

United States House of Representatives
Committee on Financial Services
Subcommittee on Domestic Monetary Policy & Technology
Hearing on Investigating the Gold: H.R. 1495, the Gold Reserve Transparency Act and Oversight of the
United States Gold Holdings
June 23, 2011

Congressman Ron Paul
Statement for the Record

For far too long, the United States government has been less than transparent in releasing information relating to its gold holdings. Not surprisingly, this secrecy has given rise to a number of theories about the gold at Fort Knox and other depositories. Some people speculate that the gold has been involved in gold swaps with foreign governments or bullion banks, others believe that the gold has secretly been shipped out of Fort Knox and sold, and still others believe that the bars at Fort Knox are actually gold-plated tungsten. Historically, the Treasury and Mint have dismissed these theories, rather than addressing these concerns with substantive rebuttals. No one from Congress has been allowed to view the gold at Fort Knox in nearly 40 years, recent photographs of the gold holdings seem to be hard to come by, and the Mint's and Inspector General's audit statements contain only the bare minimum of information.

Because the government has for so long refused to provide substantive information on its gold holdings, it is not surprising that so much confusion abounds, both within and without the government. The difference between custody and ownership, questions about responsibility for US gold held at the New York Fed, and the issue of which division at Treasury is ultimately responsible for the gold reserves are just some of the questions that have come up during the research for this hearing. In a way, it seems as though someone decided to lock up the gold, put the key in a desk somewhere, and walk off without telling anyone anything. Only during the preparation for this hearing was my office informed that the Mint has in fact conducted assays of statistically representative samples of gold bars, and we were provided with a sample assay report. This type of information should be reported or at least tabulated and published, so that the public knows how many bars of gold exist, what their fineness is, and whether they are encumbered in any way through loans, swaps, etc.

While the various agencies concerned have been very accommodating to my staff in attempting to shed some light on this issue, it should not require the introduction of legislation or a Congressional hearing to gain access to this information. This information should be published and available to the American people. This gold belongs to the people, especially since much of it was forcibly taken from them in the 1930s, and the government owes it to the people to provide them with the details of these holdings. We would greatly benefit from a full, accurate inventory, audit, and assay, with detailed explanations of who owns the gold and who is responsible for ownership, custody, and auditing. While the Mint and the Inspector General trust the accuracy of the audits performed between 1975 and 1986, this still means that at least two-thirds of the gold reserves were last audited over a quarter century ago. Surely a full audit every 25 years is not too much to ask?

I look forward to the testimony of the witnesses regarding the condition of the gold reserves, the accounting audits that are regularly performed, and the inventories and assays that have been conducted on some of this gold over the years. I am also very interested to hear their comments on the Gold Reserve Transparency Act so that we may put forward a measure that provides the public with accurate and complete information on their gold.

Since the U.S. Mint was unable to send a representative to testify at this hearing in person, here is an excerpt of their remarks sent to me regarding H.R. 1495:

Dear Chairman Paul:

I appreciate the opportunity to provide this statement for the record and to describe the role the United States Mint might have in carrying out the requirements of H.R. 1495, the Gold Reserve Transparency Act, upon its enactment. As of July 6, 2011, H.R. 1495 proposes, among other things, that the Secretary of the Treasury conduct and complete a full assay, inventory, and audit of the gold reserves of the United States within six months of the date of enactment.

Both the United States Mint and the Federal Reserve Bank of New York have physical custody of the gold reserves of the United States. The attached table shows that the Treasury Department maintains gold reserves totaling **261,498,899.316 fine troy ounces**.¹ Almost all of these reserves are held at three United States Mint sites across the country and at the Federal Reserve Bank of New York. The United States Mint maintains custody of **248,046,115.696 ounces**,² and the Federal Reserve Bank of New York maintains custody of **13,452,783.620 ounces**.³ The statutory value of the gold is \$42.22 per ounce, as established in 1976.⁴ Accordingly, the aggregate statutory value of the gold in the reserves is \$11,041,058,821.09. At a prevailing market gold price of \$1500 per ounce, the value of the gold reserves is \$392,248,348,974.00.

As the legal custodian of 95 percent of America's gold reserves, the United States Mint is absolutely confident in the security, accountability, and integrity of these significant

¹ All references to "ounces" are to "fine troy ounces."

² This includes 245,262,897.040 ounces in deep storage, and 2,783,218.656 ounces available as working stock (the portion of the gold reserve that the United States Mint is authorized to use as the raw material for minting legislatively-mandated coins).

