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REPORT TO THE CONGRESS

Accountability And Physical Controls Of The Gold Bullion Reserves

Department of the Treasury

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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FEB. 10, 1975



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

B-87620

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

This is our report on the accountability and physical controls
of the Treasury Department's gold bullion reserves. 38

We made our examination 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. 67).

The Bureau of the Mint is responsible for the management and
security of about \$11.3 billion in gold located in five depositories
throughout the United States. (See app. I.) This gold is valued at
the official U.S. Government price of \$42.222 per fine troy ounce--
the par value of the dollar in terms of gold established by the act
of September 21, 1973, Public Law 93-110 (31 U.S.C. 449 (Supp. III,
1973)). In contrast, the U.S. commercial market price of gold was
\$180.55 on January 14, 1975. As of June 30, 1974, about 55 percent
of the gold was stored in 13 sealed compartments at the U.S. Bullion
Depository, Fort Knox, Kentucky. 81

In response to congressional interest and in conjunction with
the Mint, we assisted in the planning and observed the taking of a
physical inventory of the Fort Knox depository's gold bullion. We
also reviewed and evaluated the Mint's controls over gold at the Fort
Knox, Denver, New York, and San Francisco depositories. A special
settlement committee (see app. II) took the inventory and issued its
report on October 21, 1974. The last inventory of the Treasury's gold
reserves was taken in 1953.

Our audit procedures included (1) inspecting joint seals used to
control the gold contained in the compartments (see app. II), (2) ob-
serving and participating in a physical inventory of the entire con-
tents of 3 compartments, (3) weighing, from each compartment in-
ventoried, every 50th melt, which represents a group of as many as
25 bars from a single gold pouring, (4) assaying samples of a bar taken
from each melt weighed, (5) verifying the mathematical accuracy of all
inventory records (see app. III), (6) visually inspecting noninven-
toried compartments, (7) reviewing internal controls, security regu-
lations, procedures, and reports thereon, (8) discussing with officials
their physical controls over gold bullion, and (9) evaluating the ade-
quacy of those controls.

Mint regulations require that a special settlement committee be established to inventory and maintain physical control over the gold as it is being inventoried, weighed, and sampled. We selected the compartments to be audited, and we did not disclose this information until the inventory began. The committee opened 3 compartments and counted and inspected 91,604 bars representing about 31.1 million fine troy ounces of gold valued at about \$1.3 billion, or approximately 21 percent of the gold stored at the depository. From a random sample of all melts in the 3 compartments, the committee weighed 95 melts to the 100th part of a troy ounce. The committee also compared the weights and physical characteristics of all gold (see app. IV) inventoried to inventory records.

To verify the gold's fineness, a bar from each melt weighed was assayed. Gold samples were obtained by taking a tetrahedron-shaped chip, weighing about four-tenths of an ounce, from both the top and the bottom of the representative gold bar. We assigned control numbers to the sample chips, because the assayer could possibly determine, without assay, the gold's fineness if he knew the value or melt number from which the chips came. The New York assay office assayed the gold and gave us the results for comparison with inventory records. We observed the assaying of the first samples. The results of the assays indicated that the recorded finenesses were within the tolerances the Mint established.

To review and evaluate the four depositories' physical controls over gold bullion, we discussed with officials, and reviewed procedures for, the (1) issuance, receipt, and internal movement of gold and (2) vault, building, and personnel security. At each location we reviewed both depository and U.S. Secret Service security reports.

On the basis of our review of the controls exercised by the Bureau of the Mint and of the audit procedures followed, we believe that the gold stored at the Fort Knox depository agrees with the records of that depository. We found the Mint's controls over gold adequate; however, controls at one depository could be improved.

