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W. J. ... 114740



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548



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B-201903

FEBRUARY 23, 1981

The Honorable Henry S. Reuss
House of Representatives
The Honorable Stewart B. McKinney
House of Representatives

SUBJECT: Federal Reserve Security Over Currency
Transportation Is Adequate (GGD-81-27)

On February 28, 1980, you requested that we review the Federal Reserve System's currency transportation operations. You indicated that you were interested in the adequacy of security the Federal Reserve required during its currency shipments and the Federal Reserve Banks' procurement of armored car services, especially compliance with the Service Contract Act and adherence to competitive bidding practices.

During the initial stages of our audit, we learned that the 12 Federal Reserve Banks had initiated an antitrust complaint against the major carriers in the armored transportation industry. Although this litigation did not directly involve the areas of concern you expressed, it hampered access to the records needed to audit the Banks' procurement practices. As agreed, we have postponed our audit of the Federal Reserve's procurement practices until the antitrust suit is settled.

To determine the adequacy of Federal Reserve security over currency transportation, we analyzed the security requirements and incident experience of the Federal Reserve Banks and the Board of Governors for the last 10 years. Because of our limited access to records, we used a questionnaire to gather this information from the Reserve Banks. Our conclusions are based on information specially accumulated by the Federal Reserve Banks in response to our request. The Banks do not routinely gather and analyze this information. To assess industrywide standards and practices, we talked with armored carrier company officials and insurance brokers. We consulted with other government and private users of armored car services to assess the impact of the Federal Reserve's security decisions.

In fulfilling its responsibilities for currency circulation, the Federal Reserve contracts with various armored carriers for transportation services. Universal security standards for armored transportation have not been established by government, the industry itself, or the Federal Reserve. In the last 10 years, the minimum security levels

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required by the Federal Reserve in its various armored carrier contracts have become more specific for personnel and vehicle requirements. Although the number of incidents involving armored carriers operating under Federal Reserve contract has increased, the increase is not related to any changes or deterioration in the Federal Reserve security specifications. Given industry attitudes and practices regarding security standards as well as the pattern of incidents, we believe the Federal Reserve's security over currency transportation is adequate.

THE FEDERAL RESERVE CIRCULATES CURRENCY UNDER DIVERSE CONTRACTUAL ARRANGEMENTS

The Federal Reserve System has general responsibility for the distribution and circulation of U.S. currency. This includes the delivery of newly printed currency to the Reserve Banks and the continuing circulation of currency and coin between the Reserve Banks and member commercial banks. Almost all physical transportation of currency is provided by private armored carriers under various Federal Reserve contracts.

Board contracts for new currency delivery

The Board of Governors of the Federal Reserve System (the Board) is responsible for the delivery of new paper currency from the Bureau of Engraving and Printing to the Federal Reserve Banks and branches. This does not include new coin delivery, which is handled by the General Services Administration. Earliest records indicate that new currency was previously shipped by rail and later, by registered mail. A \$1.5 million mail robbery involving Federal Reserve currency provided the impetus for the Federal Reserve's switch to more secure armored transportation. In 1965, the Board first contracted with a single major carrier for nationwide new currency delivery. During 1979, \$31.9 billion of new currency was delivered under Board contract at a cost of \$3.4 million. In 1980, the Board regionalized the delivery of new currency in order to realize substantial cost savings. Contracts were made with six carriers to deliver new currency to different parts of the country.

Reserve bank contracts for currency delivery

The Federal Reserve Banks and their respective branches are responsible for circulating both new and used currency and coin to and from commercial banks. Most commercial banks receive currency by armored car, though banks in more remote areas may be serviced by registered mail. Nonmember banks and other financial institutions obtain currency through member banks under correspondent relationships.

Several contracting arrangements exist within this distribution system. As a service to its member commercial banks, the Federal Reserve provides free currency pickup and delivery. (Under the Monetary Control Act of 1980, the Federal Reserve will soon begin to charge its members for this service.) Some commercial banks may desire more frequent service than the Federal Reserve Bank provides and contract for additional armored car deliveries on their own. In a few cases, the commercial banks contract for armored car service and are reimbursed by the Federal Reserve. The dollar volume of currency and coin shipped under Federal Reserve Bank armored carrier contract has increased 43 percent from \$112.3 billion in 1975 to \$160.8 billion in 1979. The Banks spent \$30 million to deliver currency in 1979.

No central control over currency distribution

As a whole, the Federal Reserve System is the largest single user of armored carrier services; however, there is no central control over its currency transportation activities. The numerous contracts that make up the nationwide currency transportation system are designed and negotiated locally. Each of the 12 Federal Reserve Banks and the Board of Governors contracts separately for its armored carrier services, and, under Bank auspices, many of the System's 25 branches also negotiate local contracts.

Although the Federal Reserve circulates currency under many diverse contractual arrangements, it has made efforts to control the cost of these transportation services. In the early 1970s, Federal Reserve officials became concerned about the System's rising check courier and armored carrier transportation costs. Between 1970 and 1973, the cost of armored carrier services alone increased an average of 16 percent per year. In an attempt to control these costs, greater emphasis was placed on the use of competitive bidding. In addition, a group of transportation experts was established to advise and counsel Banks in contracting for transportation services. As a result of these efforts, armored carrier costs have increased an average of only 5 percent a year since 1974.

To provide better System-wide management of escalating currency and transportation expenses, the System Transportation Service (STS) was established in late 1973. The STS provides assistance to Banks in preparing bid solicitations for armored carrier services, evaluating bid submissions, and reviewing rate increases. The use of computer models has had a dramatic impact on these evaluations, enabling the STS to identify the most optimum route structures and

lowest bids. For example, computer analysis of the bid proposals for the Board's new currency contract (effective January 1, 1980) revealed that a \$2 million cost savings could be achieved by regionalizing the transportation contracts, using six carriers rather than a single one.

Although all Federal Reserve Banks are encouraged to utilize the expertise of the STS, their participation is strictly voluntary. The STS serves only as a consultant or advisor within the System; any assistance it provides is initiated by the interested Federal Reserve Bank, branch, or Board. Although the STS has been instrumental in making the Federal Reserve more conscious of its transportation expenses, and in some cases has been responsible for significantly reducing those expenses, its advisory role falls short of overall management control. There remains no central collection or review of all contract or incident records necessary to maintain control over the System's transportation activities or to evaluate carrier performance.

UNIVERSAL SECURITY STANDARDS DO NOT EXIST

Industry officials, insurers, and clients concur that no uniform security standards or minimum legal security requirements exist for the armored carrier industry. Government agencies involved with this industry regulate only armored carrier transportation activities, not their security functions. The lack of enforceable government standards has discouraged any industry consensus on armored car security. The Federal Reserve, with its numerous and diverse contracts for armored carrier services, has not established uniform security standards for the System.

Government regulation of the armored car industry is minimal. Federal and State operating authorities are limited in scope. The Federal regulatory agency, the Interstate Commerce Commission (ICC), has a limited role in contract carriage across State lines. Under the Interstate Commerce Act, a carrier must obtain a certificate of operating rights from ICC. Similar provisions on the State level apply to intrastate carriage. State agencies are responsible for awarding franchises, but they do not attempt to set standards for number of guards or type of vehicle. Federal and State regulations pertain only to the operation of the firm as a transportation company rather than to its security role.

The Department of Transportation safety standards for armored vehicles are no different from those required of passenger vehicles (i.e., seat belts, bumpers). They set no standards specific to the nature of the armored carrier business.