³ This figure includes gold not only held in the vault at the Federal Reserve Bank of New York, but also 2,013.515 ounces in the form of gold bars and gold coins held by Federal Reserve Banks for display purposes.

⁴ 31 U.S.C. § 5117(b) ("The amount of outstanding certificates may be not more than the value (for the purpose of issuing those certificates, of 42 and two-ninths dollars a fine troy ounce) of the gold held against gold certificates").

national financial assets. The United States Mint recognizes that the gold reserves are owned by the United States Government, and serve as collateral for gold certificates issued to the Federal Reserve Banks. Accordingly, we believe that the United States Mint's responsibility with respect to commenting on H.R. 1495 is limited to making the Committee aware of the impact it would have on the United States taxpayer and United States Mint operations.

Audit

The gold in the custody of the United States Mint is in the form of 699,515 gold bullion bars (including 94,828 unparted bars containing both gold and silver), gold coins, gold coin blanks, and gold in miscellaneous forms. Based on the United States Mint's experience in 2008 and earlier audits, inventories, and assays, we anticipate that the time required to move, weigh, obtain assay samples, and restore bars averages six minutes per bar, assuming a team of 19 people. Expanding that to 699,515 bars would require nearly 1.3 million man-hours of incremental labor. Therefore, to complete the inventory of just the gold bullion bars within the six months, as H.R. 1495 specifies, would require approximately 1,280 individuals.

It is not physically possible to accommodate 1,280 individuals inside the small vaults and balance rooms at the three United States Mint sites. However, if the United States Mint was provided with sufficient funds and staffing that the space would reasonably accommodate, it would take three to four years to complete the inventory of all 699,515 bars. Based on these assumptions, we estimate the personnel cost to move, weigh, obtain assay samples, and restore the bars would total approximately \$53 million.⁵

Assay

The cost of assaying services is about \$230 per bar;⁶ therefore, the total cost of assaying services for the 699,515 gold bars in the reserves would be about \$161 million.⁷ Moreover, the process of assaying a gold bar requires the removal and destructive testing of a portion of a one-tenth-ounce sample of the gold. Consequently, assaying all of the bars would consume about 14,000 ounces of gold at a present market value of about \$21 million (assuming a market value of \$1,500 per ounce).⁸ Based on these figures, the United States Mint estimates a total cost to conduct and complete a full

⁵ These assumptions contemplate a 100-percent inventory and assay of each gold bullion bar. An alternative approach would be to inventory 100 percent of the bars but assay only 10 percent of them. Potential savings due to reduced samples and loss in gold from assay tests would be substantial.

⁶ The cost of assaying services charged by White Sands Laboratories for the 2008 audit was \$232 per gold bar and required approximately one month to complete.

⁷ With a ten-percent assay, we estimate that the cost of assaying services would be approximately \$16 million.

⁸ With a ten-percent assay, the loss of 1400 ounces of gold to assay at the market rate of \$1500 would be approximately \$2.1 million.

assay, inventory, and audit of the gold reserves held by the United States Mint of approximately \$235 million.⁹ This figure does not include travel and per diem costs for individuals involved in the process.

Concerns over the significant cost of conducting a full assay, inventory, and audit of the gold reserves held by the United States Mint are not unprecedented. As you may be aware, in 1979, Representative Larry McDonald of Georgia introduced H.R. 555, "A bill to provide for an audit by the General Accounting Office of all gold owned by the United States." In response to Representative McDonald's proposal, the Chief of the United States Mint's Internal Audit Staff prepared the following estimate of the resources that would be needed for a 100-percent audit of the gold in the bureau's custody:

From 1974 through 1978 during which 50 percent of the gold stock was audited--an estimated 2900 direct staff days were required for the work. About three-fourths of this time was provided by Mint resources other than auditors. If the GAO was required to perform a 100 percent audit each year, I presume that the Mint would probably be called upon to provide the same support which would amount to about 4400 staff days annually.¹⁰ The Mint would still have to establish committees including security personnel, technicians experienced in taking assay samples from bars, assaying, weighing and bar handling.¹¹

Similarly, the Department of the Treasury's Fiscal Assistant Secretary at the time stated the following about a 100 percent inventory of the gold reserves:

[A]udits contemplated by the proposed legislation would be extremely disruptive of operations at the Bureau of the Mint, would be very costly, and would require extra personnel at a time when efforts are being made not to increase Federal employment.¹²

Finally, the Deputy General Counsel of the Department of the Treasury reported the following about H.R. 555 to Representative Jack Brooks, then-Chairman of the House Committee on Government Operations:

⁹ For a full inventory and audit, with a ten-percent assay, we estimate that the total cost would be slightly over \$71 million.

