

REPORT TO
THE CONGRESS OF THE UNITED STATES

PURCHASE OF RESIDENCE IN TOKYO
FOR FINANCIAL ATTACHE
FROM EXCHANGE STABILIZATION FUND

TREASURY DEPARTMENT



BY
THE COMPTROLLER GENERAL
OF THE UNITED STATES

JUNE 1965



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

B-154506

JUN 28 1965

To the President of the Senate and the
Speaker of the House of Representatives

Our review of circumstances relating to the purchase by the Treasury Department of a one-family residence in Tokyo at a price of \$150,000 for occupancy by the Financial Attache stationed there disclosed that the Secretary of the Treasury used moneys from the Treasury's Exchange Stabilization Fund to purchase this house under the authority vested in the Secretary by section 10b of the Gold Reserve Act of 1934, as amended (31 U.S.C. 822a).

Section 10b of the act provides that the Fund shall be available for expenditure under the direction of the Secretary of the Treasury, and in his discretion, for any purpose in connection with carrying out the provisions of this section and that decisions of the Secretary relating to the use of the Fund are not subject to review by any other officer of the United States.

Under this broad authority, the Secretary was able to purchase the property without subjecting his proposal to the scrutiny of the Congress which approves the acquisition of property overseas for most civilian agencies through Department of State appropriations. The Secretary of the Treasury has justified the purchase of the house on the basis that it was a fair value and that the purchase was in the best interest of the United States. We have given recognition to the Secretary's comments in the appropriate sections of the report.

The General Accounting Office has not audited, nor does it have authority to audit, the Exchange Stabilization Fund. We reviewed the information that was available to us concerning the real estate purchase. Also, we have included in the appendixes to our report certain published data concerning the international activities of the Treasury Department that are financed from the Exchange Stabilization Fund. Since we did not have access to the pertinent Treasury records, our report is limited to the information that was available to us from other sources.

The Department finances various activities from the Exchange Stabilization Fund, some of which appear to be only slightly related to stabilizing the exchange value of the dollar. Such activities, not now subject to the traditional budgetary, appropriation, and audit processes, embrace the functions of the Assistant Secretary for International Affairs, the Office of Foreign Assets Control, and the Office of International Tax Affairs, along with elements of the Office of General Counsel and the Office of Administrative Services. Some of these activities were not in existence and possibly not contemplated when the Fund was created in 1934.

Although the decisions of the Secretary under his broad authority are final as long as the Secretary asserts that the expenditures are related to, and necessary for, carrying out the purpose of the law to stabilize the exchange value of the dollar, we are bringing this transaction to the attention of the Congress because it represents an acquisition of real property overseas that normally could not be accomplished until after the Congress had been afforded an opportunity to review the proposed acquisition and had appropriated moneys to finance it.

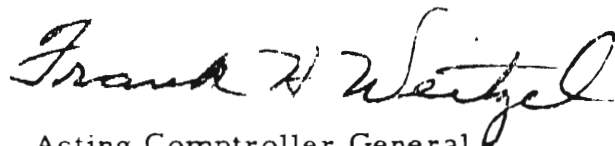
We believe that the matters reported herein may be of concern to the Congress as suggesting a need for possible reevaluation or clarification of the nature and scope of the activities to be financed from the Exchange Stabilization Fund. In this connection, we believe that the Congress may wish also to consider:

1. The extent to which international activities of the Treasury which appear to be only slightly related to the stabilization of the exchange value of the dollar, but which are blanketed by the Treasury under the broad authority of the Exchange Stabilization Fund, should be brought under traditional congressional appropriation and control processes and made subject to the Bureau of the Budget and General Accounting Office scrutiny.

B-154506

2. The desirability of having an independent audit of the Fund because, apparently, no independent audit has been made since its creation in 1934.

Copies of this report are being sent to the President of the United States, the Secretary of the Treasury, and the Secretary of State.



Acting Comptroller General
of the United States

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TO THE READER:

**SEVERAL PAGES OF THE FOLLOWING MATERIAL
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PURCHASE OF RESIDENCE IN TOKYO
FOR FINANCIAL ATTACHE
FROM EXCHANGE STABILIZATION FUND
TREASURY DEPARTMENT

INTRODUCTION

The General Accounting Office, within the limited information available, has reviewed the circumstances relating to the purchase by the United States Government of a one-family residence in Tokyo at a price of \$150,000 plus other incidental costs for occupancy by the Financial Attache stationed there. This residence was purchased by the Treasury Department with moneys from its Exchange Stabilization Fund (ESF) under authority vested in the Secretary of the Treasury by section 10 of the Gold Reserve Act of 1934, as amended (31 U.S.C. 822a), which makes funds available for the purpose of stabilizing the exchange value of the dollar.

Section 10b of the act specifies that decisions of the Secretary of the Treasury relating to the use of the ESF are not subject to review by any other officer of the United States. The General Accounting Office has not audited, nor does it have authority to audit, the Exchange Stabilization Fund. Our review was directed to the purchase of a residence in Tokyo by the Treasury Department. In the process of our review, made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67), we found that the expenditure had been made from the Exchange Stabilization Fund.

We obtained preliminary information from the United States Embassy in Tokyo and the Department of State, although the Department later denied us access to its records pertaining to this transaction on the basis of Treasury's request to State not to make them

available to us. (See appendix I.) The Embassy in Tokyo and the Department of State made available to us records relating to housing accommodations and quarters allowances of other Government officials stationed in Tokyo. Since we do not have access to records of the ESF, our information from Treasury was limited to a letter from the Assistant Secretary of the Treasury to the Comptroller General, dated June 15, 1964 (see appendix II), and a letter from the Secretary of the Treasury dated January 28, 1965 (see appendix III).

In the course of our review we also obtained general information regarding other international activities financed from the Exchange Stabilization Fund.

The principal officials of the Treasury Department responsible for administration of the Exchange Stabilization Fund discussed in this report are listed below:

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
Secretary of the Treasury:		
Douglas Dillon	Jan. 1961	Mar. 1965
Henry H. Fowler	Apr. 1965	Present
Assistant Secretary for International Affairs:		
John M. Leddy	Apr. 1961	Oct. 1962
John C. Bullitt	Dec. 1962	Oct. 1964
Merlyn N. Trued	Oct. 1964	Present

SEQUENCE OF EVENTS RESULTING
IN PURCHASE OF RESIDENCE

The current Financial Attache in Tokyo, grade GS-14, with an annual salary of \$14,065,⁽¹⁾ whose principal responsibility is to

¹Salary prior to enactment of Public Law 88-426, approved in August 1964.

act as financial advisor in the United States Embassy, assumed his duties at this post on May 6, 1963. The Attache is married and has three children. On the basis of the information made available to us,¹ the Financial Attache requested the Embassy to assist him in seeking housing in Tokyo. He advised the Embassy that he desired to lease a house that would be suitable for representational purposes²--that is, for official entertainment--and that he had been authorized a maximum annual housing allowance of \$6,000, the same amount received by his predecessor. Subsequently, Treasury approved the Attache's request to increase his maximum allowance to \$10,000.

We were informed by administrative officials in the Embassy that they had shown the Attache at least 25 houses and that, in their opinion, many of these houses were suitable for his purposes. A supervisor in the Administrative Section of the Embassy estimated that 15 percent of his time and an unknown portion of his staff's time were spent during the period June 1963 to February 1964 in trying to locate a house that would be acceptable to the Attache. In addition, the Attache had several real estate brokers in Tokyo show him many houses.

During the time he was seeking permanent housing, the Attache moved frequently. The Treasury Department furnished us a schedule that showed that he had lived in seven different places in a period

¹The information we obtained from the Embassy and the Department of State was received prior to the time that Treasury requested them to withhold their files from us relating to this transaction.

²We understand that his annual representational allowance was \$450.

of 10 months. Most of the time he had resided in Government-owned or Government-leased housing.

