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Survey Of The
International Activities
Of The
Department Of The Treasury

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*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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MAY 22, 1973



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

B-154506

The Honorable
The Secretary of the Treasury

Dear Mr. Secretary:

This is our report on a survey of the international activities of the Department of the Treasury. We undertook the survey to provide us and the cognizant committees of the Congress with better information and understanding of the various international activities. GAO has not previously reported on this subject. 38

The survey, made under our general audit authority, was also designed to include exploration into the nature of the Exchange Stabilization Fund and its relationship to Treasury's other international activities to assist us in our initial audit of the administrative expenses of the Fund for fiscal year 1972 pursuant to Public Law 91-599, approved December 30, 1970.

There may be gaps in the information we were able to obtain, caused by Treasury officials' reluctance and refusals to provide information to us on international activities, purportedly because of the extent to which these activities are financed through the Fund.

Because of the extent to which Treasury's international activities have been placed under the restrictions of the Fund, we found it impossible to sort them out with any degree of assurance. It would appear that some of these are only remotely related to the purposes for which the Fund was established.

Because of such intermingling and because the Fund is under your exclusive and direct control, we are referring this report to you in the belief that there are significant matters here that deserve your personal attention.

From the information we were able to obtain, we are convinced that there is a need for the Secretary to evaluate the extent to which activities that are unrelated or only remotely related to the Fund have been financed from that Fund.

Treasury officials initially resisted our efforts to begin the audit of the Fund's administrative expenses for fiscal year 1972. However, we have now been assured of Treasury's cooperation and have started the audit.

We are encouraged by recent Treasury actions to cooperate with us in our review and want to assure you of our intent to carry out our responsibilities in a manner directed to constructive evaluation of Treasury international activities.

In our survey we observed that the international activities of the Treasury have not heretofore been subject to internal audit and review in accordance with the standards prescribed by Treasury policy. Instead, they have received very limited audit under special arrangements.

We believe that the Secretary has not been well served by the audit arrangements relating to international activities within the Department and that action should be taken to strengthen them.

Accordingly, we are recommending that you:

1. Have an independent assessment made of the various activities and expenses that are being financed through the Exchange Stabilization Fund to delineate and separate any that are not a part of the Exchange Stabilization Fund activities within the legislative intent of section 10 of the Gold Reserve Act of 1934, which established the Fund for stabilizing the exchange value of the dollar.
2. Have a reassessment and evaluation made of Treasury's internal audit and review functions in relation to its international activities with the objective of having

substantive audits of those activities conducted in a meaningful manner consistent with Treasury's stated internal audit policy.

We bring these matters specifically to your attention because of your unique responsibility for administering the Fund and because in the past it has not been independently reviewed. We understand that recent actions have been initiated to reevaluate the prior practices. We think these steps are appropriate at this time also to fit in with the initiation of your annual reports to the Congress on the operations of the Fund.

In accordance with our usual practice, copies of this report are being sent to the congressional committees having responsibilities relating to the subject matter.

Sincerely yours,



Comptroller General
of the United States

Enclosure

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ABBREVIATIONS

AID	Agency for International Development
ESF	Exchange Stabilization Fund
GAO	General Accounting Office
IMF	International Monetary Fund
IRS	Internal Revenue Service
NAC	National Advisory Council on International Monetary and Financial Policies
OASIA	Office of the Assistant Secretary for International Affairs
OECD	Organization for Economic Cooperation and Development
OFAC	Office of Foreign Assets Control

CHAPTER 1

INTRODUCTION

The Department of the Treasury's operations fall into five broad categories: financial operations, Federal debt management, law enforcement and operations, taxation developments, and international financial affairs. The range and depth of U.S. involvement in international financial activities, under the general leadership of the Secretary of the Treasury, have taken on added importance and dimensions in recent years.

We performed this survey, under the general audit authority of the Comptroller General (the Budget and Accounting Act, 1921, and the Accounting and Auditing Act of 1950), to provide GAO and the cognizant congressional committees with better information on the Treasury's various international activities. GAO has not previously reported on this subject.

Section 10(b) of the Gold Reserve Act of 1934, as amended December 30, 1970 (31 U.S.C. 822a(b)), provides that GAO shall audit the administrative expenses of the Exchange Stabilization Fund (ESF), which heretofore has not been subject to any GAO audit. Treasury officials initially resisted GAO efforts to audit the administrative expenses of ESF, but recently they have indicated a willingness to cooperate.

Our survey was designed to explore the nature of ESF and its relationship to other Treasury international activities and to assist us in our initial audit of the administrative expenses of ESF for fiscal year 1972. Our survey was conducted during fiscal years 1972 and 1973; personnel data is based on information as of June 30, 1972.

We performed our survey at the Department of the Treasury in Washington, D.C. Most of our work was centered in the Office of the Assistant Secretary for International Affairs (OASIA), which is the central office responsible for formulating and carrying out executive branch international financial policies. OASIA is financed from ESF and is, for the most part, operated outside the Department's congressional budget limitations. A chart of the OASIA organization is included in appendix I.

CHAPTER 2
ORGANIZATION AND FINANCING OF
TREASURY'S INTERNATIONAL ACTIVITIES

The Treasury's international activities include (1) formulating executive branch international financial policies and managing the related programs, (2) stabilizing the exchange value of the dollar, (3) coordinating U.S. foreign monetary transactions, and (4) providing customs, internal revenue, secret service, disbursing and accounting, or other services overseas.

To carry out this wide range of activities, Treasury employed about 620 personnel as of June 30, 1972. About 370 of these positions are financed from ESF and about 250 are financed from appropriated funds, as shown in the following table.

Financing of the
Treasury's International Activities Positions
at June 30, 1972

ESF:

OASIA	237
Office of Foreign Assets Control (OFAC)	14
Office of General Counsel	32
Office of Assistant Secretary for Administration	23
Office of the Secretary of the Treasury (others)	<u>62</u>
	<u>368</u>

APPROPRIATED FUNDS:

Bureau of Customs	139
Internal Revenue Service	86
Secret Service	4
Bureau of Accounts	<u>23</u>
	<u>252</u>
Total	<u>620</u>

BUREAU OF THE COMPTROLLER OF THE CURRENCY

OASIA, which is the largest organizational unit involved in Treasury's international activities, advises and assists the Secretary and Under Secretary for Monetary Affairs in formulating and executing international financial, economic, and monetary policies and programs.

Supporting staff offices perform these functions and conduct financial diplomacy with industrial and developing nations and regions; improve the structure and stabilize operations of the international monetary system; monitor developments in international gold and foreign exchange operations; coordinate policies and programs of bilateral and multilateral development lending programs and institutions; help develop bilateral trade and industry development; coordinate Treasury's participation in trade policy, foreign direct investment, and portfolio investment; research international monetary, economic, and financial issues; and gather and analyze balance-of-payments data. (See ch. 4 and app. I for a more detailed presentation of OASIA's organization and the functions of its various offices. Other organization units and elements financed under ESF are also described in ch. 4.)

Those Treasury organizations identified with international functions which are financed from appropriated funds have staffs in Washington engaged in international activities and also maintain some staffs in foreign countries. As of June 30, 1972, the Bureau of Customs, the Internal Revenue Service, the Secret Service, and the Bureau of Accounts employed 252 personnel at headquarters and foreign locations. (See app. III for further background and discussion of their activities and staffing.)

CHAPTER 3

THE EXCHANGE STABILIZATION FUND

Section 10 of the Gold Reserve Act of January 30, 1934 (31 U.S.C. 822a), established a stabilization fund in the Department of the Treasury to be operated under the exclusive control of the Secretary of the Treasury, with the approval of the President, to stabilize the exchange value of the dollar.

To enable the Secretary to carry out section 10, the Congress appropriated \$2 billion out of the funds which became available when the United States raised the price of gold from \$20.67 to \$35 per ounce. ESF began temporary operations in April 1934 and a Presidential proclamation and amendments to the act temporarily extended ESF. Section 7 of the Bretton Woods Agreements Act, July 31, 1945 (59 Stat. 514), authorized ESF's permanent operation and transferred \$1.8 billion from ESF to meet a part of the U.S. Government's quota in the International Monetary Fund (IMF). Until then, the use of ESF capital for stabilizing the dollar had been minimal.

