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INTERNATIONAL  
FINANCE

Treasury Has Reduced  
the Number of  
Attachés Overseas



G A O

Accountability \* Integrity \* Reliability

Highlights of [GAO-05-1010](#), a report to congressional requesters

## Why GAO Did This Study

The number of financial attachés that the Department of the Treasury (Treasury) deploys overseas dropped from approximately 30 in 1981 to 7 at the beginning of fiscal year 2005. Treasury has traditionally used financial attachés to monitor and gather information on international economic and financial developments to help shape U.S. international economic policy and to promote U.S. national interests. These attachés are part of the U.S. mission overseas and are typically stationed in U.S. embassies in key countries. Since at least 1981, however, the number of financial attachés placed overseas has been declining in response to changing conditions. Due to congressional interest in these financial attachés, this report describes (1) the role of financial attachés and (2) the process Treasury uses to determine attaché placement.

In commenting on this report, Treasury considered our report to be fair and accurate. Both Treasury and the Department of State provided technical comments, which we incorporated where appropriate.

[www.gao.gov/cgi-bin/getrpt?GAO-05-1010](http://www.gao.gov/cgi-bin/getrpt?GAO-05-1010).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Loren Yager at (202) 512-4347 or [yagerl@gao.gov](mailto:yagerl@gao.gov).

## INTERNATIONAL FINANCE

# Treasury Has Reduced the Number of Attachés Overseas

## What GAO Found

Financial attachés represent Treasury overseas and cover economic and financial issues relevant to U.S. international economic policies and U.S. national interests, although the role and need for financial attachés have evolved. Specifically, financial attachés conduct monitoring and analysis of macroeconomic and financial issues, including those affecting the private sector. Typically, financial attachés interact with host government financial agencies such as the ministries of finance and central banks, as well as with private sector financial entities. Financial attachés typically work in conjunction with the Economic Section of the U.S. mission and usually share the information they collect with other U.S. agencies. In Afghanistan and Iraq, financial attachés are primarily involved in coordinating economic reconstruction efforts. In general, the role of attachés has evolved over time due to changing Treasury priorities, as well as factors such as technological advances in communications. To some extent, these changes have reduced the necessity for some financial attaché posts overseas.

Treasury has recently begun to formalize its process for determining attaché placement. Previously, the placement of Treasury's attachés was accomplished through an informal process, according to Treasury officials. More recently, Treasury has taken steps to formalize its process by specifying placement criteria it will take into consideration relative to overall Treasury priorities. These criteria include whether the United States has major financial interest in a country or whether there is significant U.S. engagement in a country. However, Treasury officials stated that budget constraints have been a primary factor in determining the number of attachés in recent years. Furthermore, projected rising costs are likely to constrain the number of attachés in the future.

Locations of Financial Attachés at the Beginning of Fiscal Year 2005



Sources: Map Art (illustration); information provided by Treasury.

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**Abbreviations**

CSCS	Capital Security Cost-Sharing
DAS	Deputy Assistant Secretary
ESF	Exchange Stabilization Fund
G-8	Group of Eight
IA	(Treasury's) Office of International Affairs
ICASS	International Cooperative Administrative Support Services
IFI	International Financial Institution
IMF	International Monetary Fund
OECD	Organization for Economic Cooperation and Development

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United States Government Accountability Office  
Washington, D.C. 20548

September 23, 2005

The Honorable Michael G. Oxley  
Chairman  
The Honorable Barney Frank  
Ranking Minority Member  
Committee on Financial Services  
House of Representatives

The Honorable Deborah Pryce  
Chairman  
The Honorable Carolyn B. Maloney  
Ranking Minority Member  
Subcommittee on Domestic and International  
Monetary Policy, Trade, and Technology  
Committee on Financial Services  
House of Representatives

The number of financial attachés that the Department of the Treasury (Treasury) has posted overseas dropped from approximately 30 in 1981 to 7 at the beginning of fiscal year 2005. Treasury has traditionally deployed financial attachés overseas to monitor and gather information on international economic and financial developments to help shape U.S. international economic policy and to promote U.S. national interests. These attachés are part of the U.S. mission overseas and are typically stationed in U.S. embassies in key countries. Since at least 1981, however, the number of financial attachés placed overseas has been declining in response to Treasury's changing needs and budgetary constraints.