The Treasury Department advised us that in the summer of 1963 the United States Ambassador to Japan visited Washington and, in a discussion of the housing problem with the Assistant Secretary of the Treasury for International Affairs, indicated that he was attempting to obtain additional land in Tokyo. It was agreed at that time that, in order to provide housing for the Financial Attache, Treasury would pay a pro rata share of the cost of additional land obtained and would pay for the construction of the house.

We understand that the house the Attache ultimately decided to purchase was shown to him in September 1963. By telegram in September 1963, the Ambassador to Japan advised the Secretary of State that the Embassy had located a house suitable for representational purposes with an asking price of \$150,000, the fair property value of the land was estimated at \$110,000 on the basis of the general value of land in the area, and the house was worth \$50,000 by current Tokyo standards. The Embassy believed that any other adequate combination of land and suitable house would cost in excess of this figure. The Financial Attache, who selected the house, and a supervisor of construction from the Office of Foreign Buildings (FBO) concurred with the Embassy's conclusion.

The information available to us indicates that Treasury also requested views from the FBO, the office that is delegated the responsibility for purchasing or constructing housing for Department of State employees, regarding this transaction. The Treasury also wanted to know whether the house could be purchased from the Department of State appropriation, "Acquisition, Operation, and Maintenance of Buildings Abroad," that is administered by FBO. FBO's

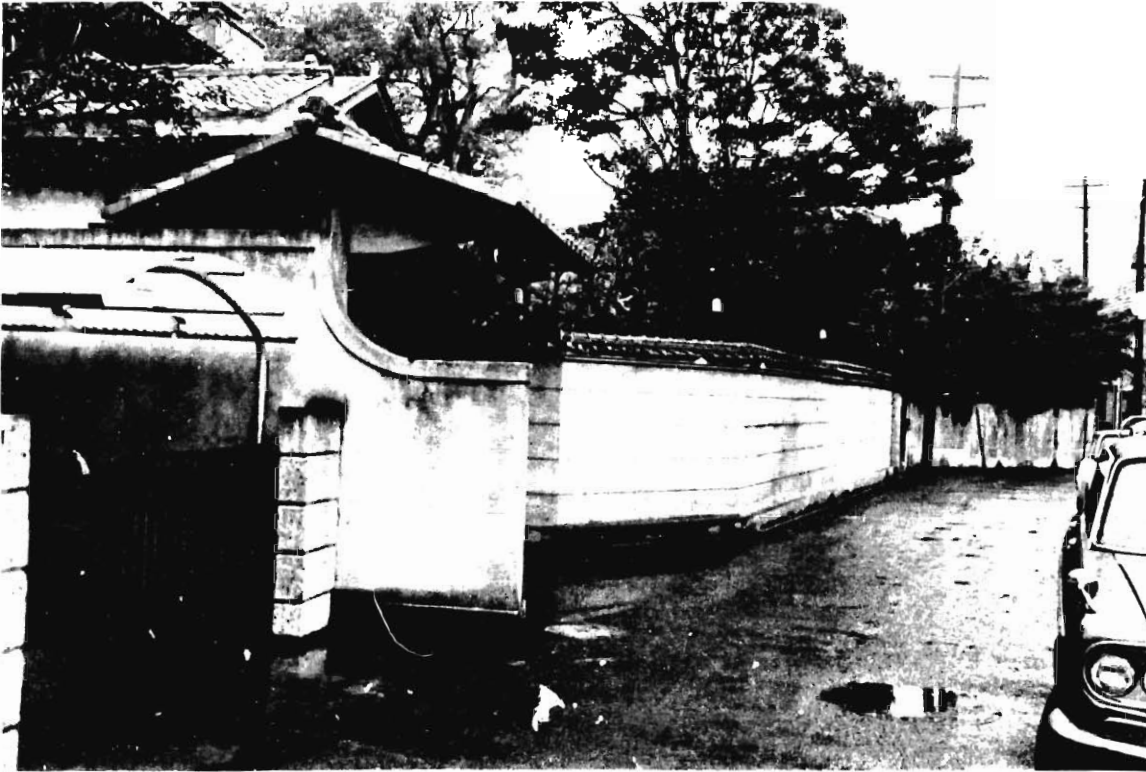
view was that the sum was in excess of the amount FBO would ordinarily consider justifiable for a senior officer residence. FBO advised the Treasury that funds from the aforesaid appropriation were not available to make this purchase. The Assistant Secretary of the Treasury for International Affairs stated that the Treasury would purchase the house with its own funds notwithstanding the views of the FBO.

The Treasury requested the judgment of the Ambassador to Japan on the expressed views of the FBO, and, by a telegram in October 1963, the Ambassador stated in reference to this matter that the house was about the size and quality of one assigned to officers of roughly the same rank as the Financial Attache and that the price was reasonable.

In February 1964, the Financial Attache signed a 90-day option to purchase the house on behalf of the Secretary of the Treasury for \$150,000, and on March 24, 1964, he entered into an agreement to purchase the house on these terms. Of the purchase price, \$100,000 was payable in Japanese yen and \$50,000 in dollars. The Treasury also incurred closing costs of about \$1,250 and at least another \$1,250 to remodel and repair the house. In a letter to the Comptroller General dated June 15, 1964, the Treasury estimated that \$100,000 represented the cost of the land, 4,788 square feet, and \$50,000 represented the cost of the house.

The house is a two-story stucco and Western-style house. The sales agreement shows that the gross area of the house is 3,042 square feet. The first floor contains 1,980 square feet of living space and consists of an entrance foyer, a living room/dining room, two maids' rooms, a kitchen and dinette, a utility room, several closets, and a bathroom; the second floor contains 1,062 square feet of living space and consists of two bedrooms, two dressing

rooms, two baths, and a den. One dressing room is being converted to a third bedroom. The house plans also show that the house contains a wine cellar, a carport, a patio, and a garden. The following photographs show exterior and interior views of the house.



ENTRANCE TO THE HOUSE (Department of State Photo)



VIEW OF THE GARDEN AND PATIO (Department of State Photo)



VIEW OF LIVING ROOM AND DINING ROOM (Department of State Photo)

We visited the house and noted that it contained several unique luxury features, such as ornate bathroom fixtures, a wall safe, and a locking glass display cabinet for jewels. The Treasury informed us that the cost of the house included central air conditioning, gas and electric fixtures, hot-water heaters, chandeliers, floor tiles, window screens, shades, awnings, carpeting, and draperies. The house is located at No. 9, Mita, Tsuna-machi, Shiba, Minato-ku, close to the United States Embassy in Tokyo.

FINDINGS AND MATTERS
FOR THE CONSIDERATION OF THE CONGRESS

TREASURY PURCHASE OF RESIDENCE
FOR FINANCIAL ATTACHE
BYPASSED APPROPRIATION PROCESS

The Secretary of the Treasury used moneys from the Treasury's Exchange Stabilization Fund to purchase a residence for the Financial Attache in Tokyo at a cost of \$150,000 plus incidental costs under authority vested in the Secretary by section 10b of the Gold Reserve Act of 1934, as amended. The basic purpose of section 10 is to provide authority to stabilize the exchange value of the dollar. The Treasury justified the purchase on the grounds that suitable leased residential quarters were not available even though the Financial Attache had a maximum housing allowance of \$10,000 a year. In the Secretary of the Treasury's judgment the purchase was in the best interest of the United States. Generally, purchases of land and residential quarters overseas for civilian agencies are made by the Office of Foreign Buildings, Department of State, and are financed from the Department of State appropriation, "Acquisition, Operation, and Maintenance of Buildings Abroad."