Government studies of the armored carrier industry have not addressed specific security procedures either. A 1977 study funded by the Law Enforcement Assistance Administration explored armored car and courier standards as applied to overall company operations. The service standards suggested in the study were not legally enforceable, written instead "to serv(e) as a guide for owners and managers of armored car and armed courier firms" and to improve general knowledge and understanding of the industry. The report did not recommend specific security standards or procedures, such as type and armoring of vehicles, or number and duties of vehicle crew members.

The lack of enforceable government standards and the wide divergence in operating environments and philosophies have discouraged any industry consensus on armored car security. The attitude in the industry is that the less anyone, including law enforcement and regulatory agencies, is involved in the operation, the more secure it will remain. As a result, individual companies have developed their own internal policies and standard operating procedures, many of which vary depending on location, commodity, and shipment weight.

Almost all users of armored carrier services we contacted rely on the contractor to provide adequate protection. Many feel that requiring minimum security levels would be dictating standards to the experts; others said they would be concerned if the carrier asked what security levels to employ.

The Federal Reserve with its numerous and diverse contracts for armored car services does not employ a System-wide standard for security over currency transportation. Although the STS suggests specific minimum security requirements, it notes that their uniform application is precluded by different security needs that arise from geographic and demographic differences in bank districts. Although the STS suggests that two armed guards accompany every Federal Reserve currency shipment, only four Banks currently require a crew complement of two or more armed guards in every contract. Federal Reserve officials contend that with insurance, no standard is necessary to insure adequate protection over currency shipments.

Insurance serves as substitute
for specific standards

Insurance protection is the key to the armored carrier industry. Since carriers maintain insurance coverage, clients experience few actual losses. Because insurance is so vital to the success of this industry, armored car

insurers have a significant impact on its operations. Insurance availability and cost are functions of historical performance--not only of the individual company seeking coverage, but of the industry as a whole. Although a widespread increase in armored car incidents would generally affect insurance rates industrywide, individual carrier's incident experience and security policies and procedures have a more direct impact. In monitoring this relationship the insurer influences carriers' operations; carriers are very conscious of both the cost and the importance of insurance.

All current Federal Reserve currency transportation contracts require that the carrier maintain insurance. The face value of individual policies depends on the type and distance of route (country or city) and the average amount that will be shipped. Ten of the 12 districts require direct pay insurance policies in at least part of their contracts. This type of insurance guarantees full payment to the Federal Reserve in the event of loss. The Board contract also requires this direct pay policy.

THE FEDERAL RESERVE'S SECURITY OVER CURRENCY
TRANSPORTATION HAS NOT DETERIORATED

Our review of Federal Reserve security specifications regarding personnel and vehicle requirements showed that although these specifications have changed in some districts, these changes could seldom be characterized as deterioration. Furthermore, these changes do not appear to be related to the number or severity of incidents involving armored carriers under Federal Reserve contract. Reserve Bank contracts specified equipment requirements so infrequently, a similar analysis was impossible. (See app. II, p. II-1.) The information from the bank questionnaires and the Board contracts is reported in appendixes II and III. The tables aggregate all bank and branch contracts in each district.

Security requirements have become
more specific

The questionnaire responses fail to show gross deterioration in the Federal Reserve security requirements for armored car contracts. (See app. II, pp. II-2 and 3.) In many districts, contract specifications became more precise over time. Most contracts specified no security requirements in the early 1970s, while most recent ones require at least minimal specifications. In recent years there were only two cases where Federal Reserve offices clearly reduced contract security specifications; recent transportation contracts made by the Kansas City Bank and the Board specified a minimum number of crew members which was less than the prior contract.

Federal Reserve requirements for crew complements became increasingly specific; the number of banks specifying minimum crew size more than doubled between 1970 and 1980. These contract changes occurred in the period from 1974 to 1978, and by 1980 only the Cleveland, Atlanta, and St. Louis Banks failed to specify a minimum number of personnel.

Of the 10 offices that specified minimum crew complements, only 2 lowered contract personnel specifications during the 10-year period. The Kansas City Bank specified no crew complement until 1977, when a minimum requirement of three armed guards was implemented. By 1980, all contracts in the Kansas City District were changed to a minimum requirement of two armed guards. In addition, only one Federal Reserve Bank has become less specific in its personnel requirements. Until 1977, the Atlanta Reserve Bank contracts specified a driver and two to four armed guards depending on shipment value. More recent contracts have no personnel specifications.

The Board's new currency transportation contract is another example of lowered specifications. Early armored carrier agreements did not specify minimum security levels. In 1973, the Board issued its first formal bid solicitation, adopting the existing contractor's practice of using five armed guards as the new contractual requirement. These specifications were drastically changed for the 1980 contract. After assessing other government, industry, and Reserve Bank practices, the Board abandoned this five armed guard specification in favor of a variable requirement. For the over-the-road shipments of \$1 and \$2 notes, the Board specifies a minimum of two armed guards, while similar shipments of notes \$5 and over require three armed guards. For all shipments going by air, three armed guards must be present on the ground until after take-off, and one guard accompanies the money on the flight as a courier.

Vehicle requirements have also become more precise during the 10 years. (See app. II, p. II-4.) In 1970, only 6 Reserve Banks required the use of some sort of armored vehicle, but by 1980, 10 banks had similar requirements. In most cases, once a bank established a vehicle requirement, it did not change the specification. One exception to this is the Board vehicle specification, which, in its 1980 contracts, allowed the use of armored tractor-trailers for some over-the-road shipments.

Although precise vehicle specifications required by various districts are not the same, the significance of the differences is not apparent. The terms armored vehicle, car, or truck are ambiguous; members of the armored carrier

industry do not agree on definitions of these terms. Although there has been much concern about the use of armored vans, Federal Reserve specifications do not definitively address their use.

Occurrence of incidents does not indicate security deterioration

The number or type of incidents involving armored carriers operating under Federal Reserve contract do not suggest deterioration in security levels. Although the System-wide total number of incidents has increased over the last 10 years, increases did not usually occur at the same time security specifications were changed. (See app. III, p. III-1.) Eighty percent of all incidents that occurred during this period were not of a criminal nature. (See app. III, p. III-2.) By far, the most prevalent type of incidents were "unaccounted shortages" in currency shipments.

In comparing by year the number of incidents to contract specifications, changes in security appear to be unrelated to the occurrence of incidents involving armored carriers operating under Federal Reserve contract. About half of the eight offices that made changes in personnel or vehicle specifications have experienced fluctuations in the yearly number of incidents. Changes in security specifications in most of these districts did not precipitate an increase in the incident rate. In only one district did a specification change coincide with any increase in incidents during the year.

Incident patterns of the districts that did not change security specifications were not unlike those that did. Consistent security specifications did not always ensure consistent incident rates.

Only 20 percent of the total incidents involving armored carriers operating under Federal Reserve contract were of a criminal nature. Fourteen percent were inside thefts by employees of the armored carrier companies, and 6 percent were outside thefts or robberies by nonemployees. Only 6 of the 147 total incidents that have occurred since 1970, or 4 percent of the total, were armed robberies. Although the number of incidents in 1979 was higher than any prior year, there was only one armed robbery. Between 1976 and 1979, there has been only one armed robbery per year; two occurred in the first 7 months of 1980. By far, the majority of the incidents could

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only be described as unexplained shortages--mysterious and unattributable differences between the amount of currency shipped and the amount received. This is hardly indicative of gross security deterioration or an increasing threat to life and property.

