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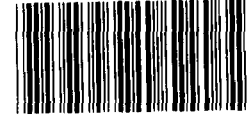
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INTERNATIONAL DIVISION

16 FEB 1982

B-146749

The Honorable Ronald "Bo" Ginn, Chairman
Subcommittee on Military Construction
Committee on Appropriations
House of Representatives



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Dear Mr. Chairman:

Subject: Department of Defense Foreign Currency
Fluctuation Fund for Military Construction
and Family Housing (ID-82-20)

As requested in our meeting with the Subcommittee staff on January 29, 1982, this letter summarizes our followup work on the Department of Defense (DOD) response to our earlier report on the subject Fund.

In our August 21, 1981, letter report to the Secretary of Defense on "Foreign Currency Exchange Rate Fluctuation Funds" (ID-81-54), we recommended that the Secretary issue guidelines to ensure that the services uniformly account for gains and losses due to foreign currency exchange rate fluctuations in military construction and family housing programs and that this accounting be made whether or not funds had been made available in the current year.

We continue to disagree with DOD over its administration of the \$125 million funding for Foreign Currency Fluctuation, Construction, Defense. Our disagreement relates to (1) the intent of the law concerning DOD's need to account for foreign currency fluctuation gains as well as losses, (2) the need to hold these gains for possible transfer to the Fund whether or not appropriations are made available in the current year, and (3) the present status of the Fund and the need for DOD to distinguish Fund balances from NATO infrastructure operational funds.

DOD contended in testimony to the Subcommittee in April 1981 that the Fund was established solely to offset currency fluctuation losses. It said that the \$125 million was sufficient to cover only about one-half of such losses then known to exist and this required that all funds be applied to fiscal years 1979 and 1980 projects. DOD noted that since no further appropriations were made for this Fund, no further accounting for currency fluctuations was

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necessary except for those specific accounts still containing unexpended balances of funds originally transferred from the subject appropriation, and then only until such funds have been fully expended.

In responding to our recommendations, DOD said in November 1981 that:

"We believe that this requirement would result in unnecessary accounting. We have reached this conclusion taking into account: the absence of any statutory accounting and reporting requirement for exchange rate fluctuations; the absence since FY 1980, of FCF,C,D [Foreign Currency Fluctuation, Construction, Defense] capitalization; the favorable trend of the dollar relative to other currencies; and finally, the direction from the House Appropriations Committee (HAC 97-193) in its report of the 1982 Military Construction Appropriation Act, that Defense should cease submitting non-statutory reports to the Committee that were previously requested in Committee reports or otherwise, unless specifically thereafter requested."

We continue to believe that the Fund was intended to cover foreign currency gains as well as losses and that such gains were to be accounted for and held for possible transfer to the Fund. ^{1/} We found that foreign currency gains should have been achieved in fiscal year 1981 for the unexpended balances of fiscal years 1979 and 1980 projects. These gains should be reported and held for transfer to reduce earlier losses in the Fund. Moreover, the currency gains would have been more had the Army been accounting for fiscal year 1981 projects and holding these gains for transfer to the Fund.

Determining the present status of this Fund is complicated by DOD's December 1980 action in merging foreign currency fluctuation funds with NATO infrastructure appropriations without maintaining separate accounting of Fund transactions and balances. At present, the Fund appears to exist merely as a "shell," since none of the currency gains realized during fiscal year 1981 were transferred to the Fund.

^{1/}We base this belief on the statement in the House Appropriations Committee report (H. Rept. 96-246 (1979)) that the "Department will report to the Committee on Appropriations any savings resulting from favorable changes in the exchange rate that can be transferred into this appropriation" and that "the fund provides permanent authority."

DOD told the Subcommittee on April 1, 1981, that it would be keeping "memorandum accounts" of Fund balances. Although DOD told the Subcommittee that memorandum accounts would show the fiscal year 1981 status for construction and family housing accounts on a continuing basis, we found that they were reporting currency fluctuations only for those specific accounts still containing unexpended balances and were not reporting gains on fiscal year 1981 and subsequent year projects. We noted that some DOD records do show part of the original \$125 million still available. We believe the Fund should have remained intact, since it was not meant to be a one-time, one-way transfer to cover only foreign currency losses.

In our opinion, the Fund should continue to exist as a repository to cover both currency losses and gains. DOD should maintain a separate account for the foreign currency fluctuation fund for military construction and family housing programs. It should be required to determine what the present balance of the fund would be by accounting for gains and losses since the funds were appropriated in fiscal year 1980. The determination of the gain or loss should be the difference between the exchange rate used in the President's budget submission and the actual exchange rate at time of disbursement. If this accounting shows that gains have been realized, such gains should be accounted for and held for possible transfer to the reestablished Fund. In our view, such gains should be transferred to the Fund rather than merely held for possible transfer, and the Subcommittee should consider whether this action needs to be specifically required.

We have discussed these matters with the Subcommittee staff and hope our information meets your needs.

Sincerely yours,



Frank C. Conahan
Director