Agency justification for purchase of residence

By letter to the Comptroller General dated June 15, 1964, the Assistant Secretary for International Affairs, justified the purchase of the residence on the following basis:

"The decision to purchase a permanent residence for the Financial Attache was made after lengthy and intensive efforts to find suitable quarters on a rental or lease basis had failed. No U.S. Government owned facilities were available on other than a very temporary basis, and this unsatisfactory situation had made it necessary for the Financial Attache and his family to move at least seven times in a ten month period (see the enclosed schedule). This was true even though the Attache had an

annual housing allowance of \$10,000. Adequate housing simply could not be obtained except at an annual rental in excess of that figure. As you may know, the housing situation in Tokyo is probably the most acute of all the major capitals in the free world, and rentals and property values are extremely high. Based on the foregoing, it is estimated that the saving which will result to the United States by the acquisition of this residential property will be sufficient to equal the purchase price in fifteen years or less. Thereafter, of course, the advantage to the United States of owning this residence is obvious.

"In order to resolve the housing problem for our representative, he was authorized to explore the possibilities of purchasing a residence, which would not only provide him with living quarters for his family, but would henceforth be available for his successors in that post. It was agreed by the Embassy representatives who assisted the Attache in locating the house that it was entirely suitable, in view of its location and other features described above, and that the price being asked for the property was reasonable, taking into consideration the real estate situation in Tokyo. Accordingly, authorization was given the Treasury representative to take the necessary steps, in strict compliance with procedures applicable to the acquisition of real estate abroad, to acquire this property in the name of the U.S. Government as a residence for the Financial Attache."

By letter dated January 28, 1965, the Secretary of the Treasury furnished us additional justification for the purchase of the residence. Pertinent facts are quoted below:

"*** The purchase was dictated by a number of considerations, and was based essentially upon the fact that land values in Tokyo are not only extremely high, but are continuing to rise. The previous Financial Attache in Tokyo resided in a small house leased for \$400 a month. Before leaving Tokyo he was informed that his rent would be increased and in fact shortly after he left the property was leased for \$600 per month, or \$7200 per year plus

utilities. When the present Attache moved to Tokyo in early 1963, accompanied by his wife and three small children, he was unable immediately to find suitable housing of any kind. His search was complicated by the fact that at about the same time a large corporation was moving from Yokohama to Tokyo and seeking about fifty houses, at almost any price, for its employees, thus making the competition for suitable Western housing extremely severe.

"Attempts were made to secure government housing or government-owned land upon which housing could be built, but the State Department itself was badly in need of additional housing and no housing was available for use by the Treasury.

"*** In determining whether to take advantage of the opportunity recommended by Ambassador ***, the Treasury considered the facts that the cost of land and suitable housing in Tokyo is extremely high; that according to a study conducted in 1962 by the Japan Real Estate Institute, the value of residential land in the six largest cities of Japan increased over 600 per cent between March, 1955, and March, 1962; that a further substantial increase had occurred between 1962 and 1963; that the trend showed no signs of lessening; that suitable Western housing was very scarce and in great demand; and that in these circumstances it had previously been concluded that a purchase of property would be in the long run advantageous. The two immediately preceding Financial Attaches in Tokyo, one now a Director and the other a Deputy Director, of constituent offices in the Office of the Assistant Secretary, were consulted as to their knowledge of the housing situation in Tokyo. There were taken into consideration the advantages of owning property which could be used by successive Financial Attaches (as this property clearly could), eliminating the problem of constantly increasing costs, and eliminating also the time and effort involved in seeking new housing for each new Attache, with consequent advantage not only to the Attaches and to their attention to duty, but also to the Administrative Officers of the Embassy. Finally, before approving the purchase of the property, the Treasury requested from

Ambassador *** his 'personal judgment' on whether the house was 'inappropriately pretentious for officer of Financial Attache rank.' Ambassador *** replied as follows:

"*** From what I hear it is not at all excessive for financial attache, being smaller and on smaller land area than Mitsui houses [those built on Government-owned land] though somewhat superior in interior finishing. In short, it is about size and quality house we assign to officers of roughly same rank as financial attache. House can be amortized in 15 years at allowance rate given *** and my feeling is that Treasury would be fortunate to get it at \$150,000 and should go higher if necessary. ***"

"Upon receipt of this recommendation from the Ambassador I approved the purchase of this residence. The procedures followed in making the purchase were those prescribed in the Foreign Service Manual. ***"

As we interpret the Treasury's justification to purchase a residence, the Treasury decided to purchase it because it determined that suitable leased housing for representational purposes was not available at \$10,000 a year, the maximum housing allowance authorized for the Financial Attache, and in the long run it would be more economical to provide a permanent residence for financial attaches than to continue leasing houses. The justification to purchase the subject house was that the price was reasonable on the basis of current market prices and the housing accommodations were not excessive for an officer of the rank of Financial Attache.

Leases for other senior officers

The maximum annual housing allowance of \$10,000 authorized for the Financial Attache was higher than the annual cost of leased housing, including utilities, for various other senior civilian officers stationed in Tokyo. By reference to the description of

houses that were occupied by senior officers, it appeared that their housing accommodations compared favorably with the housing obtained for the Financial Attache. For example, the house occupied by the advisor to the ambassador on atomic energy is a two-story house consisting of a living room, a dining room, a kitchen, four bathrooms, three bedrooms, a study, a storage room, a utility room, a servant's room, and a terrace at an annual cost of about \$8,700. The annual cost of leases and utilities of selected senior officers in Tokyo is presented below.

Agency	Title or function	Grade or rank	Annual salary (note a)	Annual cost of lease	Annual cost of utilities	Total housing cost
Government leased:						
Atomic Energy Commission	Advisor to ambassador on atomic energy	-	\$20,000	\$7,917	\$ 772	\$8,689
Federal Bureau of Investigation	Chief, Tokyo office	GS-16	17,000	4,333	706	5,039
United States Information Service	Deputy public affairs officer	FSR-2	16,900	4,333	1,247	5,580
United States Information Service	Cultural affairs officer	FSR-2	15,700	3,433	900	4,333
Agency for International Development	Excess property utilization officer	FSR-3	15,205	6,666	800	7,466
Individually leased:						
National Science Foundation	Chief Scientist, Tokyo Staff	-	18,500	4,000	1,288	5,288
General Accounting Office	Director, Far East Branch	GS-15	17,210	3,472	508	3,981
Public Health Service	Scientist Director, Far East	GS-15	16,000	2,927	367	3,294
United States Travel Service	Chief, Tokyo office	GS-14	14,515	5,667	299	5,966
Bureau of Customs	Regional customs representative	GS-14	14,065	2,000	357	2,357
Average total cost						\$5,199

^aSalary rates prior to enactment of Public Law 88-426 approved in August 1964.

In a letter to the Comptroller General, dated January 28, 1965, the Secretary of the Treasury implied that our comparison of housing accommodations for selected senior officers in Tokyo with the housing obtained for the Financial Attache was unfair because the majority of the senior officers in our comparison are regional representatives attached to the Embassy chiefly for administrative purposes and, consequently, do not have any representational duties and are able to live at much greater distances from the Embassy.

The Secretary stated that, although the amount of representational allowance for the Treasury representative is not large,¹ his activities in this area should be extensive and are extremely important. The Secretary suggested that the housing accommodations of the Financial Attache be compared with officers in the Embassy of comparable rank and having comparable duties to those of the Financial Attache. The Secretary also implied that it was essential that the Financial Attache reside in the Minato-ku area, which is close to the Embassy.

We obtained a listing of senior attaches stationed in Tokyo whose diplomatic rankings are comparable with those of the Financial Attache. These attaches consisted of the three military attaches, the Agricultural Attache, the Labor Attache, and the attache from the Immigration and Naturalization Service. Three attaches live in Government-owned houses that initially cost less than the house for the Financial Attache but which are currently valued in excess of \$150,000. The remaining three attaches live in leased quarters, and the annual costs of their leases ranged from \$5,951 to \$6,667 compared with \$10,000, the maximum housing allowance authorized for the Financial Attache.

