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Examination of the Account of the United States Treasury for Fiscal Years Ended June 30, 1974 and 1975. FOD-77-12; E-114802. March 8, 1978. 9 pp. + 3 enclosures (3 pp.).

Report to Secretary, Department of the Treasury; by Walter H. Henson (for Stewart D. McElyea, Director, Field Operations Div.).

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The financial statement of the Account of the United States Treasury as of June 30, 1974 and 1975 was examined in accordance with generally accepted auditing standards. The examination included such tests of accounting records and auditing procedures as were considered necessary in view of the effectiveness of internal control and the work done by the Bureau of Government Financial Operation's Internal audit staff. Findings/Conclusions: The manner in which the Account of the United States Treasury is presented was changed as of June 30, 1974, from a final actual basis to a clearance date basis. The account balances on a clearance date basis are different in that items in transit or adjustments applicable to the fiscal year have not been recorded. This resulted in an understatement of the general account balance for fiscal years 1974 and 1975 of \$280 million and \$286 million, respectively. Except for the unrecorded transactions in transit, the financial statement presents fairly the financial position of the U.S. Treasury Account at June 30, 1974 and 1975, in conformity with principles and standards of accounting prescribed by the Comptroller General. (RRS)

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REPORT BY THE U.S.

General Accounting Office

Examination Of The Account Of The United States Treasury For Fiscal Years Ended June 30, 1974 And 1975

GAO discusses changes made in the presentation of accounts in the Account of the United States Treasury, the reorganization of the Fiscal Service, and the ongoing revision of the central accounting and public moneys system.

This report contains GAO's opinion on the Account of the United States Treasury for the fiscal years ended June 30, 1974 and 1975.



FOD-77-12
MARCH 8, 1978



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FIELD OPERATIONS DIVISION

B-114802

March 3, 1978

The Honorable
The Secretary of the Treasury

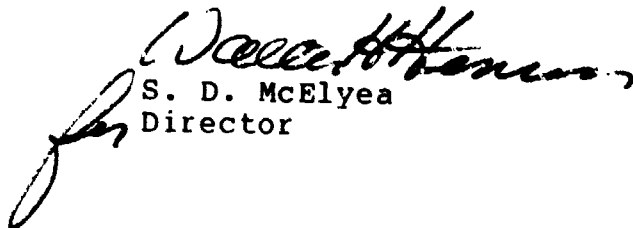
Dear Mr. Secretary:

This report summarizes results of our examination of the Account of the United States Treasury for the fiscal years ended June 30, 1974 and 1975. We made our examination according 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).

We have qualified our opinion on the financial statements because the large number of transactions in transit at yearend resulted in an understatement of the general account balances. Accounting changes instituted in fiscal year 1976 should preclude future occurrences of this problem.

We are sending copies of this report to the Chairmen of the House Committee on Government Operations, the Senate Committee on Governmental Affairs, and to the House and Senate Committees on Appropriations.

Sincerely yours,


S. D. McElyea
Director

D I G E S T

OPINION ON FINANCIAL STATEMENTS

The manner in which the account balances for the Account of the United States Treasury were presented was changed as of June 30, 1974, from a final actual basis to a clearance date basis. The account balances on a clearance date basis are different in that items in transit or adjustments applicable to the fiscal year have not been recorded. This resulted in an understatement of \$209 million and \$286 million in the general account balance for fiscal years 1974 and 1975, respectively. (See pp. 8 and 9.)

The clearance date basis will be modified in fiscal year 1976 to reduce the volume of intransit and adjustment transactions. (See p. 7.)

Except for the unrecorded transactions in transit as described above, GAO believes the U.S. Treasury account is fairly stated at June 30, 1974 and 1975, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

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CHAPTER 1

INTRODUCTION

As the U.S. Government's financial agent, the Department of the Treasury acts as the treasurer, banker, and central bookkeeper. In past years, the banking function has been carried out by the Office of the Treasurer of the United States. This Office was established in 1789 to receive, hold, and pay out public moneys (1 Stat. 65). Because the Government's financial activities were widespread, the Office used the facilities of Federal Reserve banks and branches and designated many of its banking functions to domestic and foreign banks. These functions included (1) receiving deposits of tax, public debt, customs, and trust fund receipts, (2) cashing checks drawn on the Treasurer, (3) supplying coin and currency to local banks, (4) issuing and redeeming Government bonds and other securities, and (5) destroying currency unfit for circulation.

