

GAO

Testimony

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Committee on Financial Services

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H.R. 1495

Gold Reserve
Transparency
Act of 2011

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GAO

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Mr. Chairman, Ranking Member Clay, and Other Members of the Subcommittee:

I am pleased to be here today to discuss H.R. 1495,¹ the Gold Reserve Transparency Act of 2011. This proposed legislation, which was recently referred to your Subcommittee, provides for an audit of the gold reserves of the United States. Specifically, the bill calls for the Secretary of the Treasury to conduct and complete, not later than 6 months after passage of the act, a full assay,² inventory, and audit of gold reserves of the United States at the place or places where such reserves are kept, together with an analysis of the sufficiency of the measures taken for the security of such reserves. The bill also calls for the Government Accountability Office (GAO) to review the results of such assay, inventory, audit, and analysis and, not later than 9 months after passage of the act, prepare and transmit to the Congress a report of GAO's findings together with the results of the work performed by the Secretary of the Treasury.

My testimony today will focus on (1) the reported holdings of gold reserves of the United States as of September 30, 2010; (2) past and current audit efforts regarding gold reserves of the United States, including those of the Department of the Treasury's (Treasury) Office of Inspector General (OIG); and (3) the requirements of H.R. 1495.

We conducted our work from June 3, 2011, to June 21, 2011, in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in this product.

Gold Reserves of the United States

The holdings of gold reserves of the United States are presented in various financial reports, including the United States Mint's (Mint) Schedule of Custodial Deep Storage Gold and Silver Reserves (Mint's Custodial

¹Gold Reserve Transparency Act of 2011, H.R. 1495, 112th Congress (2011).

²To verify the fineness (the percentage of gold content at the time of melting) of a gold bar, it is assayed. This involves analyzing a sample from the bar to determine the quantity of gold in it.

Schedule), the Mint's financial statements, and Treasury's departmentwide financial statements. As of September 30, 2010, most, or approximately 95 percent, of the reported gold reserves of the United States were in the custody of the Mint. The gold reserves in the custody of the Mint are comprised of deep storage and working stock gold. Deep storage gold, which consists primarily of gold bars, represented nearly all of the gold reserves in the custody of the Mint and was maintained in three locations: the United States Bullion Depository at Fort Knox, Kentucky; the Mint at Denver, Colorado; and the Mint at West Point, New York. Working stock—which consists of bars, blanks, unsold coins, and condemned coins—represented about 1 percent of the reported gold reserves in the custody of the Mint and can be used as the raw material for minting coins. The remaining reported holdings of gold reserves of the United States were in the custody of the Federal Reserve Bank of New York. Table 1 presents the reported amounts as of September 30, 2010, of fine troy ounces (FTOs)³ of gold reserves of the United States by category and the financial reports in which such categories were presented. From September 30, 2006, through September 30, 2010, the reported fiscal year-end amounts of FTOs of (1) deep storage gold reserves in the custody of the Mint and (2) gold reserves in the custody of the Federal Reserve Bank of New York have not changed.

³Fine troy ounces represent the gold content of the melt (that is, the melting, pouring, and casting of metal into molds) as determined by multiplying the melt's gross weight by its fineness.

Table 1: Gold Reserves of the United States as of September 30, 2010

	FTOs	Treasury's Departmentwide Financial Statements	Mint's Financial Statements	Mint's Custodial Schedule
Gold reserves in the custody of the Mint:				
Deep storage	245,262,897		X	X
Working stock	<u>2,783,219</u>		X	
Total gold reserves in the custody of the Mint	248,046,116	X		
Gold reserves in the custody of the Federal Reserve Bank of New York	<u>13,452,784</u>	X		
Total gold reserves of the United States	261,498,900			

Source: GAO analysis of Treasury financial reports.

Past and Current Audit Efforts Regarding Gold Reserves of the United States

In 1974, in response to congressional interest and in conjunction with the Mint, GAO assisted in the planning and observed the inventory of gold reserves of the United States maintained by the United States Bullion Depository at Fort Knox.⁴ GAO selected 3 of the 13 compartments at this depository to be audited. The audit procedures included observing and participating in a physical inventory of the entire contents of the three compartments. GAO did not report any differences between the gold stored in these compartments and the Fort Knox depository's records. In addition, GAO's procedures included observing the assaying of a sample of gold bars. The results of the assays indicated that the recorded finenesses were within the tolerances the Mint established.

