to the Congress for approval, and there is no limitation on the amount of coinage metal permitted to be on hand at any one time. Because of the limited capabilities of the Bureau's installations to produce coinage metal strip, the fund has been used extensively to pay contractors for the fabrication of metals into coinage metal strip since the manufacturing of clad coins was authorized in 1965. (See pp. 8 through 10.)

We believe that the method of financing Bureau operations should be changed to permit greater flexibility in adjusting coin manufacturing operations to meet unpredicted changes in demand which deplete coin inventories. Under the present budgetary system, demand and the funds necessary for the related production are estimated about 1 year in advance of the year needed. If unanticipated increased quantities of coins are needed during the appropriation year, the Bureau has to resort to the supplemental appropriation process or to reprogramming the activities.

We believe that the Secretary of the Treasury should continue to pursue the matter of changing the method of financing Bureau operations. In our opinion, any proposed change should provide, as previously discussed, for affirmative congressional action normally associated with the appropriation process. The need for such action is especially evident in the method of financing Bureau operations that was contained in Senate bill 1156 because the revenues of the Bureau--including seigniorage--far exceed the funds required to finance its operations. For example, the Bureau's reported income for fiscal year 1967 was about $997 million, of which $21 million was from appropriations, and cost of operations was about $147 million--an excess of income over costs of about $850 million. Excluding appropriations, the excess revenues were about $829 million.

In a draft of this report, submitted to the Treasury in June 1969, we suggested that the Secretary of the Treasury propose to the Congress that a change be made in the method of financing the operations of the Bureau which would permit greater flexibility in planning coin manufacturing operations and simplify financing procedures. We suggested also that such proposal provide for affirmative congressional action normally associated with the appropriation process.

An Assistant Secretary of the Treasury, in commenting on our draft report in July 1969, stated that:

> "*** We recognize that the need for improved financing of Mint operations, to provide flexibility in adapting coinage programs to meet changes in the public requirements for coins, is one of the major issues facing the Mint today.
>
> *　　*　　*　　*　　*
>
> "*** this administration has been in office for only six months, and a new Director of the Mint has been named by the President but she has not reported for duty.
>
> "I believe it would be in the best interest of the Mint and the Treasury Department to defer submitting any legislative proposal on this matter

until the new Director has had an opportunity to look at the entire Mint operations. We have in process in various stages several proposed changes in the coinage laws and other basic acts affecting the Mint's operations which I feel should be enacted before we submit revisions to the method of financing."

CHAPTER 5

SCOPE OF REVIEW

Our review was directed primarily toward an evaluation of the Bureau of the Mint's accounting policies, procedures, and practices to determine whether they were in conformity with the provisions of the Budget and Accounting Procedures Act of 1950 and with the principles and standards prescribed by the Comptroller General for accounting in Federal agencies. In particular, we examined into the system to determine what improvements were needed to provide meaningful financial data for management and the Congress.

Our review was conducted at the Bureau of the Mint, Washington, D.C.; U.S. Mints at Philadelphia, Pennsylvania, and Denver, Colorado; and the U.S. Assay Offices at New York, N.Y., and San Francisco, California. We examined Bureau of the Mint accounting policies and procedures and the accounting records maintained and reports prepared by the above installations for fiscal year 1967. We also held discussions with agency officials responsible for these policies and procedures and for the records and reports. Of primary importance in our review were the cost accounting records and the reports prepared from them.

APPENDIXES

THE DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

July 23, 1969

Mr. Max A. Neuwirth
Associate Director
Civil Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Neuwirth:

Your letter of June 2 to the Secretary, transmitting a draft of your audit report, has been referred to my office for reply.

Before commenting on individual recommendations which you propose to make, I wish to say that we consider the report to be a very constructive one and, as you will see, we agree with most of its proposals. We recognize that the need for improved financing of Mint operations, to provide flexibility in adapting coinage programs to meet changes in the public requirements for coins, is one of the major issues facing the Mint today.

