



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

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INTERNATIONAL DIVISION

B-154506

JUN 20 1974

The Honorable  
The Secretary of the Treasury



Dear Mr. Secretary:

We have made an audit of the administrative expenses of the Exchange Stabilization Fund (ESF) for fiscal year 1972, pursuant to Public Law 91-599, dated December 30, 1970. Our audit considered the work of the Treasury Audit Committee, appointed annually by the Secretary of the Treasury to audit all the accounts of ESF, and the Department's Office of Audit which had reviewed the ESF accounting system as part of its internal audit program.

The enclosure includes statements on ESF operational and administrative accounts as reported by the Treasury Audit Committee and identifies ESF accounts subject to GAO audit. The accounts subject to GAO review include the salaries and related benefits for personnel carrying out stabilization operations and related international economic activities of the Office of the Assistant Secretary for International Affairs of the Treasury, as well as legal and administrative support services. GAO had access to documentation for all transactions other than those nonadministrative operations arising from the sale or purchase of foreign exchange, Special Drawing Rights, gold, and investments in U.S. and foreign securities.

Although we relied on Treasury's internal auditing, we also analyzed the administrative expense accounts for unusual items and reviewed selected transactions by checking the basic documentation. Our tests did not disclose any major weaknesses in Treasury's handling of administrative expenses. The following matters were discussed with Treasury officials.

1. Payments for official travel; for example, the need for more thorough audit of vouchers before payment and for supportive documentation to be attached to the vouchers.

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2. Purchases of office furniture totaling \$33,600 of ESF funds although comparable office furniture could have been obtained from the General Services Administration stock for \$14,700.

Corrective actions on these matters have been initiated to (1) provide for better supportive documentation for travel vouchers, (2) reemphasize the need for more thorough audit of travel vouchers before payments, and (3) require written justification for procurement from other than General Services.

Treasury's Office of Audit, which is responsible for auditing ESF, reviewed the ESF accounting system and reported on it in February 1974. Several weaknesses were disclosed; however, the auditors concluded that such weaknesses had not impaired the integrity of the accounting system and records. The auditors reported that:

- The turnover of key administration and accounting personnel, problems with the minicomputer used to account for transactions, and disruptions caused by the organizational and physical relocation of the accounting unit had led to a difficult transition period.
- The accounting unit, in addition to being hampered by the lack of supervisors, also suffered from a lack of experience.

The internal auditors recommended several improvements in the accounting system design and operations and the related procedures for controlling ESF administrative activities. We understand that corrective action has been taken on many of the auditors' specific suggestions.

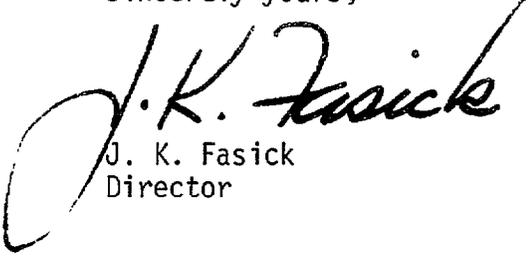
We are sending copies of this report to the Director of the Office of Management and Budget; the Chairmen of the House and Senate Committees on Government Operations and on Appropriations; the Chairmen of the Senate Committee on Foreign Relations, the House Committee on Banking and Currency, the Senate Committee on Banking, Housing, and Urban Affairs, and the Subcommittee on Foreign Operations and Government Information, House Committee on Government Operations.

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We appreciate the cooperation and assistance given our representatives during this review.

