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General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

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April 30, 1998

The Honorable Michael N. Castle
Chairman, Subcommittee on Domestic and
International Monetary Policy
Committee on Banking and Financial Services
House of Representatives

Subject: U.S. Mint Atlanta Olympic Commemorative Coin Program

Dear Mr. Chairman:

This letter responds to your request that we review an anonymous allegation regarding the U.S. Mint's Atlanta Olympic Commemorative Coin Program (Olympic Program). The allegation claimed that the Mint had not reported approximately $22 million in additional losses on the Olympic Program. We testified last year on the preliminary results of our work.[1]

The additional losses in the allegation were based primarily on the costs of unsold coins and excess packaging. We found, however, that the allegation did not factor in the high metal costs that could be recovered from melting down any unsold coins, nor did it recognize that most of the excess packaging was generic and could be used for other Mint programs. As such, it appears that the allegation was based on an inaccurate or incomplete understanding of the facts involved.

THE OLYMPIC PROGRAM

The Mint has two lines of manufacturing business. It manufactures circulating coins, sales of which constituted 78 percent of its fiscal year 1996 revenues.[2]

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[1]U.S. Mint Numismatic Coin Programs: Allegation of Additional Losses on the Olympic Commemorative Coin Program (GAO/T-AIMD-97-124, June 26, 1997).

[2]We used fiscal year 1996 since it was the most recent year for which audited financial statements were available at the time of our review.

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The remaining 22 percent of its revenues consisted of sales of numismatic products for collectors including medals, proof coins, uncirculated coins, gold and silver bullion coins, and several commemorative coin programs, including the Olympic Program.

The Olympic Program was one of the largest and most complex commemorative coin programs ever managed by the Mint. The Mint was authorized to design 32 Olympic Program coins and manufacture not more than approximately 18 million coins,[3] which later was reduced to not more than 13.3 million coins.[4] According to the Mint, it produced 4.1 million Olympic Program coins and sold 2.4 million coins through December 31, 1997, when the Olympic Program ended. On February 17, 1998, the Mint issued a quarterly report for the period ended December 31, 1997. That report included an unaudited estimated final loss on the Olympic Program of $5.2 million. That report also noted that the Mint was completing its annual audit and would provide a final report on the Olympic Program by April 30, 1998.

Under Public Law 102-390, the Mint was required to submit quarterly reports on the Olympic Program to the Congress within 15 days of the end of each quarter. However, according to Mint officials, they took up to 60 days after the end of each quarter to complete all of the accounting system entries, in part because three of the five Mint accounting systems were operated primarily on a manual basis. Manual accounting operations typically take longer than automated operations and are more prone to error. Accordingly, Mint officials said they prepared the Mint's quarterly reports on its various commemorative coin programs, including the Olympic Program, based at least in part on management estimates, not necessarily on information contained in the Mint's accounting systems.

Mint officials advised us that its management estimates have been problematic. For example, officials said that at least one earlier quarterly report on the Olympic Program included incorrect estimates of general and administrative overhead, and that one quarterly report on the Olympic Program did not include fabrication, labor, and overhead costs for coins that were reported as sold during the quarter. Some of these problems, according to the officials, were related in part to system problems in the Mint's financial management system. Over the past several years, the Mint has reported under the Federal Managers' Financial Integrity Act that its accounting system cannot provide management

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[3]Doug Barnard, Jr.–1996 Atlanta Centennial Olympic Games Commemorative Coin Act, Public Law 102-390, October 6, 1992.

[4]Public Law 104-74, December 26, 1995.

with useful, timely financial information. As a result, according to the Treasury's independent auditor,[5] management may be precluded from effectively measuring operating goals and monitoring progress in achieving them. The Mint has developed a new integrated management information system that, according to Mint officials, is intended to resolve its accounting problems. The Mint plans to begin implementing the new system this year.

ALLEGATION NOT SUBSTANTIATED

An anonymous letter dated March 23, 1997, and addressed to the Treasurer of the United States alleged that the Olympic Program had lost approximately $25 million. That was approximately $22 million more than was reported in the Mint's most recent quarterly report at that time. The additional $22 million in alleged losses was based primarily on unsold coins and excess packaging. We could not substantiate the allegation, however, for the reasons below.

The allegation included losses based on the full cost of unsold coins at the time of the allegation. Unsold coins, however, can be melted down at a nominal cost and, accordingly, most of the metal cost can be recovered. According to the Mint's Olympic Program records, a gold coin's standard cost of approximately $98 included a metal cost of approximately $92, and a silver coin's standard cost of approximately $6 included a metal cost of approximately $4.

Also, the allegation included losses based on the entire amount of excess packaging. According to its records at the time of the allegation, the Mint had more than $11 million in packaging on hand that the allegation said had been procured in conjunction with the Olympic Program. The allegation, however, did not recognize that all but approximately $1 million of the packaging was generic, and that according to the Mint, it could be used for other Mint programs. Further, the Mint said it may be able to use some of the $1 million in Olympic Program packaging for use in the Mint's new state circulating quarter program.

