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

INTERNATIONAL DIVISION

APR 21 1971



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Dear Mr. Secretary:

Our follow-up review of the United States Disbursing Officers' foreign currency accounts in India and Pakistan has shown that some sales of United States-owned foreign currency continue to be improperly recorded in the accounts containing currencies eligible for conversion to dollars, and that these accounting errors could result in a loss of potential benefits to the United States amounting to \$4.3 million as of September 30, 1970.

The results of our initial review in India were brought to the attention of Secretary Kennedy in a letter dated October 3, 1969. In our follow-up review we found that the disbursing office in India had taken action to restore the erroneously recorded amounts to the proper accounts but continued to erroneously record additional sales of United States-owned foreign currency. Also, we found that no action was taken on our recommendation that the Treasury Department conduct 38 reviews in other excess currency countries to determine if sales were improperly recorded in these locations.

AGREEMENTS PERTAINING TO THE ACCUMULATION AND SALE OF UNITED STATES-OWNED FOREIGN CURRENCY

The United States has entered into agreements with foreign countries under the Agricultural Trade and Development Act of 1954 (7-U.S.C. 1701 et seq.) as amended which authorizes the sale of agricultural products for foreign currencies. Through these agreements, the United States has accumulated substantial amounts of foreign currency. Most of this currency is concentrated in a few countries (excess currency countries) where balances exceed all known United States needs for a period of several years.

Under the commodity sales agreements, specified amounts of currency accruing to the United States as a result of the agreements were available for the purposes stated, one purpose being for payment of United States obligations as authorized by Section 104(a) (7-U.S.C. 1704) of the Act.

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In accordance with the Act, disbursing officers were authorized to make sales of United States-owned foreign currency available under Section 104(a) to: (1) all civilian employees of the United States Government who are United States citizens, (2) all United States contractors and subcontractors who are engaged in activities financed by the United States Government, (3) all civilian employees of such contractors who are United States citizens, and (4) all United States voluntary non-profit agencies engaged in projects financed by the United States Government.

The Smathers Amendment enacted in 1964, now in Section 104(j), (7-U.S.C. 1704) provided the necessary authorization to enter into agreements with excess currency countries to make sales for dollars to United States citizens and non-profit organizations for travel or other purposes. Arrangements have been negotiated with eight excess currency countries (including India and Pakistan) to permit sales of United States-owned foreign currency for purposes authorized by Section 104(j).

Sales to United States citizens and non-profit organizations constitute a conversion of United States-owned foreign currency into dollars. Agreements allowing these sales placed specific limits on the amount of currency that could be used for this purpose. In order to maximize the amount of conversions of local currency, Congress in 1966 required that new sales agreements in excess currency countries assure convertibility of amounts of foreign currency equal to the normal expenditures of United States tourists in the importing country, but not to exceed 25 percent of the sales agreement (7-U.S.C. 1703(m)). The agreements with four excess currency countries, including India and Pakistan, provide for conversion of a specific amount whether or not sales are made to United States citizens and non-profit organizations for travel or other purposes.

Management attention is required to assure that the available quantities of Section 104(j) currencies are used only for authorized sales. Such assurances will serve to enhance the opportunity to sell as much of the United States-owned foreign currencies as possible, thereby improving the United States balance-of-payments position.

ACCOUNTING FOR SALES OF EXCESS  
FOREIGN CURRENCY IN INDIA AND PAKISTAN

In our follow-up review, we found that, because of an erroneous interpretation of Treasury Department policy, certain sales of United States-owned foreign currencies in India and Pakistan equivalent to \$4.3 million were improperly recorded as of September 30, 1970, as having been made from accounts containing currency eligible for conversion to dollars. These were sales to United States Government

employees, contractors and their employees, and voluntary agencies working on projects financed by the United States Government. Accordingly, these sales should have been recorded in other accounts containing funds not convertible to dollars. Unless corrected, these improper reductions of the recorded balances in the Section 104(j) accounts could result in a loss of potential benefits to the United States.

The amount of United States-owned foreign currency available for sale in India and Pakistan under Section 104(a) was equivalent to about \$735 million and \$160 million respectively as of June 30, 1970, whereas the amount recorded as available for sale under Section 104(j) was equivalent to only \$4.6 million and \$2.0 million respectively. Moreover, significant future increases in the Section 104(j) funds are not likely because the sale of agricultural commodities for foreign currency is scheduled to end as a result of a required transition to dollar sales by December 1971.

While the agreements do not specify the time period for the conversion of currencies available under 104(j), any unsold quantities are convertible to dollars by the Governments of India and Pakistan. The same is not true of currency available under Section 104(a). We noted that the equivalent of about \$480,000 worth of United States-owned Indian currency held under Section 104(j) was converted to dollars by the Government of India in August 1970.

The sale of United States-owned foreign currency accruing from the agricultural sales program is handled by United States Disbursing Officers under regulations issued by the Treasury Department. Accounts are maintained by the Disbursing Officers which reflect balances available for United States use under each of the various subsections of Section 104. Treasury Department Circular 830, issued in July 1966, designates several categories of persons and organizations eligible to purchase United States-owned foreign currency. The circular did not specify, however, the account from which the currency is to be drawn for sale to each of the various categories of eligible purchasers.

A Department of State instruction was issued in November 1968, with the approval of the Treasury Department, for the purpose of encouraging maximum use of excess foreign currencies and also designated persons and organizations eligible to purchase this currency but did not specify the account from which the currency was to be drawn for each purchaser. We were advised by a Treasury official that the intent of the instruction was to indicate that all sales of United States-owned foreign currency not specifically designated in the instruction as authorized under Section 104(j) should be made from the 104(a) account. This instruction therefore authorizes all United States voluntary non-profit agencies engaged in programs or projects sponsored or financed by the United States Government, including agencies involved in programs under Title II and III of Public Law 480, to purchase currency under Section 104(a).