It is unlikely that a single factor is responsible for the rise in the number of armored carrier incidents. Other users of these services suggested various factors that could have contributed to the increase. One factor that would help explain the increase in incidents is simply the increase in the amount of currency transported. For the 5-year period 1975 through 1979, the amount transported by armored carriers under the Federal Reserve Bank and Board contracts increased almost 47 percent. Some armored carrier executives and clients foresee an increase in incidents because of the state of the economy, indicating that no other commodity is as desirable as currency.

Another factor that should be considered is the overall increase in other types of similar crime, especially bank robberies. In the last 10 years, bank robberies have increased 240 percent and, like armored carrier incidents, have experienced a more rapid and sustained increase since 1977. In the last 2 years, armored carrier incidents have increased 130 percent and bank robberies 100 percent over 1977's figures. (See app. IV.)

FEDERAL RESERVE SECURITY PRACTICES
DO NOT INFLUENCE OTHER USERS OF
ARMORED CARRIER SERVICES

The Federal Reserve security specifications do not affect the security standards required or employed by other users of armored carrier services. No other user of armored carrier services we contacted, including those in government agencies, banks, or private business, considered or utilized Federal Reserve security specifications when contracting for their own services. Only in confirming a carrier's credibility might a potential customer consider other clients a carrier has serviced.

CONCLUSIONS

We believe that the Federal Reserve's security over currency transportation is adequate. Although security specifications throughout the Federal Reserve System have changed over the last 10 years, we sense no wholesale deterioration. Indeed most security specifications have become more precise in recent years. We do not believe that changes in Federal Reserve security specifications have influenced the number

or type of incidents that have occurred. However, we feel that monitoring incidents is useful in evaluating carrier performance. It is our opinion that the Federal Reserve's System Transportation Service has the expertise and tools to evaluate and monitor System-wide transportation activities and provide valuable input and control of System transportation activities.

We found no evidence that the Federal Reserve's security standards influence other users in the type of security specifications they require in armored car contracts. Other users rely on the carrier's expertise in the security area and the existence of insurance as ultimate protection.

RECOMMENDATIONS TO THE BOARD OF GOVERNORS

We recommend that the Board of Governors of the Federal Reserve System strongly encourage its offices to utilize the services of the System Transportation Service. We also recommend that the Federal Reserve System record and monitor incidents that occur under currency transportation contracts. Historical performance is indicative of a carrier's security standards and is useful information in gauging the armored carrier company's effectiveness. As System-wide experts, the System Transportation Service should accumulate this data.

AGENCY COMMENTS

We solicited agency comments from the Board of Governors of the Federal Reserve System as well as three armored car companies. The responses from the Federal Reserve and the two armored carriers that elected to comment are presented in appendices V, VI, and VII.

The Federal Reserve and Federal Armored Express, Inc. agreed with the conclusions and recommendations of our report. As suggested by Federal Armored Express, we have added appendix III-3, describing how we differentiated among types of incidents. Appendix IV remains unchanged because the total number of armored car robberies is so small in comparison to the number of bank robberies (1 vs. 7,937 for 1979 alone) that a comparison of these two statistics is meaningless. This appendix is offered only as a comparison of like trends.

Comments received from another armored carrier, Brink's, Inc., challenged not only the completeness of the report, but many of its analyses and conclusions. Brink's asserted that our report was misleading and deficient because we failed

to include an audit of the Federal Reserve's procurement practices and did not compare security standards among carriers and among Federal Reserve offices.

As mentioned in the first two paragraphs of the letter, we addressed only one of the two areas of concern expressed by the requestors. Although, as Brink's correctly states, the suit did not expressly forbid our access to the records necessary to perform an audit of procurement practices, the Federal Reserve was reluctant to permit records disclosure that might in any way jeopardize its bargaining position in what was then the discovery process or the overall disposition of the suit. We concluded that the pending litigation would seriously impede a review of the Banks' procurement practices. After we described this complication to the requestors, it was agreed that we should continue with the adequacy of security portion of the audit, postponing the procurement audit only until the suit was settled.

Although the concurrent examination of security adequacy and procurement practices would provide a broader and more complete picture of the Federal Reserve's currency transportation system, we do not feel that one issue affects the other, nor that this analysis of security is either incomplete, inadequate, or misleading because it has been examined separately.

It is Brink's contention that our analysis of security standards is flawed because we fail to compare the security standards Brink's observed prior to 1976 when it had the bulk of Federal Reserve contracts, to those standards observed by carriers doing most of the work for the Federal Reserve during the last 5 years. Brink's contends that the difference in total incidents between 1970-75 and 1976-80 demonstrates a decline in security resulting from lowered security standards. We do not believe this is a valid contention because (1) it erroneously assumes that the two periods are comparable in terms of numbers of shipments and amount shipped, (2) it treats the System as a single entity, lumping together security requirements and numbers of incidents that vary significantly among districts and between years, and (3) it erroneously assumes that security standards are the only factor responsible for these incidents. To correctly make the comparison that Brink's desires would require an analysis of each carrier's share of Federal Reserve currency shipments, the number and types of incidents that occurred during these shipments, and the security measures employed by each carrier when each incident occurred. This information is simply not available. Although Brink's share of Federal Reserve currency shipments has decreased

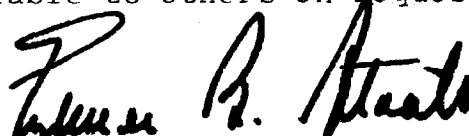
in the second half of the decade and the total number of incidents has increased during the same period, we do not believe this demonstrates a decline in security resulting from lowered standards. For example, the total number of incidents experienced by Brink's (as well as every other armored carrier doing work for the Federal Reserve) increased in the period since 1976, the same period in which Brink's experienced a decrease in its share of currency shipments. Yet, Brink's implies that its security practices had not changed during that period. For these reasons, we do not feel that comparisons between the degree of Brink's participation in Federal Reserve currency transportation and the number of incidents involving armored cars under Federal Reserve contract is valid.

As described on the first page of the report, we were requested to assess the adequacy of the security the Federal Reserve requires over currency transportation; it was neither the purpose nor the intent of our audit to review or compare security policies or practices that individual armored carriers might employ. Our interest was in the security standards specifically required by Federal Reserve contracts.

In addition, Brink's suggests that our failure to make "important and rather obvious comparisons" of security requirements and incident experiences among Federal Reserve districts or between the districts and the Board indicates superficial and biased analyses. Various sources we contacted during our audit pointed out that differences in geography, demography, and type of commodity affect security decisions. Indeed, Brink's itself generally agrees that "greater security is required in certain areas of the country than in others." (See app. VII, p. VII-6, para. 3.) It was for precisely these reasons that we did not compare security requirements and incident experiences among Federal Reserve districts and did not recommend that the System adopt a uniform security standard.

Because of the differences in type of transportation and commodity, we also avoided comparing the Federal Reserve Board and any district. The Board employs a combination of methods to transport currency nationwide, including air, armored tractor-trailer, and armored car transportation. The Reserve Banks use only armored vehicles. In addition, the Board distributes only new currency that is serialized and recorded, while the Banks transport used currency and coin that, if stolen, would be untraceable. We feel that any analysis that compared the Board and any or all Banks would be incorrect and unfair.

As arranged with your offices, unless you publicly announce its contents earlier, we will make no further distribution of this report until 30 days from the date of the report. At that time we will send copies to interested parties and make copies available to others on request.