In connection with this audit, GAO recommended that the Secretary of the Treasury request the Director of the Mint to annually perform a cyclical inventory of its gold holdings to ensure that the gold holdings in all compartments would be inventoried over a specified period of years. Acting on this recommendation, Treasury established the Committee for Continuing Audits of United States Government-owned Gold (Committee for Continuing Audits) in 1975 to oversee and provide guidelines and

⁴See GAO, *Accountability and Physical Controls of the Gold Bullion Reserves, Department of the Treasury*, FOD-75-10 (Washington, D.C.: February 1975).

general direction for continuing audits.⁵ The objectives of the continuing audits were to verify the accuracy of the inventory of gold and the adequacy of related accounting records and internal controls in accordance with Treasury audit policies. A March 1982 report to the Congress by the Gold Commission⁶ noted that the continuing audit of such gold was conducted on a cyclical basis because of the enormous quantity of gold to be handled and the related costs.⁷ In an April 1987 report on continuing audits of the United States government-owned gold,⁸ the Treasury OIG stated that the continuing audits were designed to ensure that about 10 percent of the United States government-owned gold was audited annually.⁹ Further, the Treasury OIG stated that on September 19, 1986, the Inspector General had recommended canceling Treasury Department Order No. 234-1, which had resulted in the creation of the Committee for Continuing Audits, because it was unnecessary in view of the authority of the Inspector General to conduct audits of the gold stock under other Treasury Orders. It was also stated that annual audits of government-owned gold were no longer necessary because (1) virtually all of the gold in the custody of the Mint had been audited and placed under seal and (2) there had been essentially no discrepancies found as a result of those audits. Moreover, it was noted that Treasury Department Order

⁵This committee was created as a result of the June 3, 1975, Department Order No. 234-1, issued by the Secretary of the Treasury 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 Treasury is accountable.

⁶Pursuant to Public Law 96-389, 94 Stat. 1551, 1555, § 10 (Oct. 7, 1980), the members of the Gold Commission were appointed by the Secretary of the Treasury to conduct a study to assess and make recommendations with regard to the policy of the U.S. government concerning the role of gold in domestic and international systems.

⁷*Report to the Congress of the Commission on the Role of Gold in the Domestic and International Monetary Systems, Volume II, Annex D: Continuing Audit of the United States Government-Owned Gold*, March 1982.

⁸Department of the Treasury, Office of the Inspector General, *Summary Report of Continuing Audits of United States Government-owned Gold as of September 30, 1986*, OIG-87-42, (Apr. 24, 1987).

⁹In this report, the Treasury OIG stated that the Committee for Continuing Audits was headed by the Chief of the Internal Audit Staff of Treasury's Bureau of Government Financial Operations and included the Chief of the Internal Audit Staff of the Mint and the Assistant General Auditor of the Federal Reserve Bank of New York. The Treasury OIG also stated that (1) effective October 1, 1982, the internal audit staffs of the Bureau of Government Financial Operations and the Mint were reorganized under the Treasury OIG, and (2) on October 10, 1984, the Bureau of Government Financial Operations became the Financial Management Service.

No. 234-1 was subsequently canceled. According to the Treasury OIG, about 92 percent of the United States government-owned gold had been audited by either GAO¹⁰ or the Committee for Continuing Audits as of September 30, 1986.

More recently, the gold reserves of the United States have been presented in various financial reports and have therefore been subject to various audit efforts. For example, while the deep storage gold reserves are a primary focus of the audit of the Mint's Custodial Schedule, which is audited by the Treasury OIG, the deep storage gold reserves are also within the scope of the audit of the Mint's financial statements, which are audited by independent public accountants. Also, as a bureau within Treasury, the balances and activity of the Mint are included on Treasury's departmentwide financial statements, which are required by law to annually be prepared, audited, and submitted to the Congress and the Director of the Office of Management and Budget. Specifically, 31 U.S.C. §3515(b) requires that the financial statements of covered executive agencies, of which Treasury is one, include the overall financial position of the offices, bureaus, and activities covered by the statements, including the assets and liabilities thereof; and the results of operations of those offices, bureaus, and activities.