We reported, in a letter to the Secretary of the Treasury dated October 3, 1969, that a review of the disbursing officers' foreign currency accounts in India had shown that sales of United States-owned foreign currency which should have been made from the Section 104(a) account were improperly recorded as having been made from balances available in the Section 104(j) account. We noted that this procedure, if not corrected, would result in the loss of potential benefits to the United States amounting to about \$447,000 but that the Embassy in India was taking steps to restore the currency to the proper account. We recommended that the Treasury Department conduct a review in all excess currency countries to determine if the same situation existed and, if so, appropriate corrective action be taken.

The subsequent review of the disbursing officers' foreign currency accounts in India and Pakistan showed that, as of September 30, 1970, sales equivalent to \$3.2 million in India and \$1.1 million in Pakistan had been improperly recorded as having been made from the Section 104(j) account. Although we noted that the amount of \$447,000 identified in the prior review in India had been restored to the appropriate account, we found no evidence that the Treasury Department had conducted a review in all excess currency countries to ascertain what corrective action was necessary as recommended in our prior letter.

We did note, however, that a message from the Treasury Department in December 1969 requested the Embassies in three excess currency countries, including India and Pakistan, to review the accounts and take necessary corrective action. A reply from the United States Embassy in Pakistan in January 1970 stated that the sales were being made from the correct accounts, but our follow-up review showed that sales were still being improperly recorded in the Section 104(j) account as of September 1970.

As stated previously, the disbursing office in India made appropriate adjustments for the sales identified in our initial review as having been improperly recorded in the Section 104(j) accounts. However, that office continued to erroneously record sales in the Section 104(j) account which should have been recorded in the Section 104(a) account.

We were advised by the United States Disbursing Officer that the policy followed in the sale of United States-owned foreign currency in India was to make sales to United States Government employees and their dependents from the Section 104(a) account and all other sales from the Section 104(j) account.

It should be noted that the disbursing officer's interpretation of the policy is somewhat different than the intent of the Department of State instruction explained to us by a Treasury official. The Treasury official advised us that the intent of the instruction was to

require that all sales of United States-owned foreign currency not specifically designated in the instruction as authorized under Section 104(j) should be made from the 104(a) account.

However, we found that the disbursing officer's interpretation of the policy was not always followed. For instance, sales made in India to United States Government employees and their dependents were recorded as having been made from the Section 104(j) account.

We also noted that the disbursing offices at the United States Embassy and consulates in India did not always follow the same procedure. The Embassy disbursing office used the Section 104(j) account to record sales to Peace Corps volunteers while the consulate disbursing offices properly recorded sales to volunteers in the 104(a) account. The Embassy disbursing office apparently used the Section 104(j) account because a Peace Corps official advised the disbursing office to classify the volunteers as tourists. Before completion of our review, the Treasury attaché in New Delhi advised the Embassy disbursing office that action should be taken to correct the errors in the accounts resulting from these erroneously recorded sales to Peace Corps volunteers.

Sales to United States Government employees, voluntary agencies distributing Title II commodities, and the University of Maryland Center for Medical Research financed by a United States Government agency were also improperly recorded as made from the Section 104(j) account in Pakistan.

### CONCLUSIONS

United States-owned foreign currency available in India and Pakistan for sale to Government employees, contractors and other eligible purchasers under Section 104(a) exceed known needs for a period of several years. The amount of currency specifically available for sale to United States citizens and non-profit organizations under Section 104(j) is much smaller and probably will cease to exist in the near future since sale of agricultural commodities for foreign currencies are scheduled to end with the required transition to dollar sales by December 1971.

We believe that the action of the Congress in amending Public Law 480 legislation to include provisions making additional amounts of foreign currency available for United States uses and requiring a portion of this currency to be convertible to dollars clearly reveals congressional intent to assure that maximum benefits accrue to the United States from these resources.

RECOMMENDATIONS

Accordingly, we recommend that the Secretary of the Treasury in  
2 conjunction with the Department of State: 32

- issue a clarification of the State Department instructions to Disbursing Officers in all excess foreign currency countries stating that sales of United States-owned foreign currency not explicitly identified as authorized under Section 104(j) be made from the 104(a) account.
- require Disbursing Officers in India and Pakistan to restore to the Section 104(j) accounts the foreign currency equivalent of \$4.3 million which we identified as sales which should have been recorded in the 104(a) accounts.
- undertake reviews of transactions recorded subsequent to September 30, 1970, in India and Pakistan and of all transactions in other excess currency countries where an agreement exists to make currency available for sale under Section 104(j) to determine whether sales that should have been made from the 104(a) accounts were improperly recorded in the 104(j) accounts. Where this situation exists, appropriate adjustments should be made to restore funds to the 104(j) account.

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Your attention is invited to Section 236 of the Legislative Reorganization Act of 1970 which requires that you submit written statements of the action taken with respect to the above recommen-  
c1/ dations. The statements are to be sent to the House and Senate <1560  
2/ Committees on Government Operations not later than 60 days after the date of this report, and to the Committees on Appropriations in <300 connection with the first request for appropriations submitted by your agency more than 60 days after the date of this report. We would appreciate receiving copies of all statements submitted.

In addition to those committees noted above, copies of this letter are being sent to the Director, Office of Management and Budget, the Secretary of State, and the Foreign Operations and Government Information  
05/ Subcommittee, House Committee on Government Operations. H 1/11

We are, of course, available to answer any questions or render any assistance that you may require concerning the matters discussed in this letter.

Sincerely yours,

  
Oye V. Stovall  
Director

The Honorable  
The Secretary of Treasury