While we hold that the Bureau of the Mint has maintained a modern and business-like accounting system and budget pattern for many years, we have recognized some inconsistencies, particularly in respect of fixed assets. However, for the most part the inconsistencies were influenced by the budget format in use, as well as the awkward system of financing which you have described and made the subject of your most significant recommendation. Now, however, with increased acceptance of accrual accounting and cost budgeting concepts that have been developed in the Federal Government over the past few years, we believe that the time has come for the Bureau to undertake such measures as to fully achieve generally accepted standards in accounting, reporting and financing of its industrial type operations.

While these corrective measures could best go hand in hand with the proposed new financing system, you will note that the Bureau intends to proceed with desirable improvements in its accounting and reporting systems.

The recommendations will be commented upon in the order in which they were presented:

Recommendation: Include metals cost, fabrication costs paid to contractors, transportation, and other related costs in the operational cost reports and budget presentations.

Comments: Until recent years the Mints used only virgin metal for coinage manufacture. While conventional accounting would require the cost of metal to be applied as part of the manufacturing operation, the value to management in reporting the cost of materials was not as vital for cost analysis as it is at the present time. However, the Bureau has since recognized that the omission of metal costs and fabrication costs (as well as transportation), has tended to lose comparability of unit costs as between the various plants and varying periods of time. Consequently, we are considering reflection of these costs as elements of unit cost for each denomination of coinage. Likewise, we expect to pursue the matter of showing such costs in the "Program by Activities" schedule of the budget with the Bureau of the Budget for their consideration.

Recommendation: Capitalize (1) the costs relating to the installation and construction of equipment performed by Bureau personnel (2) Equipment purchased from funds received from reimbursable operations, and (3) Equipment donated or loaned by other Government agencies.

Comments: Action will be taken to record the value of equipment donated or loaned in the accounts and to provide for its depreciation. We are also preparing to capitalize costs of installation and construction of equipment and will provide for consistent treatment of all other equipment whether purchased from reimbursement funds or not. Again, we will seek agreement of budget review authorities for treatment of equipment as any other cost in the "Program by Activities" schedule of the budget document. Aside from the inclusion of depreciation costs in the several activities, including reimbursements, this will entail omission of equipment as an "activity" in the budget and incorporation of the book value of equipment in the reconcilement between program costs and obligations for the fiscal year.

Recommendation: Allocate depreciation, protection, and executive direction expenses to all Bureau operations.

Comments: As you have observed, the Bureau already calculates depreciation in a systematic manner but does not actually apply it to the various cost centers and organizations served, nor is it included in the budget. In conjunction with future incorporation of all capital costs as such in the accounts, we would take steps to apply depreciation to the organizational segments where applicable, including reflecting it in the unit costs for coinage. As already stated, its treatment in the budget would depend upon approval of the pattern proposed.

With regard to application of protection costs to coinage and other budgetary functions, we appreciate the reasoning that you have advanced in the report but would like to consider it further before making a change.

While it may be reasoned that protection of the Mints and Assay Offices is more like an overhead item than otherwise, its necessity is not dependent upon whether or the extent to which the principal activities are performed during any given period of time. Thus its impact on unit coinage costs, for example, would generally vary in direct proportion to the volume of production.

While it may be feasible to allocate executive direction expenses to other Bureau operations, it appears as a separate activity at the request of the Bureau of the Budget in the budgets of the several Treasury Bureaus, which procedure we intend to retain.

[See GAO note.]

GAO note: Comments pertaining to draft report material not in final report have been omitted.

Recommendation: Accumulate and report all costs and revenues relating to reimbursable type activities.

Comments: A change in accounting treatment of equipment required for reimbursable operations, and the allocation of costs through a systematic charging of depreciation, would result in the showing of all direct costs of reimbursable operations in the accounts. The Mint does normally include an amount to cover administrative costs, when preparing estimates for reimbursable work, and the amount of administrative costs applicable to each order is shown in the cost report, Form 1074c, upon completion of the reimbursable job. We prefer to continue treating administrative costs in this manner, rather than applying a portion of actual administrative cost directly to the reimbursable accounts. With respect to charges on bullion deposits, we note that the report shows a substantial difference between amounts charged and reported costs during fiscal year 1967. The Mint hopes to review costs and update the Table of Charges more frequently than has been the practice.

