

(1100dy)
10/1

AUDIT REPORT

Office of the Inspector General

SUMMARY REPORT OF CONTINUING AUDITS
OF UNITED STATES GOVERNMENT-OWNED GOLD
AS OF SEPTEMBER 30, 1985



Department
of the
Treasury

No. OIG 86-59

April 25, 1986

SUMMARY REPORT OF CONTINUING AUDITS
OF UNITED STATES GOVERNMENT-OWNED GOLD
AS OF SEPTEMBER 30, 1985

T A B L E O F C O N T E N T S

	<u>PAGE</u>
EXECUTIVE DIGEST.	1
BACKGROUND.	2
SCOPE AND OBJECTIVES	3
FINDINGS	4
Initial Continuing Audit	4
Continuing Annual Audit	5
OPINION	6
APPENDIX I	
United States Government-Owned Gold, Audited as of September 30, 1985	7
Footnotes to Appendix I	8

SUMMARY REPORT OF CONTINUING AUDITS
OF UNITED STATES GOVERNMENT-OWNED GOLD
AS OF SEPTEMBER 30, 1985

EXECUTIVE DIGEST

As of September 30, 1985, United States Government-owned gold totaled 262,657,459.166 fine troy ounces valued at approximately \$11.1 billion. More than 233.8 million fine troy ounces of this gold having a value in excess of \$9.8 billion, or about 89 percent of the total, has been audited under the initial continuing audit program. These figures include the initial 1974 Fort Knox audit results which was conducted by GAO and Treasury auditors.

During fiscal year 1985, gold was audited at the West Point Bullion Depository, under the initial continuing audit program. Although the 1985 audit was conducted in accordance with approved audit guidelines, the results are qualified because assay tests of selected gold melts have not been finalized, and foreign gold coins have not been authenticated by an expert.

In fiscal year 1985 audits of Government-owned gold were also conducted at the United States Mint in Denver and the United States Bullion Depository in Fort Knox, Kentucky. The total gold holdings at both facilities were previously audited under the June 3, 1975, continuing audit program. The 1985 audits were conducted in accordance with the revised audit guidelines that require a statistical sample of gold melts within randomly selected compartments at the facilities. The completion of the Fort Knox audit is subject to the analysis of the assay samples.

Based on the results of audits by the ad hoc audit committees, the Committee for Continuing Audits of United States Government-owned Gold concurs with the ad hoc committees that (1) the related accounts and internal controls were adequate, (2) gold bars audited were in agreement with the institutions' records, (3) the amounts recorded on the institutions' records were in agreement with control accounts for gold maintained by the United States Mint and with the central accounts maintained by FMS, and (4) completed assays were within the tolerance range established by the United States Mint.

BACKGROUND

The Department of the Treasury, as of September 30, 1985, was accountable for 262.6 million fine troy ounces of United States Government-owned gold valued at approximately \$11.1 billion. 1/ The United States Mint is responsible for the custody and security of about 249.2 million fine troy ounces of this gold located at five field institutions throughout the United States. The Federal Reserve Bank of New York is responsible for the custody and security of about 13.4 million fine troy ounces.

In response to public and Congressional inquiries, the General Accounting Office (GAO), in cooperation with the Department of the Treasury, conducted an audit of about 21 percent of the gold bars stored at the United States Bullion Depository, Fort Knox, Kentucky in September and October 1974. Auditors from the United States Mint, Bureau of Government Financial Operations (BGFO), United States Customs Service, and the Department's Office of Audit participated in the audit. In the report on this audit, the GAO recommended that the Secretary of the Treasury request the Director of the Mint to perform cyclical audits of the gold in the custody of the United States Mint.

On June 3, 1975, the Secretary of the Treasury issued Treasury Department Order No. 234-1 authorizing and directing the Fiscal Assistant Secretary, with the cooperation and assistance of the Director of the Mint, to conduct a continuing audit of the United States Government-owned gold for which the Department of the Treasury is accountable.