In response to congressional interest in these financial attachés, this report describes (1) the role of financial attachés and (2) the process Treasury uses to determine attaché placement.

To explain the role of financial attachés and document the placement process for financial attachés, we interviewed officials from Treasury and the Department of State (State) and reviewed documents including key memorandums, budget data, and attaché position descriptions provided by Treasury. At Treasury, we interviewed officials from the Office of International Affairs (IA), which houses financial attachés, as well as all five current and three recently returned financial attachés, for a total of eight officials in the financial attaché role. We also contacted State Economic Section officers in five selected locations on how financial

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attachés function in the context of U.S. missions. Lastly, we met with officials from the Securities Industry Association, an organization that represents various private sector financial companies. Due to time constraints, we were not able to determine the reliability of the budget and other data provided by Treasury. We are providing these data for informational purposes and do not base any conclusions on them. For a more detailed explanation of our scope and methodology, see appendix I. We conducted our work in Washington, D.C., from June 2005 to August 2005 in accordance with generally accepted government auditing standards.

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## Results in Brief

Financial attachés represent Treasury overseas and monitor macroeconomic and financial policy issues that are relevant to U.S. international economic policies and U.S. national interests, although the roles and need for financial attachés have evolved. Specifically, financial attachés conduct macroeconomic monitoring and analysis, such as trends in host country fiscal policies and the stability of its financial system. In addition, financial attachés monitor and try to influence financial issues affecting the private sector, such as banking, taxation, and corporate governance. Typically, financial attachés serve as interlocutors with host government financial agencies such as ministries of finance and central banks, as well as with private sector financial entities. Financial attachés usually work in conjunction with the Economic Section of the U.S. mission, sharing information and complementing each other's area of focus. For example, since financial attachés tend to have specialized knowledge of financial issues, they focus on the financial sector, while State officials in the Economic Section focus more broadly on other sectors of the economy. Financial attachés share the information they collect with State and other U.S. agencies through cables as well as through interagency embassy meetings. In Afghanistan and Iraq, financial attachés are primarily involved in coordinating economic reconstruction efforts such as building the capacity of the central bank and negotiating host country debt issues with international donors. In general, the roles of attachés have evolved over time due to changing Treasury priorities, as well as other factors such as technological advances in communications. To some extent, these changes have reduced the necessity of maintaining the same number of financial attaché posts overseas that Treasury had in the early 1980's.

Treasury has recently begun to formalize its process for determining attaché placement. Previously, the placement of Treasury's attachés was accomplished through an informal process, according to Treasury officials.

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More recently, as it works with a constrained budget, Treasury has taken steps to formalize its process by specifying placement criteria, such as whether the United States has major financial interest in a country or whether there is significant U.S. engagement in a country. However, Treasury officials stated that budget constraints have been a primary factor in determining the number of attachés in recent years. For example, although Russia is both an important source of energy for the United States and a Group of Eight (G-8) partner, Treasury plans to close the Moscow financial attaché post by the end of fiscal year 2005, primarily because of budget constraints and also because this post is of a lower priority compared with some other regions. Furthermore, according to Treasury officials, projected rising costs of attaché posts and overall resource constraints in IA may further constrain the number of attachés in the future.

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## Background

To help shape U.S. international economic policy and promote U.S. national interests, Treasury has placed financial attachés overseas. Financial attachés are part of IA and as such, support its mission to serve the interests of the American people by improving financial stability and security in emerging and world markets, enhancing the functioning of the International Financial Institutions (IFI), and promoting an open and transparent international trade and investment regime.