Comptroller General
of the United States

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U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

NINETY-SIXTH CONGRESS
 2129 RAYBURN HOUSE OFFICE BUILDING
 WASHINGTON, D.C. 20515
 February 28, 1980

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125-4247

The Honorable Elmer B. Staats
 Comptroller General of the United States
 General Accounting Office
 General Accounting Office Building
 441 G Street
 Washington, D.C. 20548

Dear Elmer:

Brink's, Incorporated, the nationwide armored car carrier, shared with us a request they filed with you to conduct an audit of the Federal Reserve System's procurement practices, specifically as to compliance with the Service Contract Act and competitive bidding procedures in obtaining armored car services for the Federal Reserve Banks. As members of the House Committee on Banking, Finance and Urban Affairs, we are particularly interested in seeing that the Federal Reserve System obtains secure armored car services at the most favorable prices to the Government, consistent with compliance with the provisions of the Service Contract Act.

In 1980 at least ten contracts involving seven Fed banks are due to expire. Brink's makes a good point that the Federal Reserve Banks have failed and refused to readvertise for armored car services even though the Service Contract Act has been found applicable to the System. Instead, the banks merely have told the carriers who have received an award to bring their wage rates up to the standards required by the Act with the banks adjusting the awarded contracts accordingly.

When Congress passed the Federal Banking Agency Audit Act in 1978, our clear intent was to improve congressional oversight of the operating efficiency of those agencies including the Federal Reserve System. As Senator Proxmire stated:

"(a)ll of the activities of these agencies are to be audited by GAO with the exception of the monetary policy functions of the Federal Reserve and transactions conducted by the Federal Reserve on behalf of or with foreign central banks, foreign governments, and nonprivate multinational financing organizations."
 (Emphasis added.)

The Honorable Elmer B. Staats

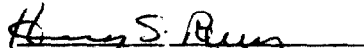
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February 28, 1980

Further in his remarks during the debate the Senator added, "This legislation will also enable the GAO to audit the expenditure of funds by those regulatory agencies... None of these expenditures were audited by GAO to insure the effectiveness or the legality of the expenditure of such funds."

Our request for an audit of the Federal Reserve System's procurement practices with respect to compliance with provisions of a previous Congressional action, the Service Contract Act, is entirely consistent with the authority provided to the General Accounting Office by P.L. 95-320. The Congress has a direct interest in seeing that the Federal Reserve System observes competitive bidding procedures which insure the best possible prices consistent with adequate security and we hope that you will undertake an audit of these procurement practices.

Sincerely,


Henry S. Reuss, Chairman


Stewart B. McKinney, M.C.

FEDERAL RESERVE EQUIPMENT SPECIFICATIONS
FOR ARMORED CARRIER CONTRACTS
BY DISTRICT 1970 - 1980

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
BOSTON	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS
NEW YORK	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS
PHILADELPHIA	NA	NA	NS	NS	NS	NS	NS	NS	NS	NS	NS
CLEVELAND	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS
RICHMOND	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS
ATLANTA	guns or guns and radio	guns or NS	guns or NS	guns or NS	guns or NS	guns or NS	guns or NS	guns or NS	guns or NS	NS	NS
CHICAGO	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS
ST. LOUIS	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS
MINNEAPOLIS	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS
KANSAS CITY	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS
DALLAS	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS
SAN FRANCISCO	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS
FEDERAL RESERVE BOARD	NS	NS	NS	.38 caliber guns	.38 caliber guns	.38 caliber guns	.38 caliber guns	.38 caliber guns	.38 caliber guns	.38 caliber guns	.38 caliber guns

NA = not available
NS = not specified

Source: Information supplied by Reserve Banks in response to GAO questionnaire.

Table aggregates all bank and branch contracts for each district.

FEDERAL RESERVE PERSONNEL SPECIFICATIONS FOR ARMORED CARRIER CONTRACTS BY DISTRICT, 1970 - 1980											
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
First District BOSTON	NS	NS	NS	NS	NS	3 armed guards	3 armed guards	3 armed guards	3 armed guards	3 armed guards	3 armed guards
Second District NEW YORK	3 persons	3 persons	3 persons	3 persons	3 persons	3 persons	3 persons	3 persons	3 persons	3 persons	3 persons
Third District PHILADELPHIA	NA	NA	NA	NA	NA	NA	2 men	2 men	2 men	2 men	2 men
Fourth District CLEVELAND	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS
Fifth District RICHMOND	armed guards & driver; or 3 armed guards	armed guards & driver; or 3 armed guards	armed guards & driver; or 3 armed guards	armed guards & driver; or 3 armed guards	armed guards & driver; or 3 armed guards	armed guards & driver; or 3 armed guards	armed guards & driver; or 3 armed guards	armed guards & driver; or 3 armed guards	armed guards & driver; or 3 armed guards	armed guards & driver; or 3 armed guards	armed guards & driver; or 3 armed guards
Sixth District ATLANTA	1/ 2 to 4 armed guards & driver	1/ 2 to 4 armed guards & driver; or NS	1/ 2 to 4 armed guards & driver; or NS	1/ 2 to 4 armed guards & driver; or NS	1/ 2 to 4 armed guards & driver; or NS	1/ 2 to 4 armed guards & driver; or NS	1/ 2 to 4 armed guards & driver; or NS	1/ 2 to 4 armed guards & driver; or NS	1/ 2 to 4 armed guards & driver; or NS	NS	NS
Seventh District CHICAGO	NS	NS	NS	NS	NS	NS	NS	NS	crew complement of 2; or NS	crew complement of 2; or NS	crew complement of 2

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Eighth District ST. LOUIS	armed guards; or NS	armed guards; or NS	armed guards; or NS	armed guards; or NS	armed guards; or NS	armed guards; or NS	armed guards; or NS	armed guards; or NS	armed guards; or NS	armed guards; or NS	armed guards; or NS
Ninth District MINNEAPOLIS	NS	NS	NS	NS	NS	NS	NS	2 armed guards; or NS	2 armed guards; or NS	2 armed guards; or NS	2 armed guards; or NS
Tenth District KANSAS CITY	NS	NS	NS	NS	NS	NS	NS	3 armed guards; or NS	2 or 3 armed guards; or NS	2 or 3 armed guards; or NS	2 armed guards
Eleventh District DALLAS	3 armed guards	3 armed guards	3 armed guards	3 armed guards	3 armed guards	3 armed guards	3 armed guards	3 armed guards	3 armed guards	3 armed guards	3 armed guards
Twelfth District SAN FRANCISCO	NS	NS	NS	NS	3 armed guards; or NS	2 or 3 armed guards; or NS	2 or 3 armed guards; or NS	2 or 3 armed guards; or NS	2 or 3 armed guards; or NS	2 or 3 armed guards; or NS	2 or 3 armed guards; or NS
FEDERAL RESERVE BOARD	NS	NS	NS	5 armed guards	5 armed guards	5 armed guards	5 armed guards	5 armed guards	5 armed guards	5 armed guards	2/ 2,3 or 4 armed guards

NA = Not available
 NS = Not specified
 1/Atlanta personnel specifications were determined by shipment value:
 - \$500,000 and under - 2 armed guards and a driver
 between \$500,000 and \$3,000,000 - 3 armed guards and a driver
 over \$3,000,000 - 4 armed guards and a driver
 2/The Board contract specifies personnel by shipment type:
 over-the-road shipments of \$1 and \$2 notes - 2 armed guards
 over-the-road shipments of \$5 notes - 3 armed guards
 currency transported by air - 3 armed guards on the ground and 1 guard as courier
 Source: Information supplied by Reserve Banks in response to GAO questionnaire.
 Table aggregates all bank and branch contracts for each district.