Sincerely yours,



J. K. Fasick  
Director

Enclosure

EXCHANGE STABILIZATION FUND  
BALANCE SHEET AS OF JUNE 30, 1972 AND COMPARISON  
WITH JUNE 30, 1971

<u>ASSETS</u>	<u>1972</u>	<u>1971</u>
<b>Current Assets:</b>		
Cash on hand and in banks:		
Imprest fund	\$ 1,500.00 <u>1/</u>	\$ 1,500.00
Treasury of the United States - Checking Account	2,877,099.11 <u>2/</u>	277,096.26
Secretary of the Treasury - Special Account #3 (Special Drawing Rights)	264,860,367.00	264,860,367.00
Deposits in foreign banks	401,911,246.64	194,301,554.52
Special Drawing Rights <u>a/</u>	1,957,631,604.43	1,246,710,387.12
Gold on hand	79,939,167.79	174,654,324.51
Investments		
U.S. Securities	2,578,479,270.93	1,387,749,613.71
Foreign Securities <u>d/</u>	37,051,140.05	31,787,398.66
Accounts receivable	26,096.10 <u>1/</u>	37,607.10
Accrued interest receivable:		
Special Drawing Rights holdings <u>a/</u>	4,907,480.00	3,279,285.00
United States Securities	3,192,039.96	4,024,663.45
Foreign bank deposit	1,975,052.85	784,553.72
Prepaid items	136,838.03 <u>1/</u>	75,302.17
Total current assets	<u>\$ 5,332,988,902.89</u>	<u>\$ 3,308,543,653.22</u>
<b>Fixed Assets:</b>		
Office equipment and fixtures	\$ 275,837.73 <u>1/</u>	\$ 208,337.19
Transportation equipment	4,926.82 <u>1/</u>	7,286.26
Land and structure	135,600.00 <u>1/</u>	137,400.00
Total fixed assets	<u>\$ 416,364.55</u>	<u>\$ 353,023.45</u>
Secretary of the Treasury - Special Account for:		
U.S. Navy - contra <u>g/</u>	\$ 3,000,000.00	\$ - 0 -
Total assets	<u>\$ 5,336,405,267.44</u>	<u>\$ 3,308,896,676.67</u>
<b>Liabilities and Equity</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 738,306.15 <u>1/</u>	\$ 577,669.31
Accrued payroll	474,449.36 <u>1/</u>	321,554.93
Accrued annual leave <u>h/</u>	705,410.00 <u>1/</u>	- 0 -
Accrued charges payable - Special Drawing Rights <u>a/</u>	6,289,172.82	3,996,450.00
Total current liabilities	<u>\$ 8,207,338.33</u>	<u>\$ 4,895,674.24</u>
<b>Long-term Liabilities:</b>		
Deferred liability - Foreign Exchange Revaluation <u>b/</u>	\$ 164,793,751.60	32,789,675.13
Advances - Drawings - International Monetary Fund	1,712,000,000.00	650,000,000.00
Special Drawing Rights Allocations <u>a/</u>	2,490,605,860.90	1,583,780,000.00
Special Drawing Rights Certificates <u>a/</u>	400,000,000.00	400,000,000.00
Special Account - U.S. Navy - contra	3,000,000.00	6,000,000.00
Total liabilities	<u>\$ 4,778,606,950.83</u>	<u>\$ 2,677,465,349.37</u>
<b>Equity:</b>		
Appropriated (January 20, 1934)	\$ 2,000,000,000.00	
Less amount transferred to IMF July 31, 1945	<u>1,800,000,000.00</u>	\$ 200,000,000.00
Earnings: (cumulative from 1/30/34)		
Income	\$ 447,382,725.22	
Less		
Expenses	<u>89,584,408.61</u>	<u>357,798,316.61</u>
Total equity	<u>\$ 557,798,316.61</u>	<u>\$ 631,431,327.30</u>
Total liabilities and equity	<u>\$ 5,336,405,267.44</u>	<u>\$ 3,308,896,676.67</u>

Source - Statements prepared by Treasury Department.

BEST DOCUMENT AVAILABLE

EXCHANGE STABILIZATION FUND  
INCOME AND EXPENSE STATEMENT AS OF JUNE 30, 1972  
AND COMPARISON WITH JUNE 30, 1971

	<u>1972</u>	<u>1971</u>	Increase or (Decrease)
<b>INCOME:</b>			
<b>Gold Transactions:</b>			
Handling charges on gold	\$ 139,893.31	\$ 596,569.32	\$ (456,676.01)
Other gold transactions	4,431.33	9,645.75	(5,214.42)
Total gold transactions	<u>\$ 144,324.64</u>	<u>\$ 606,215.07</u>	<u>\$ (461,890.43)</u>
<b>Investments:</b>			
Interest earned on U.S. securities	\$ 95,841,620.64	\$ 16,523,169.95	\$ 79,318,450.69
Discount earned on investments in German securities	1,344,449.17	2,331,661.72	(987,212.55)
Total interest earned on investments	<u>\$ 97,186,069.81</u>	<u>\$ 18,854,831.67</u>	<u>\$ 78,331,238.14</u>
Interest earned on foreign bank deposits -			
Interest earned on Special Drawing Rights holdings	\$ 9,653,535.52	\$ 18,956,779.28	\$ (9,303,243.76)
Profits on investments in U.S. securities	22,323,601.00	17,853,729.00	4,469,872.00
Profits on foreign currency transactions - schedule 9	(5,151.70)	4,500.00	(9,651.70)
Miscellaneous profit or loss	(121,476,478.79)	1,249,150.43	(122,725,629.22)
	<u>(2,064.64)</u>	<u>(112.36)</u>	<u>(1,952.28)</u>
Total	<u>\$ 7,823,835.84</u>	<u>\$ 57,525,093.09</u>	<u>\$ (49,701,257.25)</u>
<b>Less:</b>			
Interest expense and loss on Special Drawing Rights	<u>\$ 71,901,651.65</u>	<u>\$ 18,562,638.00</u>	<u>\$ 53,339,013.65</u>
Gross income	<u>\$ (64,077,815.81)</u>	<u>\$ 38,962,455.09</u>	<u>\$ (103,040,270.90)</u>
<b>ADMINISTRATIVE EXPENSE:</b>			
Personal services	\$ 6,663,846.91	\$ 5,655,795.22	\$ 1,008,051.69
Travel and transportation of persons	357,464.09	376,325.14	(18,861.05)
Transportation of things	109,254.22	46,954.07	62,300.15
Rent, communications and utilities	233,035.55	206,269.50	26,766.05
Printing and reproduction	6,446.59	10,645.16	(4,198.57)
Other services	1,121,596.72	1,347,621.21	(226,024.49)
Reimbursement to Federal Reserve Banks	216,299.57	279,171.66	(62,872.09)
Supplies and materials	59,724.26	36,337.78	23,386.48
Equipment	49,527.36	16,296.38	33,230.98
Land and structure	- 0 -	1,175.00	(1,175.00)
Insurance claims	106.10	- 0 -	106.10
Depreciation	32,483.51	25,902.68	6,580.83
Annual leave	76,331.00	- 0 -	76,331.00
Total administrative expenses	<u>\$ 8,926,115.88</u>	<u>\$ 8,002,493.80</u>	<u>\$ 923,622.08</u>
Net income (loss) f/	<u>\$ (73,003,931.69)</u>	<u>\$ 30,959,961.29</u>	<u>\$ (103,963,892.98)</u>