The Fiscal Assistant Secretary established a Committee for Continuing Audits of United States Government-owned Gold to provide guidelines and general direction to ad hoc gold audit committees. The Committee was headed by the Chief of the Internal Audit Staff of BGFO and included the Chief of the Internal Audit Staff of the United States Mint, and the Assistant General Auditor of the Federal Reserve Bank of New York. 2/

1/The gold is valued at the official U.S. Government rate of \$42.2222 per fine troy ounce.

2/Effective October 1, 1982, the Internal Audit Staffs of BGFO and the United States Mint were reorganized under the Department of the Treasury, Office of the Inspector General. On October 10, 1984, the Bureau of Government Financial Operations became the Financial Management Service.

On March 4, 1983, the Inspector General, Department of the Treasury recommended to the Treasurer of the United States that, upon completion of the continuing audit authorized by Treasury Order No. 234-1, a statistical sample of gold melts within randomly selected compartments at each Mint depository be inventoried on an annual basis. Although the quality of the gold in the custody of the Federal Reserve Bank of New York cannot be readily assayed, the Inspector General recommended that an annual independent verification of the quantity and location of the gold at the Bank continue to be conducted. The Treasurer concurred with both recommendations. The Inspector General's annual audit plan, which is approved by the Secretary, accordingly provides for such audits of the Government's gold.

Because of the continued need for an independent audit of the Government's gold stockpile and the Committee's constant involvement in the control and audits of United States Government-owned gold, the Committee was continued and includes representatives from the Office of the Inspector General and the Federal Reserve Bank of New York. The Chairman of the Committee is the Director of Audit (United States Mint), Office of the Inspector General. Annually the Committee prepares a report on the status of the audit of United States Government-owned gold to the Inspector General, Department of the Treasury, who reports the findings to the Secretary of the Treasury.

SCOPE AND OBJECTIVES

The objectives of the continuing audit are to verify the accuracy of the inventory of gold and the adequacy of related accounting records and internal controls in accordance with the Department of the Treasury audit policies. The continuing audit initially authorized under Treasury Department Order No. 234-1, was designed to ensure that about 10 percent of the United States Government-owned gold was audited annually. The continuing audit under the approved Inspector General audit plan was designed to ensure that a statistical sample of previously audited gold melts within randomly selected compartments would be audited annually.

The 1985 audits were performed by ad hoc audit committees in accordance with generally accepted Government auditing standards and the audit guidelines developed and approved by the Committee for Continuing Audits of United States Government-owned Gold. Representatives of the GAO did not observe the fiscal year 1985 audits.

The procedures for the initial and continuing audit included (1) reviewing and evaluating internal control and security procedures; (2) inspecting the joint audit committee seals used to control compartments containing previously audited gold; (3) comparing the records for each compartment inventoried to the identifying information on the gold bars; (4) removing samples from a bar in each of the melts weighed and having the samples assayed; (5) verifying the mathematical accuracy of all inventory records; (6) verifying the inventoried gold to the institutions' records; (7) verifying the quantities shown by the institutions' records to the control accounts for gold maintained by the United States Mint and to the central accounts maintained by FMS; and (8) placing audited gold bars in compartments under Official Joint Seal and audit committee control.

The audit work at West Point included weighing from each compartment inventoried, at least one randomly selected melt 3/ in each fifty melts. The audit work at Denver and Fort Knox included weighing and assaying a statistical sample of gold melts within randomly selected compartments.

FINDINGS

Initial Continuing Audit

As of September 30, 1985, United States Government-owned gold totaled 262,657,459.166 fine troy ounces valued at approximately \$11.1 billion. More than 233.8 million fine troy ounces of this gold having a value in excess of \$9.8 billion, or about 89 percent of the total, has been audited under the June 3, 1975, continuing audit program including the initial 1974 Fort Knox Audit. (See Appendix I)

Since the initial audit in September and October 1974, audits by ad hoc committees were performed at the United States Bullion Depositories at Fort Knox, Kentucky and West Point, New York; United States Assay Offices at New York 4/ and San Francisco, and the United States Mint, Denver, Colorado.

3/A melt averages about 20 bars cast from one crucible of molten gold.

4/On December 30, 1982, the United States Assay Office in New York, New York, was closed and the gold stored at that office was transferred to the United States Bullion Depository at West Point, New York.