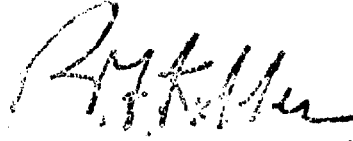
Recommendations

We recommend that the Secretary of the Treasury request the Director of the Mint to include, as part of each depository's annual settlement of accounts, a cyclical inventory of its gold holdings. This step would insure that the gold holdings in all compartments would be inventoried over a specified period of years. These inventories will increase public confidence, further improve internal control, and provide current assurance that procedures for safeguarding gold bullion are adequate.

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The Director of the Mint agreed to perform a cyclical inventory of gold as part of the annual settlement of accounts at each depository. In addition, the Director assured us that necessary corrective measures would be taken regarding our specific recommendations for improving controls at one depository. (See app. V.)

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of the Treasury; and the Director, Bureau of the Mint.



Acting Comptroller General
of the United States

RECAPITULATION OF GOLD BULLION HELD BY
BUREAU OF THE MINT, DEPARTMENT OF THE TREASURY

AS OF JUNE 30, 1974

	<u>Fine troy ounces</u>	<u>Value at \$42.2222</u>
New York assay office	54,051,635.836	\$ 2,282,178,978.61
Denver Mint	54,993,256.338	2,321,936,267.74
San Francisco assay office	10,608,102.097	447,897,408.36
Fort Knox	147,353,827.327	6,221,602,767.87
Philadelphia Mint	<u>853.076</u>	<u>36,018.75</u>
	<u>267,007,674.674</u>	<u>\$11,273,651,441.33</u>

Note: These values will vary slightly with values shown in accounting records due to different methods of computation. This schedule was valued by compartment and locations, but accounting records valued each melt, which resulted in differences due to rounding. The gold is valued at the official U.S. Government price of \$42.222 per fine troy ounce--the par value of the dollar in terms of gold established by the act of September 21, 1973, Public Law 93-110 (31 U.S.C. 449 (Supp. III 1973)). In contrast, the U.S. commercial market price of gold was \$180.55 on January 14, 1975.

SETTLEMENT COMMITTEE

The Director of the Mint established a special audit committee, in accordance with Bureau of the Mint regulations, to maintain physical control over the gold during the inventory taking. The committee included auditors from GAO and from Treasury's Office of the Secretary, Bureau of Government Financial Operations, U.S. Customs Service, and Bureau of the Mint. The committee also included Bureau of the Mint technicians trained in assaying and weighing gold bullion.

The committee, although acting as a unit, was divided into two groups--director's representatives who represented the Director of the Mint and institution representatives who represented the Officer in Charge of the depository--for control purposes. Both the director's and institution's representatives were responsible for verifying the information on the gold bar schedules. (See app. III.)

The committee, before inventory, inspected the joint seals affixed to each compartment and later resealed those compartments containing inventoried gold. A joint seal places the gold under such control that director's representatives can accept, for settlement purposes, the verification made by a previous duly authorized committee as to the weight, count, and/or value of impounded gold. The tremendous quantities of bullion in the Mint depositories make it impossible, for practical reasons, to weigh, count, assay, and check all values at each settlement.

**INFORMATION CONTAINED IN DEPOSITORIES'
INVENTORY RECORDS**

FORM 13 TREASURY DEPARTMENT BUREAU OF MINT		GOLD BAR SCHEDULE				
YEAR	MELT NO.	NO. OF BARS	GROSS WEIGHT	FINENESS	FINE TROY OUNCES	VALUE
17	00037	20	6 786 13	8995	6 883 435	266 855 76
17	00219	22	6 956 78	8995	6 257 624	264 215 46
22	12392	22	7 042 50	9000	6 338 250	267 614 86
22	12417	22	7 186 80	8999	6 467 401	273 067 90
		517	169 296 73		152 331 638	6 431 776 88

Year – The year the metal was melted is stamped on each bar. This is important in identifying the material because it is associated with melt numbers that could be repeated in different years.

Melt number – The number stamped on bars cast from the molten metal poured from a particular crucible.

Number of bars – The number of bars cast from 1 melt, usually 25 or fewer.