The Secretary of the Treasury annually submits ESF financial statements to the Congress. An amendment to the Gold Reserve Act of 1934 (Public Law 91-599 of December 30, 1970) provides that "the Secretary of the Treasury shall annually report on the operations of the fund to the President and to the Congress." We understand that Treasury is preparing the initial report under that act.

Estimates of ESF expenses for each fiscal year are contained in the annexed budgets to the Presidential budget submitted to the Congress. (See app. V for the material presented in the 1974 budget.)

The Gold Reserve Act of 1934 provides that all earnings from ESF operations become part of ESF. These earnings can be spent in the same manner as appropriated funds. ESF's retained earnings and gross assets have increased over the past decade.

--Retained earnings increased from \$142 million in 1962 to \$358 million in 1972.

--Gross assets increased from \$343 million in 1962 to \$5.3 billion in 1972.

As of June 30, 1971,¹ ESF's accumulated adjusted gross income since 1934 totaled \$511.5 million, from the following sources:

	Amount <u>(millions)</u>
Interest earned on investments in U.S.	
Government securities	\$198.4
Profit on foreign exchange transactions	197.1
Profit on gold transactions	96.6
Interest earned on investments in foreign securities	12.0
Profit on silver transactions	3.6
Profit on investment in U.S.	
Government securities	1.4
Miscellaneous	<u>2.4</u>
 Total	 <u>\$511.5</u>

ESF administrative expenses increased from \$2.6 million in fiscal year 1962 to \$9.6 million in fiscal year 1972.

The fiscal year 1973 expenses, as estimated by the Secretary of the Treasury and as shown as an annex to the Budget of the United States for 1974 as auxiliary information, authorized 387 positions. Appendix V shows the following amounts for "operating costs funded":

1972 actual	\$ 9,618,000
1973 estimate	10,015,000
1974 estimate	10,690,000

An earlier budget estimate for fiscal year 1972 totaled \$9,284,000, with estimated costs for the following organizational units:

¹This was the most current data available to GAO.

OASIA	\$ 6,604,000
OFAC	466,000
Office of the Secretary	1,492,000
Office of General Counsel	502,000
Office of Administrative Services	<u>220,000</u>
Total	<u>\$9,284,000</u>

At the time of our survey we did not yet have a breakdown of the actual operating costs which totaled \$9,618,000.

CHAPTER 4

TREASURY FUNCTIONS AND ACTIVITIES

FINANCED UNDER THE EXCHANGE STABILIZATION FUND

To the extent that we could obtain information, this chapter summarizes the functions and activities that are being financed, either wholly or partially, from ESF.

During fiscal year 1972, the following offices within the Office of the Secretary of the Treasury had ESF-financed positions.

<u>Office</u>	<u>Positions financed from ESF</u>
Assistant Secretary for International Affairs	237
Special Assistant to the Secretary (National Security Affairs), Office of Foreign Assets Control	14
Office of the General Counsel	32
Assistant Secretary for Administration	23
Office of the Secretary of the Treasury (others)	
Assistant Secretary for Tax Policy	26
Assistant Secretary for Economic Policy	17
Fiscal Assistant Secretary	4
Special Assistant to the Secretary (National Security Affairs), others	12
Congressional Relations	1
Assistant Secretary for Enforcement, Tariff and Trade Affairs, and Operations	2
Total	<u>368</u>

ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS

OASIA advises and assists the Secretary of the Treasury and other senior departmental officials in formulating and executing policies and programs relating to Treasury's responsibilities in the international economic, financial, and monetary fields. Thus it performs policy and program

operation functions. These responsibilities, according to OASIA, include:

- The major responsibility for general formulation of executive branch international financial policies.
- Special statutory responsibilities under the Gold Reserve Act of 1934 for stabilizing the exchange value of the dollar.
- Specific responsibility, as Chairman of the National Advisory Council on International Monetary and Financial Policies, for coordinating all foreign loans, financial, exchange, and monetary transactions engaged in by agencies or officers of the U.S. Government.
- Responsibility with respect to international financial organizations for representing the United States as U.S. Governor and instructing the U.S. Directors of the International Monetary Fund and the several multi-lateral lending institutions of which the United States is a member.

A summary of the OASIA staffing follows.

	<u>Fiscal year 1972 authorization</u>	<u>Actual . June 1972</u>
Assistant Secretary	172	157
Office of Administration and Management, OASIA	35	32
Overseas posts	36	36
Other OASIA activities	<u>16</u>	<u>12</u>
Total	<u>259</u>	<u>237</u>

See appendix I for a more detailed presentation of the organizational structure and functions of OASIA and its supporting staff offices, along with a chart of its organization.

The Office of Administration and Management supports OASIA's various programs. It prepares budgets and maintains accounting records, acquires and maintains supplies and equipment, safeguards documents, and disseminates cables. It also

employs a secretariat to type reports, pouch speeches, and handle mail. As of June 30, 1972, there were 32 persons assigned to this Office. The Director of the Office of Administration and Management informed us that, among other duties, he and his deputy verify and approve ESF expenditures.

There were 12 other persons assigned to OASIA as of June 30, 1972. Three professionals and three administrative personnel were assigned to the Department's Office of Management and Personnel and four professionals and two administrative personnel were listed as being on special assignments.

As of June 30, 1972, OASIA also maintained financial attaches and supporting personnel in nine foreign countries. Two other people were in Manila, the Philippines, on detail to the Asian Development Bank. An attache's specific functions and responsibilities vary according to the country he is in. (See app. II for further background on the financial attaches.)

SPECIAL ASSISTANT TO THE SECRETARY
(NATIONAL SECURITY AFFAIRS),
OFFICE OF FOREIGN ASSETS CONTROL

OFAC administers regulations designed to prevent authorities of certain countries from utilizing their dollar assets in the United States and from acquiring foreign exchange through transactions with Americans. As of June 30, 1972, OFAC had 14 positions financed from ESF. (See app. IV for further background of OFAC's activities.)

GENERAL COUNSEL

This Office advises the Secretary on his legal responsibilities as chief financial officer of the Government and as overseer of Treasury's functions. The General Counsel is Treasury's equal employment opportunity officer and supervises the Office of the Director of Practice, which administers regulations governing the practice of representatives before the Internal Revenue Service, and the establishment and conduct of disciplinary proceedings relating to such representatives.

The General Counsel advises the Secretary and other Treasury officials, including the Under Secretary for Monetary Affairs and the Assistant Secretaries for International

Affairs and for Enforcement, Tariff and Trade Affairs, and Operations, on all legal issues in the international economic and financial fields. The Office also advises OFAC and the Office of Domestic Gold and Silver Operations in the administration of their regulations. In addition, the General Counsel prepares and analyzes legislation on international trade and finance and other international matters before the Treasury. A number of organizational units or personnel within the General Counsel are specifically assigned to activities falling within the purview of the Assistant Secretaries or offices mentioned above; e.g., an Assistant General Counsel for International Affairs and staff are assigned to work directly with OASIA.

ESF financed 32 of the 116 positions in the Office of General Counsel during fiscal year 1972.

ASSISTANT SECRETARY FOR ADMINISTRATION

The Assistant Secretary for Administration directs all Treasury's general administrative functions. The Offices of Management and Organization, Budget and Finance, Audit, Personnel, Administrative Programs, and Central Services assist him.

ESF financed 23 of the 398 positions in the Office of the Assistant Secretary for Administration during fiscal year 1972.

ESF-financed positions in 1972 included a cook currently paid from appropriated funds and an assistant cook for the Secretary's dining room, as well as messengers, chauffeurs, and food service workers for the Office of the Secretary.

OFFICE OF THE SECRETARY OF THE TREASURY (OTHERS)

A number of other positions within the Office of the Secretary have been financed from ESF.