FEDERAL RESERVE VEHICLE SPECIFICATIONS FOR ARMORED CARRIER CONTRACTS BY DISTRICT, 1970 - 1980											
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
BOSTON	NS	NS	NS	NS	NS	armored vehicle	armored vehicle	armored vehicle	armored vehicle	armored vehicle	armored vehicle
NEW YORK	armored truck	armored truck	armored truck	armored truck	armored truck	armored truck	armored truck	armored truck	armored truck	armored truck	armored truck
PHILADELPHIA	NA	NA	armored vehicle	armored vehicle	armored vehicle	armored vehicle	armored vehicle	armored vehicle	armored vehicle	armored vehicle	armored vehicle
CLEVELAND	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS
RICHMOND	armored truck	armored truck	armored truck	armored truck	armored truck	armored truck	armored truck	armored truck	armored truck	armored truck	armored truck
ATLANTA	armored truck or vehicle	armored truck or vehicle	armored truck	armored truck	armored truck	armored truck	armored truck	armored truck	armored truck	armored truck	armored truck
CHICAGO	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS	NS
ST. LOUIS	armored car or NS	armored truck or car or NS	armored truck or car or NS	armored truck or car or NS	armored truck or car or NS	armored truck or car or NS	armored truck or car or NS	armored truck or car or NS	armored truck or car or NS	armored truck or car or NS	armored truck or car or NS
MINNEAPOLIS	armored car	armored car	armored car	armored car	armored car	armored car or NS	armored car or NS	armored car or NS	armored car or NS	armored car or NS	armored car or NS
KANSAS CITY	NS	NS	NS	NS	NS	NS	NS	armored vehicle or NS	armored vehicle or NS	armored vehicle or NS	armored vehicle
DALLAS	armored car or truck	armored car or truck	armored car or truck	armored car or truck	armored car or truck	armored car or truck	armored car or truck	armored car or truck	armored car or truck	armored car or truck	armored car or truck
SAN FRANCISCO	NS	armored car or vehicle or NS	armored car or vehicle or NS	armored car or vehicle or NS	armored car or vehicle or NS	armored car or vehicle	armored car or vehicle	armored car or vehicle	armored car or vehicle	armored car or vehicle	armored car or vehicle or NS
FEDERAL RESERVE BOARD	NS	NS	NS	armored vehicle or air	armored vehicle or air	armored vehicle or air	armored vehicle or air	armored vehicle or air	armored vehicle or air	armored vehicle or air	armored vehicle, tractor-trailer or air

Source: Information supplied by Reserve Banks in response to GAO questionnaire. Table aggregates all bank and branch contracts for each district.

NUMBER OF INCIDENTS INVOLVING ARMORED
CARRIERS UNDER FEDERAL RESERVE CONTRACT
BY DISTRICT (JANUARY 1970 - JULY 1980)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	Jan- July 1980	Totals
Boston	1	2	2	1	4	1	2	3	2	2	3	23
New York	0	0	0	0	1	2	11	1	3	2	1	21
Philadelphia	NA	NA	NA	NA	NA	0	2	0	0	2	1	5
Cleveland	0	0	0	0	0	0	0	0	0	1	0	1
Richmond	0	0	1	1	1	0	0	0	5	7	10	25
Atlanta	0	0	1	4	1	0	0	2	0	5	5	18
Chicago	0	0	0	0	0	0	3	0	2	1	0	6
St. Louis	0	1	1	0	1	0	0	0	1	1	3	8
Minneapolis	0	0	0	0	0	0	0	0	0	0	0	0
Kansas City	0	0	0	0	2	0	1	2	0	1	0	6
Dallas	0	0	0	0	0	2	2	1	6	2	3	16
San Francisco	0	0	0	0	0	2	2	4	2	6	2	18
Board	0	0	0	0	0	0	0	0	0	0	0	0
Totals	<u>1</u>	<u>3</u>	<u>5</u>	<u>6</u>	<u>10</u>	<u>7</u>	<u>23</u>	<u>13</u>	<u>21</u>	<u>30</u>	<u>28</u>	<u>147</u>

NA = Not Available

Source: Information supplied by Reserve Banks in response to GAO questionnaire.
Table aggregates all bank and branch information for each district.

NUMBER OF INCIDENTS INVOLVING ARMORED
CARRIERS UNDER FEDERAL RESERVE CONTRACT
BY TYPE (JANUARY 1970 - JULY 1980)

Type of Incident	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	Jan- July 1980	Totals	Percent of Total
<u>Noncriminal</u>													
Unaccounted shortage	1	3	4	5	4	4	13	8	14	17	16	89	61
Carrier mishandling	0	0	0	0	2	1	2	1	4	5	3	18	12
Vehicle mishap	0	0	1	1	2	2	1	0	1	1	2	11	7
Subtotal	1	3	5	6	8	7	16	9	19	23	21	118	80
<u>Criminal</u>													
Employee theft	0	0	0	0	1	0	6	3	1	4	5	20	14
Outside theft	0	0	0	0	1	0	0	0	0	2	0	3	2
Robbery	0	0	0	0	0	0	1	1	1	1	2	6	4
Subtotal	0	0	0	0	2	0	7	4	2	7	7	29	20
Total all types	1	3	5	6	10	7	23	13	21	30	28	147	100

Source: Information supplied by Reserve Banks in response to GAO questionnaire.
Table aggregates all bank and branch information for each district.

CRITERIA FOR CATEGORIZING
FEDERAL RESERVE INCIDENT DESCRIPTIONS

<u>Incident</u>	shortage in a deposit that was transported by an armored carrier under Federal Reserve contract.
<u>Employee theft</u>	a shortage that could be pinpointed to an armored carrier employee.
<u>Outside theft</u>	a shortage resulting from a theft by anyone other than an armored carrier or a commercial bank employee.
<u>Robbery</u>	a shortage resulting from an armed robbery against an armored carrier employee.
<u>Vehicle mishap</u>	a shortage due to a vehicle accident or defect.
<u>Carrier mishandling</u>	a shortage resulting from carrier mistake or mishandling though not attributable to a theft by a particular individual.
<u>Unaccounted shortage</u>	shortage in a deposit where it cannot be determined who was at fault.
<u>Incidents of a criminal nature</u>	a loss of currency as a result of an action punishable by law. This category includes theft (employee and outside) and robbery.

NUMBER OF INCIDENTS OF A CRIMINAL NATURE
 INVOLVING ARMORED CARRIERS UNDER FEDERAL RESERVE
 CONTRACT BY DISTRICT (JANUARY 1970 - JULY 1980)