Gold audits were performed at the West Point Bullion Depository throughout fiscal year 1985 as a result of the closing of the New York Assay Office and the transfer of the gold inventory to the Depository. All gold at the Depository except for about 15.3 million fine troy ounces was audited under the initially authorized audit. The majority of the unaudited gold includes unparted bullion bars, foreign gold coins, Canadian gold, gold medallions, anodes and Olympic coin blanks. Audit work was performed in 1985 and prior years on 9,478,485.664 fine troy ounces of gold bars but completion of the audit is subject to the results of assay tests. In addition, audit work was performed in 1984 and 1985 on 991,833.645 fine troy ounces of foreign gold coins, but completion of this work is subject to verification of the coins by an expert.

Gold at the Federal Reserve Bank of New York is audited periodically by examiners of the Board of Governors of the Federal Reserve System. Members of the Committee for Continuing Audits of United States Government-owned Gold observed the audits at the invitation of the Board and the Federal Reserve Bank. As of September 30, 1985, members of the Committee had observed Board audits of 13,451,207.440 fine troy ounces representing 99.9 percent of the approximately 13.452 million fine troy ounces under control of the Bank. The audit procedures followed were essentially the same as those followed at Mint institutions except that assay samples were not taken to verify the purity of the gold and the audited gold was not under committee control after the audit. As a result, the gold at the Bank is considered unaudited.

Continuing Annual Audit

In fiscal year 1985 audits of Government-owned gold were conducted at the United States Mint in Denver and the United States Bullion Depository in Fort Knox, Kentucky. The audits were conducted in accordance with the revised audit guidelines that required a statistical sample of gold melts within randomly selected compartments at the facilities.

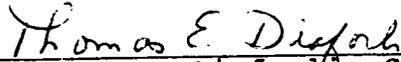
In October 1984, 4,136,046.924 fine troy ounces of gold were reaudited at the United States Mint, Denver. In July 1985, 11,912,458.207 fine troy ounces of gold were reaudited at the Fort Knox Depository. The completion of the Fort Knox audit is subject to the analysis of assay samples.

OPINION

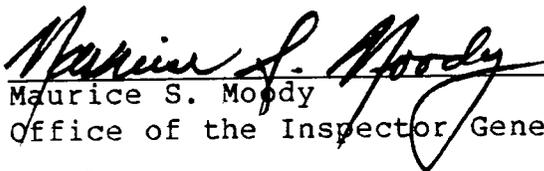
The 1985 audit of United States Government-owned gold was conducted in accordance with approved audit guidelines. However, the results are qualified because assay tests of selected gold melts have not been finalized, and foreign gold coins have not been authenticated by an expert.

Based on the results of audits by the ad hoc audit committees, the Committee for Continuing Audits of United States Government-owned Gold concurs with the ad hoc committees that (1) the related accounts and internal controls were adequate, (2) gold bars audited were in agreement with the institutions' records, (3) the amount recorded on the institutions' records were in agreement with control accounts for gold maintained by the United States Mint and with the central accounts maintained by FMS, and (4) the completed assays were within the tolerance range established by the United States Mint.

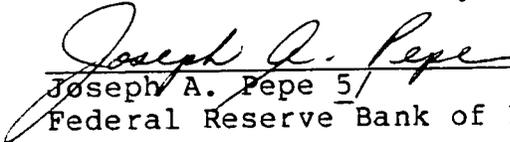
Committee for Continuing Audits of
United States Government-owned Gold



Thomas E. Diaforli, Chairman
Office of the Inspector General



Maurice S. Moody
Office of the Inspector General



Joseph A. Pepe ^{5/}
Federal Reserve Bank of New York

5/Concurrence based upon participation in gold auditing activities at the Federal Reserve Bank of New York.