Treasury OIG's Audits of Gold Reserves in the Custody of the Mint

The Inspector General Act of 1978, as amended,¹¹ (IG Act) created offices of inspector general at major federal departments, including the Treasury OIG,¹² to provide independent audits and investigations; promote economy, efficiency, and effectiveness; and prevent and detect fraud, waste, and abuse in the respective department's programs and operations.¹³ The Treasury OIG performs annual audits of the Mint's

¹⁰Of the about 92 percent of the United States government-owned gold that had been audited as of September 30, 1986, GAO audited approximately 13 percent in 1974.

¹¹Pub. L. No. 95-452, 92 Stat. 1101 (Oct. 12, 1978) (codified, as amended, at 5 U.S.C. App.).

¹²The Treasury OIG was established by the Inspector General Act Amendments of 1988 (Public Law 100-504).

¹³In accordance with the IG Act, the Treasury OIG was appointed by the President and confirmed by the Senate, which, among other provisions of the IG Act, allows the Treasury's OIG to perform audits in compliance with the independence requirements of *Government Auditing Standards* (See GAO, *Government Auditing Standards, July 2007 Revision*, [GAO-07-731G](#) (Washington, D.C.: July 2007), issued by the Comptroller General of the United States), 5 U.S.C. App. § 4(b).

Custodial Schedule,¹⁴ which reports the deep storage gold reserves. As shown in table 1, the deep storage gold reserves represent nearly all of the gold reserves in the custody of the Mint.

Since issuing its first audit report on the Mint's Custodial Schedules in 1995, which presented the results of its audit of the Mint's Custodial Schedules as of September 30, 1994, and 1993, the Treasury OIG has annually audited the deep storage gold reserves in the custody of the Mint as reported in the respective Mint's Custodial Schedules. For each of the fiscal years under audit, the Treasury OIG rendered unqualified or "clean" opinions on the Mint's Custodial Schedules. In addition, the Treasury OIG did not report any material weaknesses¹⁵ in internal control over financial reporting relating to the schedules for these fiscal years. The Treasury OIG's most recent audit report on the Mint's Custodial Schedules, which presented the deep storage gold reserves in the custody of the Mint as of September 30, 2010, was issued on October 21, 2010.

In connection with the Treasury OIG's annual audits of the Mint's Custodial Schedules, Treasury OIG officials told us that the Treasury OIG reviews the physical controls (e.g., security fences, armed guards, security cameras, metal detectors) at each of the three Mint locations where the deep storage gold reserves are maintained. According to Treasury OIG officials, as of September 30, 2010, there were 42 compartments of deep storage gold reserves spread among these three Mint locations. As previously noted, Treasury OIG officials estimate that about 92 percent of the United States government-owned gold was audited by either GAO or the Committee for Continuing Audits as of September 30, 1986. These officials told us that once the inventory of a compartment being audited was completed, the compartment was sealed with an official joint seal. A joint seal is intended to place the gold contained in a compartment under such control that subsequent representatives can accept the verification made by previous representatives as to the weight and count of the gold.

¹⁴Prior to fiscal year 2000, the Mint's Custodial Schedule was called a Statement of Custodial Gold and Silver Reserves. Additionally, beginning in fiscal year 2006, "deep storage" was added to the title.

¹⁵A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

According to Treasury OIG officials, the official joint seals, for all of the compartments that were audited by either GAO or the committee and that had not been opened since such audits, were inspected by the Treasury OIG, as part of its audits of the Mint's Custodial Schedules, to verify that the seals had not been compromised. These officials also told us that over the course of the Treasury OIG's audits of the Mint's Custodial Schedules for fiscal years 1993 through 2008, the compartments containing the deep storage gold reserves not audited by either GAO or the committee, along with any previously sealed compartments that were opened, were selected and audited. These officials told us that such audits included verifying the following to the Mint's inventory records:

1. the number of gold bars in each melt;
2. the melt number for each gold bar in the melt; and
3. the fineness stamped on each gold bar in the melt.

