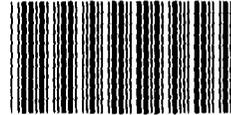




UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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INTERNATIONAL DIVISION



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B-205644

DECEMBER 16, 1981

The Honorable Daniel K. Inouye
United States Senate

Dear Senator Inouye:

Subject: Problems with the U.S. management of foreign
currency transactions for NATO programs (ID-82-10)

In response to your request of April 15, 1981, we examined allegations concerning the management and adequacy of internal auditing of foreign currency transactions in support of U.S. participation in the North Atlantic Treaty Organization (NATO) infrastructure and international military programs. We also reviewed actions taken by Army officials in Europe to correct foreign currency purchasing and timing of payments deficiencies identified in our prior report: 1/

The NATO/SHAPE 2/ Support Group, a subordinate command of U.S. Army, Europe (USAREUR) responsible for financial administration of U.S. participation in NATO international programs, greatly reduced the scope of its internal review program over the past 4 years. Since 1977, actions taken by Support Group management have left it with an inadequate and ineffective internal review capability. Some corrective actions have been taken on the deficiencies cited in our earlier report, but a problem persists with the timing of payments to NATO because adequate procedures have not been developed and followed. Army and Support Group officials agreed that both these problems need attention and have already begun to correct them.

INTERNAL REVIEW
PROGRAM INADEQUATE

The internal review program at the NATO/SHAPE Support Group has been inadequate to perform its basic oversight mission on behalf of the Commander and to ensure complete and balanced audit coverage of all programs. The effectiveness of the internal review program was undermined by actions taken by Support Group

1/ "Government Purchases of Foreign Currencies for Contributing to NATO," (ID-79-51, Sept. 26, 1979).

2/ SHAPE is the Supreme Headquarters Allied Powers Europe, the military command of NATO.

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management to reduce staff, divert them to other offices, and assign them non-internal review (operational) duties. Moreover, Support Group management denied its Internal Review Division access to audit U.S. participation in both the NATO infrastructure and international military programs.

Support Group actions undermine internal review effectiveness

After the arrival of a new Director for Resource Management in 1977, the size of the internal review division was reduced from its traditional size of four--one American Chief and three local national auditors. From 1977 to 1979, three positions were diverted to another Support Group operating division. At one point in 1979, only a Chief of internal review remained, without an audit staff. Moreover, the position of Internal Review Division Chief was changed from a U.S. Government civilian position to a local national slot. The rationale used by management was that there existed a higher priority need organizationally to use the slot for a program analyst position in the NATO infrastructure area.

Support Group officials also told us that the U.S. civilian position could no longer be justified because internal review had performed only limited work in the NATO international program areas. However, between 1973 and 1977, at least 11 internal review reports were written in the international program areas. After 1977, internal review was denied audit access to NATO's infrastructure and international military programs by the Director for Resource Management and not permitted to schedule or perform reviews or audits. After the elimination of the U.S. civilian Chief position in 1979, internal review position descriptions were rewritten by the Director for Resource Management. They did not specify audit access to the Support Group's international programs. Prior to that time, however, duties assigned included scheduling and performing reviews and audits in all Support Group program areas.

In addition, internal review staff were tasked to perform a considerable amount of non-internal review (operational) work, which detracted from the time available to perform and complete scheduled reviews and audits. During fiscal year 1978, a total of 24 reviews and audits were scheduled; however, only 9 were completed.

The Director for Resource Management also limited the access of the Chief of the Internal Review Division to the Commander of the Support Group. At one time, over a year elapsed without any direct contact between the Commander and the Chief. While this is not contrary to any specific regulation or directive, this action does appear unusual, particularly in a program where the personal involvement of the Commander is important.

External reporting substantiates
problems with internal review

The adequacy of the Support Group's internal review program has been the subject of several 21st Support Command 1/ and USAREUR reviews and Inspector General reports. The problems of insufficient staffing and lack of adequate coverage of the Support Group's international programs have been identified and reported over the last several years. Despite these findings, the weaknesses were not corrected.

Followup on these reports has been complicated by a long-standing line of authority and command relationship problem in which the Support Group finds itself. Although the Support Group is administratively a subordinate command of the 21st Support Command and received from it funds for a variety of base operation responsibilities, allotments for the NATO infrastructure and international military programs are channeled to the Support Group from headquarters USAREUR. This has created a difference between USAREUR and 21st Support Command over responsibility for management and oversight of the NATO infrastructure and international military programs, and raised some questions as to the Support Group's role in the programs themselves. With the exception of a November 1980 internal review report, USAREUR has performed little audit oversight over the international program areas at the Support Group. The 21st Support Command audit efforts have been restricted to reviewing the Support Group's financial management practices for Support Command funds only.