STATUS OF AUDITED
UNITED STATES GOVERNMENT-OWNED GOLD
1974 TO SEPTEMBER 30, 1985

	<u>Gold Audited</u> <u>And Sealed</u>		<u>Gold Holdings 1/</u> <u>(Fine Troy Ounces)</u>	<u>Percent</u> <u>Audited</u>
<u>United States Mint</u>				
<u>Fort Knox 2/</u>				
1974	31,095,437.273	3/		
1975	15,273,290.116			
1976	13,713,923.796			
1977	17,243,968.437			
	(11,280.638)	4/		
1978	16,402,995.314			
1979	14,788,122.158			
1980	15,414,301.908			
1981	14,267,047.219			
1982	9,154,375.330			
1983	(89.615)	5/		
1984	(27.853)	5/		
1985	-			
Total	<u>147,342,063.445</u>		147,342,063.445	100
<u>New York 6/</u>				
1976	10,313,909.044			
1977	7,281,145.221			
	(160,003.718)	7/		
1978	8,708,979.152			
1979	7,976,130.706			
	(2,132,086.123)	8/		
1980	6,106,783.843			
	(871,127.151)	8/		
1983	8,071,662.706			
	(1,538,486.711)	9/		
1984	(1,118,609.813)	10/		
1985	16,613.854	11/		
Total	<u>42,654,911.010</u>		57,994,474.736	73.5
			3,573.084	-0-
<u>Philadelphia</u>				
<u>Denver 12/</u>				
1976	4,136,046.924			
1977	5,865,063.393			
1978	5,723,141.885			
1979	4,739,915.222			
1980	4,981,524.456			
1981	4,727,129.103			
1982	5,042,831.812			
1983	8,620,923.133			
	(98.754)	5/		
1984	17,476.461			
	(57.402)	5/		
1985	(30.374)	5/		
Total	<u>43,853,865.859</u>		43,853,903.454	99.9
			10,660.914	-0-
<u>San Francisco</u>				
	-			
<u>Total United States</u>				
<u>Mint</u>	233,850,840.314		249,204,675.546	93.8
<u>Federal Reserve Banks</u>	-		13,452,783.620	-0-
<u>Grand Total</u>	<u>233,850,840.314</u>		<u>262,657,459.166</u>	89.0

UNITED STATES GOVERNMENT-OWNED GOLD
AUDITED AS OF SEPTEMBER 30, 1985

Footnotes to Appendix I

- 1/ The total holdings of gold in fine troy ounces may or may not agree with the United States Mint records of gold holdings in fine troy ounces for each of its institutions. The minor variance is a result of a difference in the mathematical computation of fine troy ounce totals between the United States Mint and FMS. The United States Mint calculates total fine troy ounces based on the total of melt weights while FMS determines the fine troy ounce total based on the total dollar value of gold holdings and the statutory rate of \$42.2222 per fine troy ounce. The total dollar value of gold holdings between the United States Mint and FMS is in agreement.
- 2/ As of September 30, 1982, 100 percent of the gold stored at the depository was audited under the initial continuing audit program. Between July 1983 and July 1985 the gold was audited in accordance with the plan approved by the Treasurer, as follows.

<u>Date</u>	<u>Fine Troy Ounces</u>
July 1983	15,248,015.541
July 1984	14,817,180.740
July 1985	11,912,458.207

- 3/ Audit was conducted by the General Accounting Office in cooperation with the Department of the Treasury. Original balance was adjusted by 1.530 fine troy ounces due to weight variances noted during the 1983 audit.
- 4/ Audited gold was transferred to the New York Assay Office on October 31, 1977.
- 5/ Audited gold was removed for assay samples during subsequent audits.
- 6/ Gold audits were not performed in fiscal years 1981 and 1982 due to the relocation of all New York Assay Office gold to the West Point Bullion Depository.
- 7/ Audited gold was transferred to the Melting and Refining Division within the New York Assay Office on December 7, 1977.

- 8/ Audited gold was released for Treasury gold sales.
- 9/ Audited gold was released for Gold Medallion Program.
- 10/ Audited gold was released for Gold Medallion and Olympic Coin Programs.
- 11/ Includes reweighing adjustments for gold transferred from the now closed New York Assay Office, and gold removals and additions during fiscal year 1985.
- 12/ As of September 30, 1984, 99.9 percent of the gold stored at the United States Denver Mint had been audited under the initial continuing audit program. In October 1984, 4,136,046.924 fine ounces gold was reaudited.