In addition, as part of the audits of the selected compartments, Treasury OIG officials stated that the Treasury OIG's audit procedures have included selecting a statistical sample of gold bars from the selected compartments to be weighed and assayed and that no material differences were noted. These officials also told us that once the inventory of a selected compartment being audited was completed, the compartment was sealed with an official joint seal to control the gold reserves contained in the compartment. According to Treasury OIG officials, opening and sealing compartments require the presence of three individuals—a representative of the facility where the gold reserves are held, a representative of the Director of the Mint, and a representative of the Treasury OIG. They also told us that, as of the end of fiscal year 2008, an inventory of each of the 42 compartments had been observed either by GAO, the Committee for Continuing Audits, or the Treasury OIG and that there has been no movement of deep storage gold reserves since that time. As such, in addition to considering internal control over financial reporting related to the Mint's Custodial Schedules, Treasury OIG officials stated that the Treasury OIG's audit procedures since fiscal year 2008 have primarily focused on inspecting the official joint seals each year for all 42 compartments to verify that they had not been compromised.

Independent Public Accountants' Audits Covering Gold Reserves in the Custody of the Federal Reserve Bank of New York and the Mint

The gold reserves of the United States on Treasury's departmentwide financial statements consist of the gold reserves in the custody of the Mint and those in the custody of the Federal Reserve Bank of New York. Since fiscal year 2004, independent public accountants have rendered clean opinions on these financial statements. According to Treasury OIG officials, these independent public accountants' primary audit procedure regarding the gold reserves in the custody of the Federal Reserve Bank of New York involves annually obtaining a confirmation from the Federal Reserve regarding the gold reserves of the United States that are in the Federal Reserve Bank of New York's custody as of fiscal year-end, including the amount of FTOs. The gold reserves in the custody of the Mint are also reported on the Mint's annual financial statements. Independent public accountants have rendered clean opinions on the Mint's financial statements for fiscal years 2005 through 2010.¹⁶ According to Treasury OIG officials, these independent public accountants' procedures with regard to the deep storage gold reserves in the custody of the Mint have included reviewing the Treasury OIG's audit documentation, accompanying the Treasury OIG on site visits to the Mint's storage locations, reviewing the physical controls at the locations visited, and reperforming certain of the Treasury OIG's audit procedures.

Requirements of H.R. 1495

H.R. 1495 provides for the Secretary of the Treasury to conduct and complete a full assay, inventory, and audit of gold reserves of the United States and an analysis of the sufficiency of the measures taken for the security of such reserves. In considering the provisions of H.R. 1495, it will be important to consider the cost, benefit, and timing of actions needed to implement the proposed requirements. H.R. 1495, if enacted, may result in duplication of certain past and current efforts, especially with regard to inventorying and auditing the gold reserves of the United States. Nevertheless, GAO would be capable of carrying out the required review of the results of the Secretary of the Treasury's actions called for by the bill, should it be enacted. GAO's review would include visits to the facilities at which the gold reserves of the United States are held to selectively observe the inventorying and auditing of the gold reserves and

¹⁶With regard to the Mint's financial statements for fiscal years 1993 through 2004, the Mint's independent public accountants reported that they did not audit the gold reserves included in the Mint's Custodial Schedules. Their opinions on these financial statements, in so far as they related to such gold reserves, were based solely on the reports of the Treasury OIG regarding the related Mint Custodial Schedule.

examinations of various documentation supporting the required assay, inventory, and audit.

H.R. 1495 also provides for GAO to prepare and transmit to the Congress, not later than 9 months after enactment of the act, a report of GAO's findings from such review together with the results of the assay, inventory, audit, and analysis conducted by the Secretary of the Treasury. According to Treasury officials, because of the enormous quantity of gold that would need to be inventoried and assayed, there is uncertainty regarding the ability of Treasury to complete such actions within the 6-month period provided in H.R. 1495. If Treasury's efforts are not completed within the 6-month period, there would be limitations on the scope of GAO's work if GAO were required to report within 9 months after enactment of the act. GAO stands ready to work with the Subcommittee on developing changes to the provisions of H.R. 1495 that would most efficiently utilize the results of past and current gold reserve assay, inventory, and audit efforts.

Mr. Chairman and Ranking Member Clay, this concludes my prepared statement. I would be pleased to respond to any questions that you or other members of the Subcommittee may have at this time.

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