

DOCUMENT RESUME

G3737 - [B2834087]

Oversight of Exchange Stabilization Fund Operations and Senate Bill 2093 to Discontinue Use of the Fund to Pay Administrative Expenses. October 7, 1977. 5 pp. + 3 appendices (5 pp.).

Testimony by Elmer B. Staats, Comptroller General.

Issue Area: Accounting and Financial Reporting: Operations, Financial Position, and Changes (2802).

Contact: International Div.

Budget Function: International Affairs: International Financial Programs (155).

Organization Concerned: Department of the Treasury.

Congressional Relevance: Senate Committee on Banking, Housing and Urban Affairs: International Finance Subcommittee.

Authority: Gold Reserve Act of 1934, sec. 10(b) (P.L. 91-599; 31 U.S.C. 822a(b)). S. 2093 (95th Cong.).

GAO presently has no authority to audit the operations of the Exchange Stabilization Fund except for its administrative expenses. Current legislative constraints impair access to information needed to review international trade and monetary matters. An agreement has been reached with the Treasury Department that provides for GAO access to information related to their audits and reports on such matters as U.S. participation in the International Monetary Fund and debt policies toward developing countries. Information concerning highly sensitive monetary transactions affecting foreign exchange markets and other governments will not be made available to GAO. H.R. 9065 requires that salaries and other administrative expenses be paid from regular Treasury appropriations rather than from Exchange Stabilization Fund resources. The bill also provides for the Treasury Department to report to and consult with Congress concerning the Fund. S. 2093, which also makes administrative expenses of the Fund payable from regular Treasury appropriations, does not contain the oversight provisions of the House bill. These provisions ensure that all administration expenses of the Treasury Department will be handled in a consistent manner. (SW)

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

FOR RELEASE ON DELIVERY  
Expected at 9:00 a.m. EDT  
Friday, October 7, 1977

STATEMENT OF  
ELMER B. STAATS  
COMPTROLLER GENERAL OF THE UNITED STATES  
BEFORE THE  
SUBCOMMITTEE ON INTERNATIONAL FINANCE  
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS  
UNITED STATES SENATE  
ON  
OVERSIGHT OF EXCHANGE STABILIZATION FUND  
OPERATIONS AND ON SENATE BILL 2093 TO DISCONTINUE USE OF  
THE FUND TO PAY ADMINISTRATIVE EXPENSES

Mr. Chairman and Members of the Subcommittee:

We welcome your invitation to be here today to discuss GAO reviews concerning the use of Exchange Stabilization Fund resources.

As you know, GAO presently has no authority to audit the operations of the Exchange Stabilization Fund except for its administrative expenses. This authority was provided in Public Law 91-599, enacted December 30, 1970, which amended Section 10(b) of the Gold Reserve Act of 1934 [31 U.S.C. 822a(b)]. As you will note, under the language of the provision, the Secretary of the Treasury determines what records are available for our examination, and our audit, therefore, has to be qualified to reflect this limitation. A copy of the pertinent language of the 1970 statute is attached as Appendix A.

For the fiscal year ended June 30, 1975, the Fund had assets valued at \$4 billion, gross income of \$129 million, and net income of \$115 million. Our audit authority extended to \$14.4 million in administrative expenses. GAO is not able to audit the Fund's income, assets, liability or equity nor does it perform its normal audit of the economy, efficiency or effectiveness of its operations.

Based on the information available to us, we concluded that for the fiscal year 1975, administrative expenses were properly supported by documentation and accounted for and controlled in the Fund's records.

Internal audit responsibility for the Exchange Stabilization Fund has been placed in two groups in the Treasury Department--the audit staff and an audit committee appointed by the Secretary. The scope and extent of these audits are set forth in our report to the Congress, dated September 28, 1977. Our review of this work showed that the findings of the Office of Audit and the Audit Committee as they relate to administrative expenses seemed to be adequately supported.

During our audit of the Fund's administrative expenses, for fiscal year 1975, we discussed with Treasury officials our concern that present legislative constraints impair our access to information developed by or available to staff financed by the Fund which we need to review international trade and monetary matters. We believed some GAO reviews involving these matters would be greatly facilitated by a knowledge of and access to information available to Treasury. Such matters, covered in past or current reviews, include East-West trade, the Fifth International Tin Agreement, domestic policy issues stemming from U.S. direct investment

abroad, and U.S. private bank loans to less developed and East European countries. (Appendix B). Our right to access to information on these matters was unclear both to GAO and Treasury staff since such information was generated by staff paid from Fund resources.

