

## **4 FAH-2 H-500 PURCHASING FOREIGN CURRENCY**

### **4 FAH-2 H-510 PURCHASING FOREIGN CURRENCY**

*(CT:DOH-17; 09-15-2005)  
(Office of Origin: RM/FPRA/FPMC)*

#### **4 FAH-2 H-511 INTRODUCTION**

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

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**

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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, *for the acquisition of foreign exchange for U.S. Government official disbursement and accommodation exchange transactions.* 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) *Fixed Rate - The best legal rate to the U.S. Government, depending upon the circumstances in each country, may be any officially established buying rate for dollars, including diplomatic rates or*

*special rates established by agreement with the authorities of the country. When rates so fixed prevail, foreign exchange should be purchased at the best applicable rates to the particular transaction. Purchases at fixed legal rates may be affected without the formality of obtaining bids, but the purchases should be evidenced by a statement over the signature of the seller setting forth the pertinent data relative to the purchase. This data includes the date, amount of purchase, and exchange rate.*

(2) *Nonfixed Legal Rates - When rates legally applicable to the particular transaction are not fixed, or when such rates are fixed but the use of other rates also is legal for the particular transactions, foreign currency should be purchased at the best obtainable rates. When foreign exchange can be purchased at nonfixed legal rates, bids should be solicited from not less than three sources, if available. The bid quoting the most beneficial legal exchange rate, if it is more favorable than any legally fixed rate, should be accepted.*

c. Questionable Rate. The following situation should be reported to the *RM/GFS/S/DO* for review: the local currency is obtained through official sources, the *rate* of exchange being used is considered to be unsatisfactory or *not equitable*, 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 *USDO* 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**

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- 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 *in exchange* for the cash;
- (c) The local bank is unable to wire transfer the dollars to the Federal Reserve Bank (FRB) for credit to the *USDO symbol with the* U.S. Treasury; *or*
- (d) The fee for a dollar bank draft or wire transfer *is* 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 *three* 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 financial institution must be authorized by the host country.*
- (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 be maintained in the cashier's office, with a separate file kept for each purchase.

## 4 FAH-2 H-514 ACQUISITION OF FOREIGN CURRENCY

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### 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. *Normally, the account should be funded to cover disbursement for no more than 5-7 bank business days.*
- (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.
- (6) *All exchange of dollars for foreign currencies should normally be conducted for "spot" delivery (normally the purchase of foreign currencies for delivery in 2 business days).*

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

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.

### 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) *When the foreign currency can be purchased at nonfixed legal rates or when such rates are fixed but the use of other rates also is legal for the particular transactions, the USDO, or currency purchaser, should obtain at least three bids for each currency purchase. The financial institution offering the most favorable exchange rate will be awarded the contract, if the rate is more favorable than any legally fixed rate. The USDO may grant an exception to the most favorable rate, if funds purchase includes a requirement for physical delivery or pick up that would constitute a threat to personal safety.*
- (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**

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- a. All settlement instructions to the bank processing the wire funds transfers will be by letter on official *RM/GFS Charleston* 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 *funds* 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 *RM/GFS Charleston*. The confirmation should include proof of receipt by the gaining financial institution. The *RM/GFS Charleston* 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.

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