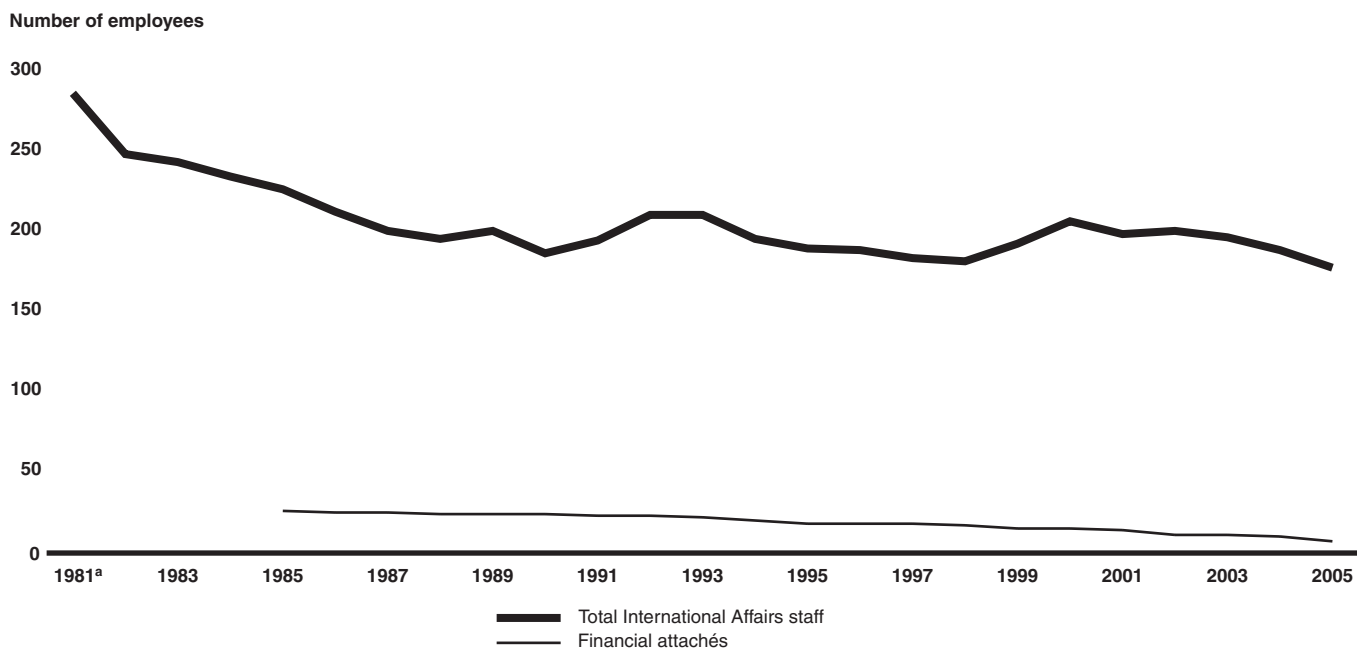
According to Treasury officials, the number of financial attachés placed overseas has been declining since at least 1981, as shown in figure 1. This trend mirrors a decline in overall IA staffing levels. Treasury had used the Exchange Stabilization Fund (ESF)<sup>1</sup> for expenses related to financial attachés until 1978, when Congress passed legislation disallowing use of

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<sup>1</sup>The ESF consists of three types of assets: U.S. dollars, foreign currencies, and Special Drawing Rights. Currently, according to Treasury, the ESF has a total of approximately \$43 billion in these three assets. The ESF can be used to purchase or sell foreign currencies, to hold U.S. foreign exchange and Special Drawing Rights assets, and to provide financing to foreign governments. All operations of the ESF require the explicit authorization of the Secretary of the Treasury. The legal basis of the ESF is the Gold Reserve Act of 1934.

this fund for administrative purposes, including payment of salaries.<sup>2</sup> Since then, Treasury has generally funded attachés out of IA's overall budget.

**Figure 1: Estimated Total International Affairs Staff vs. Financial Attachés (1981-2005)**



Source: Treasury.

<sup>a</sup>Although precise data on attachés were not available prior to 1985, Treasury estimated that it had more than 30 attachés in 1981.