We have now reached an agreement with the Treasury that provides for GAO access to information related to our audits and reports on such matters as U.S. participation in the International Monetary Fund, debt policies toward developing countries, and the interrelationships of monetary and trade policies. The Treasury Department has assured us of its willingness to provide the information we need in reviewing these matters, except for confidential and highly sensitive monetary transactions affecting foreign exchange markets and other governments. Thus, for example, information on Exchange Stabilization Fund transactions in Special Drawing Rights with the International Monetary Fund would be made available to us when useful to our reviews. The Department believes, however, that congressional oversight of sensitive Fund transactions with foreign governments and operations affecting foreign exchange markets is best served by its existing arrangements with appropriate congressional committees. Should there be any problems in carrying out the understanding we have reached, we will, of course, keep you advised. Copies of the exchange of letters with the Under Secretary of the Treasury are attached. (Appendix C).

Recognizing the desire of this Subcommittee and its parent Committee for effective oversight in this area, Treasury offered in a letter to Senator Proxmire and Senator Stevenson dated September 20, 1976, to provide various reports, briefings, and consultation concerning Fund operations.

House bill 9065 introduced in the House last month and endorsed by Under Secretary Solomon requires that salaries and other administrative expenses be paid from regular Treasury appropriations rather than from Exchange Stabilization Fund resources. It also provides for Treasury to report to and consult with the Senate Committee on Banking, Housing and Urban Affairs and this Subcommittee and corresponding House Committees concerning the Exchange Stabilization Fund. Specifically, Treasury would be required to (1) provide a monthly statement covering all agreements entered into and renewed and all transactions made and (2) consult in advance with the Chairmen of the two Committees and Subcommittees before entering into any international agreement for the account of the Fund.

These arrangements set forth in House bill 9065, particularly the advance consultation on international agreements, are certainly valuable aids to congressional oversight. In some respects, however, they are not as comprehensive as those which Treasury offered to institute in the September 20th letter. For example, in the letter Treasury offered to transmit to the Committees reports on particular problem areas as necessary; to brief any interested Members of your Committee regarding extensions of credit from the Fund; to consult with interested members on a regular (quarterly) basis to discuss developments, with more frequent discussions as necessary on extraordinary developments or problem areas; and to maintain continuing contact between Treasury staff and Committee staff concerning activities of the Exchange Stabilization Fund.

Senate bill 2093, which also makes administrative expenses of the Fund payable from regular Treasury appropriations, does not contain the oversight provisions of House bill 9065. Whichever version of this

legislation may be adopted, it is important in our view that the Committees receive the benefit of the reporting and consulting provided for in the House bill and the reporting, briefing, and consulting offered in Treasury's letter of September 20th. This could be accomplished either by legislation or by a reaffirmation of the September 20 letter which would include the additional provisions from House bill 9065.

We concur with Treasury's decision to seek legislation to pay salaries and other administrative expenses from appropriations instead of from Fund resources since all administrative expenses of the Treasury Department will be handled in a consistent manner. In this way the Congress will be better able to evaluate competing budgetary programs and to establish overall priorities for allocating resources. Also, our audit of these expenses would not be subject to the question as to whether full documentation was available to us.

That completes my statement. I would be pleased to answer any questions you might have.

AUTHORITY TO AUDIT ESF

GAO had no authority to audit any part of ESF until Public Law 91-599 amended section 10(b) of the Gold Reserve Act of 1934 (31 U.S.C. 822a(b)), to provide that:

"\* \* \* the administrative expenses of the fund shall be audited by the General Accounting Office at such times and in such manner as the Comptroller General of the United States may by regulation prescribe for the purpose of ascertaining that administrative funds are properly accounted for and that fully adequate accounting procedures and systems for control of such funds have been established. Except for information determined by the Secretary to be of an internationally significant nature, there shall be furnished to the Comptroller General such information on the administrative expenses of the fund as is necessary to conduct the audit, and the Comptroller General or any of his representatives shall, for the purpose of securing this information, have access to all books, accounts, records, reports, files, and all other papers, things, or property belonging to or in use by the United States Government (other than records, reports, files, or other papers or things containing or revealing information determined by the Secretary of the Treasury to be of an internationally significant nature)."

