Description of document:	Department of the Treasury Office of Inspector General (OIG) Management Implication Report 2008-0096, review of the Mutilated Coin Program, 2010
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From: "Delmar, Richard K."
Date: May 1, 2014 4:32:39 PM
Subject: FOIA request for OIG report on mutilated coin program

This responds to your request for the Treasury OIG report generated in case 2008-0096. The responsive document is a Management Implication Report submitted to the Mint's Chief Counsel, a copy of which is attached.

If you disagree with this resolution of your FOIA request, you can appeal the matter pursuant to 5 U.S.C. section 552(a)(6)(A)(i). Pursuant to the Department's FOIA appeal process set forth in 31 C.F.R. section 1.5(i), an appeal must be submitted within 35 days from the date of this response to your request, signed by you and addressed to: Freedom of Information Act Appeal, DO, Disclosure Services, Department of the Treasury, Washington, D.C. 20220. The appeal should reasonably describe your basis for believing that Treasury OIG possesses records to which access has been wrongly denied, or that we have otherwise violated applicable FOIA law or policy.

Rich Delmar
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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
SPECTOR GENERAL

FEB 16 2010

MEMORANDUM FOR DANIEL P. SHAVER, GENERAL COUNSEL
UNITED STATES MINT

FROM: Anthony J. Scott AJS 2/16/10
Special Agent in Charge (Acting)
Office of Investigations

SUBJECT: Mutilated Coin Program
United States Mint

Case Number: 2008-0096

In May 2008, the United States Department of the Treasury, Office of Inspector General, Office of Investigations (TOIG), received information from United States Mint (Mint) officials expressing concerns the Mutilated Coin Program could be exploited to facilitate illegal activity. In sum, the concerns were based upon the value and frequency of mutilated coin redemptions by a relatively small number of individuals and corporations.

In response to these concerns, the TOIG initiated a review of the Mutilated Coin Program. To this end, the TOIG inspected mutilated coins that had been shipped to the Mint's contractor, PMX Industries, Cedar Rapids, Iowa, which as you may know, has been contracted to receive, weigh and smelt large shipments of mutilated coins that cannot be received and redeemed at the Mint's Philadelphia facility.

This visit, along with TOIG's subsequent programmatic review, revealed several potential weaknesses that, if addressed, would likely improve the integrity of the Mutilated Coin Program. With that goal in mind, this Management Implication Report (MIR) is submitted to Mint management in an effort to identify and address these perceived vulnerabilities and weaknesses.

As such, this MIR is being forwarded to your office to assist you in determining what, if any, corrective actions may be warranted. Within 90 calendar days of receiving this MIR, a written response is to be sent to this office advising what corrective actions you have taken or intend to take (including, if you do not plan to take any action and the reason(s) why). If you should require more time, please submit correspondence to this office requesting an extension identifying a date by which you anticipate your action will be completed.

If at any time you have any questions concerning this matter or, if upon further review you develop information that may indicate a need for additional or new investigative activity by this office to assist you in resolving this matter, please contact me at 202-927-5419.

MANAGEMENT IMPLICATION REPORT

DATE OF REPORT	FEB 16 2010
REPORT STATUS	Final
ASSOCIATED CASE NUMBER *(as applicable)*	2008-0096

History and Background:

The United States Mint (Mint) produces coinage for the nation to facilitate its trade and commerce. In keeping with that responsibility, the Mint replaces coins that are damaged or mutilated. More specifically, the Mint replaces coins that are defined as, "...bent, broken, corroded, not whole, melted together and not machine countable," to help ensure integrity of the country's monetary system.

According to the Mint Historian, the first mention of mutilated coins dates back to 1888. However, the original guidelines concerning what constitutes a "mutilated coin," along with instructions on how to redeem such coins was first provided in the "Circular Instructions of the Treasury Department" (dated February 7, 1911). In essence, this circular defined a mutilated coin and established a program to allow people and businesses to exchange coins that were damaged by flood, fire or other means and, therefore, not acceptable as legal tender by individuals, merchants or banks.

For decades, the Mutilated Coin Program has serviced the public without fanfare or attention. However, in recent years, the Mint has observed a significant increase in the number and quantity of mutilated coins being submitted for redemption.

Case Agent:	*Supervisory Approval:*
Anthony J. Scott Assistant Special Agent in Charge	John L. Phillips Special Agent In Charge
(Signature)	(Signature)

This increase has caused concern among many Mint employees and resulted in a number of inquiries to be made to various entities redeeming coins concerning their source. However, none of the entities that have been contacted provided a plausible and verifiable explanation for the origin of the coins submitted for redemption.

