

**MANUFACTURING OPERATIONS:
The Mint Suspends Its FY 2002
Planned Production Of
Golden Dollar Coins**

OIG-02-066

March 19, 2002



Office of Inspector General

The Department of the Treasury

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Abbreviations

FRS	Federal Reserve System
FY	Fiscal Year
Mint	U.S. Mint
OIG	Office of Inspector General
SBU	Strategic Business Unit

*The Department of the Treasury
Office of Inspector General*

March 19, 2002

Henrietta Holsman Fore
Director
United States Mint

Incident to another review we were performing at the U. S. Mint (Mint), which was related to the Sacagawea Golden Dollar (Golden Dollar), we learned that the Mint planned to produce 40 million Golden Dollars during the second quarter of fiscal year (FY) 2002. This information, along with other Golden Dollar production, inventory, and shipment information obtained as part of our on-going review, prompted us to perform additional work.

Our objective in performing this additional work was to assess the Mint's need to produce additional dollar coins during the second quarter of FY 2002. Our efforts with regard to this objective began December 11, 2001, and continued through February 6, 2002. A more detailed description of our objective, scope, and methodology is provided as Appendix 1.

Results in Brief

Our review found that the Mint's planned production of 40 million Golden Dollars during the second quarter of FY 2002 is not warranted at this time. We also estimate that if the Mint suspended its planned production of FY 2002 Golden Dollars and redirected its production efforts to other coin denominations, the Mint could avoid \$2.18 million in manufacturing costs.

After being briefed on January 24, 2002, on the results of our review, the Mint Director informed us that she planned to suspend FY 2002 production of the Golden Dollar. We, therefore, recommended that the Mint Director ensure that the planned suspension of FY 2002 production of the Golden Dollar was implemented.

In its written response, the Mint outlined a course of action that should fully satisfy our recommendation. For instance, the Mint confirmed its plan to suspend FY 2002 production of Golden Dollars and stated that it may reevaluate its need to produce Golden Dollars in FY 2003. The complete text of the Mint's response is provided in Appendix 3.

Background

The Mint's mission is to manufacture the highest quality circulating, numismatic, and bullion coins and dispense them in a timely manner. To accomplish its mission, the Mint is composed of three Strategic Business Units (SBU)- Circulating, Numismatic, and Protection. Each SBU is a profit center with a business head directing its budget, resources, facilities, and staff.

The Circulating SBU is responsible for producing sufficient coinage (pennies, nickels, dimes, quarters, half dollars, and dollars) to meet the needs of commerce and the consumer while doing so in a cost-effective manner. The Circulating SBU dispenses its coinage through the Federal Reserve System (FRS).

To meet the demands of the FRS, the Mint operated 24 hours a day, 7 days a week during FY 2000. This rate of production was attributed, in part, to a strong economy and the popularity of the Golden Dollar.

The Golden Dollar was formally introduced in January 2000. In its first 9 months, the Mint produced and shipped 979 million Golden Dollars. By year's end, the billionth Golden Dollar rolled off Mint presses.

Due to the downturn in the economy in early 2001, the Mint experienced a sudden and dramatic decline in shipments of dollar coins, including Golden Dollars. Early indications are that shipments of Golden Dollars may decline even more in FY 2002. Details are provided in the following chart.

Shipments of Dollar Coins (In Millions)					
Coin Designation	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002*
Susan B. Anthony	0.0	33.0	40.0	0.0	0.0
Golden Dollar	0.0	0.0	979.0	88.5	30.2
Total Shipments	<u>0.0</u>	<u>33.0</u>	<u>1,019.0</u>	<u>88.5</u>	<u>30.2</u>
Percent Decline (From Prior Year)				(91.3)	(65.9)

* Estimated amount for the first three quarters of the year. Estimate based on first quarter actual and Federal Reserve System requests for the second and third quarter of the year.

The Mint ended FY 2001 with about 324 million Golden Dollar coins in storage.