At the beginning of fiscal year 2005, Treasury had seven<sup>3</sup> financial attachés dispersed across South America, Europe, the Middle East, and Asia (see fig. 2). According to Treasury, maintaining attachés overseas cost 12

<sup>2</sup>Public Law 95-612 placed ESF administrative expenses on budget and required that funds for such expenses be appropriated. The enactment of this law was preceded by a 1977 GAO audit, which discussed Treasury's use of ESF funds for administrative expenses. See GAO, *Use of Exchange Stabilization Fund Resources: Arrangement with Treasury Provides Access to Information*, ID-77-42 (Washington, D.C.: September 28, 1977).

<sup>3</sup>Currently, Treasury has five financial attachés overseas, as it recalled the attaché at the Organization for Economic Cooperation and Development in Paris in April 2005, and the attaché in Kabul returned in July 2005 after completing a short-term rotation.



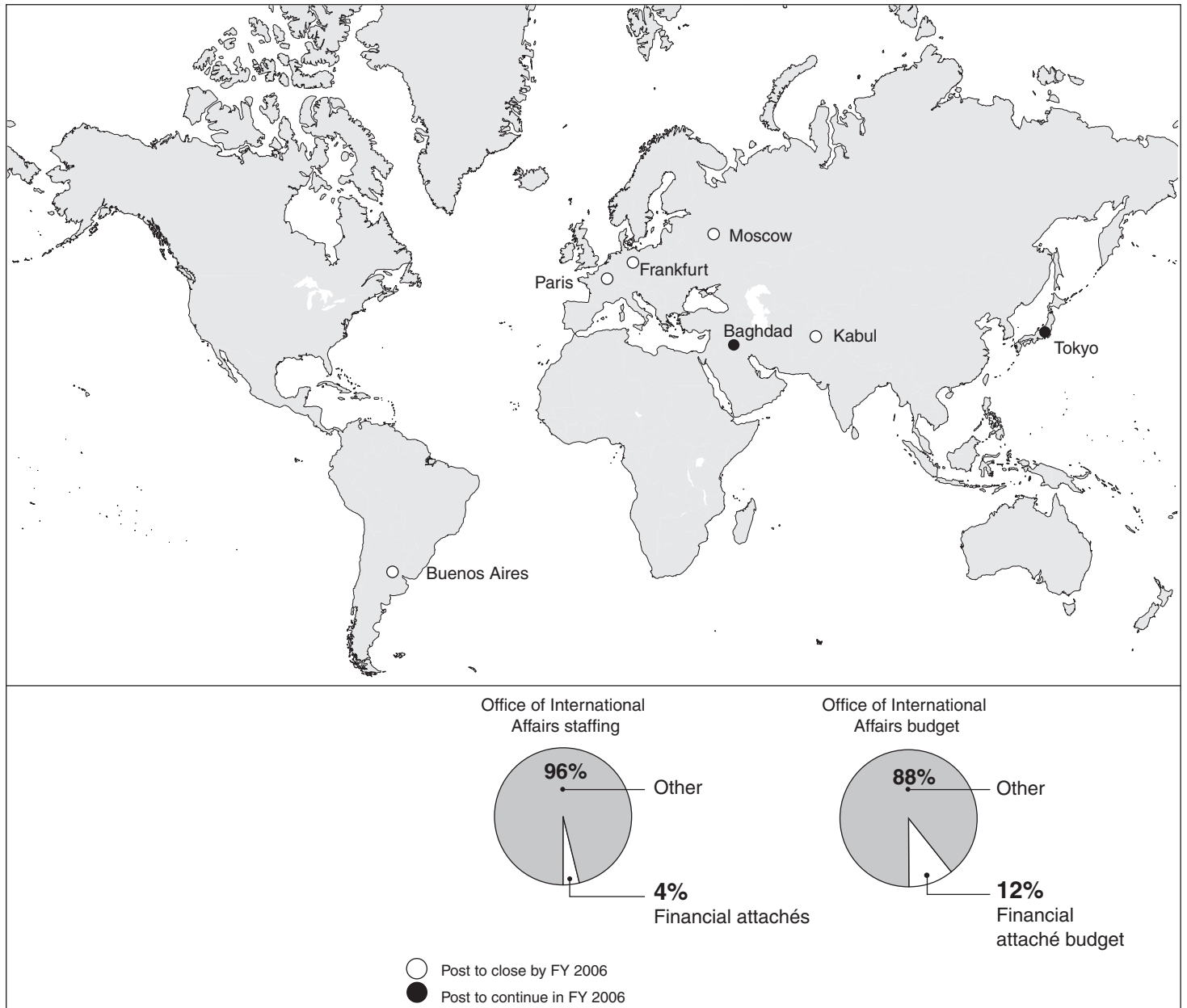
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percent (or \$3.1 million) of IA's total budget of approximately \$26 million for fiscal year 2005, although the financial attachés represented 4 percent<sup>4</sup> of IA's total staff of 175. Treasury has assumed the full cost for five financial attachés, while State has funded costs, excluding salary and benefits, for financial attachés in Baghdad and Kabul. However, Treasury expects to fund the full cost of the attaché in Baghdad in fiscal year 2006.