In respect to location, only two of the six senior attaches lived in the Minato-ku area. Our review disclosed also that most of the senior officers listed in our table on page 13 lived in Shibuya-ku, Minato-ku, and Chiyoda-ku areas, all of which are relatively close to the Embassy. Administrative officials in the United States Embassy in Tokyo advised us that several houses were

¹In that connection we were informed that the representational allowance of the Financial Attache amounted to about \$40 a month.

shown to the Financial Attache in these areas and, in their opinion, many of them were suitable for his purposes.

On the basis of information available to us, we are not convinced that suitable leased housing was not available in Tokyo at less than \$10,000 a year for the Financial Attache or that it was essential for him to reside in the Minato-ku area.

Relation of Treasury Department purchase to Department of State acquisitions

In his letter to the Comptroller General dated January 28, 1965, the Secretary of the Treasury stated:

"Attempts were made to secure government housing or government-owned land upon which housing could be built, but the State Department itself was badly in need of additional housing and no housing was available for use by Treasury." (Underscoring supplied.)

The Secretary stated also that the Ambassador indicated he was attempting to obtain additional land in Tokyo.

The information available to us is that, whereas the Treasury requested the Office of Foreign Buildings, Department of State, to ascertain whether any housing was available for its Financial Attache or could be purchased by State for the Attache, FBO has no record of any request having been made by the Treasury to ascertain whether the Department of State would make Government-owned land available to it for the construction by the Treasury of a house for the Financial Attache.

We found also that the Foreign Service Manual specifically prohibits foreign service posts from taking independent action on real property acquisition matters. The manual states that the Department of State will issue specific instructions to the post with respect to all negotiations looking toward the acquisition of real property.

The Department of State has not purchased realty in Tokyo since 1956. An FBO official has advised us that the Embassy does not have specific authority to negotiate for additional land in Tokyo although it can make preliminary inquiries into property matters. He also indicated that requests for purchase of additional land for residential use in Tokyo by the Embassy would not be recommended by the FBO because the high price of land in Tokyo precludes the purchase of additional land for residential purposes especially since currently owned sites could be developed to provide additional residential quarters.

In order to confirm our understanding that land was available in the Minato-ku area to construct a residential house, we asked the Deputy Assistant Secretary for Foreign Buildings to confirm the location and size of any parcel of land that might be available for construction of a residential house. The Deputy Assistant Secretary for Foreign Buildings advised us that the Department of State owns a parcel of land at 5 of 28 Fujimi-cho, Azabu, Minato-ku that could be developed for the construction of representational housing. To provide this site, however, a vacant Japanese-style house would have to be demolished. The parcel of land that would be available would have a 75-foot frontage and an average depth of 159 feet, a gross area of about 11,900 square feet. This compares with 4,788 square feet of land purchased by the Treasury.

The Department of State budget justification to the Congress for fiscal year 1966 contains information that the Department has a long-standing agreement with the Departments of Agriculture and Defense for the worldwide acquisition each year of a number of representational-type residences for occupancy by senior attaches of these agencies. Residences are acquired insofar as possible in

accordance with the priority designations of the agencies. Costs of acquisition of these homes are financed from the Department of State appropriation, "Acquisition, Operation, and Maintenance of Buildings Abroad," that is administered by the FBO. In support of funds for this proposed real estate acquisition program, the Department of State furnishes the House and Senate Committees on Appropriations a listing of the locations and estimated costs of housing to be acquired for the senior attaches of these two agencies. This procedure affords the Congress an opportunity to review the proposed acquisition program.

In Tokyo, the United States Government owns a house for the occupancy of the senior Naval Attache. Housing for the senior Air Force and Army Attaches are leased, and these costs are borne by the Department of Defense. The costs of these leases are \$6,640 and \$5,951 a year, respectively, including utilities.

Four houses were contracted for by the FBO in June 1963, on property owned by the United States Government--two in Minato-ku and two in Shibuyo-ku--and are now occupied by upper middle-grade Embassy officers having diplomatic rank. The FBO advised us that these houses were completed in May 1964; three of them cost \$40,000 each, and the fourth house cost \$42,650 because it contained a larger living room and dining room.

The Department of State's real property records show that the average lot on which the two houses were built in Minato-ku was 5,000 square feet and that the average lot on which the two houses were built in Shibuyo-ku was 6,800 square feet.

The value of the house purchased for the Financial Attache was estimated by the Treasury to be about \$50,000. In the instant case, FBO advised the Treasury that no funds were available to

purchase the house for the Financial Attache. Since the Secretary of the Treasury had the broad authority pursuant to section 10 of the Gold Reserve Act of 1934, as amended, to purchase land, he was able to purchase this property without subjecting his proposal to the scrutiny of the Congress which approves the Department of State's appropriations for acquisition of property overseas for most civilian agencies.

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In our opinion, the capability of the Treasury Department to bypass the traditional budgetary and appropriation processes of obtaining funds dilutes the fiscal controls that the Congress maintains over Treasury with regard to administrative and operating expenses financed from the Exchange Stabilization Fund. The Treasury Department has reported that in fiscal year 1964 the Fund incurred expenses totaling \$3.5 million.

TREASURY INTERPRETATION OF ITS AUTHORITY
AS TO USE OF EXCHANGE STABILIZATION FUND

Section 10 of the Gold Reserve Act of 1934 approved January 30, 1934 (ch. 6, 48 Stat. 341),¹ authorized the establishment in the Treasury of a stabilization fund to be operated under the exclusive control of the Secretary of the Treasury, with the approval of the President, for the purpose of stabilizing the exchange value of the dollar. Section 10 of the act, in pertinent part, follows.

"The Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the Fund established in this Section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose of this Section."

To enable the Secretary of the Treasury to carry out the provisions of section 10, the Congress appropriated the sum of \$2 billion out of the increment resulting from the reduction in the weight of the gold dollar. This amount was deposited with the Treasurer of the United States and the Fund began operations in April 1934. Operation of the Fund was authorized for a period of 2 years; but the President, by proclamation, extended the period for 1 additional year. Amendments to the act continued the Fund in operation through June 30, 1945, and section 7 of the Bretton Woods Agreement Act, approved July 31, 1945, continued its operations permanently.

¹Section 10 of the Gold Reserve Act of 1934, as amended (31 U.S.C. 822a), appears as appendix IV.

The Bretton Woods Agreement Act also directed the Secretary of the Treasury to use \$1.8 billion of this Fund to pay part of the subscription of the United States to the International Monetary Fund.

The remaining \$200 million of appropriated moneys remained as the corpus of the Exchange Stabilization Fund under the control of the Secretary of the Treasury. The net worth of the Fund as reported at June 30, 1963, totaled \$347.7 million. (See appendix VI.) Of this amount \$200 million represented appropriated capital and \$147.7 million represented cumulative net earnings of the Fund.

The Secretary of the Treasury has made a broad interpretation of what constitutes "purposes of stabilizing the exchange value of the dollar." In furtherance of this interpretation, the Treasury has used this broad authority to finance activities from the Fund, some of which are only slightly related to the stabilization of the exchange value of the dollar. Accordingly, expenses of the Assistant Secretary for International Affairs, the Office of Foreign Assets Control, and the Office of International Tax Affairs are financed from the ESF, and portions of personnel salaries and related expenses in the Office of General Counsel and the Office of Administrative Services have been allocated to the ESF payroll. These activities, which are described in the United States Government Organization Manual, are included as appendix V.

Treasury officials refused to furnish us any statistics relating to the number of professional and clerical personnel financed under the ESF on the grounds that the transactions of ESF are not subject to review. However, the approximate number of personnel and administrative costs are shown in the President's budget. The

budget for fiscal year 1965 shows that 320 employees are estimated to be paid out of the ESF in fiscal year 1964 and operating expenses are estimated to be \$2,990,000, of which \$2,342,000 represents salaries. It should be noted that these estimates were prepared by the Bureau of the Budget and not the Treasury Department.