Assistant Secretary for Tax Policy

The Office of the Assistant Secretary for Tax Policy assists the Secretary and Deputy Secretary in formulating and executing domestic and international tax policies and programs.

Supporting staff offices analyze proposed tax legislation and tax programs, project economic trends affecting tax bases, study the effects of alternative tax measures, prepare official estimates of Government receipts for the President's annual budget messages, analyze the legal implications of domestic and international tax matters, and assist in developing and reviewing tax legislation and domestic and international tax regulations and rulings.

ESF paid for 26 of the 107 positions in the Office of the Assistant Secretary for Tax Policy; 13 positions were assigned to the Office of International Tax Counsel and 13 were assigned to the Office of Tax Analysis.

Assistant Secretary for Economic Policy

The Office of the Assistant Secretary for Economic Policy advises and assists the Secretary and the Under Secretary for Monetary Affairs in formulating and executing economic policies and programs.

The supporting staff offices provide analysis of the assistance on economic problems, including production, price, and market trends; administer the Gold and Silver Regulations; issue Treasury licenses for acquisition, possession, ownership, and use of gold for industrial, professional, and artistic purposes; assist in formulating policy regarding domestic control; and advise on matters concerning the effect of domestic and foreign economic and policy developments on these monetary metals.

ESF paid for 17 positions in the Office of Domestic Gold and Silver Operations. Appropriated funds paid for the remaining 51 positions in the Office of the Assistant Secretary for Economic Policy.

Fiscal Assistant Secretary

The Office of Fiscal Assistant Secretary acts as liaison between the Secretary and other Government agencies with respect to their financial operations, directs the fiscal agency functions of the Federal Reserve Banks, supervises the operations of the Bureaus of Accounts and Public Debt and the Office of the Treasurer, manages the cash position of the Treasury, administers U.S. depository operations, and handles Government investments.

The Office is responsible for various international activities. It analyzes the effect of international transactions on the Treasury cash position. It supervises the acquisition of foreign currencies to meet U.S. expenditure needs, the management of all foreign currencies held by the U.S., and the use of depositories and military banking facilities abroad. It performs or participates in accounting for foreign currency operations and for the U.S. investment in international financial institutions, reporting foreign credits and other financial data, making overseas disbursements, issuing and servicing special Treasury securities related to international capital movements and currency

stabilization objectives, and establishing ESF accounting and financial practices. ESF financed 4 of the 23 positions in the Office of Fiscal Assistant Secretary which are involved in these international activities.

Other

ESF financed 15 positions in 3 other offices within the Office of the Secretary. The Office of the Special Assistant to the Secretary (National Security Affairs) has all of its 12 positions (exclusive of those in the Office of Foreign Assets Control previously discussed) financed from ESF. The Office of the Assistant Secretary for Enforcement, Tariff and Trade Affairs, and Operations had two ESF-financed positions and the Office of the Special Assistant to the Secretary (Congressional Relations) had one ESF-financed position.

We noted that ESF has on occasion financed activities or projects not entirely controlled by Treasury. For example, ESF:

- Provided \$1 million to the Department of Commerce for administrative expenses of the Office of Foreign Direct Investment in fiscal year 1968.
- Provided \$750,000 to fund a study by the President's Commission on International Trade and Investment Policy in fiscal years 1970 and 1971.
- Advanced \$1 million to fund the President's Cost of Living Council, established on August 15, 1971, and \$2.5 million for interim funding of Phase II of the President's Economic Stabilization Program.

We understand that about 45 of the approximately 370 positions financed by ESF in fiscal year 1972 were being paid at salary levels comparable to GS-16 through GS-18, over and above the Civil Service Commission's allocation of super-grade positions to Treasury.

OBSERVATIONS

ESF finances most of the international activities and functions performed at the department level, while

appropriated funds finance those at bureau levels. Because of the extent to which Treasury's international activities have been placed under the restrictions of ESF, we found it impossible to sort them out with any degree of assurance. It would appear that some of those being financed by ESF are only remotely related to the purpose for which ESF was established, i.e., to stabilize the exchange value of the dollar.

This is not to say that Treasury's international functions and activities are unnecessary or should not be performed. The problem of maintaining worldwide confidence in the dollar and the attention paid to the international balance-of-payment situation have grown continually in importance. These are matters of national policy and of presidential, congressional, public, and foreign interest.

RECOMMENDATION

We recommend that the Secretary of the Treasury have an independent assessment made of all ESF activities and expenses to delineate and separate any that are not a part of the ESF activities within the legislative intent of section 10 of the Gold Reserve Act of 1934, which established ESF for stabilizing the exchange value of the dollar.

AGENCY COMMENTS AND GAO EVALUATION

Treasury informed us that it recently evaluated the administrative expenses financed through ESF as the Secretary requested shortly after he took office. Treasury did not state the results of the evaluation. We requested a copy of the evaluation report but were told that it was not available for GAO at that time but that it would be made available when we perform our audit of ESF's administrative expenses.

Without having access to the evaluation report, we do not know whether the evaluation covered only the administrative expenses financed through ESF or the broader proposition of the recommendation contained in our report:

CHAPTER 5

AUDITS AND REVIEWS

The operations of OASIA and other ESF-financed activities have not heretofore been audited under Treasury's established internal audit and review system. Instead, they have received very limited audit under special arrangements.

INTERNAL AUDIT AND REVIEW

Administrative Circular 224, dated October 20, 1971, places the overall responsibility for directing the internal audit effort in the Office of the Secretary under the Director, Office of Audit, who is responsible to the Assistant Secretary for Administration. This circular superseded previous Treasury circulars and orders and reconfirmed the importance of independent internal audit within Treasury. Decentralized audit staffs within each Treasury bureau provide the actual audit services at the operating levels. These staffs are organizational elements of the bureaus in which they are located. Administrative Circular 224 states:

"In the interest of broadening the internal audit viewpoint to include searching and penetrating examinations of operations and of maximizing independence and objectivity, bureaus are encouraged to establish their internal audit functions under the bureau head or his deputy. As a minimum, the position of head internal auditor should not be placed under an official whose responsibilities for financial or operational matters subject to audit adversely reflect on the auditor's independence in fact or in appearance."

We found no evidence of performance of any independent searching and penetrating examinations of Treasury's international activities--specifically OASIA. We asked the Director, Office of Audit, whether his staff had performed any audits or reviews of OASIA consistent with his responsibility for performing internal audits of Office of the Secretary activities. We were told that no such audits had been performed but that plans were being formulated for reviewing OASIA.

We were told that two auditors in OASIA's Office of Administration and Management performed day-to-day reviews of various elements of OASIA's operations and reported the results of their reviews directly to the Director, Office of Administration and Management. We were further told that no written reports relating to these reviews were available. We made numerous requests to speak with these internal auditors to ascertain the nature and scope of their responsibilities and work, but Treasury officials blocked our efforts.

The Inspector General for International Finance, in response to our query, advised us that he usually did not prepare written reports on any examination he might have made. We could not obtain information as to what, if any, specific examinations he had made.

TREASURY AUDITS OF ESF

The Secretary of the Treasury has the legislated responsibility for effectively using ESF resources. Implicit in this responsibility is the economical use of resources, consistent with the requirements of applicable laws and regulations.

Treasury maintains that the Secretary personally exercises control over ESF, requires an annual budget, has established appropriate internal controls over allocating and spending funds, and annually appoints a committee to audit ESF.

Section 10(a) of the Gold Reserve Act of 1934 initially stated that "an annual audit of such fund [ESF] shall be made and a report thereof submitted to the President." This was amended on July 6, 1939, to provide that the report would also be submitted to the Congress. Subsequently, the last sentence of section 10(a) of the act was amended on December 30, 1970, to require that the Secretary annually report on ESF operations to the President and to the Congress.

Under verbal instructions from the Fiscal Assistant Secretary of the Treasury, the Bureau of Accounts has been responsible for selecting qualified auditors from various Treasury bureaus to annually audit ESF. The Bureau of Accounts also assembles the annual report and sends copies to the President and the Congress.