REORGANIZATION OF THE FISCAL SERVICE

Effective February 1, 1974, by order of the Secretary of the Treasury, the Fiscal Service was reorganized by merging the Office of the Treasurer and the Bureau of Accounts to form the Bureau of Government Financial Operations. In fulfilling the responsibilities assumed under the reorganization, the Bureau of Government Financial Operations

- provides central disbursing for most Government agencies;
- manages the Government's central accounting and financial reporting system;
- provides banking and related cash services involved in the management of the Government's cash resources;
- invests various Government trust funds under specified provisions of law;
- administers certain U.S. currency matters, such as directing the various aspects of the issue, redemption, and custody of U.S. currency and overseeing the destruction of currency unfit for circulation; and
- directs many other fiscal activities.

A major reason for the reorganization was the Treasury's desire to consolidate related operations, personnel, and equipment. Preceding the reorganization and merger, each entity maintained separate and unique accounting and financial reporting systems which were closely related and interdependent. The Treasurer's accounts were maintained to properly account for receipts and payments of U.S. public moneys and to exercise control over the custody of such moneys. The Bureau of Accounts maintained a system of central accounts to provide a consolidated record of the Government's financial transactions.

REVISION OF ACCOUNTING SYSTEMS

The central accounting system was approved by GAO in 1968. In July 1974 the Bureau of Government Financial Operations established the Accounting Information Management System project to integrate the central accounting and public moneys systems into one accounting and financial reporting system. Although various objectives have been defined, firm dates for the complete implementation of the revised accounting system are not available. The Bureau estimates that it will be several years before the revised system is fully operational.

This integration will necessitate major changes in the central accounting system. The Bureau plans to furnish segments of the revised system to GAO for review as they are completed.

CHAPTER 2

ACCOUNT OF THE UNITED STATES TREASURY

Certain assets and liabilities of the United States have traditionally comprised the Account of the United States Treasury (formerly the Account of the Treasurer of the United States). The assets consist of gold bullion, coin, coinage metal, paper currency, deposits in Federal Reserve banks, and deposits in commercial banks designated as Government depositories. The liabilities consist of gold certificates issued to and held by the Federal Reserve banks.

GOLD TRANSACTIONS

As shown on schedule 1, gold bullion assets amounted to about \$11 billion at June 30, 1974 and 1975. Although the gold balance did not change significantly between June 30, 1974, and June 30, 1975, major transactions occurred in both fiscal years.

During fiscal year 1974 the Treasury's gold stock decreased slightly by about 3,600 ounces. Although the gold stock decreased, there was a net increase of \$1.2 billion in value due to the revaluation of gold from \$38 to \$42.2222 an ounce, under an amendment to the Par Value Modification Act, approved September 21, 1973 (31 U.S.C. 419).

In fiscal year 1975 the gold stock increased by about 1.2 million ounces. Major transactions affecting the gold stock were the purchase at par value of about 2 million ounces of gold valued at \$85 million from the Exchange Stabilization Fund in December 1974 and the public sale in January of about 750,000 ounces of gold valued at \$32 million. In accordance with Public Law 93-373, enacted August 14, 1974, all Government restrictions on the purchase, sale, or ownership of gold ended on December 31, 1974 (31 U.S.C. 442). The transactions in fiscal year 1975 caused the gold balance to increase by about \$53 million.

On June 30, 1975, another public sale of gold resulted in the sale of about 500,000 ounces, valued at \$21 million. Because the acceptance of the bids and the U.S. Treasury gold delivery to the bidders did not occur until fiscal year 1976, no reduction was made in the June 30, 1975, balance of gold (\$11 billion as shown in sch. 1).

OPERATING CASH BALANCES

Except for the gold, most of the assets in the Account of the United States Treasury consist of operating cash maintained in demand deposit accounts in the Federal Reserve banks and the Treasury tax and loan accounts maintained by commercial banks. The U.S. Treasury's reported operating cash balances as of June 30, 1974 and 1975, were \$9.2 billion and \$7.6 billion, respectively. (See sch. 1.)

CHAPTER 3

INTERNAL AUDIT

The Bureau of Government Financial Operations has an internal audit staff that periodically reviews its activities to insure management that assets are properly accounted for and that established policies and procedures are followed.