In response to a General Accounting Office inquiry relating to the Fund, Mr. John M. Leddy, Assistant Secretary of the Treasury, in a letter dated September 19, 1962, stated:

"The legislative history makes it clear that the Congress unequivocally placed the Fund under the exclusive control of the Secretary of the Treasury only after full debate and in full knowledge of the special responsibility involved. We feel, therefore, that Congress did not intend that expenditures of the Exchange Stabilization Fund should be subject to the normal budget, Congressional appropriation and audit procedures."

It is evident that the Secretary of the Treasury has such broad authority under the Gold Reserve Act of 1934 that he may authorize any expenditure from the ESF without subjecting his decisions to review by the congressional appropriation committees, the Bureau of the Budget, or the General Accounting Office acting as an arm of the Congress if he asserts that such expenditures are related to and necessary for carrying out the purpose of the act; that is, stabilizing the exchange value of the dollar.

In furtherance of this viewpoint, the Secretary has authorized several functions to be financed from the ESF which were not in existence in 1934 when the Fund was established. These include the functions of the Office of Foreign Assets Control which administers foreign assets control regulations and Cuban assets control regulations. (See appendix V.) It is not apparent to us how the administration of foreign asset regulations is related to any great

extent to the stabilization of the exchange value of the dollar. We observed that other agencies, such as the Department of State, incur costs in connection with their participation in international monetary organizations but it is only the Treasury's costs in these areas that are shrouded in secrecy.

In compliance with the statute requiring an audit of the ESF to be made and an audit report thereof to be transmitted to the President and the Congress, the Secretary of the Treasury designates Treasury employees to make an annual audit of the ESF. The Secretary restricts the scope of the audit to a determination of whether expenditures have been authorized or approved by him or persons acting pursuant to his authority.

Insofar as we have been able to determine, no independent audit of this Fund has been made since it was created 30 years ago. The Secretary of the Treasury has implied that an independent audit of the ESF is not essential. In a letter to the Comptroller General dated January 28, 1965, he stated:

"I have noted your comments concerning the Exchange Stabilization Fund. Since I have been in office, I have devoted a great deal of personal attention to the operation and management of the Fund. I have instituted revised management practices and I am now satisfied that it has the best management techniques known. I have had made each year an audit of the Fund, copies of which are forwarded to the President and the Congress in accordance with law. I have also given careful attention to the propriety of the activities currently being financed through this Fund, and have concluded that the expenditure of funds for their financing is properly within the purposes of the Act creating the Fund."

The implication that independent reviews are not needed if the Secretary determines that the operation and management of an activity is sound is contrary to the generally accepted principles of

sound management controls in respect of the purpose and objectives of independent audits. Independent reviews of many other activities administered by the Secretary of the Treasury have been made and the need for them has been evident. Furthermore, independent reviews of these activities have been beneficial and have been instrumental in revising practices to achieve economies and operating efficiency of the Department.

The ESF is not subject to an independent audit because it enjoys a statutory exemption. The Congress, however, has consistently recognized the need for an audit of the ESF. The Gold Reserve Act of 1934, that created the Fund, provided that an audit be made and a report thereof be made to the President. The Congress apparently reaffirmed its belief in the desirability of audits of the ESF in 1939, when it amended the Gold Reserve Act to provide that the audit report also be transmitted to the Congress.

Since it is evident that the Congress requires an audit of the ESF, the only matter we are raising is whether audits of the ESF should continue to be made by employees who report to the Secretary of the Treasury, and who are required to limit the scope of the audit in accordance with the directives set forth by the Secretary of the Treasury, or whether they should be made by independent auditors who would not operate under these limitations. Any reappraisal of this matter rests with the Congress.

We want to emphasize that no question is being raised regarding the Secretary of the Treasury's authority to make decisions that shall be final and binding on other officers of the Government and we recognize instances where this type of legislation can be justified. We have observed that, although enabling legislation creating some agencies subsequent to the establishment of the ESF,

such as the Urban Renewal Administration, has provided that the transactions entered into by the head of the agency shall be final and binding on other officers in the Government, the functions of these agencies are made subject to review by the Bureau of the Budget and the Congress and the General Accounting Office. Under legislation of this type, the General Accounting Office is precluded from stating an exception to a transaction and recovering any funds improperly expended; however, it is not precluded from auditing such transactions and reporting its findings to the Congress.

The Secretary of the Treasury was given the broad authority in 1934 for carrying out the purpose of stabilizing the exchange value of the dollar. Since activities are financed by the ESF which were not in existence and possibly not contemplated when the ESF was created, we believe that these activities should be weighed in a current context as to whether they continue to be construed as being within the purpose of the stabilization of the exchange value of the dollar as defined in the Gold Reserve Act of 1934, as amended, and therefore not subject to what the Treasury refers to as "normal budget, Congressional appropriation and audit procedures."

Matters for the consideration of the Congress

The Congress may wish to reappraise or clarify the authority given the Secretary of the Treasury pursuant to section 10 of the Gold Reserve Act of 1934, as amended, in the light of the expanded activities to which it has been extended.

In this connection, we believe that the Congress may wish also to consider:

1. The extent to which international or other activities of the Treasury which appear to be only slightly related to the stabilization of the exchange value of the dollar, but

which are blanketed by the Treasury under the broad authority of the Exchange Stabilization Fund, should be brought under traditional congressional appropriation and control processes and made subject to the Bureau of the Budget and General Accounting Office scrutiny.

2. The desirability of having an independent audit of the Fund because, apparently, no such audit has been made since its creation in 1934.

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APPENDIXES

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TREASURY DEPARTMENT

Washington

Assistant Secretary

JUNE 22 1964

Dear Mr. Meyers:

This letter will confirm the telephone conversation between Mr. William F. Niccloy of the Office of Foreign Buildings and Mr. John O. Hally, Acting Assistant General Counsel, Treasury Department, with respect to the purchase by Treasury of a house for the Financial Attache at the U.S. Embassy, Tokyo.

It is understood that a representative of the General Accounting Office has requested the Office of Foreign Buildings to make its file with respect to this acquisition available for examination. The purchase of this property was a transaction for the account of, and approved by the Secretary of the Treasury under statutory authority (31 U.S.C. 822a) which vests the Secretary with exclusive control of the Exchange Stabilization Fund, and provides in part that the decisions of the Secretary with respect to the operations of the Fund "shall be final and not subject to review by any other official of the United States." For this reason, it is requested that the Office of Foreign Buildings not make its file relating to this matter available to the General Accounting Office representative for examination.

You are advised, however, that because of the interest expressed in this purchase by representatives of the General Accounting Office in Washington and at the U.S. Embassy in Tokyo, the Treasury has sent a letter to the Comptroller General giving, on a purely voluntary basis, a resume of the essential facts concerning this acquisition.

Very truly yours,

/s/ John C. Bullitt
John C. Bullitt

Mr. Frank G. Meyers
Deputy Director
Office of Foreign Buildings
Department of State
Washington 25, D.C.



ASSISTANT SECRETARY

TREASURY DEPARTMENT

WASHINGTON

JUN 15 1964

Dear Mr. Comptroller General:

Requests by representatives of your office have recently been made both in Tokyo and at the Treasury in Washington for information with respect to the purchase of a residence for the Financial Attache, a Treasury employee, stationed at the American Embassy in Tokyo. While not required under the terms of Section 10(b) of the Gold Reserve Act of 1934, as amended, to provide this information, in view of your apparent interest in this transaction, and on a strictly voluntary basis, the essential details surrounding the decision to purchase this property, and the data pertinent to the purchase itself are supplied for your information.