The primary intent of the Audit Committee's work has been to conduct such tests of the accounting records and other procedures as considered necessary to enable it to express an opinion as to the financial position at the end of the fiscal year and the results of the operations for the year ended. However, it appears to us that this has not been done and that the Audit Committee's annual report simply reflects the accounting records' credibility.

The Secretary has consistently instructed the Audit Committee to limit its audit of the propriety of ESF expenditures to a determination that the Secretary of the Treasury or persons acting pursuant to his authority have authorized or approved them. The Audit Committee, therefore, has consistently qualified the scope of its audit in its report to the Secretary as follows:

"In accordance with your request, our audit of the propriety of expenditures was limited to a determination that they had been authorized or approved by the Secretary of the Treasury, or persons acting pursuant to his authority. Subject to this limitation, our examination was made in accordance with generally accepted auditing standards * * *." (Underscoring supplied.)

We obtained copies of the audit reports for fiscal years 1960 through 1971 (the latest available at the time of our survey), and for the most part, the format of the reports has remained unchanged. The reports consist of ESF balance sheets and related statements of income and expense, with supporting schedules. Thus, Treasury's report on the audit has essentially been limited to checking that the items of expenditures bore the approval of the Secretary or his designee.

GAO AUDITS AND REVIEWS

GAO did not have authority to audit any part of ESF until the Gold Reserve Act of 1934 was amended by Public Law 91-599, December 30, 1970, to provide for a limited GAO audit of the administrative expenses of ESF. In April 1972, we began discussing our plans for undertaking the audit of fiscal year 1972 administrative expenditures with representatives of the Department of the Treasury in order to proceed with our audit

as soon as possible after the close of the fiscal year. Treasury officials resisted our efforts to do any actual auditing of the administrative expenses for fiscal year 1972 until March 5, 1973. Shortly afterwards it was agreed to start the audit on March 19, 1973. Previously, Treasury officials held that they should determine the scope of GAO's audit of the administrative expenses and the manner in which the Comptroller General should report on the results of his audit and that until GAO agreed to those terms Treasury would not make the administrative expense records available. However, in March 1973 Treasury assured us that it would cooperate in the audit which is now in process.

OBSERVATIONS

Treasury has seemingly interpreted the Secretary's authority under the Gold Reserve Act of 1934 as including the prerogative of authorizing any expenditure from ESF and, by such action, removing it from normal budgetary processes or review by congressional committees or GAO, if Treasury considers such expenditures to be related to and necessary for carrying out the purpose of the act. It appears that using that rationale, Treasury has financed from ESF international activities or transactions unrelated or only remotely related to stabilizing the exchange value of our dollar. Thus, these activities have been shielded from any external oversight and review so long as ESF finances them and keeps them under its protective blanket.

Not only have such other activities financed by ESF been shielded from external oversight, but it appears that they also have been excluded from Treasury's established internal audit and review system.

Treasury's unwillingness to honor our requests to meet with OASIA's own two internal auditors, coupled with the absence of any documentation or reports regarding their work and responsibilities, precludes us from specifically commenting on OASIA's internal audit. We could find no assurance that the OASIA internal audit unit makes searching and penetrating examinations of Treasury's international operations and activities according to Treasury audit policy. Since OASIA's internal audit unit is a component of ESF's Office of Administration and Management, it could not carry out an independent review or evaluation of that Office.

The policy stated in Treasury's Administrative Circular 224 recognizes that substantive examinations are essential for top management to have meaningful information on the effectiveness, efficiency, and economy with which operations and activities are carried out.

We believe that the Secretary has not been well served by the audit arrangements relating to international activities within the Department and that action should be taken to strengthen them.

RECOMMENDATION

We recommend that the Secretary of the Treasury have a reassessment and evaluation made of the internal audit and review functions being carried on within Treasury in relation to its international activities, with the objective of having substantive audits conducted in a meaningful manner consistent with Treasury's stated internal audit policy.

AGENCY COMMENTS AND GAO EVALUATION

Treasury, in commenting on our draft report by letter dated March 5, 1973 (see app. VI), stated that the Audit Committee expanded the usual scope of its audit for the fiscal year 1972 audit and carried out a separate audit for operating and administrative transactions. It further stated that it will provide our audit staff the working papers and data of the Committee relating to administrative expense accounts and will discuss with us any changes in its auditing procedures which we believe will improve the audit. During our initial audit of the administrative expenses of the ESF, we will evaluate the Audit Committee's audit for fiscal year 1972.

Treasury stated that it considers the Audit Committee part of its established internal audit and review system. It did not comment on the lack of internal audits of international activities by its other audit or investigative facilities.

The Secretary limits the Audit Committee's audit of the propriety of ESF expenditures to a determination that they have been authorized or approved by the Secretary of the Treasury or persons acting pursuant to his authority. We believe that

such a limitation, in effect, precludes the Audit Committee from making an independent searching and penetrating examination into ESF expenditures in accordance with prescribed Treasury audit policy.

CHAPTER 6

PROBLEMS RELATING TO ACCESS TO RECORDS

Treasury's general reluctance and organized procrastination in releasing information to us hampered our survey efforts. It imposed time-consuming clearance and screening procedures that caused extensive delays before requested information was made available. In some cases, personnel refused or were not permitted to discuss or release any specific information relating to their work.

Treasury's position in declining to provide us information which they claimed was "operational" as opposed to "administrative" was apparently based, in part, on the December 30, 1970, amendment (Public Law 91-599) to the Gold Reserve Act of 1934. In referring to GAO's specific authority to audit ESF's administrative expenses, the amendment permits the Secretary of the Treasury to withhold from GAO " * * * 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."

We emphasized to Treasury officials during our survey that we were not auditing ESF's administrative expenses and that the statutory limitation set forth in the Gold Reserve Act of 1934, as amended, should not be used as the criterion for deciding whether information concerning other Treasury activities and operations should be made available to us. Treasury officials initially resisted our efforts to start the audit of ESF's administrative expenses. However, Treasury has now assured us of its cooperation and we have started the audit.

Treasury's position during the survey was that, because OASIA's operation was financed entirely from ESF, any information regarding OASIA's work that Treasury judged to be "operational" or "internationally significant" should not be made available to us. Treasury did not define "operational."

In March 1973 Treasury determined that during fiscal year 1972 there were no administrative expense accounts charged to ESF which were internationally significant. (See app. VII.) This should facilitate our audit of the administrative expenditures of ESF.

This survey report has presented, to the extent that information could be obtained, a summary analysis of Treasury's international activities.

We are encouraged by recent Treasury actions to cooperate with us in our review.

ORGANIZATION, STRUCTURE, AND FUNCTIONS
OF OASIA AND SUPPORTING STAFF OFFICES

OASIA advises and assists the Secretary of the Treasury and the Undersecretary of Monetary Affairs in formulating and executing international financial, economic, and monetary policies and programs.

As of June 30, 1972, the office of the Assistant Secretary was composed of the Assistant Secretary, a deputy, the Inspector General for International Finance, and nine administrative support personnel. The Deputy Assistant Secretaries for Development Finance, Industrial Nations Finance, Trade and Investment, and Research are supporting staff offices for OASIA.

DEPUTY ASSISTANT SECRETARY FOR
DEVELOPMENT FINANCE

Treasury is responsible for U.S. participation in the multilateral lending institutions--the World Bank Group, the Inter-American Development Bank, and the Asian Development Bank. Other Government organizations, such as the Export-Import Bank, the Department of State, the Agency for International Development (AID), the Department of Commerce, and the Federal Reserve, are also concerned with Government lending policies and activities. The Deputy Assistant Secretary for Development Finance coordinates Treasury policies with these other agencies, primarily through the National Advisory Council (NAC) and other established and ad hoc inter-agency committees.

In broad terms, the Deputy Assistant Secretary for Development Finance is responsible for conducting financial diplomacy with the developing nations and regions, contributing to U.S. development assistance strategy, and coordinating the practices and policies of bilateral and multilateral development lending programs and institutions. Representatives of the Development Finance Division with whom we met were, for the most part, cooperative and willing to discuss the nature of their work and specific projects that concerned them.