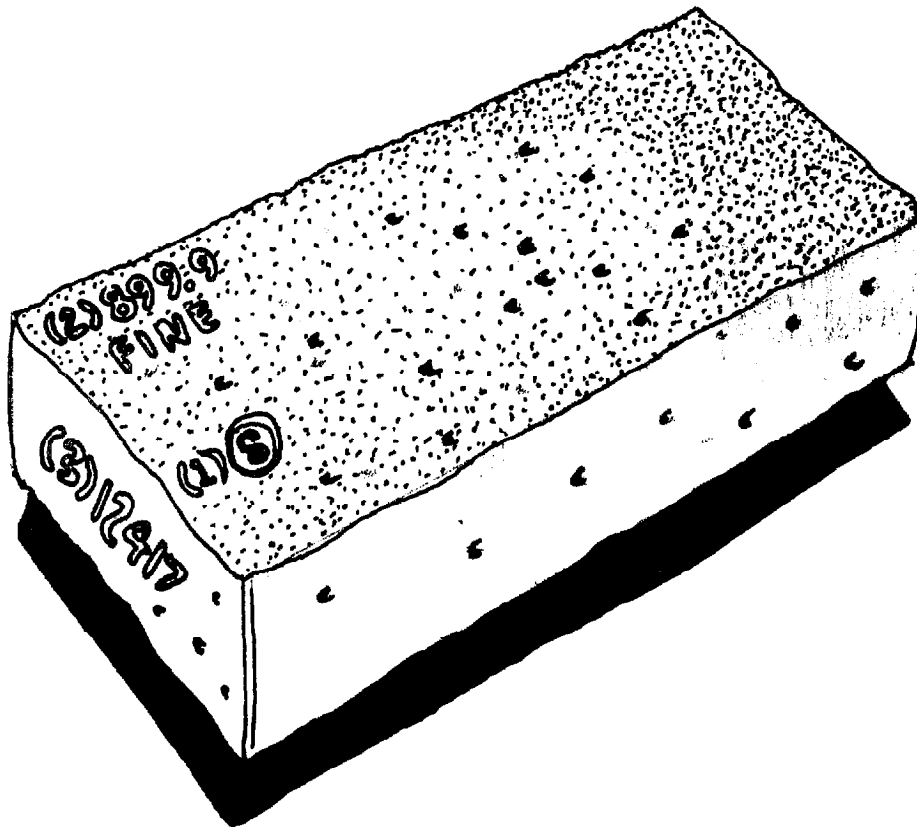
Gross weight – The weight of the entire melt, including base metals.

Fineness – The percentage of gold content as determined by assay at the time of melting.

Fine troy ounces – The gold content of the melt determined by multiplying the melt's gross weight by its fineness.

Value – The melt's value is determined by multiplying the fine troy ounces by the official rate (\$42.2222).

**THE GENERAL PHYSICAL
CHARACTERISTICS OF
GOLD BARS COUNTED**



LOCATION OF MARKINGS

- (1) – A seal which is used to identify the smelter and which tells when and where the bar was cast.
- (2) – A number showing the bar's recorded purity (000.0 fine).
- (3) – A number used to identify a group of as many as 25 bars from a single pouring.



OFFICE OF
DIRECTOR OF THE MINT

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

JAN 16 1975

Mr. John E. Thornton, Director
Field Operations Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Thornton:

Thank you for the opportunity to review with your staff the General Accounting Office draft report to the Congress on the accountability and physical controls of the Treasury Department's gold bullion reserves.

We found the draft report to be accurate and agree with the recommendations to (a) include a periodic, cyclical inventory of the gold in custody of the Mint as a part of the depositories' annual settlements and, (b) to improve controls at one depository.

I also wish to express my appreciation for the constructive approach taken by your staff in its examination.

If we can be of further assistance, please let us know.

Sincerely,

A handwritten signature in cursive script that reads "Mary Brooks".

Mary Brooks
Director of the Mint



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