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AUDITS OF CANCELLATION, DESTRUCTION, AND ACCOUNTING OF UNFIT CURRENCY BY FEDERAL RESERVE BANK AND BRANCHES
OFFICE OF THE TREASURER, DEPARTMENT OF THE TREASURY

B-157069
4-6-70

RESTRICTED

RELEASED

Reports to the Chairmen, Senate Committee on Banking and Currency and House Committee on Banking and Currency on our audits, required by law (31 U S C 49 (a)), on the cancellation and destruction of currency unfit for circulation at selected Federal Reserve banks and branches

The report contained information concerning the existing controls over the cancellation, verification, and destruction of unfit currency and the accounting records for these activities

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Treasury

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Emery*

Dear Mr. Chairman:

The General Accounting Office has audited the cancellation and destruction of currency unfit for circulation at the Federal Reserve Banks of Boston, Minneapolis, Richmond, St Louis, Dallas and its Houston branch, and Kansas City and its Denver branch

Our audits, required by law (31 U.S.C. 49(a)), were directed primarily toward an evaluation of (1) the existing controls over the cancellation, verification, and destruction of unfit currency and (2) the accounting records for these activities. The audits were performed during the 17-month period ended March 31, 1970

Federal Reserve notes which are unfit for circulation are required to be canceled, destroyed, and accounted for under procedures prescribed and at locations designated by the Secretary of the Treasury (12 U.S.C. 413). Under rules and regulations promulgated by the Secretary, the Federal Reserve banks are authorized to cancel and destroy unfit Federal Reserve notes of the \$1, \$5, \$10, \$20, \$50, and \$100 denominations. Unfit Federal Reserve notes of \$500 and higher denominations are canceled and cut in half by the banks, and the lower halves are sent to the Treasurer of the United States for verification and destruction. Upon notification from the Treasurer that the lower halves have been verified and destroyed, the banks destroy the upper halves.

We are pleased to report that the operations we reviewed have generally been conducted in a satisfactory manner and that the cooperation extended to our representatives by Federal Reserve bank officials has been very satisfactory.

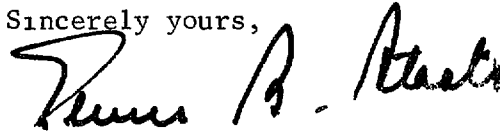
In our December 26, 1968, report to you, we commented on a need to strengthen the system of internal control over unfit currency being processed at certain locations because employees who were required to independently count the number of bundles of canceled currency received for destruction had access to shipping documents or control forms showing the number of packages and bundles. The Department of the Treasury issued new instructions to the banks in March 1969 which required that bundle counts and package counts be completed prior to confirming the quantities to the supporting documents.

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We plan to continue performing our audits of the cancellation and destruction of unfit currency at selected Federal Reserve banks

Copies of this report are being sent to the Director, Bureau of the Budget; the Secretary of the Treasury; and the Chairman, Board of Governors of the Federal Reserve System.

Sincerely yours,



Comptroller General
of the United States

The Honorable John J Sparkman, Chairman
Committee on Banking and Currency
United States Senate