¹⁰ This figure was based on the Chief of the United States Mint's Internal Audit Staff's assumption that only a two-percent assay would be performed.

¹¹ Memorandum from Chief, Internal Audit Staff, United States Mint, to Counsel to the Mint, subject: Request for Input for Treasury Proposing Gold Audits by GAO (Feb. 16, 1979).

¹² Memorandum from Fiscal Assistant Secretary, Department of the Treasury, to Chief, Legislative Section, Office of the General Counsel, Department of the Treasury, subject: H.R. 555, 96th Congress, 1st Session, Requiring Audit of Gold Held by the United States (Feb. 21, 1979).

The testing and inventory requirements of the bill would overwhelm the Bureau of the Mint laboratories and staff. Further, space limitations in vault areas are restricted as they were designed for security reasons. Therefore, the number of personnel required to conduct the proposed audit could not be accommodated. Thus, an attempt to make the audits contemplated by the proposed legislation would be extremely disruptive of operations at the Bureau of the Mint. Further, at a time when efforts are being made to reduce the Federal expenditures, the proposed audits would be very costly because of the extra personnel and testing procedures that would be required.¹³

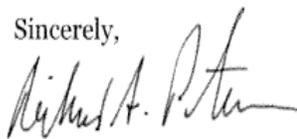
The physical requirements for such an audit at the three locations where the United States Mint holds gold reserves have not changed appreciably in the past three decades since United States Mint and Treasury officials made these statements.

Therefore, the statements made by the Chief of the United States Mint's Internal Audit Staff, the Fiscal Assistant Secretary, and the Deputy General Counsel—that such an audit would require significant additional staffing and would be extremely disruptive of operations of the United States Mint—are as accurate today as they were in 1979. Indeed, the heightened vigilance required in today's post-9/11 environment would exacerbate the significant costs involved, as well as the disruptive effect on bureau operations—particularly at the United States Mints at Denver and West Point.

The United States Mint estimates that H.R. 1495 would cost taxpayers approximately \$235 million and be of little benefit. As the Treasury Inspector General testified on June 23, 2010, "One hundred percent of the U.S. government's gold reserves in the custody of the Mint has been inventoried and audited. Furthermore, these audits found no exceptions of any consequence."

However, should the bill be enacted, you have my assurance that the United States Mint will dutifully and cooperatively facilitate the assay, inventory, and audit of the gold reserves to the best of its ability.

Sincerely,



Richard A. Peterson
Acting Director
United States Mint

Attachment:

Table of Treasury-Owned Gold Holdings

¹³ Letter from Deputy General Counsel, Department of the Treasury, to Chairman, Committee on Government Operations, U.S. House of Representatives (May 18, 1979).

Attachment

Department of the Treasury		
STATUS REPORT OF U.S. TREASURY-OWNED GOLD		
May 31, 2011		
Source: Financial Management Service		
Summary	Fine Troy Ounces	Book Value
Gold Bullion	258,641,851.485	\$10,920,427,976.14
Gold Coins, Blanks, Miscellaneous	2,857,047.831	120,630,844.95
Total	261,498,899.316	11,041,058,821.09
United States Mint-Held Gold in Deep Storage		
Denver, CO	43,853,707.279	1,851,599,995.81
Fort Knox, KY	147,341,858.382	6,221,097,412.78
West Point, NY	54,067,331.379	2,282,841,677.17
Subtotal - Deep Storage Gold	245,262,897.040	10,355,539,085.76
United States Mint-Held Gold in Working Stock		
All locations - Coins, blanks, miscellaneous	2,783,218.656	117,513,614.74
Subtotal - Working Stock Gold	2,783,218.656	117,513,614.74
Grand Total of United States Mint-Held Gold	248,046,115.696	10,473,052,700.50
Federal Reserve Bank-Held Gold		
Gold Bullion:		
Federal Reserve Banks - NY Vault	13,376,961.126	564,804,727.98
Federal Reserve Banks - display	1,993.319	84,162.40
Subtotal - Gold Bullion	13,378,954.445	564,888,890.38
Gold Coins:		
Federal Reserve Banks - NY Vault	73,808.979	3,116,377.47
Federal Reserve Banks - display	20.196	852.74
Subtotal - Gold Coins	73,829.175	3,117,230.21
Grand Total of Federal Reserve Bank-Held Gold	13,452,783.620	568,006,120.59
Grand Total of Treasury-Owned Gold	261,498,899.316	\$11,041,058,821.09