



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

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B-156489

SEPTEMBER 26, 1979

RELEASED

The Honorable Lawton Chiles, Chairman
Subcommittee on Federal Spending *SEND 1501*
Practices and Open Government
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

Use title on Form 115

Subject: *A* Government purchases of foreign currencies for contributing to NATO *(ID-79-51)* *ICNG 01358*

In response to your request of March 5, 1979, we have reviewed practices used by the United States to purchase foreign currencies needed for contributions to NATO. These foreign currencies are purchased by the U.S. Army Support *ED* Group to NATO located at Supreme Headquarters Allied Powers, Europe, (SHAPE). *DLG 02888*

We found that this Support Group was accelerating or delaying NATO payments in an attempt to obtain favorable exchange rates. Depending on the movement of currency exchange rates, this results in gains or losses. Speculative efforts such as this are contrary to the intent of Treasury regulations that financial risk not be a part of meeting foreign currency needs for Government overseas operations. The Support Group agreed to modify its procedures to conform with Treasury regulations. (See encs. 1 and 2.) *AG-C 00038*

We noted two related matters offering potential for interest savings and insuring the purchase of foreign currencies at the best available exchange rate. (See enc. 1.)

We recommend that the Secretary of the Treasury:

- Review with cognizant commands NATO payment requirements) and arrange for U.S. payments to be made at the latest acceptable date.
- Review with the NATO SHAPE Support Group the Treasury Department's requirements for obtaining competitive bids in purchasing foreign currencies.



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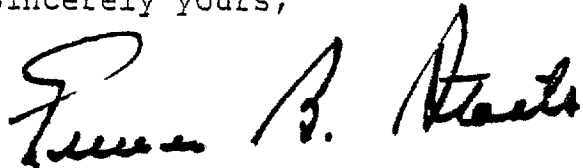
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Treasury officials advised us that these matters will be included in a review to be completed prior to the end of 1979. (See enc. 3.)

We talked with officials at Headquarters, U.S. Army, Europe, in Heidelberg, Germany; the Support Group in Mons, Belgium; and NATO Headquarters in Brussels, Belgium, and analyzed information relating to the payment of U.S. obligations supporting NATO. We also informally discussed this report with the Departments of Treasury and Defense.

As requested by your office, this report will not be released for 5 days from the date of publication.

Sincerely yours,

A handwritten signature in black ink, appearing to read "E. B. Stacks". The signature is written in a cursive style with a large initial "E" and "S".

Comptroller General
of the United States

Enclosures - 3

ORGANIZATION

The NATO SHAPE Support Group, a component command of the United States Army, Europe, and the 7th Army, is divided into a number of divisions and directorates, among which is the Directorate for Resource Management. This Directorate is responsible for payment of U.S. obligations supporting NATO's infrastructure and military programs. In general, the infrastructure program provides for NATO capital improvements and major construction, and the military program provides for operation and maintenance costs. According to officials, U.S. annual contributions to these programs in recent years have been about \$100 million and \$75 million, respectively.

U.S. payments to support these programs are requested by NATO seven times a year--four for the infrastructure program and three for the military program. Requests for payment (calls) are stated in accounting units (AU) for military programs and infrastructure accounting units (IAU) for infrastructure programs. These accounting units are used to express the cost of projects and are converted to the currencies of 13 NATO members on the basis of each currency's AU rate or IAU rate. For payments by the United States, the accounting units are converted to the currency requested; if a foreign currency is requested, it is then purchased with dollars. Examples of payments follow.

<u>Type of currency requested</u>	<u>Number of AUs called</u>	<u>AU rate</u>	<u>AUs called divided by AU rate equals amount of currency needed</u>	<u>Dollar/currency exchange rate</u>	<u>Exchange rate applied to currency equals dollars needed</u>
U.S. dollars	114,861,680	238.3000	482,004	N/A	\$ 482,004
Belgian francs	17,982,500	7.1930	2,500,000	32.3849	77,196
Italian lire	1,365,173,565	.2703	5,050,586,627	849.0500	5,948,515
Total	<u>1,498,017,749</u>				<u>\$6,507,715</u>

Source: Support Group and U.S. Mission to NATO.