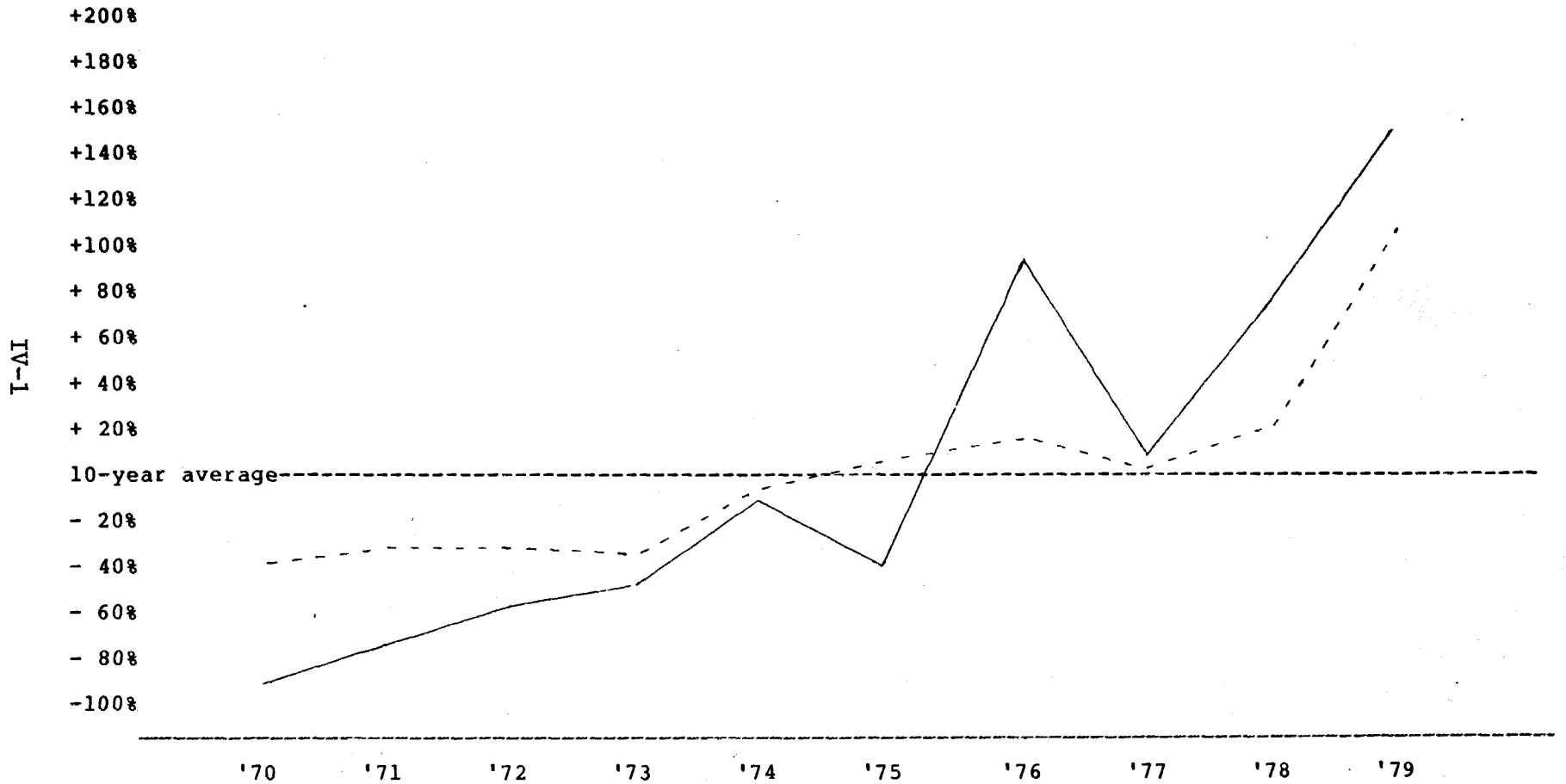
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	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	Jan- July 1980	Totals
Boston	0	0	0	0	0	0	1	0	0	0	1	2
New York	0	0	0	0	0	0	1	0	1	0	0	2
Philadelphia	NA	NA	NA	NA	NA	0	1	0	0	0	0	1
Cleveland	0	0	0	0	0	0	0	0	0	1	0	1
Richmond	0	0	0	0	0	0	0	0	0	0	1	1
Atlanta	0	0	0	0	1	0	0	0	0	2	4	7
Chicago	0	0	0	0	0	0	1	0	0	1	0	2
St. Louis	0	0	0	0	0	0	0	0	0	0	1	1
Minneapolis	0	0	0	0	0	0	0	0	0	0	0	0
Kansas City	0	0	0	0	1	0	1	0	0	1	0	3
Dallas	0	0	0	0	0	0	0	0	0	0	0	0
San Francisco	0	0	0	0	0	0	2	4	1	2	0	9
Board	0	0	0	0	0	0	0	0	0	0	0	0
Totals	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>	<u>0</u>	<u>7</u>	<u>4</u>	<u>2</u>	<u>7</u>	<u>7</u>	<u>29</u>

NA = Not Available

Source: Information supplied by Reserve Banks in response to GAO questionnaire.
 Table aggregates all bank and branch information for each district.

VARIANCE FROM THE 10 YEAR AVERAGE FOR
 FEDERAL RESERVE INCIDENTS AND
 U.S. BANK ROBBERIES



FR Incidents —————
 U.S. Bank Robberies - - - - -

Source: FBI Uniform Crime Reports 1970-79 and information supplied by Reserve Banks in response to GAO questionnaire.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 23, 1980

Mr. William J. Anderson
Director
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Anderson:

I am pleased to respond to your letter of November 21, 1980 regarding the GAO draft report on the adequacy of Federal Reserve security over currency transportation.

The safe, timely, and efficient transportation of currency and coin is a critical Federal Reserve function. It was satisfying to see the GAO report acknowledge that our conduct of this function was efficient and effective.

Several of the comments in the text of the report tend to emphasize the advantages of centralized control of currency transportation activities. The System has recognized these benefits and selectively centralized a number of critical activities. For example, the Board of Governors formulates policy, reviews overall operational procedures, and interacts with governmental and other external agencies on behalf of the System. The System Transportation Service (STS) prepares and distributes quarterly reports on industry and System transportation matters, provides computerized route planning and pricing analysis, and responds to the many ad hoc requests by the Board and System committees. The Board encourages Federal Reserve Banks and Branches to use the services of the STS and will continue to encourage use of STS to improve our currency transportation services.

At the same time, however, Reserve Bank control over local contract negotiations has proven to be an effective means of improving services and reducing costs of currency transportation. While the Service Contract Act and high fuel prices have significantly affected transportation costs, the System has been successful in continuing to improve its services at very modest increases in costs.

In summary, we agree with the draft's recommendations and are pleased that the System was found to be doing well regarding the transportation of currency and coin.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Theodore E. Allison".

Theodore E. Allison
Secretary of the Board

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PRESIDENT

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December 3, 1980

Mr. William J. Anderson
Director, General Government Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Anderson:

This letter is in response to your request for comments on the report on Federal Reserve security over currency transportation. (GGD-81-27)

We have read the draft report, which appears to be complete and thorough, and agree with the conclusions and recommendations. We would, however, like to comment on Appendices III and IV.

Appendix III, page III-2 shows the number of incidents involving armored carriers under Federal Reserve contract by type. Under the criminal portion of the chart, we are confused by the terms "employee theft", "outside theft", and "robbery". Is "employee theft" restricted to armored car employees or would that include Federal Reserve and/or commercial bank employees? Also, what is the difference between "outside theft" and a "robbery"? Perhaps, it would be best if these terms were explained in a footnote.

Appendix IV identifies the variance from the 10-year average for Federal Reserve incidents and U.S. bank robberies. We believe this is an invalid comparison because it includes all types of Federal Reserve incidents as compared to bank robberies. A more valid comparison for all Federal Reserve incidents might be drawn against all bank incidents, including embezzlement and mysterious disappearances. Such a comparison, however, would be very difficult to make since

.....continued

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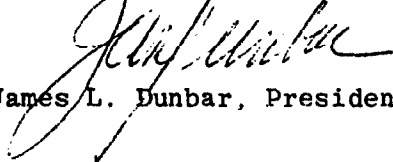
Mr. William J. Anderson
United States General Accounting Office
December 3, 1980
Page Two

commercial banks are extremely reluctant to release information regarding these types of problems. Therefore, we suggest that Appendix IV be amended to include only robberies in the two industry segments.