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To review the anonymous allegation regarding the Olympic Program, we obtained accounting records and documents that supported quantities and valuations of Olympic Coin Program inventory on hand and coins sold. These records and documents were produced at the Mint's headquarters in Washington, D.C., and at the Mints in Philadelphia, Denver, San Francisco, and

[5]Audited Fiscal Year 1996 Financial Statements of the United States Mint, OIG-97-083, April 25, 1997.

West Point. In addition, we obtained samples of packaging and physically inspected quantities of packaging on hand at the Philadelphia Mint.

We obtained all of the Mint's quarterly financial reports on the Olympic Program from the Program's inception through December 31, 1997, when the program ended. Further, we held discussions with the Mint's Chief Financial Officer (CFO), Deputy CFO, and other Mint representatives regarding these reports. We did not audit the quarterly reports or independently verify any of the information in the reports. Also, we obtained the Treasury Inspector General's April 25, 1997, report on the Mint's fiscal year 1996 consolidated financial statements which discussed problems with the Mint's accounting. We did not examine the Mint's accounting system or evaluate plans to implement a new accounting system. We conducted our work at Mint headquarters, Washington, D.C., and the Philadelphia Mint from April 1997 through February 1998 in accordance with generally accepted government auditing standards.

AGENCY COMMENTS

We requested comments on a draft of this letter from the Director of the U.S. Mint. The Director provided us with written comments, which are included in the enclosure. The Director concurred with our findings and stated that due to overestimating general and administrative expenses of the program, the final loss for the Olympic Program is now expected to be $2.9 million.

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We are sending copies of this report to relevant congressional committees and subcommittees, the Secretary of the Treasury, the Director of the Mint, and other interested parties. Copies will be made available to others upon request. Please call me on (202) 512-9489 if you or your staff have any questions.

Sincerely yours,

Theodore C. Barreaux
Associate Director
Audit Oversight and Liaison

Enclosure

COMMENTS FROM THE UNITED STATES MINT

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

DIRECTOR OF THE MINT

April 17, 1998

Mr. Gene L. Dodaro
Assistant Comptroller General
Accounting and Information Management Division
General Accounting Office
Washington, DC 20548

Dear Mr. Dodaro:

Thank you for the opportunity to review and comment on the draft report entitled U.S. Mint Atlanta Olympic Commemorative Coin Program. As your report indicates, your review found that the anonymous allegation that the Mint had not reported approximately $22 million in additional losses on the Olympic Program was not substantiated. We certainly agree with your conclusion and with your assessment that the allegation did not consider that metal costs could be recovered from melting down any unsold coins or that most of the excess packaging identified in the allegation was generic and could be used for other programs.

Your report states that the Olympic Program was one of the largest and most complex coin programs ever managed by the Mint. This was certainly the case. The Olympic Program was the largest commemorative coin program ever undertaken by the Mint, not only in the number of coins and mintage levels as the report points out, but also in the length of time and in complexity. As mandated by the authorizing legislation (P.L. 102-390), the Mint was required to establish a coin distribution system for both domestic and international markets. This included the unprecedented creation of a retail market. The retail program for Olympic coins required significant market building, customer awareness, sales infrastructure, and distributor support. It also required the production and distribution of a significant number of coins for the retail "pipeline" both within retail locations as well as at retail distributor network locations. All of these factors made the implementation of this program very challenging.

As your report indicates, the Mint was required by law to submit quarterly reports on the Olympic program within 15 days of the end of each quarter. Meeting that requirement was difficult given the state of the Mint's financial management system, which is comprised of several accounting systems and relies heavily on manual input. Accordingly, in order to prepare the quarterly reports within the mandated timeframes, we had to base some of the information on estimates. The Mint has recognized that its accounting systems cannot provide timely and accurate interim information and, accordingly, we have reported this condition as a material weakness over the past several

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years under the Federal Managers' Financial Integrity Act. While year-end accounting data is reliable, as our four successive unqualified audit opinions demonstrate, considerable manual intervention and time is needed to make it so. The Mint plans to roll out a new enterprise resource planning system during the second half of this fiscal year which will correct the reported weakness and provide both timely and accurate information.

We are currently preparing the final report on the Olympic Program for submission to Congress by April 30, 1998. Due to our over-estimating general and administrative expenses of the program, we are now expecting the final loss of the program to be $2.9 million, which is $2.3 million less than the $5.2 million reported as of December 31, 1997.

We appreciate the objective and thorough review that your team performed, and their knowledge of a manufacturing environment, which contributed to a fair and impartial evaluation.

Sincerely,

Philip N. Diehl
Director
United States Mint

(911758)

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