APPENDIX I

The workload of the Deputy Assistant Secretary for Development Finance is carried out by four program offices-- Multilateral Institutions Program Office, Multilateral Coordination Program Office, Bilateral Relations Program Office, and Bilateral Lending Program Office. As of June 30, 1972, there were 18 professionals and 8 secretarial and administrative support personnel on the staff, as follows:

<u>Office</u>	<u>Professional</u>	<u>Administrative</u>
Deputy Assistant Secretary	-	-
Multilateral Institutions	8	3
Multilateral Coordination	1	1
Bilateral Relations	6	2
Bilateral Lending	<u>3</u>	<u>2</u>
	<u>18</u>	<u>8</u>

The stated objectives of the Multilateral Institutions Program Office are to support the Secretary in his roles as the U.S. Governor of the international financial institutions and the Chairman of NAC, to provide primary staff support for U.S. Executive Directors of the financial institutions, to deal with U.S. agencies and other governments on matters relating to international financial institutions, and to promote coordination of policies and practices.

The Multilateral Coordination Program Office had, as of June 30, 1972, one full-time professional economist and one secretary, with occasional assistance from another professional staff member. This Office represents Treasury in major multilateral development forums other than international financial institutions to insure that Treasury is alerted early to major issues surfacing in those forums and that Treasury's views and goals are represented. The forums are generally affiliated with either the United Nations, such as the United Nations Development Program, or the Development Assistance Council of the Organization for Economic Cooperation and Development, headquartered in Paris.

The Bilateral Relations Program Office is concerned with maintaining expertise on lesser developed countries to (1) perform effective development loan reviews, (2) prepare papers for annual meetings of international financial institutions and other matters, and (3) represent and pursue U.S.

APPENDIX I

economic and financial policy goals with lesser developed countries in country-related and regional forums.

The Bilateral Lending Program Office participates in formulating U.S. bilateral assistance policies and practices, promotes the coordination of U.S. bilateral and multilateral assistance policies and programs, and provides staff support to Treasury representatives in new bilateral assistance organizations.

National Advisory Council

The Deputy Assistant Secretary for Development Finance is also responsible for supporting NAC, which is responsible for coordinating U.S. policies and activities concerning international financial transactions. These activities include the work of the international financial institutions, as well as the operations of the Export-Import Bank, the Department of Agriculture, and AID. NAC is chaired by the Secretary of the Treasury and includes the Secretary of State, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, and the President and Chairman of the Export-Import Bank. NAC considers one of its priorities to be achieving and maintaining a viable U.S. balance-of-payments position.

The Secretary of the Treasury, in consultation with NAC, issues instructions to U.S. representatives to the international financial institutions. OASIA represents the Treasury on the Staff Committee of NAC which considers the proposals made by the various agencies and formulates recommendations for NAC action. OASIA also provides the secretariat for NAC activities and prepares the reports submitted to the Congress in accordance with law. As of June 30, 1972, 13 OASIA personnel were assigned to NAC.

DEPUTY ASSISTANT SECRETARY FOR INDUSTRIAL NATIONS FINANCE

As of June 30, 1972, the Industrial Nations Finance Division staff consisted of 17 professionals and 9 administrative support personnel, as follows:

APPENDIX I

<u>Office</u>	<u>Professional</u>	<u>Administrative</u>
Deputy Assistant Secretary	1	1
Bilateral Relations	10	2
International Monetary	4	3
Gold and Foreign Exchange	2	3
Total	<u>17</u>	<u>9</u>

The Deputy Assistant Secretary for Industrial Nations Finance conducts financial diplomacy with industrial nations, improves the structure and stabilizes the operations of the international monetary system, and monitors developments in international gold and foreign exchange operations.

We were told that much of the Division's staff work consisted of preparing briefing and position papers in connection with bilateral economic negotiations with countries such as Canada and Japan and other negotiations concerning international financial matters. An OASIA budget document states that:

"Projects envisaged for fiscal year 1972 include contributions to the development of the USG [United States Government] position on the second allocation of Special Drawing Rights, study of the implications of economic and monetary union in the European Communities, the development of U.S. attitudes toward regulation of the Euromarkets, and special studies of U.S.-Canadian and U.S.-Japanese payments relationships."

DEPUTY ASSISTANT SECRETARY FOR TRADE AND INVESTMENT

The U.S. trade balance deteriorated from a surplus of \$7 billion in 1964 to a deficit of \$2 billion in 1971. The seriousness of this situation forced OASIA to devote significant resources to trade and investment matters. Thirty-one positions were programmed for 1972 in the trade and investment area--approximately a 100-percent increase in staffing over the positions assigned to this function before 1970. Actual staffing as of June 30, 1972, consisted of 16 professional and 10 administrative support personnel, as follows:

	<u>Professional</u>	<u>Administrative</u>
Deputy Assistant Secretary	-	1
Trade Policy	11	4
Investment	4	4
Special Projects	<u>1</u>	<u>1</u>
Total	<u>16</u>	<u>10</u>

The Deputy Assistant Secretary for Trade and Investment is responsible for developing OASIA expertise and initiating policy for trade, commerce, capital markets, and investments. He represents Treasury's interests in bilateral trade and industry development; participates in meetings of the General Agreement on Tariffs and Trade and the Trade Committee of the Organization for Economic Cooperation and Development (OECD); and coordinates Treasury's participation in trade policy, foreign direct investment, and portfolio investments.

The responsibilities and workload of the Deputy Assistant Secretary for Trade and Investment at the time of our survey were divided among two staffs--one concerned with trade policy and the other with investments. The Trade Policy staff concentrated its efforts on projects dealing with

- the effects of expansion of the European Economic Community to include Great Britain, Ireland, and Denmark;
- efforts to lower trade barriers with certain countries such as Japan;
- preferential trading arrangements;
- trade with Communist countries;
- problems relating to duty and dumping of products; and
- analysis of financing of exports by foreign countries.

We were advised by the Director of the Investments staff that his work consisted primarily of reviewing and monitoring matters involving investments of dollars in

APPENDIX I

foreign countries. He said that over the years a series of ad hoc decisions regarding the flow of capital resources and balance-of-payments had been made and that his office was examining these decisions to develop a consistent Government policy.

DEPUTY ASSISTANT SECRETARY FOR RESEARCH

The Deputy Assistant Secretary for Research is responsible for conducting substantive policy research studies on international monetary, economic, and financial issues; gathering and analyzing balance-of-payments data; and compiling statistical reports to carry out the long-range research needed to stabilize the dollar.

At the time of our survey, the Statistical Reporting and Services Office was functioning with 15 staff members, primarily economists and research assistants. The Office produces two main reports--the monthly Treasury Bulletin which contains voluminous detailed data concerning Government financial transactions, ranging from market quotations on Treasury securities to international financial statistics, and the semiannual Foreign Credits by the United States Government. It has also been assigned responsibility for a third report which, when published, will include data regarding foreign short term credits to, and receivables from, foreign countries.

