

Audit raises spectre of massive mint heist; Government slams 'inexcusable' loss of gold worth \$19M in current prices

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An unprecedented audit of the Royal Canadian Mint has failed to find \$15.3 million in missing gold and suggests it could have been stolen in what would be the greatest gold theft in Canadian history.

The results of the long-awaited independent audit found no accounting, bookkeeping or other internal errors to account for 17,514 troy ounces of gold missing from the mint's Sussex Drive inventory. That's the equivalent of almost 44, 400-ounce bars and worth \$19 million in today's prices.

A further but undisclosed quantity of silver also is missing.

"The unaccounted for difference in gold does not appear to relate to an accounting error in the reconciliation process, an accounting error in the physical stock count, or an accounting error in the recordkeeping of transactions during the year," the report by Deloitte and Touche concludes.

It recommends the mint review security to "identify theft opportunities ... and... potential inappropriate activity by both internal and/or external parties."

Calling the mint's loss "inexcusable," the federal government has ordered the mint to withhold executive bonuses until the matter is resolved.

"The mint will be held accountable," Transport Minister John Baird and junior Transport Minister Rob Merrifield said in a statement late Monday.

The mint will also be required to report on precious metals inventories on a quarterly basis, the ministers said.

The RCMP has yet to announce whether it will open a criminal probe into the mystery. The federal government ordered the Crown corporation to call in police June 9 after a series of Citizen reports revealed mint officials have been quietly searching for the gold since October. The Mounties' commercial crime section in Ottawa continues to review the request.

Gold closed Monday at \$1,089 Cdn an ounce, making the lost gold worth \$19 million in current prices.

The report values it at \$15.3 million based on a 2008 selling price. The mint will file an insurance claim and record the missing metal as a loss in its 2008 financial statement, which still needs the approval of federal Auditor General Sheila Fraser.

The missing gold initially amounted to about 21,500 ounces, until it was determined that 4,000 more ounces than initially estimated had left the plant in tonnes of slag produced during the refining process.

That gold, amounting to about \$4.3 million at current prices, was apparently recovered from an outside refinery.

The Deloitte and Touche investigation suggests most of the remaining missing gold, 16,494 ounces, came from the mint's gold refinery, one of the largest in the world. But the report notes that lot control of the gold only exists as it begins the refining process and again when it is converted into finished goods.

"Work in progress in between these stages is not subject to lot control physically or in the system," says the report.

What's more, in the summer of 2007, the mint installed a new computer system. The report doesn't go into details, but an executive with one of the mint's big commercial customers, Montreal-based precious metal bullion dealer Kitco, has told the Citizen there have apparently been technical problems.

"We have actually halted the signing of new accounts (for precious metal storage at the mint) as of December, January specifically because they wrote to us and said, 'Look, we're revamping IT all the way in the back office and it's going to be enhanced, so don't take any new accounts for the time being'," Jon Nadler told the Citizen this month.

Meanwhile, a huge world demand for gold last year, and especially the mint's Gold Maple Leaf coin series, pushed production up by 352 per cent. "There was just a lot of precious metals coming in and out of this facility as we fulfilled orders and customers' needs," said Christine Aquino, mint spokeswoman.

Profits also soared last year, to a record (and unaudited) \$44.2 million, well above the corporate target for 2008 of \$36.3 million. It's not clear how the official \$15.3 million loss will affect profits.

The biggest gold heist in Canadian history is thought to have been a 1966 robbery at the Winnipeg airport of ingots destined for the Ottawa mint. Winnipegger Ken Leishman, who gained national fame in the 1960s and 1970s as the "Flying Bandit" for crimes in which he used a plane as an escape vehicle, is credited with masterminding the heist. It reportedly netted him and two other men \$4 million in gold.

Despite the growing possibility the latest gold may have been stolen, too, the mint in a statement Monday did not acknowledge such, saying, "it's not clear at this stage whether any physical gold is missing from the mint's inventory."

In a statement, mint chairman James B. Love said, "as a Crown Corporation, we understand that Canadians hold us to a high standard of accountability and the mint's board of directors will continue to work closely with management in ensuring that this matter is pursued vigorously."

More outside experts are to be brought in to pursue three new avenues of investigation, including security. Another will be a technical review of operations, including the scientific processes, formulae and benchmarks the mint uses on various aspects of refining such as process losses. The third area will be an accounting review of precious metal counts going back beyond 2008. The auditors and mint officials acknowledge, however, that will be difficult given the passage of time, the availability of supporting documents and the turnover of mint staff.

Still, "we're not giving up on this," said Aquino. "We are going to pursue these other three avenues and exhaust them and then, hopefully, we can find an answer."

The mint reconciles its rolling precious metals inventory every April and October in a complex and time-consuming process. Some of the gold belongs to the mint, while some belongs to customers who store it at the mint.

Account records are checked against physical stock. The April 2008 count was fine. But the second count in October could not reconcile tabulations of the mint's own gold with the physical stockpile. The difference represented about 0.32 per cent of the total gold throughput for 2008. Customers' gold and other precious metals were not affected.

Mint officials investigated and called in Deloitte and Touche in mid-March. On March 23, Merrifield, who is responsible for the mint, was advised of the situation.

The federal Liberals Monday attacked the government for allowing the mint to wait so long before being ordered to call in police.

"The Harper government has lost more than just \$15 million in precious gold bullion," Liberal critic for Crown corporations Joe Volpe said in a statement. "They've lost precious time. Why did the government wait 10 full weeks from the time they learned of the lost gold before calling in the RCMP?"

"All along the mint has left open the possibility that gold has been stolen -- a startling admission that seems more likely given this report," said Volpe. "Instead of immediately chasing down all possible leads, the government may have given those responsible the equivalent of a head-start for their get-away. Instead of taking immediate action, they sat around playing keystone cops, while more gold was potentially exiting the building."

The audit also found numerous instances in which the mint either under- or over-valued amounts of precious metals it was dealing with in various transactions, ranging from a few ounces to a few thousand.

For example, 2,608 ounces of precious metal was shipped out of the mint, but the auditors apparently could not identify to whom, though there appears to be no question the transaction was aboveboard.

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