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In response to these concerns, the TOIG initiated a review of the Mutilated Coin Program. To this end, the TOIG inspected mutilated coins that had been shipped to the Mint's contractor, PMX Industries in Cedar Rapids, Iowa, which has been contracted to receive, weigh and smelt large shipments of mutilated coins that cannot be received and redeemed at the Mint's Philadelphia facility.

This visit, along with TOIG's subsequent programmatic review, revealed several weaknesses that, if addressed, would likely improve the integrity of the Mutilated Coin Program. With that goal in mind, this Management Implication Report (MIR) is submitted to Mint management in an effort to identify and address these potential vulnerabilities and weaknesses.

Description of Systemic Vulnerabilities

Analysis of the Mint's policies and procedures led the TOIG to identify four specific factors that may expose the Mutilated Coin Program to potential exploitation through the redemption of coins associated with unlawful activity and/or permit the avoidance of (significant) bank charges associated with coin deposits.

These factors, and their effects, are described as follows:

1. **The USM should conduct thorough inspections of incoming shipments of mutilated coins received at PMX Industries in Cedar Rapids, Iowa, to verify the authenticity of the coins received.**

Observation:

On July 15, 2008, agents from the TOIG, United States Secret Service (USSS) and Immigration and Customs Enforcement (ICE), along with representatives of the Mint, inspected an incoming shipment of suspected mutilated U.S. coins that were being sent from foreign countries to PMX Industries for redemption. The objectives of the inspection were to determine the authenticity of the coins, the nature of the mutilation and gather information concerning the shipment and redemption process. Agents observed that the coin shipments were delivered via three tractor-trailer trucks, which carried 37 crates of mutilated coins that had been shipped from three foreign companies. Eleven crates were randomly selected for examination and were sampled by dumping the contents of the crate onto a vibratory conveyor belt that facilitated the visual and manual inspection by the TOIG, USSS, ICE and Mint team.

Visual examination of the coins inspected indicated them to be properly consistent in appearance and denomination with genuine coins. The examination also revealed that very few pennies or nickels were submitted for redemption and that nearly all (approximately 99 percent) were dimes and quarters. However, approximately two-thirds of the coins did not appear to be mutilated or damaged.

Approximately 50 samples were selected from each shipment for examination by a Mint metallurgist. The metallurgist subsequently confirmed that the coins were, in fact, genuine U.S. coins.

Policy, Practice and Procedure:

Interviews conducted during this review revealed that, prior to the inspection in July 2008, Mint staff had not previously conducted any inspections or samplings to verify the authenticity and condition of the mutilated coins submitted for redemption. Review of the Mutilated Coin Program Standard Operating Procedure Manual (in effect at the time of the TOIG inspection) indicated that this practice was acceptable, in that there was no requirement to inspect or sample mutilated coin shipments that are received at any location other than the Philadelphia Mint.

In an apparent effort to address this vulnerability, the Mint revised their procedures for handling mutilated coin redemptions after the July 2008 inspection. The manual was amended and reissued on February 3, 2009; however, Section

6.10.1.3, merely requires that a representative, "verifies that the coin is mutilated and contains no unacceptable material." It does not specify how the Mint is to conduct the verification.

Effect(s):

Based on the observations of the TOIG during the July 2008 inspection, the manner and volume of shipments of mutilated coins hinders the Mint's ability to ensure that such shipments do not contain unacceptable items such as foreign coins, counterfeit coins, slugs, and altered coins. Despite the difficulties associated with the inspection of such shipments, TOIG believes the Mint should conduct routine inspections and random samplings to protect the integrity of the program and enforce Section 6.1.5.3, Unacceptable Items, of the Mutilated Coin Program, Standard Operating Procedure Manual, dated February 2, 2009.

Corrective Recommendations:

TOIG recommends the Mint adopt a specific policy to inspect and sample all incoming shipments of mutilated coins at the PMX facility, to include an assay by a Mint metallurgist. In addition, it is recommended the Mint inform its vendors to package its shipment of coins in smaller containers / bags to facilitate inspection. (Based on interviews conducted, TOIG learned that the Mint had previously required mutilated coins to be shipped in smaller containers. However, it appears, over time entities submitting mutilated coins have packaged coins in a manner that is most advantageous to them.)

2. The Mint should redeem only those coins that are mutilated.

Observation:

During TOIG's July 2008 inspection of the PMX Industries facility, agents noted that approximately two-thirds of the coins submitted as mutilated for redemption were observed to be undamaged.

Effect:

Continuing the practice of redeeming all coins submitted (for redemption) without regard for actual condition may cause the Mint to incur unnecessary costs associated with the smelting of coins by PMX Industries. Further, the TOIG asserts that by not enforcing established thresholds and not thoroughly screening large mutilated coin redemptions, the Mint may expose the program to deliberate exploitation by entities that handle unusually large quantities of coins for the purposes of evading the banking charges normally associated with coin counting and processing.