During the period of our review, the internal audit staff's work as related to the Account of the United States Treasury included (1) unannounced audits of cash and bond and check stock to determine whether these assets were properly accounted for, (2) audits of general accounts and payroll operations, and (3) other audits and reviews of the internal controls and efficiency and economy of operations of various operating units.

We reviewed the work of the internal audit staff and, where practicable, relied on its examinations in defining the scope of our work.

CHAPTER 4

COMMENTS ON FINANCIAL STATEMENTS

CHANGE IN BASIS OF REPORTING

The Bureau of Government Financial Operations changed the way the account balances in the U.S. Treasury account (formerly the Account of the Treasurer of the United States) are presented. Before the reorganization of the Fiscal Service in February 1974, the Treasurer's accountability for the public moneys was based on the date the public moneys transactions actually occurred at the various depositories. This date was the date the Treasurer was considered legally accountable for the public moneys passing through her accounts. Accordingly, financial statements were prepared for the Treasurer of the United States account on a final actual basis effecting all adjustments and transactions occurring in a fiscal year.

With the reorganization and the transfer of the public moneys accounts, the Bureau decided that the financial statements of the Account of the United States Treasury would no longer be prepared on a final actual basis, but instead on a clearance date basis. Specifically, the accounts would include only that financial data recorded in the accounting records by a stated date. The account balances on a clearance date basis are different in that items in transit or adjustments applicable to the fiscal year have not yet been recorded. With the merger of the two accounting systems, the use of clearance date reporting was initiated to assure that the same basis of reporting was used in all Treasury publications including data concerning the Account of the United States Treasury and because the accounts in the central accounting system, of which the public moneys system was made a part, are maintained on a clearance date basis.

FISCAL YEAR 1974 AND 1975 VARIANCES BETWEEN CLEARANCE DATE AND ACTUAL DATE BASIS OF REPORTING

The financial statement of the United States Treasury for June 30, 1974 and 1975 (see sch. 1) was published as of a June 30 clearance date. Our review disclosed that the general account balances shown on a clearance date basis were understated by about \$209 million (2 percent) and \$286 million (3 percent) for June 30, 1974 and 1975, respectively, from the general account balances on a final actual basis.

The variances were found to be caused primarily by unrecorded adjustments and transactions in transit.

IMPROVEMENT IN FINANCIAL REPORTING

Bureau personnel informed us that in fiscal year 1976 a modified clearance date basis of reporting will be used to add additional days to the fiscal yearend, allowing for late transactions and adjustments to be recorded in the accounts. Bureau personnel acknowledge that all information pertaining to a fiscal year will not be recorded under the modified clearance date basis but believe it sufficient to allow a substantial amount of the late financial data to be included in the accounts. Omissions should not materially affect the financial statements prepared on this basis, according to Bureau personnel.

We reviewed the general account balance as of a modified clearance date, June 30, 1975, plus 6 additional workdays, finding that the variance between the general account balance as of the modified clearance date and a final actual date was about \$37 million, a variance of less than 1 percent. We believe, therefore, that the adoption of the modified clearance date basis for reporting should improve the quality of published financial data concerning the Account of the United States Treasury.

CHAPTER 5

SCOPE OF EXAMINATION AND OPINION ON

FINANCIAL STATEMENT

SCOPE OF EXAMINATION

We examined the financial statement of the Account of the United States Treasury as of June 30, 1974 and 1975. Our examination was made according to generally accepted auditing standards. It included such tests of the accounting records and auditing procedures as we considered necessary in view of the effectiveness of internal control and the work done by the Bureau of Government Financial Operation's internal audit staff.

Most of the gold and silver bullion was held at the Bureau of the Mint facilities. Each Bureau settlement committee, usually including a representative from the Bureau of Government Financial Operation's internal audit staff, takes periodic inventory of the monetary assets held at each facility. Certain assets, primarily gold bullion, are held in sealed vaults, and the committees accept the value of them if they find the seals to be unimpaired. We observed the work of these committees at selected locations, examining the asset records.

As a result of a recommendation in a GAO report, "Accountability and Physical Controls of the Gold Bullion Reserves," dated February 10, 1975 (FOD-75-10), continuing audits of gold bullion held at various Bureau of the Mint facilities were established by order of the Secretary of the Treasury in June 1975. We also observed these continuing audits of gold at selected locations.

OPINION ON FINANCIAL STATEMENT

The manner in which the Account of the United States Treasury are presented was changed as of June 30, 1974, from a final actual basis to a clearance date basis. The account balances on a clearance date basis are different in that items in transit or adjustments applicable to the fiscal year have not been recorded.