Page 31 - Recommendation: That the Bureau make a study to determine whether a centralized system for processing these records should be established and the type of ADP equipment needed to implement the system. Because such studies and implementation of changes require considerable time, the Bureau should actively implement its plan for processing of accounting records by EAM, and eliminate the manual records maintained which duplicate the records processed on EAM equipment.

Comments: Insofar as practicable we will eliminate manual records which duplicate the records processed on EAM equipment. The implementation of the plan to process accounting records by EAM equipment is seriously hampered by the lack of sufficient qualified personnel to develop EAM programs and to operate the equipment. In view of the 70% limitation on filling personnel vacancies, and because of the great need of the Country for coins for circulation, priority has been given to the hiring of personnel to the extent possible for production operations. When these personnel restrictions are eased, the Mint will attempt to employ sufficient qualified personnel to implement this recommendation.

Page 37 - Recommendation: The Secretary of the Treasury should propose to the Congress a change in the method of financing the operations of the Bureau which would permit greater flexibility in planning coin manufacturing operations and simplify financing procedures. Also that such proposal provide for affirmative congressional action normally associated with the appropriation process.

Comments: The Department prepared a draft of legislation and submitted

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF THE TREASURY RESPONSIBLE FOR ADMINISTRATION OF THE ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
SECRETARY OF THE TREASURY:		
David M. Kennedy	Jan. 1969	Present
Joseph W. Barr	Dec. 1968	Jan. 1969
Henry H. Fowler	Apr. 1965	Dec. 1968
UNDER SECRETARY OF THE TREASURY:		
Charls E. Walker	Jan. 1969	Present
(Vacant)	Dec. 1968	Jan. 1969
Joseph W. Barr	Apr. 1965	Dec. 1968
ASSISTANT SECRETARY OF THE TREASURY:		
Eugene T. Rossides	Mar. 1969	Present
(Vacant)	Jan. 1969	Mar. 1969
Robert A. Wallace	Sept. 1963	Jan. 1969
DIRECTOR, BUREAU OF THE MINT:		
Mary T. Brooks	Sept. 1969	Present
Eva B. Adams	Oct. 1961	Aug. 1969

U.S. GAO, Wash., D.C.

it to the 90th Congress with the approval of the Bureau of the Budget which provided for the creation of a Mint Operating Fund. Senate Bill S. 1156 was introduced by Senator Proxmire and hearings were held by the Banking and Currency Committee in the Senate. The Treasury sponsored legislation was referred by the Speaker of the House to the Banking and Currency Committee. However, no action was taken by that Committee. The main provisions of that proposal were:

(a) The entire operation of the Mint, including metal costs, shipping, manufacturing, storage, etc., were to be funded from seigniorage and other revenues of the Mint.

(b) There would be a business-type budget included in the President's Budget to the Congress each year so that the Appropriations Committees would have information on the scope of the operation and could take such action as they deemed desirable. However, no legislative limitations were proposed in our draft except to exclude the funding of land acquisition or construction of additional buildings from revenues.

Both the House and Senate Committees on Appropriations took strong exception to the proposal and so advised the substantive committees. So no action resulted in the Congress. During the course of the Senate Committee's consideration of this proposal a letter from the Assistant Comptroller General of the United States (Frank H. Weitzel) made the proposal that an operating fund be established that would be subjected to the annual review of the Congress through the normal appropriation process - but with a provision in new basic authority that the amounts in the annual appropriation bill could be exceeded by either a formula amount (%) or specific amounts (spelled out in basic law) with the approval of the Secretary of the Treasury and the Director of the Bureau of the Budget. This proposal was quite similar to the recommendation which you have made in this report.

As you are aware, this administration has been in office for only six months, and a new Director of the Mint has been named by the President but she has not reported for duty.

I believe it would be in the best interest of the Mint and the Treasury Department to defer submitting any legislative proposal on this matter until the new Director has had an opportunity to look at the entire Mint operations. We have in process in various stages several proposed changes in the coinage laws and other basic acts affecting the Mint's operations which I feel should be enacted before we submit revisions to the method of financing.

Sincerely,

Eugene T. Rossides

Eugene T. Rossides