4 FAH-2 H-500
PURCHASING FOREIGN CURRENCY

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(TL:DOH-1;   06-13-2001)

4 FAH-2 H-511 INTRODUCTION

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This subchapter prescribes the procedures for purchasing foreign currency to be used for making official disbursements and to conduct accommodation exchange transactions.

4 FAH-2 H-512 RATES OF EXCHANGE

(TL:DOH-1;   06-13-2001)

a. Prevailing rate of exchange.

(1) The prevailing rate of exchange is defined as the most favorable rate legally available to the U.S. government, including diplomatic or special rates established by agreement with the authorities of the country. This rate is also defined as the U.S. disbursing officer (USDO) rate of exchange. The prevailing rate of exchange can be obtained from the daily exchange rate cable issued by the Charleston Financial Service Center.

(2) Foreign currency purchased from commercial sources must be acquired at the most favorable rate available to the U.S. government in accordance with the laws of the country.

b. Various approved rates of exchange.

(1) Floating Exchange Rates—the exchange rate used when financial institutions legally quote competitive prices and the U.S. government can purchase the currency at the best price offered. The USDO should contact at least 3 financial institutions to obtain quotes and then purchase the currency from the financial institution quoting the most favorable rate.

(2) Fixed Rate—the exchange rate used when exchange rates are controlled (set) by the local country and all foreign exchange transactions must be transacted at the established rate. The USDO may purchase the currency from any bank as the rate of exchange will be the same. Normally, the currency is purchased from the bank maintaining the USDO

account.

(3) Rate More Favorable Than The Best Legal Rate—in rare cases, currency can be purchased at a rate more favorable than the best legal rate. This rate, if available, is offered as a result of some type of parallel government to government agreement, such as the Defense Department's Status of Forces Agreement. Prior to purchasing local currency at a rate more favorable than the best legal rate, the USDO must receive a specific authorization from the Department of State (FMP/F/IFS).

(4) Parallel Legal Note—when rates legally applicable to the particular transactions are not fixed, or when such rates are fixed but the use of other rates is also legal then the local currency is purchased at the most favorable rate retainable. When local currency is purchased at non-fixed legal rates, bids for the rate of exchange are informally solicited from at least three sources. The most favorable quote exchange rate is accepted by the USDO. However, if the legally fixed rate is more favorable, the local currency is purchased at the fixed rate. The USDO should maintain a record of formal bids received.

(5) Questionable Rate—The following situations should be reported to the Department of State (FMP/F/IFS) for review: when the local currency is obtained through official sources, and the note of exchange being used is considered to be unsatisfactory or unequitable, and the rate has not been established by United States host country agreement. The post should not raise the question with the host government. Specific authority from the Department of State and the Department of Treasury is required before a U. S. Government representative can approach the authorities of a foreign country for a special exchange rate. Only in very unusual circumstances is this authority granted.

4 FAH-2 H-513 AUTHORITY TO MAKE CURRENCY EXCHANGE TRANSACTIONS

(TL:DOH-1; 06-13-2001)

a. The USDO is a designated agent of the Department of Treasury, authorized to conduct the following types of currency exchange transactions:

(1) Purchase foreign currency with U.S. dollars as required for disbursing purposes.

(2) Sell and exchange foreign currency, checks, drafts, bills of exchange, and other instruments denominated in foreign currency for U.S. dollars.

b. Under certain situations, the USDO may delegate authority to the Class B Cashier to purchase foreign currency with excess cash dollars collected.

(1) This should only be considered in countries where:

(a) The USDO is unable to sell the cash dollars in bulk at a favorable exchange rate.

(b) The local bank will not provide a dollar bank draft for the cash that can be mailed to the USDO for deposit.

(c) The local bank is unable to wire transfer the dollars to the Federal Reserve Bank (FRB) for credit to the U.S. Treasury.

(d) The fee for a dollar bank draft or wire transfer are unreasonably high.

(2) If the USDO delegates authority for the cashier to purchase currency, the following procedures must be observed:

(a) The cashier must notify the USDO each time they plan to make a purchase.

(b) The USDO instructs the cashier to get 3 bids from banks for the purchase.

(c) The cashier calls the USDO and advises the name of the financial institution that quoted the most favorable rate. The USDO must approve the buying institution as reputable before the cashier can settle the purchase.

(d) If desired, the cashier may establish a list of USDO approved institutions prior to the buy so as to avoid delay in the settlement at the time of the quotes. In this case, the cashier must still receive prior approval to make the purchase.