Findings and Recommendations

Finding 1 FY 2002 Planned Production of the Golden Dollar

The Mint's planned production of 40 million Golden Dollars during the second quarter of FY 2002 is not warranted at this time. Consequently, if the Mint suspended its planned production of FY 2002 Golden Dollars and redirected its efforts to the production of other coin denominations, we estimate the Mint could avoid \$2.18 million in manufacturing costs.

Our review identified three factors that had a significant impact on the Mint's Golden Dollar production requirements for the second

quarter of FY 2002. First, the Mint's shipments of Golden Dollars had dropped markedly over the last 15 months. Second, the Mint's inventory of Golden Dollars was 88 times target inventory levels. Third, the Mint did not plan to ship any Golden Dollars to the FRS during the second or third quarter of FY 2002.

During the course of an ongoing review at the Mint, which was related to the Golden Dollar, we obtained information that raised concerns about the Mint's plan to produce Golden Dollar coins in the second quarter of FY 2002. For instance, we learned that the Mint's:

- Shipments of Golden Dollars to the FRS declined from a high of about 1 billion coins in FY 2000 to less than 90 million coins in FY 2001,
- Shipments of Golden Dollars to the FRS for the first quarter of FY 2002 were less than 31 million coins,
- On-hand inventory of Golden Dollars at the beginning of FY 2002 was 324 million coins, and
- Target inventory level for coins is about 5 to 10 days.

We also learned from the Mint that the FRS did not plan to request any shipments of Golden Dollars for either the second or third quarter of FY 2002.¹ Based on this information, we estimated that the Mint had approximately 3.6 years inventory of Golden Dollars in storage or about 88 times more than the Mint's target level. In addition, we estimate that it would cost the Mint about \$2.18 million to produce 40 million Golden Dollar coins. (See Appendix 2 for a detailed analysis of the cost breakdown).

Without any real expectation of the Mint shipping these 40 million coins to the FRS during FY 2002, it would have been unlikely that the Mint could recoup its \$2.18 million investment during this FY.

¹ The FRS does not project its requirements beyond 6 months.

We, therefore, believe the Mint should redirect its manufacturing efforts to the production of other coin denominations. This would provide the Mint with a quicker turn around from the manufacturing of the coins to their shipment to the FRS and allow the Mint to recoup its cost.

We briefed the Mint Director on January 24, 2002, on the results of our review. During this meeting, the Director informed us that (1) she asked the Denver and Philadelphia Mints to suspend production of the Golden Dollar pending our January 24th meeting and (2) the Philadelphia Mint had already minted 3 million of the Golden Dollars scheduled for production in the second quarter. The Director also informed us at the conclusion of our meeting that the Mint would not resume production of the Golden Dollar for the remainder of FY 2002, and the Mint would reevaluate its need to resume production of Golden Dollars in early FY 2003.

Recommendation

1. The Mint Director should ensure that the planned action to suspend further FY 2002 production of the Golden Dollar is implemented. Decisions as to future production of the Golden Dollar should appropriately consider planned shipments to the FRS and the amount of minted coins in storage available to meet shipping requirements.

Management Comments. The Mint stated that it would suspend production of Golden Dollars for the remainder of FY 2002, conduct a review to determine demand requirements in the first quarter of FY 2003, and reevaluate its need to produce Golden Dollars in FY 2003.

OIG Comment. We consider this recommendation to have a management decision with a final action date of September 30, 2002.

* * * * *

Pleased be advised that we are recording funds put to a better use totaling \$2.18 million in the Inventory, Tracking and Closure system (ITC) for the above recommendation. A detailed breakdown of the monetary benefit claimed in this report can be found in Appendix 2. We will also include this monetary benefit in the OIG Semiannual Report to the Congress. Mint management is responsible for recording in the ITC system the amount of benefit actually realized as a result of the audit.

We would like to extend our appreciation for the cooperation and courtesies extended to our staff during the review. If you have any questions, please contact me at (202) 927-5904 or William S. Schroeder, Audit Manager, at (202) 927-5419. Major contributors to this report are listed in Appendix 4.

