

AUDIT REPORT

Office of the Inspector General

SUMMARY REPORT OF CONTINUING AUDITS
OF UNITED STATES GOVERNMENT-OWNED GOLD
AS OF SEPTEMBER 30, 1986



Department
of the
Treasury



DEPARTMENT OF THE TREASURY

WASHINGTON

INSPECTOR GENERAL

April 24, 1987

INFORMATION

MEMORANDUM FOR SECRETARY BAKER

FROM: Inspector General

SUBJECT: Summary Report of Continuing Audits of
United States Government-owned Gold
as of September 30, 1986

I. SUMMARY

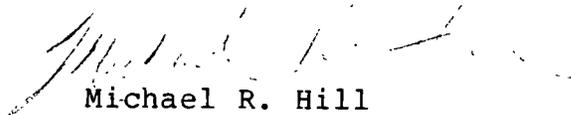
This memorandum transmits our summary report of Continuing Audits of United States Government-owned Gold for your information.

II. DISCUSSION

Annual audits have been made to carry out the continuing audits of United States-owned gold required by Treasury Order No. 234-1, dated June 3, 1975. The accompanying summary report shows that more than 241.2 million fine troy ounces or about 92 percent of the Government's 262.5 million fine troy ounces of gold have been audited as of September 30, 1986.

The 1986 audit work was conducted in accordance with generally accepted government auditing standards and with the guidelines that were developed for continuing audits of Government-owned gold. No discrepancies were found. The assay tests of selected gold melts, however, have not been finalized. Test results will be evaluated in fiscal year 1987. In addition, we are recommending in a separate memorandum to the Director of the Mint that foreign gold coins examined by auditors during 1984 and 1985 be authenticated by an expert to further verify the recorded gold content of the coins (991,833.645 fine troy ounces).

Treasury Order 234-1 has been cancelled by the Office of the Fiscal Assistant Secretary. In a September 19, 1986, memorandum to the Fiscal Assistant Secretary, we concluded that the Order was unnecessary in view of the authority of the Inspector General to conduct audits of the gold stock under other Treasury Orders. Moreover, annual independent audits of the gold were no longer necessary because virtually all of the gold in the custody of the Mint had been audited and because there had been essentially no discrepancies found by audits made over the last 10 years.



Michael R. Hill

Attachment



DEPARTMENT OF THE TREASURY
WASHINGTON

April 24, 1987

MEMORANDUM TO: Donna Pope
Director
United States Mint

FROM: Acting Director of Audit
United States Mint
Office of the Inspector General

SUBJECT: Continuing Audits of U.S.-Owned Gold

A report on Continuing Audits of United States-owned Gold as of September 30, 1986, is attached. The 1986 audit work did not identify any discrepancies.

The assay tests of selected gold melts, however, have not yet been finalized. In addition, we recommend that you arrange for an expert to authenticate the foreign gold coins at West Point. These coins were examined by auditors in 1984 and 1985, but the coins need to be examined by an expert to further verify the recorded gold content of 991,833.645 fine troy ounces. We will follow up on the test assays and the authentication of the gold coins later this year.

As the report states, Treasury Order 234-1, Audit of the Gold Stock, has been cancelled. We do not believe that there is a need to make annual independent audits of the gold. We do believe, however, that in view of the dollar significance that the Mint should test its gold inventory as part of the annual settlements. Alternatively, separate reviews could be made at other times of the year by committees appointed by and representing the Director of the Mint.

We would be happy to discuss how these inventory tests can best be accomplished. In addition, please let me know if you have any questions on this report.

Robert O. Lord

Attachment

cc: Katherine Ortega

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SUMMARY REPORT OF CONTINUING AUDITS
OF UNITED STATES GOVERNMENT-OWNED GOLD
AS OF SEPTEMBER 30, 1986

EXECUTIVE DIGEST

As of September 30, 1986, United States Government-owned gold totaled 262,514,667.498 fine troy ounces valued at approximately \$11.1 billion. More than 241.2 million fine troy ounces of this gold having a value in excess of \$10.2 billion, or about 92 percent of the total, has been audited under the initial continuing audit program. These figures include results of the initial 1974 Fort Knox audit which was conducted by GAO and Treasury auditors.

During fiscal year 1986, gold was audited at the West Point Bullion Depository, and the San Francisco Old Mint under the initial continuing audit program. Also, the assay test results from last year's gold audits at Fort Knox and West Point were received and found to be acceptable.

In fiscal year 1986 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 1986 audits were conducted at Denver and Fort Knox in accordance with the revised audit guidelines that require a statistical sample of gold melts within randomly selected compartments at the facilities.

