GAO Highlights

Highlights of GAO-18-221, a report to congressional requesters

April 2018

DEFENSE BUDGET

Actions Needed to Improve the Management of Foreign Currency Funds

Why GAO Did This Study

DOD requested about $60 billion for fiscal years 2009 - 2017 to purchase goods and services overseas and reimburse service-members for costs incurred while stationed abroad. DOD uses foreign currency exchange rates to budget and pay (that is, disburse amounts) for these expenses. It also manages the FCFD account to mitigate a loss in buying power that results from foreign currency rate changes.

GAO was asked to examine DOD's processes to budget for and manage foreign currency fluctuations. This report (1) describes DOD's revision of its foreign currency budget rates since 2009 and the relationship between the revised rates and projected O&M and MILPERS funding needs; (2) evaluates the extent to which DOD has taken steps to reduce costs in selecting foreign currency rates to disburse funds to liquidate O&M obligations, and determined whether opportunities exist to gain additional savings; and (3) assesses the extent to which DOD has effectively managed the FCFD account balance. GAO analyzed data on foreign currency rates, DOD financial management regulations, a non-generalizable sample of foreign currency disbursement data, and FCFD account balances.

What GAO Recommends

GAO is making four recommendations, including that DOD review opportunities to achieve cost savings by more consistently selecting the most cost-effective foreign currency rates used for the payment of goods and services, and analyze projected losses to manage the FCFD account balance. DOD generally concurred with the recommendations.

View GAO-18-221. For more information, contact Cary Russell at (202) 512-5431 or RussellC@gao.gov

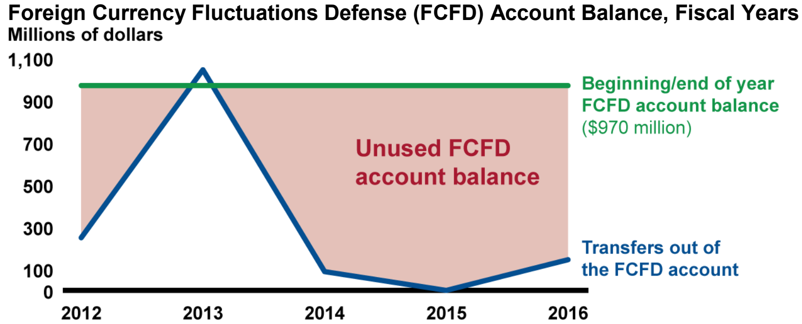
What GAO Found

The Department of Defense (DOD) revised its foreign currency exchange rates ("budget rates") during fiscal years 2014 through 2016 for each of the nine foreign currencies it uses to develop its Operation and Maintenance (O&M) and Military Personnel (MILPERS) budget request. These revisions decreased DOD's projected O&M and MILPERS funding needs. DOD's revision of the budget rates during these years also decreased the expected gains (that is, buying power) that would have resulted from an increase in the strength of the U.S. Dollar relative to other foreign currencies. DOD did not revise its budget rates in fiscal years 2009 through 2013. For fiscal year 2017, DOD changed its methodology for producing budget rates, resulting in rates that were more closely aligned with market rates. According to officials, that change made it unnecessary to revise the budget rates during the fiscal year.

DOD has taken some steps to reduce costs in selecting foreign currency rates used to pay (that is, disburse amounts) for goods and services, but DOD has not fully determined whether opportunities exist to achieve additional savings. The Army has estimated potential savings of up to $10 million annually by using a foreign currency rate available 3 days in advance of paying for goods or services rather than a more costly rate available up to 5 days in advance. The Army has converted to the use of a 3-day advanced rate. GAO's analysis suggests that DOD could achieve cost savings if the services reviewed and consistently selected the most cost-effective foreign currency rates when paying for their goods and services. Absent a review, DOD is at risk for paying more than it would otherwise be required to conduct its transactions.

DOD used the Foreign Currency Fluctuations, Defense (FCFD) account to cover losses (that is, less buying power) due to unfavorable foreign currency fluctuations in 6 of the 8 years GAO reviewed. Since 2012, DOD has maintained the FCFD account balance at the statutory limit of $970 million, largely by transferring unobligated balances before they are cancelled from certain DOD accounts into the FCFD. However, DOD has not identified the appropriate FCFD account balance needed to maintain program operations by routinely analyzing projected losses and basing any transfers into the account on those expected losses. Thus, DOD may be maintaining balances that are hundreds of millions of dollars higher than needed, and that could have been used for other purposes or returned to the Treasury Department (see figure).

Foreign Currency Fluctuations Defense (FCFD) Account Balance, Fiscal Years 2012-2016



Source: GAO analysis of Department of Defense data. | GAO-18-221