LISTING OF SELECTED  
REVIEWS CONCERNED WITH  
INTERNATIONAL TRADE AND MONETARY MATTERS

Issued reports

- The Government's Role in East-West Trade--Problems and Issues  
(issued 2/4/76).
- The Fifth International Tin Agreement--Issues And Possible  
Implications (issued 8/30/76).
- Considerations On Increased Quotas For The International  
Monetary Fund (issued 7/15/75).

On-going reviews

- Controlling Foreign Investment In National Interest Sectors  
Of The U.S. Economy.
- Review Of Domestic Policy Issues Stemming From U.S. Direct  
Investment Abroad.
- Review of Coffee Exporting And Importing And The U.S. Government's  
Role.
- Review Of U.S. Private Bank Lending To Less Developed Countries  
And Eastern European Countries.
- Survey Of (U.S.) State Incentives To Foreign Investors.





THE UNDER SECRETARY OF THE TREASURY  
FOR MONETARY AFFAIRS  
WASHINGTON, D.C. 20220

AUG 18 1977

Dear Mr. Staats:

I was pleased to meet with you and your staff recently to discuss informally some of your questions and concerns regarding GAO access to information on the Exchange Stabilization Fund. I believe it would be useful to set out the arrangements which we have agreed to whereby GAO would be provided access to information or documents related to certain monetary and financial operations of the Exchange Stabilization Fund.

The resources of the Exchange Stabilization Fund are used for monetary and financial transactions. At the present time, the ESF also is used to meet administrative expenses associated with the ESF's purpose. Any funds not currently in use or committed are invested in USG securities. The Secretary of the Treasury is also responsible for administering, as a part of the Exchange Stabilization Fund, the Special Drawing Rights obtained by the U.S. through its participation in the IMF.

While the GAO does not possess legal authority to audit or otherwise review decisions of the Secretary of the Treasury with respect to ESF operations, the GAO serves a very important function in reviewing and auditing government activities in various other international areas. I can assure you that Treasury will cooperate fully in providing the GAO, upon request, with appropriate information necessary to its authorized audits and reports, for example, information on such international monetary matters as U.S. participation in the IMF, debt policies toward developing countries and the interrelationships of monetary and trade policies. In this regard, Treasury also will provide information pertaining to the ESF relating to such GAO reports and studies where the information does not involve ESF transactions with foreign governments and monetary authorities or information related to ESF's market transactions. Thus, for example, information related to ESF transactions in Special Drawing Rights with the IMF would be made available to the GAO where such information may be useful to an authorized GAO study.

The ESF deals in extremely confidential and highly sensitive monetary transactions with foreign governments. I am pleased that you agree that GAO sees no need to audit or review documents or information concerning such transactions and is not seeking such access. It would unnecessarily impair the Secretary of the Treasury's effective utilization of the ESF if the GAO were to audit or review documents or information pertaining to ESF transactions with foreign governments and monetary authorities or ESF transactions affecting markets. It is important not only that such transactions and the arrangements underlying them remain confidential, but also that nothing would be done which would in any way impair the confidence of foreign governments or be disturbing to markets. Thus, I believe that Congressional oversight in this sensitive area is best served by existing arrangements. Treasury has worked out with the appropriate Congressional committees.

I look forward to the continuation of a close and productive working relationship between our two agencies.

Sincerely,



Anthony M. Solomon

The Honorable  
Elmer B. Staats  
Comptroller General of  
the United States  
Washington, D.C. 20548



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

August 25, 1977

The Honorable Anthony M. Solomon  
The Under Secretary of the Treasury  
for Monetary Affairs

Dear Tony:

Thanks ever so much for your letter of August 18. It accurately expresses the understanding we reached. I appreciated personally very much your cooperation in helping us to resolve a long-standing problem. We look forward to working with you and your associates in the Treasury Department on these matters. Should any special problems arise, I hope that you will feel free to give me a call.

Sincerely,

(Signed) Elmer

Elmer B. Staats

cc: The Hon. William Proxmire  
The Hon. Henry S. Reuss  
Mr. Fasick