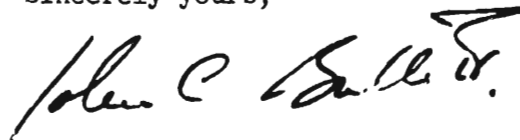
The house is three years old, of Western design, and is located in an excellent section of Tokyo in the same general area as the Embassy. The address of the house is "29-9 Mita, Tsuna-machi, Shiba, Minato-ku". The lot on which it is situated has an area of 4,788 square feet. The house itself has three bedrooms, several maids' rooms, and adequate facilities for representational purposes. The price being paid is \$150,000, two-thirds of which represents the cost of the lot, and one-third the cost of the residence. The original asking price for the lot and improvements was \$200,000. Included in the sale are all "gas and electric fixtures, hot water heaters, chandeliers, floor tiles, window screens, shades, awnings, ash cans and heating and cooling apparatus . . . carpeting and draperies".

The decision to purchase a permanent residence for the Financial Attache was made after lengthy and intensive efforts to find suitable quarters on a rental or lease basis had failed. No U.S. Government owned facilities were available on other than a very temporary basis, and this unsatisfactory situation had made it necessary for the Financial Attache and his family to move at least seven times in a ten month period (see the enclosed schedule). This was true even though the Attache had an annual housing allowance of \$10,000. Adequate housing simply could not be obtained except at an annual rental in excess of that figure. As you may know, the housing situation in Tokyo is probably the most acute of all the major capitals in the free world, and rentals and property values are extremely high. Based on the foregoing, it is estimated that the saving which will result to the United States by the acquisition of this residential property will be sufficient to equal the purchase price in fifteen years or less. Thereafter, of course, the advantage to the United States of owning this residence is obvious.

In order to resolve the housing problem for our representative, he was authorized to explore the possibilities of purchasing a residence, which would not only provide him with living quarters for his family, but would henceforth be available for his successors in that post. It was agreed by the Embassy representatives who assisted the Attache in locating the house that it was entirely suitable, in view of its location and other features described above, and that the price being asked for the property was reasonable, taking into consideration the real estate situation in Tokyo. Accordingly, authorization was given the Treasury representative to take the necessary steps, in strict compliance with procedures applicable to the acquisition of real estate abroad, to acquire this property in the name of the U.S. Government as a residence for the Financial Attache.

The funds for the purchase were provided from the Exchange Stabilization Fund which, as you know, was established pursuant to Section 10(b) of the Gold Reserve Act of 1934, as amended, 31 U.S.C. 822a (b), and the authority vested in the Secretary of the Treasury by that statute was utilized for the acquisition of this property. The Financial Attaches are employees of the Office of International Affairs in the Office of the Secretary of the Treasury, and the costs incurred in maintaining them abroad are a proper charge against the portion of the Exchange Stabilization Fund allocated for administrative support in connection with the conduct of operations of the Fund.

Sincerely yours,



John C. Bullitt

The Honorable
Joseph Campbell
Comptroller General
of the United States
General Accounting Office
Washington, D. C. 20548

Enclosure

Schedule of Moves Made by Financial Attache, Tokyo, and his Family
Between May 6, 1963, and March 13, 1964.

<u>Dates</u>	<u>Resided at</u>
1. May 6, 1963 -- June 14, 1963	Azabu Prince Hotel
2. June 15, 1963 -- July 23, 1963	Sub-rented furnished house 1-4 Azabu, Rappongi
3. July 29, 1963 -- September 1, 1963	Various hotels in and near Tokyo
4. September 2, 1963 -- November 1, 1963	Government leased house which was available only temporarily
5. November 2, 1963 -- January 29, 1964	Government owned house on Embassy compound which was also avail- able temporarily
6. January 30, 1964 -- March 13, 1964	Hotels in and near Tokyo
7. March 14, 1964 -- Present	Government owned house on Embassy compound which is available for occupancy by the Financial Attache only temporarily



THE SECRETARY OF THE TREASURY
WASHINGTON

APPENDIX III
Page 1

JAN 28 1965

Dear Mr. Campbell:

I wish to thank you for affording me an opportunity to comment upon your proposed Report to the Congress relating to the purchase by the Treasury Department of a residence for the Financial Attache to the American Embassy in Tokyo. The report raises no question as to the propriety of the purchase by this Department of a residence to house its official. Rather, the implications of the report seem to be (1) that more than fair value was paid for the particular house involved, and (2) that the house was too pretentious for purchase as a residence for our present and future Financial Attaches in Tokyo. That both of these implications are unwarranted can be demonstrated by the facts.

The purchase was dictated by a number of considerations, and was based essentially upon the fact that land values in Tokyo are not only extremely high, but are continuing to rise. The previous Financial Attache in Tokyo resided in a small house leased for \$400 a month. Before leaving Tokyo he was informed that his rent would be increased and in fact shortly after he left the property was leased for \$600 per month, or \$7200 per year plus utilities. When the present Attache moved to Tokyo in early 1963, accompanied by his wife and three small children, he was unable immediately to find suitable housing of any kind. His search was complicated by the fact that at about the same time a large corporation was moving from Yokohama to Tokyo and seeking about fifty houses, at almost any price, for its employees, thus making the competition for suitable Western housing extremely severe.

Attempts were made to secure government housing or government-owned land upon which housing could be built, but the State Department itself was badly in need of additional housing and no housing was available for use by the Treasury.

In the Summer of 1963, Ambassador Reischauer visited Washington and in a discussion of the housing problem with the Assistant Secretary of the Treasury for International Affairs, indicated that he was attempting to obtain additional land in Tokyo. It was agreed at that time that in order to provide suitable housing for its employee, the Treasury would pay a pro rata share of the cost of additional land obtained, and would pay for construction of a house. This was agreed to be the most economical and fairest long-range solution to the problem.

No further action was taken by Treasury until, shortly after his return to Tokyo, Ambassador Reischauer cabled the Secretary of State as follows:

"Treasury Assistant Secretary Bullitt with concurrence Secy Dillon has agreed to purchase land and construct house for Financial Attache, original Treasury concept based on possibility paying for a portion currently held or any new FBO property acquisition Tokyo. Embassy has now located highly desirable property with excellent 3 bedroom 3 year old house for immediate sale. Property 15 min from Embassy and completely suitable representation requirements Attache. Property this area generally valued 300,000 yen per tsubo. This rate for 133 tsubo (4,788 Sq. Ft.) gives fair property value \$110,000. House centrally heated, soundly constructed and worth full \$50,000 by current Tokyo standards.

"Owner now asking \$150,000 after exploratory negotiation by Embassy Staff. Initial asking price \$200,000. Embassy believes any other adequate combination land and suitable house would cost in excess this figure. Adams FBO and Financial Attache concur.

"Embassy uncertain whether such purchase would be by Treasury direct or by FBO on behalf of Treasury. In any event, due high desirability and excellent value of price Embassy certain delay will result in loss purchase opportunity. Request procedural instructions and authority sign option. Advise soonest. REISCHAUER"

By this time the Financial Attache had been in Tokyo for 4 months, with his wife and three small children, with totally unsatisfactory housing conditions, having been obliged to move a number of times during that period, at great personal sacrifice on both his part and that of his family and with serious interference in his being able to perform properly his duties as a senior Embassy official.