This resulted in an understatement of the general account balance for fiscal years 1974 and 1975 of \$209 million and \$286 million, respectively. Bureau personnel informed us that for subsequent fiscal years a modified clearance date

basis will be used to reduce outstanding and unrecorded items in transit. On the basis of our analysis of the proposed revision, we believe its adoption will more accurately present the financial position of the general account.

In our opinion, except for the unrecorded transactions in transit as described above and in note 1, the accompanying financial statement presents fairly the financial position of the U.S. Treasury account at June 30, 1974 and 1975, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

COMPARATIVE STATEMENT OF THE
ACCOUNT OF THE TREASURY OF THE UNITED STATES
AT JUNE 30, 1975 AND 1974 (note 1)

	<u>June 30, 1975</u>	<u>June 30, 1974</u>
<u>GOLD</u>		
Assets:		
Gold (notes 2 and 3)	\$11,619,861,598	\$11,566,758,971
Liabilities:		
Gold certificates, series of 1934 outstanding	1,277,800	1,277,800
Gold certificate fund--Board of Governors, Federal Reserve System	11,618,583,798	11,459,121,680
Gold balance	-	106,359,491
Total	<u>\$11,619,861,598</u>	<u>\$11,566,758,971</u>
<u>GENERAL ACCOUNT</u>		
Assets:		
In U.S. Treasury offices:		
Gold balance (as above)	-	106,359,491
Coin and currency	348,430,706	183,325,983
Coinage metal	403,166,354	418,285,928
Miscellaneous items	46,036,998	54,075,516
Total	<u>797,634,058</u>	<u>762,046,918</u>
Deposits:		
Available funds in demand accounts at:		
Federal Reserve banks	5,772,836,601	2,918,887,083
Special depositories, U.S. Treasury tax and loan accounts	1,472,813,777	6,151,874,410
Other depositories	343,490,000	88,465,000
Total	<u>7,589,140,378</u>	<u>9,159,226,493</u>
Funds in process of collection through:		
Federal Reserve banks	370,691,579	276,240,896
Other depositories	75,509,688	135,312,635
Total	<u>446,201,267</u>	<u>411,553,531</u>
Times deposits and other depository accounts	<u>35,480,526</u>	<u>19,163,545</u>
Total assets, U.S. Treasury account	<u>8,868,456,229</u>	<u>10,351,990,487</u>
General account balance	<u>\$ 8,868,456,229</u>	<u>\$10,351,990,487</u>

GAO notes following schedule 1 are an integral part of this statement and should be considered when reading this statement. GAO's opinion on this statement is set forth on page 8.

GAO NOTES TO THE FINANCIAL STATEMENT

1. Balances shown in the comparative statement of the Account of the United States Treasury at June 30, 1974, and June 30, 1975, are stated as published in the Treasury's Combined Statement of Receipts, Outlays, and Balances of the United States Government for those fiscal years. The balances do not include net transactions in transit and other adjustments at June 30, 1974, and June 30, 1975, of \$209 million and \$286 million, respectively.
2. On June 30, 1975, a public sale of about 500,000 ounces of gold, valued at \$21 million, was held. The acceptance of the bids and gold deliveries to bidders did not occur until fiscal year 1976. Accordingly, no reduction was made in the gold balance of \$11 billion at June 30, 1975.
3. At June 30, 1974, and June 30, 1975, there were 273,949,698.8 and 275,207,393.2 ounces of gold, respectively, valued at the official par value of \$42.2222.

PRINCIPAL OFFICIALS
OF THE DEPARTMENT OF THE TREASURY
RESPONSIBLE FOR THE ACTIVITIES
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF THE TREASURY:		
W. Michael Blumenthal	Jan. 1977	Present
William E. Simon	May 1974	Jan. 1977
George F. Shultz	June 1972	May 1974
FISCAL ASSISTANT SECRETARY:		
David Mosso	July 1975	Present
John K. Carlock	June 1962	July 1975
COMMISSIONER, BUREAU OF GOVERNMENT FINANCIAL OPERATIONS:		
Dario A. Pagliai	Mar. 1975	Present
David Mosso	Feb. 1974	Mar. 1975
DIRECTOR, BUREAU OF THE MINT:		
Frank H. MacDonald (acting)	Feb. 1977	Present
Mary T. Brooks	Sept. 1969	Feb. 1977