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<sup>4</sup>This includes two attaché positions funded by State in Baghdad and Afghanistan.

**Figure 2: Locations of Financial Attachés in Fiscal Year 2005<sup>a</sup>**



Sources: Map Art (illustration); information provided by Treasury.

<sup>a</sup>Treasury officials said they plan to establish two new posts in FY 2006.

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According to Treasury estimates, the average annual cost of maintaining an attaché abroad is over \$520,000 in fiscal year 2005.<sup>5</sup> About 70 percent of the annual cost per attaché is comprised of nonsalary expenses such as housing and support staff, as well as shared administrative charges and capital security cost charges assessed by State (see fig. 3). Treasury expects the cost to increase by about \$100,000 per year in part because of State's Capital Security Cost-Sharing (CSCS) program, which is discussed in more detail below.<sup>6</sup> As a result of the increase in costs, Treasury officials estimated that by fiscal year 2008, the annual cost per attaché would exceed \$800,000; and the cost of the current attaché structure would increase from \$3.1 million to \$5.2 million.

Treasury's financial attachés are part of the U.S. mission overseas and are typically housed in the embassy. As such, Treasury incurs administrative and other costs, such as sharing the cost for embassy construction, to maintain overseas posts for financial attachés. Administrative expenses are paid through the International Cooperative Administrative Support Services (ICASS) cost-distribution system, operated primarily by State, which divides cost among different U.S. government agencies and sub-agencies with staff assigned to various posts.<sup>7</sup> In addition to ICASS, agencies are expected to help finance the cost of the embassy construction program through the CSCS, which is expected to ensure that agencies "rightsize" (i.e., assign only the number of staff needed to accomplish their overseas mission). This program would require agencies to share construction costs based on the per capita proportion of total overseas staff and the type of space (controlled access, noncontrolled access, or

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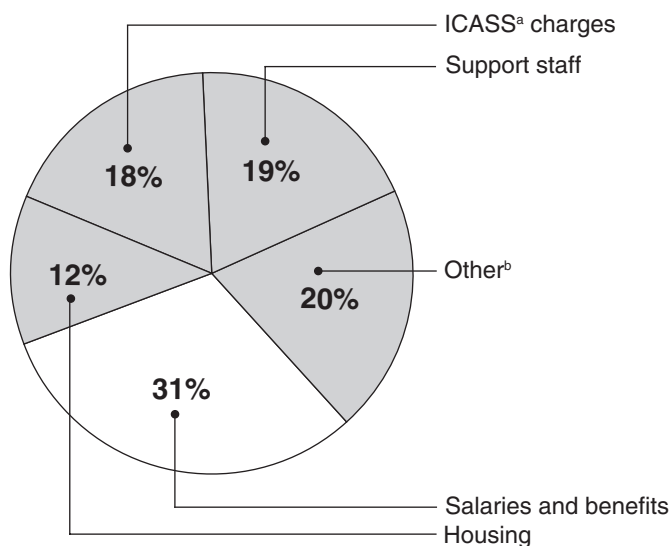
<sup>5</sup>The 2005 average estimated costs per established attaché position vary considerably by location, ranging from about \$330,000 in Buenos Aires to more than \$700,000 in Tokyo.