(e) The cashier will record the purchase as an accommodation exchange. Copies of the documentation on the three bids and the settlement of the purchase must be sent to the USDO. Copies must also be maintained in the cashier's office, with a separate file kept for each purchase.

4 FAH-2 H-514 ACQUISITION OF FOREIGN CURRENCY

(TL:DOH-1; 06-13-2001)

a. Policy

(1) Foreign currency must be purchased from a reputable licensed foreign currency exchange dealer.

(2) Foreign currency should be procured at the most advantageous rate that is in compliance with all host country laws.

(3) The USDO should purchase currency only when needed. Balances in all foreign currency bank accounts should be maintained as close to zero as possible, while keeping overdrafts and related charges to a minimum.

(4) The USDO should ensure that there are effective internal controls for the currency purchase and settlement process.

(5) The USDO must keep a separate file for each currency purchase. The file should include the backup documentation for determining how much to purchase, names of the financial institutions from where the USDO obtained three bids, exchange rates quoted, approval of payment request by the USDO, settlement instructions to the banks, and any other documentation supporting the purchase.

b. Determining the amount of foreign currency to be purchased.

(1) There are various “formulas” for computing the requirements for each currency purchase. However, the individual circumstances of each currency should be considered and the “formulas” may have to be overridden from time to time in order to purchase sufficient foreign currency for special immediate needs. The formula, at a minimum, should be based on current available data including the current bank balance, recent checks issued, electronic funds transfer (EFT) payments and collections.

(2) For Overseas Financial Management System (OFMS) users, the USDO should use the “Currency Purchasing Computation Program” (CPCP) to determine the amount of foreign currency to purchase each day. The CPCP software program uses automated data input via data extracts from the official accounting systems (disbursements and collections). After the day’s foreign currency requirements are determined and loaded into the CPCP, the program will display a report that identifies the computed amount of foreign currency that should be purchased (or sold). The amount can be approved by the USDO, or the USDO may change the amount based on factors that may be familiar to the USDO, but not to the system.

c. Buying foreign currency.

(1) The currency purchaser must present the computation paper to the USDO for approval to purchase the calculated amount. Once approved by the USDO, the paper becomes the source document for a payment request. Add-on amounts to the currency purchase letter should be allowed only when initialed by the USDO approving the transaction.

(2) The USDO, or their designated currency purchasing specialist(s), must obtain at least three competitive bids for each currency purchase. The financial institution offering the most favorable exchange rate will be awarded the contract. (This requirement does not apply for those foreign currencies that have a fixed exchange rate and all foreign currency dealers, by law, must quote the same rate.

(3) The USDO should approve all currency purchases, and maintain a record of all bids received, with the accepted bid noted.

4 FAH-2 H-515 SETTLEMENT OF FOREIGN CURRENCY PURCHASE TRANSACTIONS

(TL:DOH-1; 06-13-2001)

a. All settlement instructions to the bank processing the wire funds transfers will be by letter on official financial service center (FSC) letterhead signed by the USDO. The instructions will be signed by the USDO; or if sent via a program, the USDO will approve the facsimile of the instructions. A copy of the instructions will be filed with the documented bids and the requirement computation. If a personal computer (PC) based program furnished by the financial institution is used, it must have been installed, tested, and under the internal controls of the information systems security officer.

b. Payment.

(1) Purchases of foreign currency are usually paid for by a U.S. dollar Treasury check, electronic fund transfer, or an automated clearing house (ACH) payment via Fedline to the bank transferring the foreign currency.

(2) The USDO will review all wire funds transfer instructions to verify that the purchases are supported by proper documentation and that settlement instructions are for the proper financial institution.

c. Verification.

(1) The local financial institution should provide confirmation of the currency purchase to the FSC. The confirmation should include proof of receipt by the gaining financial institution. The FSC currency-purchasing specialist should file the confirmation in the purchase file. If the local bank does not provide confirmation advice, the USDO should develop alternate procedures to ensure that the purchases are received (e.g. calling banks,

reviewing bank statements daily, etc.).

(2) The bank should also send monthly detailed bank statements. The bank statements will be forwarded to the bank reconciliation specialist. This account must be reconciled on a monthly basis.

(3) The total currency purchased each week should be reported in the weekly activity report (WAR).

4 FAH-2 H-516 THROUGH H-519 UNASSIGNED