In determining whether to take advantage of the opportunity recommended by Ambassador Reischauer, the Treasury considered the facts that the cost of land and suitable housing in Tokyo is extremely high; that according to a study conducted in 1962 by the Japan Real Estate Institute, the value of residential land in the six largest cities of Japan increased over 600 per cent between March, 1955, and March, 1962; that a further substantial increase had occurred between 1962 and 1963; that the trend showed no signs of lessening; that suitable Western housing was very scarce and in great demand; and that in these circumstances it had previously been concluded that a purchase of property would be in the long run advantageous. The two immediately preceding Financial Attaches in Tokyo, one now a Director and the other a Deputy Director, of constituent offices in the Office of the Assistant Secretary, were consulted as to their knowledge

of the housing situation in Tokyo. There were taken into consideration the advantages of owning property which could be used by successive Financial Attaches (as this property clearly could), eliminating the problem of constantly increasing costs, and eliminating also the time and effort involved in seeking new housing for each new Attache, with consequent advantage not only to the Attaches and to their attention to duty, but also to the Administrative Officers of the Embassy. Finally, before approving the purchase of the property, the Treasury requested from Ambassador Reischauer his "personal judgment" on whether the house was "inappropriately pretentious for officer of Financial Attache rank." Ambassador Reischauer replied as follows:

"Please tell John Bullitt that I don't dare visit proposed financial attache house because owner now trying to push up price to \$180,000 and a visit by me or DCM would indicate too much interest on our part and weaken our bargaining position. However, from what I hear it is not at all excessive for financial attache, being smaller and on smaller land area than Mitsui houses [those built on Government-owned land] though somewhat superior in interior finishing. In short, it is about size and quality house we assign to officers of roughly same rank as financial attache. House can be amortized in 15 years at allowance rate given Pelikan and my feeling is that Treasury would be fortunate to get it at \$150,000 and should go higher if necessary. REISCHAUER"

Upon receipt of this recommendation from the Ambassador I approved the purchase of this residence. The procedures followed in making the purchase were those prescribed in the Foreign Service Manual.

I remain satisfied that this purchase was in the best interest of the United States. My judgment that this purchase should be made was based on the information available to me as to the housing situation in Tokyo, the statement of Ambassador Reischauer that the house was a fair value for the money (in which you will notice that the Tokyo representative of the Foreign Buildings Office concurred), and the judgment of Ambassador Reischauer that the house was "not at all excessive" for an officer of the rank of the Financial Attache.

In addition to these general comments, I should like to comment specifically on certain portions of your report. It is stated in your report that "The cost of housing purchased for the Financial Attache in Tokyo was considerably higher than the costs of housing provided for other senior officers (that is, grade GS-14 or higher or the equivalent thereof) stationed in Tokyo although the housing accommodations provided for these officers compared favorably with the house purchased for the Financial Attache." The first paragraph of the following section of the report is to the same effect.

As to the value of the property purchased, we can only rely upon the information received from Tokyo. In Ambassador Reischauer's cable quoted above, it was stated that property in the area is generally valued at 300,000 yen per Tsubo, giving a fair land value for the 133 Tsubos purchased, of \$110,000. Of the \$150,000 purchase price, this leaves \$40,000 paid for the house and furnishings. If a fair value is placed upon the furnishings, there is left less than \$40,000 as the price paid for the house, even though it had a value in Ambassador Reischauer's words of "full \$50,000 by current Tokyo standards." The price paid certainly compares favorably with the construction costs of the four houses built on government-owned land, stated in your report to have been \$40,000 and \$42,650. The plots of land upon which these houses were built were estimated to have values ranging from \$185,000 to \$210,000.

With respect to your expressed opinion that the Financial Attache was more selective and demanding in obtaining housing than other senior officers, this, of course, involves a judgment that it is impossible to make in Washington. Certainly, prior to receipt of your draft report we had no suggestion from any source that this might be the case. The same comments apply to the alleged statements by administrative officials in the Embassy that many houses shown the Attache were suitable for his purposes. We have no suggestion at all that Ambassador Reischauer shares such views.

With respect to your table showing the costs of leases and utilities of "selected" Senior officers in Tokyo, we should like to comment that the majority of the officers listed are regional representatives attached to the Embassy chiefly for administrative purposes and consequently able to live at much greater distances from the Embassy. In addition, most of them have no representational duties. While the amount of representational allowance for the Treasury representative is not large, his activities in this area should be extensive and are extremely important in my judgment.

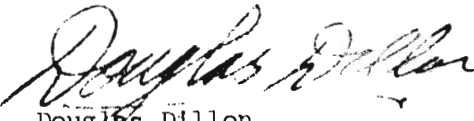
With specific reference to some of those listed, the Chief of the Tokyo Office of the FBI lives in a house built for the FBI in a former Embassy compound on a long-term lease basis. The Deputy Public Affairs Officer resides in a house leased in 1958. The lease on the house formerly occupied by the Cultural Affairs Office of the U.S. Information Service expired, and because the rent was to be more than doubled he moved to an Embassy-owned house. The Customs Representative has no family, but lives alone in a second floor walk-up apartment.

To be meaningful this table should list not "selected" officers, but officers in the Embassy of comparable rank and having comparable duties to those of the Financial Attache and should include a description of their housing situations and the costs thereof. For example, we understand that several comparable officials live in the government-built houses referred to above, similar in size to the Treasury house, but valued together with the land upon which situated at in excess of \$200,000.

I have noted your comments concerning the Exchange Stabilization Fund. Since I have been in office, I have devoted a good deal of personal attention to the operation and management of this Fund. I have instituted revised management practices and I am now satisfied that it has the best management techniques known. I have had made each year an audit of the Fund, copies of which are forwarded to the President and to the Congress in accordance with law. I have also given careful attention to the propriety of the activities currently being financed through this Fund, and have concluded that the expenditure of funds for their financing is properly within the purposes of the Act creating the Fund.

In the operations of this Fund I, as well as my predecessors, have observed meticulously, with the single exception of Japan, the State Department regulations on housing allowances for overseas personnel. The Exchange Stabilization Fund has not acquired and does not own any housing other than the house in Tokyo. The exception made in Japan to our consistent practice was, as indicated above, because of the extremely costly housing situation in Tokyo with the State Department having such problems of its own that it could not assist us with our housing problem.

Sincerely yours,



Douglas Dillon

The Honorable
Joseph Campbell
Comptroller General of the
United States
Washington, D. C.

APPENDIX IV

EXTRACT FROM 31 UNITED STATES CODE 822a

"822a. Stabilization of exchange value of dollar; stabilization fund; payment of subscription to International Monetary Fund; repayment covered into Treasury.

(a) For the purpose of stabilizing the exchange value of the dollar, the Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose of this section. An annual audit of such fund shall be made and a report thereof submitted to the President and to the Congress.

(b) To enable the Secretary of the Treasury to carry out the provisions of this section there is appropriated, out of the receipts which are directed to be covered into the Treasury under section 408b of this title, the sum of \$2,000,000,000, which sum when available shall be deposited with the Treasurer of the United States in a stabilization fund (hereinafter called the "fund") under the exclusive control of the Secretary of the Treasury, with the approval of the President, whose decisions shall be final and not be subject to review by any other officer of the United States. The fund shall be available for expenditure, under the direction of the Secretary of the Treasury and in his discretion, for any purpose in connection with carrying out the provisions of this section, including the investment and reinvestment in direct obligations of the United States of any portions of the fund which the Secretary of the Treasury, with the approval of the President, may from time to time determine are not currently required for stabilizing the exchange value of the dollar. Such fund shall not be used in any manner whereby direct control and custody thereof pass from the President and the Secretary of the Treasury. The proceeds of all sales and investments and all earnings and interest accruing under the operations of this section shall be paid into the fund and shall be available for the purposes of the fund.

(c) The Secretary of the Treasury is directed to use \$1,800,000,000 of the fund established in this section to pay part of the subscription of the United States to the International Monetary Fund; and any repayment thereof shall be covered into the Treasury as a miscellaneous receipt.*** "

DESCRIPTION OF ORGANIZATIONAL UNITS
IN TREASURY FINANCED FROM
THE EXCHANGE STABILIZATION FUND
AS REPORTED BY THE SECRETARY OF THE TREASURY¹

OFFICE OF FOREIGN ASSETS CONTROL

This office was established by Treasury Department Order 128 (Rev. 1) of October 15, 1962. It is headed by a Director who reports to the Assistant Secretary for International Affairs through the Assistant to the Secretary (National Security Affairs).