<sup>6</sup>State's Bureau of Overseas Buildings Operations is engaged in construction and rehabilitation of U.S. embassies and consular compounds abroad to make them more secure. To increase the resources required for this effort, the Bureau has initiated the CSCS, which it expects to cut the projected time to complete the funding for 150 new embassy and consular compounds from 26 to 14 years. (Source: <http://www.state.gov/m/p/results/49532.htm#rightsized>). For more information on CSCS see GAO, *Embassy Construction: Proposed Cost-Sharing Program Could Speed Construction and Reduce Staff Levels, but Some Agencies Have Concerns*, GAO-05-32 (Washington D.C.: November 14, 2004).

<sup>7</sup>For more information on effectiveness of ICASS in delivering services at U.S. overseas missions, see GAO, *Embassy Management: Actions Are Needed to Increase Efficiency and Improve Delivery of Administrative Support Services*, GAO-04-511 (Washington D.C.: September 7, 2004).

nonoffice) they need. As a result, the fiscal year 2007 construction costs borne by non-State agencies, such as Treasury, are expected to be about three and a half times higher than they were in fiscal year 2005.

**Figure 3: Estimated Expense Categories for Cost Per Financial Attaché for FY 2005**



Source: Treasury.

<sup>a</sup>International Cooperative Administrative Support Services.

<sup>b</sup>Other expenses consist of entitlements such as moving costs, and educational and travel allowances (5 percent), Capital Security Cost-Sharing (5 percent), allowances including nonregular compensation such as danger pay (3 percent), travel for field and regional work purposes (3 percent), office support including utilities and subscription charges (3 percent), security charges, including payment for local guard support (1 percent), and other periodic expenses such as storage (1 percent). Percentages do not add up to 100 due to rounding.

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## Attachés Generally Provide Macroeconomic and Financial Policy Perspectives; Role in Afghanistan and Iraq Includes Economic Reconstruction

Macroeconomic and financial policy monitoring and analysis are key functions of financial attachés. Typically, attachés serve as interlocutors with host government financial agencies and private sector financial entities. They also work in conjunction with the Economic Section of the U.S. mission, which complements the role and expertise of financial attachés. In Afghanistan and Iraq, financial attachés are primarily involved in coordinating economic reconstruction efforts. In general, the roles and need for attachés have evolved over time due to changing Treasury priorities, as well as other factors such as technological advances in communications.

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## Attachés Provide a Macroeconomic and Financial Policy Perspective and Supplement Staffing at U.S. Missions

Financial attachés provide a macroeconomic and financial policy perspective to officials at Treasury headquarters as well as to U.S. mission officials. In terms of macroeconomic policy, financial attachés cover important fiscal and monetary trends and developments of the host country or region. Financial attachés monitor and analyze financial issues, including those affecting the private sector, such as banking, taxation, and corporate governance. Attachés may also work on debt issues relating to IFIs such as the International Monetary Fund (IMF), the World Bank, and other multilateral donor organizations. Attachés work closely with officials primarily from host government financial and regulatory institutions such as the ministries of finance and central banks, representatives of IFIs, and private sector financial institutions such as investment and commercial banks. These government and private sector contacts allow attachés to obtain information regarding changes and trends in the economic and financial sectors. According to one Treasury official, attachés are especially important in countries in which economic and financial systems as well as markets are less transparent and hence difficult to understand without close contact with relevant officials and private sector groups in the country.

The attachés use information gleaned from their contacts to support Treasury objectives such as promoting U.S. economic policy and national interests by positively influencing the economic policy and regulatory decisions of the host country, advocating the interests of U.S. financial services companies, and providing intelligence to help shape U.S. international economic policy. The financial attachés with whom we spoke illustrated the impact of their efforts with the following examples:

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- In one country undergoing financial crisis, the financial attaché reported assisting the finance ministry officials in taking actions and developing policies necessary to generate donor support.
  - An attaché in Europe noted his role in facilitating U.S. and European Union regulatory dialogue by staffing meetings for these discussions, preparing briefing papers, and providing input on these developments to Treasury and other U.S. regulatory agency officials.
  - An attaché, who had been working on improving financial regulatory transparency of the host country government, stated that in conjunction with U.S. embassy officials, he convinced the host country to incorporate changes in a new law that otherwise would have increased the legal risk for U.S. companies.