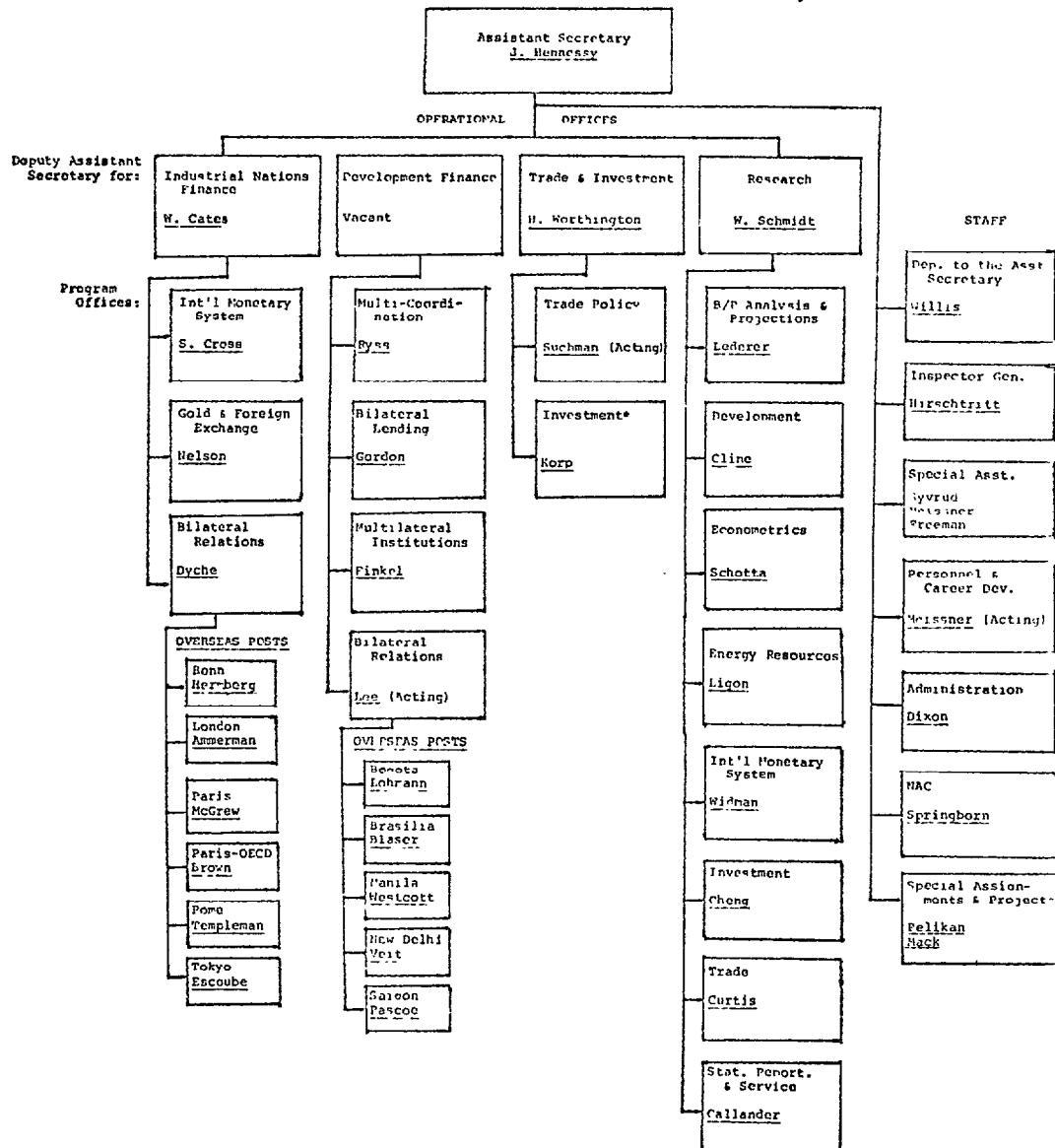
The remaining 40 members of the Research Division were assigned to the Deputy Assistant Secretary's Office and 7 administrative groups, called Balance-of-Payments Analysis and Projections, Development, Econometrics, Energy Resources Staff, International Monetary Systems, Investment, and Trade. These groups, which were engaged in a wide variety of projects, consisted mainly of economists and research analysts.

BEST DOCUMENT AVAILABLE

APPENDIX I

OASIA FUNCTIONAL DISTRIBUTION OF PERSONNEL

July 17, 1972



APPENDIX II

TREASURY'S PURPOSE IN MAINTAINING

REPRESENTATIVES AT SELECTED FOREIGN POSTS

NEW DELHI, BRASILIA, BOGOTA

As part of its responsibilities for development lending and growth of international trade in lesser developed countries, Treasury maintains attaches in New Delhi, India; Brasilia, Brazil; and Bogota, Colombia. According to a Treasury statement, India, Brazil, and Colombia are three of the leading recipients of U.S. assistance. Treasury attaches in these countries provide economic and financial expertise not normally available in diplomatic posts in lesser developed countries. The attaches are integrated with the American Embassies' economic reporting staffs and supervise the economic reporting process.

BONN, LONDON, PARIS, ROME, TOKYO

The attaches in Bonn, West Germany; London, England; Paris, France; Rome, Italy; and Tokyo, Japan; provide the U.S. Government with direct contact between the Treasury and the finance ministries, central banks, and the private banking and business community concerning important international financial affairs and closely related matters. In these posts, the Treasury attaches and their assistants serve as the ambassadors' senior financial advisers and play a crucial role in the general economic reporting function.

Apart from their representation in the American Embassy in Paris, Treasury personnel serve as Deputy Chief of, and Financial Advisor to, the United States Mission to OECD. OECD is the principal vehicle for economic cooperation among the industrialized countries, and many OECD activities are said to have profound implications for U.S. international economic and financial relationships, including the balance of payments. Treasury thus has maintained two senior positions in this mission for many years, which, according to the Department, support close and effective working relationships among economic and financial policymakers of the OECD countries.

APPENDIX II

SAIGON

The Vietnam war and the extraordinary economic and financial transactions associated with U.S. assistance have made activities in this capital, together with associated programs in Cambodia and Laos, a major factor in the U.S. balance-of-payments position. In keeping with its responsibilities for balance-of-payments' policy and for development lending and financial policies, Treasury has maintained an attache in this country for some time.

APPENDIX III

TREASURY'S INTERNATIONAL FUNCTIONS AND
ACTIVITIES FINANCED FROM APPROPRIATED FUNDS

Various Treasury organizations financed from appropriated funds engage in international activities at the headquarters level and maintain staffs in foreign countries. As of June 30, 1972, the Bureau of Customs, the Internal Revenue Service (IRS), the Secret Service, and the Bureau of Accounts employed 252 personnel at the headquarters level and at foreign locations.

Treasury Personnel Engaged in
International Activities
Paid from Appropriated Funds

<u>Treasury bureau</u>	<u>Head- quarters</u>	<u>Overseas</u>			<u>Total</u>
		<u>U.S. citizens</u>	<u>Locals</u>	<u>Total</u>	
Bureau of Customs:					
AID-financed	-	24	-	24	
Treasury-financed	10	92	13	115	
Internal Revenue Service:					
AID-financed	-	41	-	41	
Treasury-financed	19	26	-	45	
Secret Service	-	3	1	4	
Bureau of Accounts	-	2	21	23	
Total	<u>29</u>	<u>188</u>	<u>35</u>	<u>252</u>	

BUREAU OF CUSTOMS

At Washington headquarters, the Bureau of Customs employed 10 people engaged in international activities as of June 30, 1972. Their primary function was to coordinate the U.S. Government position on customs activities at international meetings.

As of June 30, 1972, the Bureau of Customs maintained offices in nine foreign countries to provide:

- An informational service to foreign exporters, American importers, and the general public as to U.S. Customs' requirements.

APPENDIX III

- An intelligence service as to actual or potential violations of laws administered by the U.S. Customs, including liaison with offices of the Bureau of Narcotics and Dangerous Drugs concerning potential narcotic smuggling efforts.
- A technical service in securing information for use in determining the valuation, tariff classification, and status of imports into the United States as well as investigations under the antidumping act.

The Bureau of Customs has personnel in Canada, Nassau, and Bermuda to handle air preclearance procedures for baggage and personal effects of passengers departing directly for the United States from these points.

Over and above its investigative and preclearance offices, the Bureau of Customs provides assistance and training to the customs services of such foreign countries as Vietnam, Laos, Ethiopia, Afghanistan, and Costa Rica. There were 24 U.S. citizens involved in this work as of June 30, 1972. The Bureau of Customs is reimbursed by AID for costs associated with this program.

INTERNAL REVENUE SERVICE

The international activities of IRS consist of three functions: (1) administering tax laws as they apply to U.S. citizens living abroad, nonresident aliens, and foreign corporations, (2) providing assistance, when requested, to developing countries in improving their systems of tax administration, and (3) participating in negotiation of tax conventions or treaties with foreign countries to prevent double taxation.