Corrective Recommendation:

TOIG recommends that the Mint re-establish and strictly enforce the standards defining mutilated coins to ensure large shipments of coins being submitted for redemption contain only a minimal amount of coins that are machine countable and usable in commerce (not mutilated).

3. **The Mint should require more information from its vendors prior to authorizing payment to fully identify persons and companies that submit mutilated coins for redemption and file the transaction reports required by Title 31 USC.**

Observation:

Financial institutions are required to file transaction reports when financial transactions exceed established thresholds or when they appear to be suspicious. Title 31 USC § 5312(a)(2) defines the businesses constituting a "financial institution" for the purposes of the financial transaction reporting requirements. Currency exchange businesses are specifically identified as financial institutions in subparagraph (J) of that list and that subparagraph (W) includes, "an agency of the United States Government or of a State or local government carrying out a duty or power of a business described in this paragraph;" as a financial institution.

This statute is implemented in 31 CFR 103.11, which goes to great lengths to define those businesses defined as a "financial institution." Indeed, as 31 CFR 103.11(uu) defines a currency dealer or exchanger as a "money service business" who exchanges currency or monetary or other instruments totaling in excess of $1,000 each day.

We submit that the Mint is a governmental agency that performs essentially the same functions as a currency exchange and therefore, may be subject to the reporting requirements established by Title 31 USC § 5312(a)(2)(W) and note that the requirement for governmental agencies to report certain financial transactions is not without precedent. In fact, 31 CFR 103.11(uu)(6) specifically requires the Postal Service to comply with the financial transaction reporting requirements, as it regularly engages in the conversion of currency and other negotiable instruments to Postal money orders.

Policy, Practice and Procedure:

Historically, the Mint has required little identification information from entities submitting mutilated coins for redemption. However, in 2006, the Mint began to require vendors to provide a Social Security Number (SSN) or a Tax Identification Number (TIN), along with a contact name, address, phone number and the banking information necessary to wire the redeemed funds through electronic funds transfer. Our investigation determined that the Mint does not file a Currency Transaction Reports (CTRs), Suspicious Activity Reports (SARs) or make any other notifications of these transactions to any federal agencies.

Effect:

By not requiring additional information and not reporting its transactions, the Mint creates a situation that may be attractive and desired by potential money launderers. In addition, by not filing financial transaction reports with FinCEN, the Mint is not supporting the overarching governmental interest of collecting, analyzing and identifying suspicious financial transactions.

Corrective Recommendation:

It is recommended that the Mint require additional information from individuals and companies redeeming coins, especially when the redemptions involve larger sums of money (in excess of $10,000.00 for example). It is recommended the Mint require overseas vendors to supply the Mint with a copy of a completed Report of International Transportation of Currency or Monetary Instruments (CMIR), FinCEN

Form 105 and/or develop its own form using the same/similar information to be used by foreign and domestic vendors prior to authorizing payment. In addition, such a form should also require the vendor to explain the source of the mutilated coins, why the vendor is the legal owner entitled to payment for the redeemed coins and whether the vendor is sharing/remitting the funds with/to a third party. This practice would be particularly helpful to this office should a future investigation of suspicious activity be detected by the USM or ARC.

In addition, the Mint should consider complying with the laws and regulations of Title 31 and establish policies and procedures to properly file CTRs with FinCEN on all financial transactions for the redemption of mutilated currency having an excess value of $10,000. It is also recommended that the Mint file SARs for all entities that appear to be structuring mutilated currency redemptions to avoid reporting requirements.

4. **The Mint should consider developing and requiring the utilization of a legal certification (under penalty of perjury) on all forms used in the Mutilated Coin Program to discourage potential exploitation of the program through criminal activity or personal gain.**

Observation(s):

Currently, the Mint merely requires entities submitting mutilated coins for redemption to submit an ACH Vendor/Miscellaneous Payment Enrollment Form to process payment for mutilated coins. This form does not contain a statement requiring an individual to affirm that the information provided was true, complete and correct under penalty of perjury.

Effect(s):

The absence of a legal certification does not deter individuals and companies from providing information that is false, incomplete or deliberately vague. The inclusion of such language would aid the TOIG or any other law enforcement agency with the investigation of suspicious transactions.

Corrective Recommendations:

TOIG recommends the Mint develop a legal certification for all present and future forms and websites with respect to the Mutilated Coin Program. This policy would legally bind an individual to produce true, complete and factually correct information or risk violating federal law. Such a policy may in and of itself, discourage entities from utilizing the Mutilated Coin Program for illegal activity.

Recommendation to Management:

It is recommended that the Mint consider implementing the recommendations contained herein to close existing vulnerabilities that are possibly being exploited to reduce costs and discourage the use of the program to facilitate criminal activity or personal gain.