The Support Group purchases foreign currency from European banks, and an interbank transfer to the payee can be accomplished the same day, except when payment is requested in Greek drachmas or Turkish lire. Officials said European banks are reluctant to deal in these currencies especially in the large amounts required for NATO calls. Greek and Turkish currencies are purchased at military finance offices in the respective countries at exchange rates fixed by the host governments. The finance offices then arrange for transfer of these funds to the payee government.

BASIS FOR DECIDING WHEN TO BUY AND PAY
AU and IAU rate changes

The AU rate for each currency is based on that currency's exchange rate with the Belgian franc. AU rates are changed when there is a fluctuation of 2.25 percent or more in the value of a currency in relation to the franc. All rates are reviewed every week and changed when appropriate. Thus, when U.S. payments to NATO are accelerated or delayed, changes in AU rates affect the amount of the contribution.

IAU rates are also based on the Belgian franc but are subject to change only once every 6 months. In the calls (request for payment) we analyzed, we found no instances in which the 6-month adjustment in IAU rates affected U.S. contributions.

Currency exchange rate fluctuations

The Support Group official was attempting to buy foreign currencies when the exchange rate between the dollar and the the required currencies was most favorable. To do so, he tried to anticipate currency exchange rates. He said the decision to buy foreign currency for payment of NATO obligations is based on magazine and newspaper articles and the opinions of banking officials and the Support Group's disbursing officer. He told us that, although he may not be able to buy at the optimum rates in each case, he believed this method achieves better results than buying and paying on some predetermined date. In many respects, this method could be construed as speculating.

NATO lacks specific criteria as to when its payment requests for the infrastructure program are due and payable. For the military program, NATO Allied Command, Europe, Directive 60-1 provides that call payments be made as early as possible, in principle within a month. A Support Group official expressed the opinion that the phrase "in principle" allows considerable flexibility in trying to obtain favorable exchange rates.

NATO officials told us that a wide range of payment practices is used by the various NATO members. Some members pay within a few days of the call and others wait several months. The officials said that, although the payment practices are not consistent, NATO's ability to meet its obligations is not affected and, in their opinion, the payment practice normally followed by a member nation should govern when it pays.

ENCLOSURE I

In an attempt to reduce unnecessary borrowing, the U.S. Department of the Treasury issued regulations in March 1978 which stated:

"Invoices, bills, statements or any other documents (hereinafter referred to as 'invoices') which are authorized for payment by an agency, including progress and final payments, will be paid when due."

* * * * *

"An agency's payment system will be designed to provide for scheduling the issuance and mailing of checks for receipt by the payee as close as administratively possible to the due date as specified in the invoice, contract, or other agreement. If no due date is specified, the due date will be considered to be on the thirtieth (30) day from receipt of the invoice and payment will be scheduled to be made on that date."

To determine the effectiveness of the Support Group's currency purchasing method, we analyzed all NATO calls for the period January 1978 through April 1979. During this period there were nine calls totaling nearly \$190 million-- five for the infrastructure program and four for the military program. We compared the amounts actually paid to the amounts we estimated would have been paid if the Support Group had followed Treasury regulations. Turkish and Greek currency transactions were excluded from our analysis because the exchange rates are controlled by the Turkish and Greek Governments and purchases are made by the military finance offices in each country, not the Support Group.

Since records were not maintained showing when the call documents were received by the Support Group, we reconstructed the due date from records at NATO Headquarters. Our reconstruction allows 1 working day for transmitting the call document plus 30 days as specified in the Treasury regulations.