The Office administers the Foreign Assets Control Regulations (31 CFR, Title 31, Ch. V) and the Cuban Assets Control Regulations (28 F.R. 6974). These regulations block the assets in the United States of Communist China, North Korea, Cuba, and nationals thereof, and prohibit, except pursuant to license, trade and financial transactions on behalf of such countries and their nationals or involving their property. Licenses are issued authorizing prohibited transactions which are not considered inimical to the interests of the United States. The major purpose of the regulations is to prevent the Chinese and Cuban Communist authorities from utilizing their dollar assets in the United States and to preclude the acquisition by those authorities of foreign exchange. This office also administers the Transaction Control Regulations which prohibit persons in the United States from engaging in certain transactions involving the shipment of certain strategic merchandise from foreign countries to Russia or other Communist Countries.

The Office maintains a representative in Hong Kong to assist in implementing the Foreign Assets Control Regulations.

OFFICE OF INTERNATIONAL AFFAIRS²

This office was established as a separate administrative unit within the Office of the Secretary on October 15, 1962, by Treasury Department Order 198 which abolished the Office of International Finance.

The Office, headed by a Director who reports to the Secretary of the Treasury through the Assistant Secretary for International Affairs,

¹ Source: United States Government Organization Manual, 1964, 1965, page 102.

² Pursuant to Treasury Department Order 202, dated October 14, 1964, all functions, duties, and personnel of the Office of International Affairs were transferred to the Assistant Secretary for International Affairs.

APPENDIX V

Page 2

consists of six constituent Offices (Balance of Payments, Financial Policy Coordination, International Economic Activities, Industrial Nations, Developing Nations, and Latin America), with appropriate supporting staff and overseas personnel.

The Office advises and assists the Secretary of the Treasury and other senior departmental officials in the formulation and execution of policies and programs relating to the responsibilities of the Treasury Department in the international economic, financial, and monetary field. These responsibilities include the Treasury's activities in such matters as the balance of payments and gold outflow problems of the United States, international monetary and foreign exchange problems and agreements, the Bretton Woods Agreements Act, and the operations of the International Monetary Fund and the International Bank for Reconstruction and Development and its affiliates, the Inter-American Development Bank, foreign lending and assistance programs, the Anglo-American financial agreement, the Exchange Stabilization Fund, and the activities of the National Advisory Council on International Monetary and Financial Problems.

The Office makes continuing studies of the flow of capital funds into and out of the United States and of the international accounts of foreign countries with special attention to transactions in gold and dollars. It also studies the legislation and policy of foreign countries relating to finance, gold and foreign exchange, exchange rates and exchange controls, and other relevant matters.

The Office advises the Secretary on international financial aspects of matters arising in connection with the Tariff Act and other legislation administered by the Treasury Department, as well as on such aspects of matters arising under legislation administered by other departments and agencies. Through the National Advisory Council, the Office assists in the coordination of the activities of U. S. representatives in international financial and lending institutions with the operations of U. S. Government financial institutions and with the broad financial policies of the Government. The Office acts for the Treasury on the financial aspects of international treaties, agreements, and organizations in which the United States participates. It also participates in negotiations with foreign governments regarding matters included within its responsibilities.

The Office advises Treasury officials and other Government agencies concerning exchange rates and other financial problems encountered in operations involving foreign currencies. In particular it advises the State Department and the Department of Defense in financial matters related to their normal operations in foreign countries and the special financial problems arising from defense preparations and military operations.

To assist in discharging its responsibilities the Office maintains Treasury representatives abroad who act as financial advisers in the diplomatic missions. The Office directs and coordinates their activities.

SPECIAL ASSISTANT FOR INTERNATIONAL TAX MATTERS

The Special Assistant for International Tax Matters is a unit within the Office of Assistant Secretary for Tax Policy. With the assistance of economists and attorneys from the Offices of Tax Analysis and Tax Legislative Counsel, the Special Assistant for International Tax Matters is responsible for the following: analytical activities relating to international tax matters, including those arising under tax agreements; preparation of legal, economic, and statistical analyses of proposed tax legislation affecting international investment, trade, and other activities; participation, with representatives of the State Department, in negotiation of treaties with other countries to mitigate the effect of double taxation and other tax obstacles to trade and investment; participation in the work of the Fiscal Committee of the Organization for Economic Cooperation and Development (OECD); and providing assistance to other agencies on tax matters arising at international conferences.

EXCHANGE STABILIZATION FUND
FINANCIAL STATEMENTS AND BUDGET DATA
AS CONTAINED IN PRESIDENT'S BUDGET FOR FISCAL YEAR 1965

TREASURY DEPARTMENT—Continued

EXCHANGE STABILIZATION FUND—Continued

Revenue, Expense, and Retained Earnings (in thousands of dollars)

	1963 actual	1964 estimate	1965 estimate
Revenue	8,379		
Expense	3,062	2,990	2,997
Net income for the year	5,317		
Analysis of retained earnings:			
Retained earnings, start of year	142,365		
Retained earnings, end of year	147,682		

Financial Condition (in thousands of dollars)

	1962 actual	1963 actual
Assets:		
Treasury balance	78,200	1,069
U.S. securities (par)	72,250	153,147
Gold	91,751	96,241
Foreign currency, net	78,505	88,958
Investment in foreign securities	21,359	7,696
Accounts receivable (including accrued premium or discount on U.S. securities)	537	1,151
Office equipment, net	28	35
Total assets	342,690	348,297
Liabilities:		
Current	325	615
Government equity:		
Non-interest-bearing capital	200,000	200,000
Retained earnings	142,365	147,682
Total Government equity	342,365	347,682

Analysis of Government Equity (in thousands of dollars)

	1962 actual	1963 actual
Unobligated balance	150,722	154,753
Invested capital and earnings	191,643	192,929
Total Government equity	342,365	347,682

Object Classification of Operating Expenditures (in thousands of dollars)

	1963 actual	1964 estimate	1965 estimate
Personnel compensation and benefits	2,286	2,342	2,399
Travel	146	148	148
Transportation of things	126	130	130
Rent, communications, and utilities	45	47	47
Supplies and materials	21	23	23
Equipment	12		
Other	432	300	250
Total	3,068	2,970	2,997

Personnel Summary

	1963 actual	1964 estimate	1965 estimate
Employees, end of year	263	320	320

EXCHANGE STABILIZATION FUND
FINANCIAL STATEMENTS AND BUDGET DATA
AS CONTAINED IN PRESIDENT'S BUDGET FOR FISCAL YEAR 1965

EXCHANGE STABILIZATION FUND

Program and Financing (in thousands of dollars)

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
Operating costs, funded: Expense	3,056	2,990	2,997
Capital outlay, net:			
Equipment	12		
Investment in gold, foreign currency, and foreign securities, net	1,280		
Total program costs, funded obligations	4,348		
Financing:			
Revenue and other receipts:			
Revenue on:			
Gold and exchange	1,577		
Investments	48		
Miscellaneous	14		
Interest revenue on:			
Investments	3,130		
Foreign balances	3,610		
Total revenues and other receipts	8,379		
Unobligated balance brought forward	150,722		
Unobligated balance carried forward	-154,753		
Financing applied to program	4,348		

Summary of Sources and Application of Funds (in thousands of dollars)

Obligations (from program and financing)	4,348	2,990	2,997
Increase (-) in gross unpaid obligations (current liabilities)	-290		
Gross expenditures	4,058		
Revenues and other receipts (from program and financing)			
Increase () in accounts receivable, net	8,379		
	- 615		
Applicable receipts	7,764		
Net expenditures (not identified under trust fund expenditures)	- 3,706		

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.

The estimates shown for 1964 and 1965 for operating expenditures have been prepared by the Bureau of the Budget. Because of the special nature of the Fund's activities it is not feasible to make estimates for the other items.