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, 1986, was accountable for 262.5 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 249.1 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 of the 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 and assays tested on an annual basis. The quality of the gold in the custody of the Federal Reserve Bank of New York could not be readily assayed essentially because the Bank does not have sufficient space to adequately segregate assayed gold until the results of the assays are received. The Inspector General also recommended, however, 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. As a result, beginning in FY 1983, the Inspector General's annual audit plan provided for such audits of the Government's gold.

In September 1986, Treasury Order 234-1 was reviewed at the request of the Office of the Fiscal Assistant Secretary. On September 19, the Inspector General recommended that the Order be cancelled as unnecessary in view of the authority of the Inspector General to conduct audits of the gold stock under other Treasury Orders. Moreover, annual audits of Government-owned gold were no longer necessary because virtually all of the gold in the custody of the Mint had been audited and placed under seal and because there had been essentially no discrepancies found as a result of the audits made over the last 10 years. Treasury Order 234-1 was subsequently cancelled by the Office of the Fiscal Assistant Secretary.

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. 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 1986 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 1986 audits.

The procedures for the 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 Audit Under TO 234-1

As of September 30, 1986, United States Government-owned gold totaled 262,514,667.498 fine troy ounces valued at approximately \$11.1 billion. More than 241.2 million fine troy ounces of this gold having a value in excess of \$10.2 billion, or about 92 percent of the total, has been audited under the audit program developed to implement the June 3, 1975, Treasury Order 234-1. Included in this amount are the results of 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.

Except for about 7.8 million ounces, all of the nearly 57.9 million fine troy ounces of gold at the West Point Bullion Depository was audited under the initially authorized audit. The unaudited gold includes unparted bullion bars, foreign gold coins, gold medallions and blanks, Olympic coins and blanks, and Statue of Liberty coins and blanks. Audit work was performed in 1986 on 2,799,049.712 fine troy ounces of unparted bullion and 417,791.164 fine troy ounces of coin 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. During fiscal year 1985, the Mint was requested to secure the services of an expert to authenticate the coins. To date, no action has been taken on the request.

An audit was completed of gold bars on display at the San Francisco Old Mint. These bars contained 10,642.891 fine troy ounces of gold.

During fiscal year 1986, the assay test results from last year's gold audits at Fort Knox and West Point were received and found to be acceptable.

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, 1986, 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 1986 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.

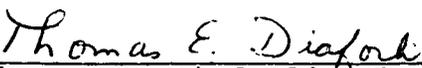
In October 1985, 3,439,928.624 fine troy ounces of gold were reaudited at the United States Mint, Denver. In July 1986, 12,477,777.638 fine troy ounces of gold were reaudited at the Fort Knox Depository. As of September 30, 1986, the completion of the Fort Knox audit was subject to the analysis of assay samples. The assay results were subsequently received in December 1986 and found to be acceptable.

OPINION

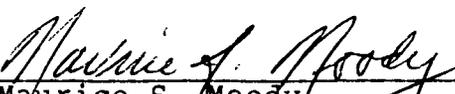
The 1986 audit of United States Government-owned gold was conducted in accordance with approved audit guidelines. However, the results are qualified because assay tests of selected gold melts have not been finalized. In addition, the foreign gold coins examined during 1984 and 1985 have not been authenticated 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.

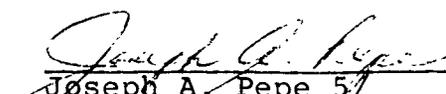
Committee for Continuing Audits of
United States Government-owned Gold



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, 1986

APPENDIX I

	<u>Gold Audited</u> <u>And Sealed</u>	<u>Gold Holdings</u> 1/ <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	(37.754)	5/	
Total	<u>147,342,025.691</u>		147,342,025.691
			100
<u>New York/West Point 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/	
1986	9,088,633.610		
	(1,702,230.187)	13/	
Total	<u>50,041,314.433</u>		57,854,460.096
			86.5
<u>Philadelphia</u>			
	-		867.883
			-0-
<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/	
1986	(28.264)		
Total	<u>43,853,837.595</u>		43,853,875.103
			99.9
<u>San Francisco</u>			
	<u>10,642.891</u>		<u>10,655.105</u>
			99.9
<u>Total United States</u>			
<u>Mint</u>	241,247,820.610	249,061,883.878	96.9
<u>Federal Reserve Banks</u>	-	<u>13,452,783.620</u>	-0-
<u>Grand Total</u>	<u>241,247,820.610</u>	<u>262,514,667.498</u>	91.9

UNITED STATES GOVERNMENT-OWNED GOLD
AUDITED AS OF SEPTEMBER 30, 1986

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
July 1986	12,477,777.638

- 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. Subsequent reaudits of gold were as follows.

<u>Date</u>	<u>Fine Troy Ounces</u>
October 1984	4,136,046.924
October 1985	3,439,928.624

- 13/ Audited gold was released for the Bullion Gold Coin Program.