IRS had 10 foreign posts operating as miniature district offices manned by 26 technical and clerical personnel as of June 30, 1972. These posts provide the principal link among individual taxpayers and U.S. businesses abroad and domestic tax programs. The foreign posts were located in Paris, London, Bonn, Rome, Ottawa, Tokyo, Manila, Mexico City, Saigon, and Sao Paulo.

IRS also had 41 advisors serving in 13 foreign countries under its Foreign Tax Assistance Program. The central mission of these advisors is to work with tax officials of developing countries to modernize and strengthen their tax

APPENDIX III

administrations. The advisors serve only in countries which request help, and IRS is reimbursed for its costs by AID, or, in the case of Trinidad and Tobago, by that government itself.

SECRET SERVICE

As of June 30, 1972, the Secret Service had three U.S. citizens and one foreign national in Paris, who are primarily concerned with problems of counterfeiting and forgeries of Federal checks and bonds in Europe, the Middle East, and North Africa.

BUREAU OF ACCOUNTS

There is a Bureau of Accounts disbursing office in the Philippines manned, as of June 30, 1972, by 2 U.S. citizens and 21 foreign nationals. This office provides disbursing and accounting functions principally for the Veterans Administration. It also provides disbursing and accounting services for the Embassies and posts of Tokyo, Taipei, Hong Kong, Seoul, and Manila.

OFFICE OF FOREIGN ASSETS CONTROL

OFAC is primarily responsible for administering regulations designed to prevent authorities of certain countries from utilizing their dollar assets in the United States and from acquiring foreign exchange through transactions with Americans. There are five sets of regulations that OFAC administers.

1. Foreign Assets Control Regulations curtail the acquisition of foreign exchange and immobilize the assets of mainland China, North Korea, North Vietnam, and their nationals in the United States.
2. Transaction Control Regulations prohibit persons in the United States from purchasing, selling, or arranging the purchase or sale of strategic commodities outside the United States for ultimate shipment to Communist countries of Eastern Europe, the U.S.S.R., mainland China, North Korea, and North Vietnam.
3. Foreign Funds Control Regulations relate to the Treasury's jurisdiction over assets remaining frozen under World War II blocking controls imposed under Executive Order 8389. The controls currently apply to assets of Hungary, Czechoslovakia, Estonia, Latvia, Lithuania, and East Germany, and nationals of these countries.
4. Cuban Assets Control Regulations instituted blocking controls, effective July 8, 1963, on Cuba similar to those imposed under the Foreign Assets Control Regulations on mainland China, North Korea, and North Vietnam.
5. Rhodesian Sanctions Regulations prohibit virtually all financial and commercial dealings with Rhodesia.

Certain broad categories of transactions are authorized by general licenses set forth in the regulations, and such transactions may be engaged in by interested parties without securing specific licenses.

APPENDIX IV

The precise value of the blocked assets administered by OFAC is not readily available. We were told that a census of the assets is taken as the need arises. The most recent census of the Chinese assets was taken in 1970 and, on the basis of information supplied by institutions, such as banks, manufacturers, insurance companies, and brokerage firms, the Chinese assets were valued at about \$78 million.

The value of blocked Cuban assets, based on a 1964 census, was \$148 million. Rhodesian blocked assets are estimated at less than \$5 million. No figures were available with respect to blocked assets of the other countries covered by the regulations. The blocked assets include deposits in banks, securities, currency, notes, and drafts. Ownership is primarily in the hands of corporations, individuals, and partnerships. We were told that the main reasons for continuing to block assets was that the assets could be used, if necessary, to offset possible losses sustained by U.S. firms or citizens as a result of expropriations by foreign governments and to prevent use of the assets for subversive activities.

OFAC's role and administrative expenses are declining in size and importance. Fiscal year 1971 expenses, based on 25 average man-years, were budgeted at \$580,000. Due to relaxation of controls and recent moves of the United States toward easing and encouraging trade with Communist countries, fiscal year 1972 expenses, based on 19 average man-years, were budgeted at \$466,000.

The workload is performed primarily by two sections--licensing and enforcement. The licensing section issues licenses consistent with the objectives of the various control regulations. Licenses are issued only for transactions which are not considered hostile to U.S. interests. Applications for such licenses are filed with the Federal Reserve Bank of New York and require action by OFAC, except in certain cases when the Bank, acting as the agent for Treasury, is authorized to take final licensing action. The following tabulation summarizes the number of applications OFAC received and acted on from April 15, 1970, to April 15, 1971.

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<u>Control regulations</u>	<u>Number of applications</u>	
	<u>Received</u>	<u>Acted on</u>
Foreign assets control and transactions control	2,007	2,058
Cuban assets control	532	537
Foreign funds control	149	144
Rhodesian sanctions	<u>343</u>	<u>357</u>
Total	<u>3,031</u>	<u>3,096</u>

Enforcement is carried on by a small staff divided between Washington, D.C., and New York City and consists of investigating and confiscating merchandise not licensed for importation. Figures included in the fiscal year 1972 OASIA administrative budget indicate that, since 1952, merchandise tentatively valued at approximately \$790,000 has been seized and is expected to be forfeited after necessary formal procedures are completed. Merchandise totaling more than \$800,000 has already been forfeited. Enforcement efforts have also resulted in the collection of more than \$487,000 in fines and more than \$1,435,000 in lieu of forfeiture and civil penalties.

Enforcement activities also include blocking dollar accounts of foreign banks where such banks have permitted their accounts to cloak dollar transactions with mainland China or Cuba.

An OFAC representative is also located in Hong Kong. His chief activity--prior to the issuance of a general license removing, as of May 7, 1971, all controls on the use of dollars or dollar instruments in transactions with the People's Republic of China and its nationals--was facilitating the importation into the United States of goods of genuine Hong Kong origin under procedures designed to exclude goods of mainland Chinese origin. He is also concerned with enforcement problems which arise with Hong Kong.

APPENDIX V

EXCHANGE STABILIZATION FUND BUDGET¹

ANNEXED BUDGETS

DEPARTMENT OF THE TREASURY

EXCHANGE STABILIZATION FUND

Program and Financing (in thousands of dollars)

	1972 actual	1973 est.	1974 est.
Program by activities:			
Operating costs funded.....	9,618	10,015	10,690
Exchange loss ¹	182,917	-----	-----
Change in selected resources ²	-205	-----	-----
Total obligations.....	192,330	10,015	10,690

¹ Exchange loss due to devaluation of the dollar, May 8, 1972.

² Balances of selected resources are identified on the statement of financial condition.

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¹Not part of the U.S. Budget, but made available as auxiliary information.

Source: Appendix to the Budget of the United States Government, 1974, pp. 1085 and 1086.

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BEST DOCUMENT AVAILABLE

1086

DEPARTMENT OF THE TREASURY—Continued

APPENDIX TO THE BUDGET FOR FISCAL YEAR 1974

EXCHANGE STABILIZATION FUND—Continued				
Program and Financing (in thousands of dollars)—Continued				
	1972 actual	1973 est.	1974 est.	
Financing:				
Receipts and reimbursements from				
Federal funds	—95,842			
Non-Federal funds	—22,997			
Unobligated balance available start of year	—630,852			
Unobligated balance available end of year	557,361			
Budget authority				
Relation of obligations to outlays:				
Obligations incurred, net	73,491			
Obligated balance, start of year	38,143			
Obligated balance, end of year	—173,943			
Outlays	—62,309			
For the purpose of stabilizing the exchange value of the dollar, the Secretary of the Treasury is authorized to enter into stabilization agreements, and to deal in gold and foreign exchange and other instruments of credit and securities. An exchange stabilization fund, with a capital of \$200 million (derived from the increment resulting from the reduction in the weight of the gold dollar which took place in 1934) is authorized by law for this purpose (31 U.S.C. 822a). All earnings and interest accruing are paid into this fund and are available for the purposes thereof, including expenses. Transactions in special drawing rights and U.S. holdings of SDR's are administered by this fund.				
The principal sources of the fund's income have been the handling charge imposed on purchases and sales of gold for the account of the fund, profits on foreign exchange transactions, and interest on investments held by the fund. The cumulative income of the fund from the time it began operations has been \$447 million and its administrative expenses \$89 million, resulting in a net income as of June 30, 1972, of \$358 million.				
It is not practicable to forecast the transactions of the fund in gold, foreign currencies, foreign investments, and the like. Therefore, no estimates have been furnished for 1973 and 1974.				
Liabilities of the fund include \$1,712 million advanced to the fund as a result of drawings of foreign currencies by the Secretary from the International Monetary Fund.				
Revenue and Expense (in thousands of dollars)				
	1972 actual	1973 est.	1974 est.	
Operating income or loss (—):				
Revenue	118,839			
Expense	—191,843			
Net loss for the year	—73,004			
Financial Condition (in thousands of dollars)				
	1971 actual	1972 actual	1973 est.	1974 est.
Assets:				
Special account with FRB	264,860	267,860		
Treasury balance	279	2,879		
U.S. securities (par)	1,390,182	2,586,637		
Special drawing rights	1,246,710	1,957,632		
Gold ¹	174,654	79,939		
Foreign currency, net ¹	194,302	401,911		
Investment in foreign securities ¹	31,787	37,051		
Accounts receivable	5,770	2,080		
Capital assets, net	353	416		
Total assets	3,308,897	5,336,405		

