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U. S. FEDERAL RESERVE OFFICE
3086 FEDERAL RESERVE BUILDING
SEATTLE, WASHINGTON 98104

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Mr. Elliot J. Swan, President
Federal Reserve Bank of San Francisco
500 Sansome Street
San Francisco California 94111

Dear Mr. Swan:

We have reviewed the activities of the Federal Reserve Bank of San Francisco Seattle Branch, relating to the cancellation, verification, destruction, and accounting for currency unfit for further circulation. The review which was completed in February 1971, was made pursuant to Public Law 91-517 approved July 23, 1969.

Our review was directed primarily towards an evaluation of (1) the existing controls over the cancellation, verification, and destruction of unfit currency, (2) the adequacy and compliance with which these functions are performed, and (3) the related accounting records and internal audit reports of these activities.

We are pleased to advise you that the procedures we reviewed were conducted in a generally satisfactory manner and that our review did not disclose any significant deficiencies or weaknesses. The following matters were discussed with your Vice President in charge at the Seattle Branch and we are providing in a copy of this letter:

1. Branch officials informed us that additional care will be exercised when preparing the supplemental record for each lot of unfit currency that has been verified and destroyed. In one instance a serial error discovered by the verification unit had not been properly reported to the Federal Reserve Bank of San Francisco. Although required by the Federal Reserve currency manual, the procedures were not regarding the identification of verifiers who had discovered errors in currency serials.
2. Branch officials stated that an effort will be made to reduce the simultaneous testing of verifiers. On several

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Mr. E. J. Swan

- 2

occasions all four verifiers were tested on the same lot of currency. We believe that this method of simultaneous testing could lessen the effectiveness of unpatterned testing prescribed by the Federal Reserve Currency Manual.

3. Branch officials recognized that there is a problem in the application of the standard for determining whether currency is fit for further circulation. They agreed that there is a need to continue close surveillance over the sorting of currency. In our opinion, some of the cancelled currency in denominations over \$1 met the requirements of currency fit for further circulation as defined by the Department of Treasury's Guide for Determination of Fitness of Paper Currency.

We wish to extend our appreciation to you and your Branch personnel for the courtesy and cooperation shown our representatives during this review. We are available for further discussion on the matters discussed above if you so desire.

A copy of this letter is also being sent to the Assistant Deputy Treasurer of the United States.

Sincerely yours,

William M. Conrardy
Regional Manager

cc. V. P. Seattle Branch
Federal Reserve System