Thomas E. Byrnes
Director, Manufacturing Operations

Our audit objective with regard to this review was to assess the Mint's need to produce additional dollar coins during the second quarter of FY 2002. Our fieldwork began December 11, 2001, and continued through February 6, 2002.

We interviewed Mint personnel at Mint Headquarters, Washington D.C., and at the Mint facilities in Denver, Colorado; and Philadelphia, Pennsylvania. We also interviewed key personnel at the FRS. We collected and analyzed Golden Dollar shipping, production, and related cost information. In addition, we assessed current Mint inventory levels and demand needs of the FRS for the Golden Dollar.

We conducted our audit in accordance with generally accepted government auditing standards.

A recommendation that funds be put to better use is a recommendation that funds could be used more efficiently if management took actions to implement and complete the recommendation, including (1) a reduction in outlays, (2) a deobligation of funds from programs or operations, (3) a cost not incurred by implementing recommended improvements related to operations, (4) avoidance of an unnecessary expenditure noted in pre-award reviews of contract agreements, or (5) any other savings which is specifically identified. The following funds put to better use will be recorded in the Inventory, Tracking and Closure (ITC) system. This funds put to better use will also be included in the OIG Semiannual Report to the Congress.

<u>Finding and Recommendation Number</u>	<u>Funds Put To Better Use</u>
Finding 1 – Recommendation 1	\$2,183,000

The aforementioned monetary benefit was calculated as follows:

<u>Second QTR Figures</u>		<u>Golden Dollar Coins</u>
Planned Production		40 million
Actually Minted		<u>(3) million</u>
Remaining Production		37 million
<u>Type of Manufacturing Cost</u>	<u>Per Coin</u>	
Total Mfg. Cost (FY 2000)	\$.145	
Less: Cost of Metal*	\$(.044)	
Advertising Cost**	<u>\$(.042)</u>	
Manufacturing Cost	\$.059 X 37 million coins = \$2.18 million	
* This production run did not require any new purchases of metal.		
** Cost not incurred in FY 2002		

It is Mint management's responsibility to record the actual amount of funds put to a better use as a result of its implementation of this recommendation in the ITC system.



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

MAR 07 2002

MEMORANDUM FOR THOMAS E. BYRNES
DIRECTOR, MANUFACTURING OPERATIONS

FROM: Jay Weinstein *Jay Weinstein*
Chief Financial Officer

SUBJECT: Inquiry Into the Mint's FY 2002 Planned Production of Golden Dollar
Coins

The U.S. Mint has reviewed the subject draft report dated February 12, 2002 which recommended the U.S. Mint immediately suspend planned production of the Golden Dollar for FY 2002. Our comments follow:

As a result of a decrease in demand for the Golden Dollar in Fiscal Year (FY) 2002 and a recommendation by the Department of Treasury Inspector General, the United States Mint will suspend production of the Golden Dollar by the end of the second quarter of FY 2002.

Prior to March 31, 2002, the U.S. Mint will produce approximately 6 million Golden Dollars. At that time, Golden Dollar production will be suspended at both the Philadelphia and Denver minting facilities until further notice. To ensure sound business practices and prevent the occurrence of a numismatic rarity, a review will be conducted in the first quarter of FY 2003, to ascertain any changes in the level of demand for the Golden Dollar, taking into consideration planned shipments to the Federal Reserve System and the amount of minted coins already in storage. Depending on the results of that review, the U.S. Mint may reevaluate its need to produce Golden Dollars.

We appreciate the opportunity to review and comment upon the draft audit report.

Appendix 4
Major Contributors To This Report

Thomas E. Byrnes, Director, Manufacturing Operations
William S. Schroeder, Audit Manager
Andras Schneider, Auditor

The Department of the Treasury

Office of Strategic Planning and Evaluations
Office of Accounting and Internal Control

U.S. Mint

Director
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