Our analysis showed that the Support Group paid most of the calls before the due date, resulting in additional costs of about \$200,000 due to fluctuating exchange and AU rates. However, this additional cost does not include added

ENCLOSURE I

interest expenses incurred by the U.S. Government in borrowing the money before it was actually needed. The results of our analysis are shown below.

Call	Number of payments in call	Number of days payment made after receipt of call by Support Group				Gains or losses due to fluctuation in currency exchange rates		Total
						(note a)	(note b)	
		1-10	11-20	21-30	over 30			
Infra	1	5	0	0	0	\$ -521,358	-	\$ -521,358
"	2	5	0	0	0	-669,091	-	-669,091
"	3	7	4	1	1	1,084,295	-	1,084,295
"	4	7	0	6	1	15,673	-	15,673
"	1	7	3	2	3	-62,711	-	-62,711
Military	1	7	0	0	7	-381,075	-	-381,075
"	2	5	2	0	0	15,532	\$12,876	28,408
"	3	6	0	4	2	370,625	42,554	413,179
"	1	6	0	4	2	-181,741	71,446	-110,295
Total	35	19	11	19	5	\$ -329,831	\$126,876	\$ -202,955

a/Difference between amount paid and amount we estimate would have been paid, based on official midday selling rates of requested currency in effect 30 days after the call should have been received by the Support Group.

b/Difference between the amount paid and the amount we estimate would have been paid based on AU rates in effect on the due date--30 days after the Support Group should have received the call.

We discussed these matters with the Director of Resource Management for the Support Group, who stated that he was not aware of the Treasury regulations. He also said that he did not believe the currency purchasing practices employed by the Support Group were speculative, but rather were "good money management." However, he told us that the additional interest costs resulting from premature borrowing had not been considered.

CURRENCY BUYING TECHNIQUES

We compared the Support Group's procedures for purchasing foreign currencies with techniques used by the State Department's Regional Finance Center in Paris. The Center buys foreign currencies for civilian agencies in 90 countries throughout Europe, Africa, and the Near East; it also buys the Air Force's requirements for pound sterling.

A technique used by the Center is to have two or three employees obtain simultaneous quotes by telephone from several European banks. The foreign currency is purchased from the bank offering the most favorable rate.

The Support Group has one employee obtain quotes by telephone from several banks, but the quotes are not obtained at the same point in time. In a fluctuating foreign exchange

market, one bank may not hold its quote while the other banks are canvassed and the Support Group may not obtain the most favorable rate.

CONCLUSIONS, RECOMMENDATIONS,
AND CORRECTIVE ACTION

In our opinion, it is inappropriate for the Support Group to accelerate or delay payment of NATO calls in anticipation of more favorable exchange rates. Such practices are contrary to the Department of Treasury regulations, because exchange rate gains or losses are not predictable and efforts to anticipate them can be considered as speculative.

The Director of Resource Management agreed that U.S. payment of NATO calls is governed by Treasury regulations and that the regulations would be followed in the future. He signed a memorandum (see enc. 2) stating that

- the due date for payment of calls will be 30 days after the calls are made available to the Support Group;
- the Support Group will pay the calls as close as possible to the due date; and
- in extraordinary situations calling for possibly different actions, guidance will be sought from Treasury and, if necessary, waivers will be obtained.

There is a lack of consistency among NATO members in the timing of their contributions to the infrastructure and military programs. To reduce interest costs, we recommend that the Secretary of the Treasury review NATO's payment requirements with the responsible commands and arrange for U.S. payments and related currency purchases to be made at the latest acceptable date.

The Support Group's failure to obtain simultaneous competitive quotes in purchasing foreign currencies could result in the loss of more favorable exchange rates due to the time lag between obtaining and confirming the quote. Support Group officials told us they plan to study the techniques used by the Regional Finance Center and, thus, hopefully to improve their own procedure.

We recommend that the Secretary of the Treasury review with the Support Group the Department's requirements for obtaining competitive bids in buying foreign currencies.