We appreciate the opportunity to comment on the draft of the proposed report.

Sincerely,

FEDERAL ARMORED EXPRESS, INC.



James L. Dunbar, President

JLD/jc



BRINK'S
INCORPORATED
A subsidiary of The Pittston Company

Thorndal Circle, Darien, Connecticut 06820 · (203) 655-8781
Cable Address: BRINKSINC
Telex 965-852

Office of
HENDRIK J. HARTONG, JR.
President and
Chief Executive Officer

December 18, 1980

Mr. William J. Henderson, Director
General Government Division
General Accounting Office
Washington, DC 20548

Dear Mr. Henderson:

Thank you for according Brink's the opportunity to review and comment on the Draft Report to the House Committee on Banking, Finance and Urban Affairs concerning the adequacy of the Federal Reserve's (FRS) security over currency transportation. Because of the GAO's deserved reputation, I expected a complete, competent and objective Report. I was disappointed on every score.

The first fatal defect of the Draft Report is its lack of completeness. It fails to deal with the procurement practices of the FRS, as requested by Chairman Reuss and Congressman McKinney in their letter to you of February 28, 1980. This failure is assignable to the FRS's misrepresentation regarding the availability for review of its procurement practices. Our counsel in the antitrust case advises that the only limitation on access to Bank records was that imposed by Stipulated Protective Order No. 1 that was not filed by the District Court until July 24, 1980. Thus, if the initial stages of your audit were commenced prior to that date, the Court Order would not have been applicable. In any event, the Order in no way precludes GAO access to Bank records. The Order restricts only a party receiving information as a result of discovery from using or disclosing that information. In other words, Brink's could not disclose to others information it received from the Banks in the antitrust proceeding, but the Bank is not precluded from disclosing any information made available to Brink's. Paragraph 5 of the Order specifically states:

"This Order shall not be deemed...(c) to restrict in any way any responding party's right to disclose or otherwise to make use of confidential matter in such manner as it deems appropriate."

Even if the Order had limited the Banks' use of their own records, the Banks were free, had they wished to cooperate with the GAO, to apply to the Court for permission to disclose particular information (Paragraph 7 of the Order). Thus the Order was limited to discovery responses; it applied only to the recipients of such information and relief was available from the Court. There is nothing in the litigation which precluded review and audit of the records of the Banks' procurement practices.

The tactics of the FRS are not new to Brink's, nor to other Federal agencies. I enclose a letter from our counsel to the Department of Labor regarding the practice of the Federal Reserve Banks in circumventing and avoiding the Service Contract Act (SCA). As this letter points out, the first letter requesting an investigation was addressed to the Department in January of 1980. The Department then requested information from Mr. George Rudy at the Dallas FRB as coordinator of SCA matters for this FRS. Mr. Rudy's repeated failures to provide the information are outlined in the enclosed letter.

The failure of the GAO audit to include the procurement practices of the FRS, in our view, is a basic deficiency. Competitive bidding, compliance with the SCA and reasonable security requirements are interdependent elements of the total procurement program of the FRS. Each element must be considered in relation to the whole to avoid a misleading distortion. Thus, if the Banks, under the direction of the System Transportation Service (STS), require competitive bidding procedures but fail to specify that bidders shall comply with the SCA, Brink's and other carriers whose operations are conducted in compliance with that law will be unable effectively to tender a competitive bid. STS and the Banks can claim literal compliance with competitive bidding procedures while armored car carriers which comply with the law are unable to compete in a meaningful way. Similarly, STS and the Banks can, by failure to specify any or limited security requirements, render competitive bidding meaningless to a company which provides adequate security. Security is expensive and its cost must necessarily be included in a competitive bid. It follows obviously that a responsible carrier which complies with the SCA and provides appropriate security under the FRS program is thereby foreclosed from the advantages of non-discrimination which competitive bidding is designed to provide those contracting with Federal agencies.

For all of these reasons, we urge the GAO to obtain information from the FRS regarding its procurement practices and to withhold the Draft Report until it has concluded the complete audit requested by Chairman Reuss and Congressman McKinney. A fragmented report can only be misleading.

The Draft Report, even when the issue of security is isolated, fails to consider that issue from a proper perspective. The only purpose of armored car movements, as distinct from those in usual commercial conveyances, is security. As the Report recognizes, the FRS commenced using armored cars after many years of reliance on the Post Office

because the security risks of such continued use became too great. The Tables appended to the Draft Report show a rapid escalation in total incidents when recent years are compared with earlier years. Thus there were 23 incidents in 1976 versus one in 1970; 13 incidents in 1977 versus three in 1971; 21 incidents in 1978 versus five in 1972; 30 incidents in 1979 versus six in 1973; 28 in the first seven months of 1980 versus 10 in all of 1974. These figures, we suggest, show that the FRS is again moving rapidly toward unacceptable security risks. The Draft Report not only ignores this potential danger, but obscures it with the conclusion that the increase in the number of incidents is not related to any changes or deterioration in Federal Reserve security. While we challenge this statement and will later demonstrate its error, the statement begs the important question: namely, are the FRS security standards sufficiently high to prevent security incidents from escalating to unacceptable levels? We now turn to the inaccuracy of the statement itself.

Prior to 1976, Brink's provided a high percentage of the armored car service for the Federal Reserve Banks. Brink's was asked by the FRS to provide this service after the System found the Post Office security too risky. In cooperation with the FRS, Brink's designed a security system which it provided to the Federal Reserve Banks. That system included the use of armored cars, a minimum of two or three armed guards on every vehicle and up to five armed guards when the risk factors required additional security. In addition, Brink's installed vaults throughout much of the country, the specifications for which were discussed and agreed upon with the System. Because Brink's, in cooperation with the FRS, established and observed these standards, security specifications were unneeded. Thus, in determining whether the rapid increase in the number of incidents was related to the security involved, the proper comparison is between the security standards that Brink's observed versus the security standards that have been observed by the carriers doing the work for the Federal Reserve Banks in the last five years. It was in this period that Brink's lost most of its Federal Reserve business to companies who provide lesser security.

If we look at Appendix III to the Draft Report, the importance of security in preventing incidents becomes immediately evident. In the years 1970 through 1975, when Brink's was performing a substantial portion of the armored car service for the Federal Reserve Banks, the number of incidents was of a minimal nature. In the four years and seven months shown in that Appendix, since Brink's lost business to competitors offering less security, there has been a total of 115 incidents. An even more shocking fact is that there obviously are going to be more security incidents in 1980 than the total for the years 1970-1975 when Brink's provided the Federal Reserve System with the bulk of its service.

Another comparison evident from the Appendix also demonstrates that the increase in incidents is related to deterioration in Federal Reserve security. The Federal Reserve Board, which until 1980 required five armed guards for all of its new currency work, thus perpetuating the

standard which it established with Brink's for the distribution and circulation of currency, has never had an incident in any of the years shown. In the years 1976 through the first seven months of 1980, the Board had zero incidents whereas the banks with lesser security had a total of 115 incidents. Failure to make these important and rather obvious comparisons, we suggest, indicates either bias or superficiality of analysis.

The following are other problems with the Draft Report which we call to your attention. The first paragraph on page 2, rationalizes that "industry attitudes and practices regarding security standards" make Federal Reserve's security adequate. Brink's is, however, the largest single company in the industry. Brink's standards and practices are clearly higher than those required by the FRS and, therefore, indicate that the Federal Reserve security is not adequate. Even if the characterization of the industry were accurate, Brink's does not believe that industry attitudes and practices justify condoning drastic increases in security violations.