New Support Group management
recognizes need for improvements

During our visit to the Support Group, we found an atmosphere of cooperation among the Support Group Commander, the Director for Resource Management, and the local national Chief of the Internal Review Division. Both the current Commander and Director for Resource Management are new and were not involved in actions taken by their predecessors. They recognized that there were problems resulting from past management actions although they were not aware of the details.

Some positive changes have already occurred. Both the Commander and Director for Resource Management have told the Chief that he is permitted to look at all program areas at the Support Group. This policy has been put in writing. In

1/The 21st Support Command is a major subordinate command under USAREUR responsible for providing support to U.S. forces and organizations in the European theater.

addition, NATO infrastructure and international military program audits have been scheduled in the Support Group's fiscal year 1981 fourth quarter internal review program plan and will be included in its fiscal year 1982 program plan.

CONCLUSIONS AND RECOMMENDATIONS

The mission, adequacy, and effectiveness of the Support Group's Internal Review Division was undermined by actions taken by Support Group management. In light of past occurrences, there is a need for the Commander and the Director of Resource Management to focus immediate attention to the reestablishment of the internal review program.

We recommend that the Support Group Commander ensure that the size, staff composition, and scope of audit activities of internal review are sufficient to meet its current mission. The Commander should develop written procedures describing the roles and responsibilities of the Director for Resource Management and the Chief, Internal Review Division, to assist in defining and clarifying the relationship between the two. These procedures should be written to ensure that (1) all functional areas within the purview of the Support Group's current mission receive adequate consideration in planning audit coverage by internal review, (2) the Chief of the Internal Review Division receives an appropriate level of access to and guidance from the Commander concerning the conduct of the internal review program, and (3) a working relationship is maintained between the Chief of the Internal Review Division and Director for Resource Management.

The current line of authority and command problem involving the Support Group, USAREUR, and 21st Support Command is a complex one. This problem has an impact on the overall U.S. administration and management of the NATO infrastructure and international military programs. It is an area that went beyond the scope of our work on this review. However, we have recently initiated a survey of U.S. participation in the NATO infrastructure program and plan to address that issue.

SOME CHANGES, BUT PROBLEMS REMAIN WITH PAYMENT PROCEDURES

Although some changes have been made for foreign currency acquisitions in support of U.S. participation in NATO programs, current procedures used to meet NATO calls for payments are inadequate to ensure that the intent of Treasury regulations is consistently being met.

Changes made since 1979 report

In our prior report on the policies and practices used by the United States to purchase foreign currencies needed for

payment of U.S. obligations supporting NATO's infrastructure and international military programs, we reported that the Support Group was accelerating or delaying NATO payments in an attempt to obtain favorable exchange rates. Speculative efforts such as this, however, are contrary to the intent of Treasury regulations that financial risk not be a part of meeting foreign currency needs for Government overseas operations.

As a result of our report, agreements were reached among U.S. Mission to NATO, Support Group, and Department of Treasury officials that foreign currency purchases would be made by the Support Group for delivery 30 days from the date of the approval of the NATO call or on a due date specified in writing by the U.S. Mission to NATO.

Until November 1980, the Support Group's 27th Finance Section continued to purchase the foreign currencies required to meet the NATO calls. Beginning in November 1980, however, all foreign currency purchase responsibilities were centralized in Europe and transferred to the U.S. Army Finance and Accounting Center, Europe. As a result of these actions, the Support Group relinquished its responsibility for acquiring currencies and the possibility of "speculation" by the Support Group was virtually eliminated. The Support Group continues to play a role in the NATO call process. The Directorate for Resource Management prepares the payment vouchers based on information provided by the U.S. Mission to NATO. Once these are completed, they are forwarded to the Support Group's 27th Finance Section, who requests that the Finance and Accounting Center make the purchases.

Current payment procedures do not
ensure compliance with Treasury regulations

Even though agreements were reached among U.S. Mission, Treasury, and Support Group officials over the timing for payments, no written procedures were ever developed to delineate the steps to be followed in responding to NATO infrastructure and international military program calls. As a result, procedures used do not ensure payments will be made close to a specified due date.