We discussed these matters with Treasury officials and they agreed to include them in a review to be completed prior to the end of 1979. (See enc. 3)



DEPARTMENT OF THE ARMY
Headquarters, NATO/SHAPE Support Gp (US)
APO New York 09888

AERSH-RM

26 June 1979

MEMORANDUM FOR RECORD:

ATTN: Mr. W. Mack Edmondson, Jr., GAO/EB

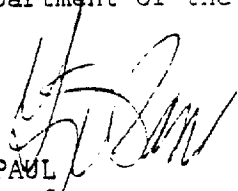
SUBJECT: NSSG Procedures for Paying NATO Calls

1. It is agreed that:

a. Due date will be considered to be date calls are available to NSSG for payment plus 30 days,

b. Calls will be paid as close to due date as administratively possible.

2. In paying NATO calls, NSSG is recurringly faced with unique and extraordinary situations which may cause strict observations of above to be impossible or impractical. For these occasions, guidance will be sought from The Department of the Treasury. Also waivers may be requested.


G. D. PAUL
Director for
Resource Management



DEPARTMENT OF THE TREASURY
FISCAL SERVICE
WASHINGTON, D.C. 20220

SEP 6 1979

Mr. Mel F. Bergartt
Group Director
International Division
General Accounting Office
Room 4148
441 G Street, N. W.
Washington, D. C. 20001

Dear Mr. Bergartt:

The Department of the Treasury has reviewed the draft proposed report, "Practices Used to Purchase Foreign Currencies Needed for U.S. Contribution to NATO." We share GAO's concern that payments be properly timed in relation to when they are due, and that arrangements for purchasing foreign currencies with U.S. dollars should seek to assure that the U.S. Government has a reliable access to these currencies at competitive rates.

Based on Treasury correspondence with the NATO Shape Support Group (NSSG), certain actions are currently underway with regard to obtaining competitive exchange rates. A comparative rate analysis was conducted on convertible currencies by the Department of the Army, 27th Finance Section attached to NSSG, between rates obtained by NSSG and the Regional Finance Center, Paris (RFC), during the period January through April 1978. The analysis determined that NSSG was competitive for some currencies but improvement could be made for others. We were also advised that a visit to the RFC was planned during June 1979 by the Finance Officer of the 27th Finance Section to obtain data for further analysis of exchange rate comparisons, to study the RFC operations for ways to improve NSSG operations and to establish a working relationship beneficial to the U.S. Government. Treasury has requested a copy of the analysis, as well as comments on the results of their visit.

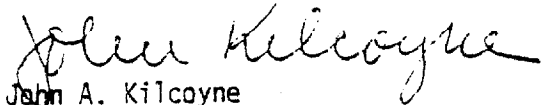
The Treasury guidelines issued March 1978 referred to in your report, Volume I, Part 6, Chapter 8000 of the Treasury Fiscal Requirements Manual, requiring agencies to pay bills thirty days from receipt of the invoice if no due date is specified, is currently being examined by the Foreign Currency Staff of the Fiscal Service. The thirty day period was used by Treasury so as to be compatible with commercial practices in the United States; however, overseas many countries have completely different billing practices. For example, in some countries no due date is placed on an invoice because it is assumed payable upon receipt.

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In view of the above, it appears a review is required to determine the billing and paying practice of the other NATO countries as compared to the United States. Depending on the outcome it is possible that payments could be executed longer than thirty days from the call for funds, perhaps until the funds are actually required for expenditure by NATO.

It is the intent of Treasury to coordinate with the Office of the Secretary of the Army, who has responsibility for the 27th Finance Section attached to the NSSG, to review NATO payment practices, in the light of the NATO programs concerned, and the methods used by NSSG to acquire foreign currencies. This review will be concluded prior to the end of the calendar year. We will advise you of the results of this review and any changes that have been made.

Sincerely yours,



John A. Kilcoyne
Assistant Fiscal Assistant Secretary
(Banking)