In the 2nd paragraph on page 2, much is made of the substantial cost savings that have been achieved as a result of regionalized deliveries of new currency. Brink's has no objection to regionalization of delivery and believes that this is not an issue. The inference seems, however, to be that the cost savings were the result of elimination of Brink's as the single major carrier for nationwide new currency deliveries. This inference is incorrect. Rather the cost savings have been achieved by reducing security. Enclosed is a letter dated June 8, 1979 from the President of Brink's to Mr. William Wallace of the Federal Reserve System protesting the dilution of existing security standards and stating that Brink's being unwilling to lower its security standards to unacceptable levels, realistically is precluded from making a competitive bid.

On page 3, the third paragraph states that a group of transportation experts (STS) was established to advise and counsel the Banks in contracting for transportation services and that, as a result of competitive bidding, armored car costs have increased only five percent a year since 1974. This again demonstrates the superficiality of the Report in that it fails to take into account the great decrease from the standards maintained by Brink's in the security services it provided for years. For many years, Brink's provided security that minimized incidents. As Brink's can testify, security is expensive. Wages have increased substantially in recent years. Clearly they have increased more than five percent a year. But, when you reduce the number of armored guards, reduce the investment in equipment and, by violating the Service Contract Act you pay less than the prevailing wage, savings are easily achieved. If adequate security standards are unimportant, if price alone is King, then the FRS should abandon pretence and let bidders with adequate insurance transport shipments in unarmored vans with one unarmed driver. United Parcel Service will welcome the business.

In paragraph 2 on page 4 of the Draft, it is stated that no uniform security standards or minimum legal security requirements exist for the armored car industry. Brink's believes that the Federal Reserve System should and could establish uniform adequate security standards for the System. It did so with Brink's cooperation for many years prior to 1976. The Code of Federal

Regulations demonstrates the degree to which the FRS has established detailed requirements with respect to the security to be maintained by the individual banks in connection with the vaulting of money. The risks obviously are greater when money is moved than when it lies in a vault. If minimum security specifications are needed for vaults in a Federal Reserve Bank building, they clearly are needed to protect currency when it is in transit.

The statement that State agencies do not attempt to set security standards is inaccurate. A number of states have established gun and employee training programs and similar requirements.

The statement in the 2nd paragraph on page 5 that "the attitude in the industry is that the less anyone, including a law enforcement and regulatory agency, is involved in the operation the more secure it will remain" is untrue. Brink's has always cooperated with the FBI, law enforcement and regulatory agencies. The FBI plays an important role in security, as do State and local enforcement agencies. In connection with regulation, Brink's and the industry have requested that they not be required to file individual contracts with the Interstate Commerce Commission in order to avoid disclosing information which might be useable by the criminal element. Brink's can see no possible jeopardy to security from the promulgation of adequate security specifications by the FRS. The statement attributed to the FRS that no security standard is necessary except the furnishing of minimum insurance coverage seems cynical indeed. As previously noted, if this is truly the position of the FRS, then why bother with armored cars or armed guards? Obviously insurance is an important but by no means the total answer. As the Report elsewhere argues, the availability of insurance and insurance premiums depends on the number of incidents in the industry and the number involving the particular carrier. If the number of incidents continues to increase, obviously insurance will either become unavailable or prohibitively expensive.

On page 6, the generalization is made that "specifications have changed in some districts (but) these changes could seldom be characterized as deterioration." This obviously is not true when the Appendices are reviewed. It is apparent that in Atlanta and Kansas City there has been a deterioration. The statement that the number and severity of incidents do not appear related to deterioration is incorrect. As previously noted, when the proper comparison is made between standards employed by Brink's prior to 1976 with those now provided the FRS for most of its armored car service, the correlation between less security and high incidents is readily apparent. The comparison between the Board standards and Board incidents with Bank standards and Bank incidents is corroborative.

In paragraph 4 on page 6, the Draft Report states that in most districts "contract specifications became more precise over time". This is misleading. As we have pointed out, the absence of specifications was irrelevant during the period when Brink's was providing the service in accordance with the high standards agreed upon with the FRS. Paragraph 3 on page 7 implicitly recognizes that Brink's security practices rather than the formal specifications are the relevant security standards with which the most recent FRS specifications are to be compared.

Brink's does not agree with the final paragraph on page 7 that there are no significant differences in the types of vehicles used. As an example, the Detroit Branch of the Chicago Federal Reserve Bank in either 1977 or 1978 permitted the use of armored vans for the delivery of substantial amounts of coin over-the-road. We understand that these vehicles, which were normal commercial vans with some special armor added, broke down frequently and exposed the contents to security risks.

Paragraphs 2 and 3 on page 8 repeat the statements that increases in incidents are unrelated to security specifications. As previously noted, when the recent security specifications are compared with those employed by Brink's when it was the principal supplier of armored car services to the FRS, the correlation between incidents and decrease in security becomes immediately evident.

Although its relevance to the issue here is not apparent, Brink's generally agrees that greater security is required in certain areas of the country than in others. This condition has long been recognized by Brink's in establishing its security standards. Brink's also agrees that, while all incidents are of significance, the really important incidents are those involving outside thefts or robberies by non-employees. Brink's suggests that the figures shown on Appendix III-2 amply demonstrate a high correlation between criminal incidents and a decrease in security. During the time that Brink's enjoyed a significant portion of the business of the Federal Reserve Banks, there was only one outside theft and that occurred in 1974. Subsequent to 1975, there has been at least one in every year and there are two shown in the first seven months of 1980. Clearly the threat to life and property has increased since Brink's and its high security standards were replaced by carriers bidding on the basis of lesser security. Again the Board standards and absence of robberies is instructive.

The first paragraph on page 9 makes the flat statement that no single factor is responsible for the rise of armored car incidents. We see nothing in the Report which supports that conclusion. The Report goes on to state that the increase in incidents is simply due to the increase in the amount of currency. However, the increase in the amount of currency was 47 percent. As we pointed out, the increase in the number of incidents is over 250 percent. We agree that the state of the economy may result in an increase in incidents and suggest that this is all the more reason for providing greater security to prevent such an increase. We also agree that the great increase in bank robberies and the rapid increase in incidents to armored carriers in recent years are causes for alarm. Banks have responded by vastly increasing their security. We believe the FRS should similarly respond by a corresponding increase in the security afforded to money while it is in transit.

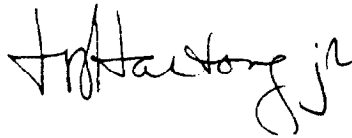
The statement on page 9 in the 3rd paragraph that the FRS does not impact on the security standards employed by other users of armored car service is, of course, incorrect. The same crews frequently are used to provide armored car service to the Federal Reserve Banks, to other banks and to other financial institutions.

For all of the reasons previously noted, Brink's believes the fragmentation of the audit requested by Chairman Reuss and Congressman McKinney results in misleading conclusions. Brink's also challenges the failure of the Report on the security aspects of FRS procurement practices to consider the relevant factual comparisons.

Brink's is also concerned with the frequent statements throughout the Report that security specifications have become more precise. The issue addressed by the Congressmen was not whether security specifications are now more precisely stated, but whether they are adequate to provide security for the transportation of our currency. In reaching its conclusion, the Report should consider the acceleration in the number of incidents depicted in the appendices to the Report and the escalation of crime throughout the nation, as reflected in the reports of the FBI.

Brink's believes that because of the escalating risks to the safe transportation of our currency, the FRS should not sacrifice security in its pursuit of lower costs.

Sincerely,



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