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

INTERNATIONAL DIVISION

FEB 26 1971

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Dear Mr. Secretary:

The General Accounting Office recently completed a survey of disbursement procedures at the U.S. Treasury, Manila Regional Disbursing Office (RDO) related to payments made by "restricted" checks, i.e., a U.S. dollar denominated instrument cashable only in local currency (pesos). 0.1929

We estimate that a change in the form of payment from "restricted" dollar checks to straight peso checks would result in an annual savings to the U.S. Government of about \$660,000 and increased benefits to individual payees of about \$1.2 million. These benefits would accrue due to elimination of the profit earned by banking institutions which buy pesos at a more favorable rate than they give their customers when cashing "restricted" checks.

PRESENT DISBURSEMENT PROCEDURE

At the time of our review the Manila RDO was making monthly disbursements of about \$5 million in restricted U.S. dollar checks. These disbursements were generally repetitive monthly benefit payments to individuals. The U.S. Government has a dollar denominated commitment to recipients of restricted dollar checks; however, a U.S. dollar commitment in a foreign country may be paid in either U.S. dollars or in foreign currency.

The Manila RDO issues two types of dollar denominated checks cashable only in pesos. One type of restricted dollar check is drawn on a U.S. Treasury depository in Manila, and is used in discharging the U.S. commitment to a certain group of World War II Filipino veterans. This type of dollar denominated check, representing about \$2.5 million of the monthly restricted dollar payments, is inscribed as follows: "Pay only in pesos the equivalent of U.S. dollars shown." We were advised that in spite of the restricting inscription, a certain amount of these checks have been flowing into the Hong Kong money market, thus circumventing the Philippine Government foreign exchange regulations.

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Prior to March 1970, payees receiving this type of restricted dollar check were paid in the form of a peso check. In March 1970 the Manila RDO began issuing restricted dollar checks in place of peso checks in order to resolve certain bookkeeping problems encountered by the administrative agency. These problems resulted from rate fluctuations caused by the Philippine Government's February 1970 de facto devaluation of the peso. Based on the proposed procedure discussed below, we do not anticipate that these bookkeeping problems would recur by changing the form of payment from restricted dollar check to peso check.

The second type of restricted dollar denominated check issued by the Manila RDO is a regular U.S. Treasury check which is overprinted as follows: "This check payable only through Manila Office, First National City Bank. Payment will be made in accordance with Philippine foreign exchange regulations." U.S. Treasury checks, mailed from the United States and overprinted as above, are used to discharge U.S. Government obligations to residents living in the Philippines including veterans of the U.S. Armed Forces, and Social Security, Civil Service Commission, and U.S. Coast Guard beneficiaries. The overprinting of U.S. Treasury checks resulted from an April 1969 U.S.-Philippine Government agreement whereby the U.S. agreed to assist in the implementation of Philippine foreign exchange regulations in an attempt to preclude U.S. Treasury dollar checks from entering the black market.

Although there are two distinct types of restricted U.S. dollar checks issued by the Manila RDO, the procedures for issuing each type of check are basically identical. Under current procedure the administrative office submits a payment voucher to the disbursing office in the normal manner stated in U.S. dollars. Payment vouchers for checks drawn on the Manila depositary are annotated "payable only in peso as the equivalent of U.S. dollars shown." Payment vouchers for regular U.S. Treasury checks are not so annotated. However, all U.S. Treasury checks issued by the Manila RDO for delivery in the Philippines are overprinted unless documentation is provided entitling the payee to receive U.S. dollars. The accounting procedure and actual printing of checks for repetitive benefit payments is nearly identical, with only minor exceptions, regardless of the type of restricted dollar check involved.

We estimate that under the current procedure of issuing restricted dollar checks cashable only in pesos, Philippine banking institutions cashing these dollar checks for pesos will realize an annual profit of about \$1.9 million. This estimated profit is computed based on the difference between the peso exchange rate granted by banks when cashing dollar checks and the inter-bank rate—the rate banks receive in exchanges with each other. We noted that during the period October

through December 1970 the rate granted by banks when cashing restricted dollar checks fluctuated substantially between banks on a daily basis. Further, outside the Manila area where about 80 percent of the individual recipients live, the peso/dollar exchange rate is even less favorable than in the Manila area.

PROPOSED DISBURSEMENT PROCEDURE

We believe that a change in the form of payment from U.S. dollar checks payable only in pesos to peso denominated checks would result in an estimated annual benefit to individual recipients of about \$1.2 million, and an annual savings to the U.S. Government of about \$660,000. The potential benefits to be derived from issuing peso denominated checks in lieu of restricted dollar checks would be the same to the U.S. Government and the individual recipients regardless of whether the restricted checks were regular U.S. Treasury checks or drawn on a depository bank. Further, the issuing of peso denominated checks rather than restricted dollar checks would be consonant with the U.S.-Philippine Government agreement designed to curtail U.S. dollar black market activities.