Liabilities:	1972 actual	1973 est.	1974 est.
Current	10,896	11,208	
Advances—drawings on IMF	650,000	1,712,000	
Special drawing rights certificates	400,000	400,000	
Deferred liability revaluation	32,790	164,794	
Special drawing rights allocations	1,583,780	2,490,605	
Total liabilities	2,677,466	4,778,607	
Equity:			
Obligations: undelivered orders ²	226	21	
Unobligated balance	630,852	557,361	
Invested capital and earnings	353	416	
Total equity	631,431	557,798	

¹ The net sum of these accounts is a part of the cash and monetary assets of the United States, and therefore with the Treasury balance and the U.S. securities, comprises the unexpended balance of the fund.

² The "Change in selected resources" entry on the program and financing schedule relates to this item.

Analysis of Changes in Equity (in thousands of dollars)

	1972 actual	1973 est.	1974 est.
Non-interest-bearing capital:			
Start of year	200,000		
End of year	200,000		
Retained earnings:			
Start of year	431,431		
Net loss for the year	—73,004		
Adjustments in prior year expense	—629		
End of year	357,798		
Total equity (end of year)	557,798		

Object Classification (in thousands of dollars)

	1972 actual	1973 est.	1974 est.
Personnel compensation, Permanent positions	6,103	7,061	7,626
Personnel benefits: Civilian	561	673	727
Travel	357	398	418
Transportation of things	109	112	60
Rent, communications, and utilities	233	263	276
Supplies and materials	60	67	70
Equipment	113	77	81
Undistributed: Other	12,082	1,364	1,432
Exchange loss	182,917		
Total costs funded	192,535	10,015	10,690
Change in selected resources	—205		
Total obligations	192,330	10,015	10,690

Personnel Summary

Total number of permanent positions	390	387	385
Full-time equivalent of other positions	19	23	23
Average paid employment	373	396	394
Average GS grade	10.0	10.6	10.6
Average GS salary	\$16,362	\$17,831	\$19,355

¹ Includes \$629 thousand incurred by setting up general ledger account
Accrued annual leave

APPENDIX VI



THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

MAR -5 1973

Dear Mr. Staats:

The Secretary has asked me to reply to your draft report of February 14, 1973, which surveys the Treasury's international activities and proposes recommendations regarding the Department's audit procedures for the Exchange Stabilization Fund (ESF).

I would first like to assure you of our full willingness to cooperate in the audit of the administrative expenses of the Exchange Stabilization Fund. I would like to note, however, that the audit authority granted in P.L. 91-599, as you are aware, limits the scope of your audit of the ESF to considerably less than the audits you perform under other statutes. Moreover, as the House Committee Report indicates, the audit was not intended to derogate from the discretion given to the Secretary of the Treasury by law to administer the ESF.

Second, I would like to comment on the three recommendations made in your draft report, namely:

- (1) That we have an independent assessment made of the various activities and expenses being financed through the ESF.
- (2) That we have an evaluation of the internal audit and review functions in relation to our international activities.
- (3) That we provide the Comptroller General with a statement identifying any administrative expenses of the ESF in FY 1972, determined to be of an internationally significant nature, as called for by P.L. 91-599.

We have already taken independent action which implements your first recommendation. The Office of the Assistant Secretary for Administration has recently finished an independent evaluation of administrative expenses financed through the ESF, which Secretary Shultz requested shortly after taking office.

On the second recommendation, the independent Treasury audit committee is presently finishing an audit of the ESF for 1972. This year the committee expanded the usual scope of its audit and has carried out a separate audit for operating and administrative transactions, which should facilitate your review of the latter. We will be glad to provide your staff the working papers and data of the committee relating to administrative expense accounts, as well as discuss with you any changes in our auditing procedures which you believe will improve the audit.

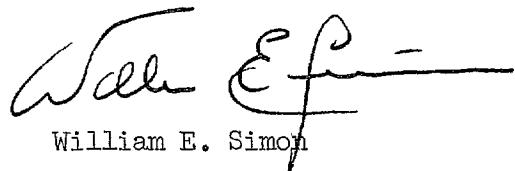
APPENDIX VI

On your third recommendation, I would like to inform you that the Secretary has determined that during the fiscal year 1972, there were no administrative expense accounts charged to the ESF which are of an "internationally significant nature." Therefore, your staff will have full access to all the financial records of ESF administrative expenses.

You have previously indicated that GAO is ready to proceed with the audit and that specific issues can be resolved as they arise. I believe this is an appropriate course of action in the circumstances. Let me know the date you plan to begin the audit.

In closing, I would like to express my concern that your draft letter contains the implication that the need to keep foreign exchange and other monetary operations confidential -- an objective which has full statutory approval -- has been used as a basis for withholding from review other matters financed from the ESF. This is not correct. Also, I trust that you will have your staff adjust the text of the draft report before issuance for inaccuracies and unsupported statements. While I do not intend at this time to delineate the draft's shortcomings, a brief list of observations is enclosed.

Sincerely yours,



William E. Simon

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

Enclosure

GAO note: The comments contained in the enclosure to this letter relate to matters in the draft report which are omitted from or are included in discussions in the final report.

APPENDIX VII



THE SECRETARY OF THE TREASURY
WASHINGTON 20220

March 13, 1973

DETERMINATION UNDER CHAPTER 4
OF PUBLIC LAW 91-599

I hereby determine that there are no financial records of administrative expenses of the Exchange Stabilization Fund for the fiscal year 1972 of an internationally significant nature and, therefore, all financial records of administrative expenses of the Fund for fiscal year 1972 may be made available to the General Accounting Office for audit of administrative expenses of the Fund 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.

A handwritten signature in black ink, appearing to read "William E. Simon".

William E. Simon
Acting Secretary

BEST DOCUMENT AVAILABLE

APPENDIX VIII

PRINCIPAL OFFICIALS RESPONSIBLE FOR
ADMINISTRATION OF
DEPARTMENT OF THE TREASURY
INTERNATIONAL ACTIVITIES

Appointed

SECRETARY OF THE TREASURY:

George P. Schultz	June 1972
John B. Connally	Feb. 1971
David M. Kennedy	Jan. 1969
Joseph W. Barr	Dec. 1968
Henry H. Fowler	Apr. 1965

ASSISTANT SECRETARY OF THE TREASURY

FOR INTERNATIONAL AFFAIRS:

John M. Hennessy (note a)	June 1972
John R. Petty	May 1968
Winthrop Knowlton	Aug. 1966

ASSISTANT SECRETARY FOR ADMINISTRATION:

Warren F. Brecht	Apr. 1972
Ernest C. Betts, Jr.	Oct. 1970
Artemus Weatherbee	Sept. 1959

^aMr. Hennessy served as Acting Assistant Secretary of the Treasury for International Affairs from February 1972; he was appointed to this position in June 1972.

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