1/ GAO has access to these accounts

2/ GAO has limited access to these accounts

EXCHANGE STABILIZATION FUND

FOOTNOTES TO FINANCIAL STATEMENTS

- a/ Pursuant to the Special Drawing Rights (SDR) Act of 1968, the Exchange Stabilization Fund was assigned responsibility for administering Rights allocated to or otherwise acquired by the United States. Annual allocations of Special Drawing Rights were made on January 1, 1970, 1971 and 1972 adding \$2,491 million to the resources of the Exchange Stabilization Fund. Under this program SDRs may be converted into money in the same manner as gold through their sale or by the issuance of certificates to the Federal Reserve System. The issuance of certificates may be undertaken to finance the purchase of SDRs from other countries or to provide resources for financing exchange stabilization operations. There is net interest income on balances of SDR held in excess of allocations and net interest expense if less than the amount of allocations is held.
- b/ The Exchange Stabilization Fund (ESF) entered into an agreement with the Bureau of the Public Debt for the Fund to absorb any exchange loss resulting from the issuance of certain Deutsche mark denominated securities. Accordingly, the revaluation of the Deutsche mark (DM) in October 1969 resulted in increased obligation of the ESF to supply DM to Public Debt amounting to the equivalent of \$91,522,424.20 which was partially compensated by an increase in value of ESF holdings of DM amounting to \$67,130,530.00 for a net loss of \$24,391,894.20. The amount of the increased DM obligation was set aside as a liability. During FY 1972, ESF took additional losses on Deutsche marks and losses on Belgian and Swiss francs in connection with the agreement with the Bureau of Public Debt on foreign securities. The losses were caused by the devaluation of the dollar. Total estimated liability set aside was \$141,206,953.36, of which \$137,006,899.94 remained at June 30, 1972, in addition to \$27,786,851.66 liability remaining from the DM loss taken in FY 1970, making a total liability of \$164,793,751.60 to be paid at maturity of securities in Fiscal Years 1973 and 1974.
- c/ The United States dollar equivalent value of foreign bank balances using published foreign exchange rates at June 30, 1972 is \$389,174,587.43.
- d/ The United States dollar equivalent value of foreign currency securities using published foreign exchange rates at June 30, 1972 is \$37,444,424.49.

- e/ As a result of the revaluation on May 8, 1972 of the par value of the U.S. dollar from one thirty-fifth of a fine troy ounce of gold to one thirty-eighth of a fine troy ounce of gold, the \$6,310,958.88 increment on gold assets of the Exchange Stabilization Fund held in the Secretary's Special Account was transferred by FRB, New York, to the Treasurer's general account.
- f/ The major factors affecting the net loss from operations for the year were estimated losses taken on foreign securities in the amount of \$141,206,953.36 (see footnote b) and losses taken on Special Drawing Rights holdings in the amount of \$42,077,007.83 due to the dollar revaluation. The loss was partially offset by net increases of \$44,295,990.74 in value of foreign currency holdings from dollar revaluation and, interest earnings of \$95,841,620.64 on U.S. investments.
- g/ As stated in footnote e/ to the Balance Sheet for the previous year's audit report, the funds of the Navy have been segregated and shown as a deposit to the Special Account of the Secretary.
- h/ Includes adjustment of \$629,079.00 to prior years' annual leave expense.