The proposed method for discharging U.S. obligations currently being paid by restricted dollar check would basically involve the following procedures:

- Payment vouchers stated in U.S. dollars would be submitted to the disbursing office by the administrative office in the same manner as under the current procedures, thus precluding any change in the accounting system of the administrative office.
- The required amount of pesos would be purchased by the disbursing office at the inter-bank rate and deposited in a "Foreign Service Accountability" (FSA) account which represents a clearing account insofar as disbursement operations are concerned.
- An initial determination would be made by the administrative agency to ascertain those payees entitled to receive U.S. dollars and those payees not entitled to receive U.S. dollars in accordance with Philippine foreign exchange regulations.
- For those payees not entitled to receive U.S. dollar checks--those currently receiving restricted dollar checks--peso checks would be issued at a fixed "accommodation" exchange rate computed monthly or semi-monthly; the fixed "accommodation" rate to be established near the most advantageous prevailing over-the-counter rate for the period.

- The gains resulting from the difference between the pesos purchased at the prevailing inter-bank rate and disbursed at the prevailing "accommodation" over-the-counter rate would be deposited to Treasury account "Gains and Deficiencies on Exchange Transactions, Treasury (fiscal year)," account number 20-6763 for the current fiscal year, or returned to the appropriation account from which the gains were derived, as appropriate.

Under the above procedures we estimate that individual recipients of the peso checks would benefit by about \$1.2 million annually--the difference between the disbursing office "accommodation" exchange rate and the rate payees are able to command from local banks. The U.S. Government would benefit by about \$660,000 annually--the difference between the prevailing "accommodation" exchange rate and the inter-bank rate.

During our survey we evaluated the mechanical processing configuration utilized at the Manila Disbursing Office in issuing checks to determine whether our proposed procedure may be economically implemented within the existing processing configuration. We noted that a method was needed to convert numerous individual dollar amounts into peso equivalents at the prevailing "accommodation" rate, print the check in the peso amount, and at the same time retain the dollar amount on the master pay card. We understand that there is equipment on the market today, available at nominal cost, which could perform this function within the constraints of the present data processing configuration. Other portions of the data processing system would remain unchanged, including printed listings provided to the administrative offices for accounting purposes. Further, the implementation of the proposed procedure would eliminate the need to overprint U.S. Treasury checks.

We reviewed U.S. Treasury and State Department regulations governing foreign currency disbursements to determine whether any regulations exist which may preclude implementation of the proposed procedure. We found that foreign currency acquisitions and disbursements are to be made at the prevailing exchange rate. However, the prevailing exchange rate at which foreign currency is acquired--the inter-bank rate--is not necessarily the same prevailing exchange rate at which disbursements are made--the over-the-counter rate. We noted that at the present time certain transactions at the Manila RDO are conducted at differing prevailing exchange rates. Based on our review, we are not aware of any existing laws or regulations which would preclude implementation of the proposed procedures.

We discussed the proposed procedures with the Manila Regional Disbursing Officer pointing out the significant potential benefits to both the U.S. Government and individual recipients obtainable as a result of the suggested change. The disbursing officer generally agreed with the procedural feasibility of such a change. He stated that some problem may be encountered in reconciling the local currency account; however, this could most likely be resolved. The disbursing officer indicated that returning the gains derived to the agencies' appropriation account may be the more desirable alternative, since returning funds appropriated for an agency's activities to the Treasury by this method may be of questionable legality. However, the savings to the Government would be the same regardless of which of the two methods are used in accounting for the gains.

Treasury officials with whom we discussed this matter in Washington said that they could not comment on overall savings that might be realized by a change of procedures without a thorough study of benefits and costs.

CONCLUSIONS AND RECOMMENDATION

We believe that substantial benefits would be derived by both the U.S. Government and individual recipients if disbursements were made in the form of peso checks rather than restricted dollar checks. Further, the issuing of peso checks by the Manila RDO would preclude these funds from flowing into dollar black market activities in consonance with Philippine foreign exchange regulations and the U.S.-Philippine Government agreement.

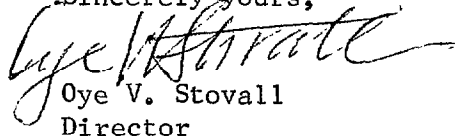
2 We recommend that the Secretary of the Treasury, in coordination³⁸
3 with the Secretary of State, the Administrator of the U.S. Veterans³²
4 Administration, and the heads of other cognizant administrative agencies,¹⁶
take steps to implement the proposed procedure to make disbursements by
peso check rather than restricted dollar check.

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1 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 Subcommittee, House Committee on Government¹⁵¹¹
Operations.

We shall appreciate receiving your comments relative to the foregoing, together with advice of any action taken or planned. We shall be happy to discuss these matters with you or members of your staff at your convenience.

Sincerely yours,


Oye V. Stovall
Director

The Honorable
The Secretary of Treasury