The only written guidance available on the current NATO call payment process is an October 1980 message from USAREUR covering the relationship between 27th Finance Section and the Finance and Accounting Center over foreign currency purchases and reimbursements. It does not identify specific procedures to be followed, nor does it address overall cash management responsibilities for the timing of payments in meeting the NATO calls.

In the absence of a written set of procedures, we traced the process now followed for the seven most recent calls for NATO infrastructure payments and the five most recent calls for international military programs during calendar years 1980 and 1981. For these cases, the intent of Treasury regulations over the timing of payments was not consistently met. While payments to NATO generally appear to come close to a 30-day due date, some were paid up to a week ahead, while a number of others were paid up to 2 months late. Because of the lack of specific data on payment dates, we were unable to determine the financial impact of these varying payment periods.

In addition, we found considerable confusion among the major participants in the process--U.S. Mission to NATO, Directorate for Resource Management, 27th Finance Section, and the Finance and Accounting Center--over specific responsibilities, timing, information to be provided one another and the definition and use of key financial dates.

Specifically, a payment's due date is not being identified by U.S. Mission to NATO, nor is one being identified or included on the payments voucher by the Directorate for Resource Management to serve as guidance for both 27th Finance Section and the Finance and Accounting Center. As a result, the 27th Finance Section and the Finance and Accounting Center have no guidance on when the payment should be made to a NATO member country's account in order to meet the intent of Treasury regulations. The lack of a specified due date has also contributed to confusion over timing. Not knowing a due date, 27th Finance Section has been operating under the assumption that the recipient's account must be credited within 48 hours. The Finance and Accounting Center considers this time requirement inadequate.

In addition, neither the Support Group's Directorate for Resource Management nor 27th Finance Section knows the date a NATO member account is actually credited. "Paid By" dates now being provided to U.S. Mission by the Support Group are not accurate. Dates now supplied are the dates the 27th Finance Section issues a check to reimburse the Finance and Accounting Center.

CONCLUSIONS AND RECOMMENDATIONS

The current foreign currency purchase procedures to meet NATO calls are inadequate to ensure that the intent of the Treasury regulations is being met. Overall, there is confusion among all the participants in the process over responsibilities, timing, information to be provided, and agreement on key finance dates.

To achieve more effective cash management in meeting the NATO calls and to ensure that the intent of Treasury regulations is being met, we recommend that the Support Group Commander develop a well-defined policy on NATO call payments to delineate the procedures to be followed by all the participants in the process. These procedures should

- clearly delineate the intent of the Treasury regulations,
- define responsibilities and actions to be taken by each participant,
- specify the payment due date on the payment vouchers,
- record the date a recipient account is credited,
- establish a cycle for the NATO calls for all the participants to ensure that adequate time is provided, and
- provide for sufficient documentation to make certain that the results of the NATO calls process is adequately recorded.

We discussed our findings, conclusions, and recommendations with officials of the U.S. Mission to NATO, Support Group, USAREUR, and 21st Support Command. They agreed with the need for a well-defined operating procedure. Corrective action had already begun at the time of our review.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our review was made at your request. We reviewed allegations that (1) internal controls over funds appropriated for U.S. participation in NATO's infrastructure and international military programs were lacking and (2) the internal review program had been essentially destroyed by actions taken by Support Group management. Our objectives were to assess the validity of the allegations and to evaluate the current state of internal review activities at the Support Group. At the same time, we followed up on recommendations made in our 1979 review of the Support Group's activities to determine whether adequate corrective actions had been taken.

To determine the validity of the allegations, we examined the activities of the internal review program at the Support Group and evaluated its adequacy to perform its mission. We reconstructed the activities and staffing of the Internal Review Division from 1970 to September 1981. To follow up on our earlier report, we reviewed and evaluated the process used to meet NATO calls for payment to determine whether effective financial management procedures were being used and to identify

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whether the intent of the Treasury Department regulations was being met.

Work was performed in Europe from August through October 1981. We obtained data from and discussed Support Group activities with officials from U.S. Army Europe; 21st Support Command; U.S. Army Finance and Accounting Center, Europe; U.S. Mission to NATO; and the Regional Finance Center in Paris, France. We also visited the Support Group in Mons, Belgium, and reviewed records pertaining to the Group's financial management practices.

At your request, we did not obtain agency comments on this report. We are sending copies of the report to the Secretaries of Defense, Treasury, and Army, and to appropriate military commands in Europe, as well as other interested parties.

Sincerely yours,



Frank C. Conahan
Director