IA expects attachés to function with considerable independence within the policy goals of Treasury, in particular, and the U.S. government in general. However, attachés reported receiving varying degrees of operational direction from IA. For example, in most cases, the attachés reported close operational guidance from IA, while in another case, IA had little involvement in directing the efforts of the attaché. One of the attachés with whom we spoke said that IA provided constructive advice periodically, including guidance on specific technical issues that were new to the attaché.

In addition to their intelligence gathering role, the attachés also provide logistical support for visits by Treasury officials, U.S. government financial regulators, and others, including putting these officials in contact with relevant host country officials. Also, since financial attachés are part of the U.S. mission in the host country, they brief the ambassador on economic and financial issues and may provide specific help as requested by the ambassador.

Treasury's financial attachés usually work closely and are colocated with officials from the Economic Section of the U.S. mission. Despite this proximity, the role of financial attachés can vary significantly from that of State's economic officers, in part because of differences in skills and qualifications, as well as the differing objectives of their agencies. For example, according to both Treasury and State officials, financial attachés have more specialized knowledge of financial issues. In addition, financial attachés tend to be midcareer or senior officials with several years of experience in government or the private sector, whereas economic officers

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usually start at an entry level and work their way up to midcareer and senior levels. However, according to Treasury and State officials, irrespective of rank and experience, many economic officers do not have the level of expertise on financial issues that financial attachés have because economic officers tend to have a broader focus. Furthermore, both Treasury and State officials said that, in large part due to their institutional affiliation with Treasury, financial attachés tend to be well connected to officials in host government financial and regulatory institutions as well as IFIs and that this access would be difficult for economic officers to replicate.

The Treasury and State officials whom we contacted reported little or no overlap in activities of the financial attaché with the economic officers in U.S. missions. These officials reported that financial attachés focus on financial issues, while economic officers often cover other sectors of the economy. Some State officials in the field who currently work with financial attachés noted that without those attachés, the Economic Section can do some of the reporting on financial issues, but it will not be at the level of technical details that financial attachés can provide. Most attachés noted that their work complements that of the Economic Section. In Afghanistan and Iraq, where Treasury has recently placed financial attachés, the attachés noted that there is a good working relationship with the Economic Section, and that division of labor is necessitated by the large number of issues confronting the mission. Additionally, according to State, in U.S. missions where State officials assume the deputy attaché role, information sharing occurs regularly between State and Treasury. However, another attaché noted transition difficulties with the Economic Section when the financial attaché post was established.

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### Attachés Assist with Reconstruction Efforts in Afghanistan and Iraq

Treasury's financial attachés in Afghanistan and Iraq have undertaken roles that are different from their counterparts in areas without conflict. Since these two countries do not have well-functioning financial systems, financial attachés in these countries have been involved in coordinating and guiding technical assistance provided to the host countries on financial and economic issues through U.S. government entities such as Treasury's Office of Technical Assistance and the U.S. Agency for International Development. (See app. II for a description of the differences between financial attachés and the Office of Technical Assistance's technical advisors.)

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Treasury's access to multilateral agencies such as the World Bank and IMF, as well as bilateral donors, has enabled financial attachés to coordinate the efforts of international donors and creditors in Iraq and Afghanistan. For example, former Treasury attachés in Afghanistan stated that they were closely involved in debt reduction negotiations between the Afghan and Russian governments. The Treasury attaché in Iraq has been involved in discussions on Iraqi debt and reconstruction with creditors such as the IMF and the Paris Club.<sup>8</sup> Furthermore, the two financial attachés in Afghanistan, who were posted there at different times, were involved in designing donors' economic assistance strategy as well as the Afghan government's national development strategy. One of the attachés stated that he provided advice on topics such as bank supervision and bank reconstruction, private sector growth, tax administration and policy, and government debt issuance.

The Treasury attaché in Baghdad heads the Iraq Reconstruction Management Office for Fiscal and Financial Affairs, which is engaged in providing technical assistance to Iraqi financial and regulatory institutions, including the Ministry of Finance and central bank. According to the attaché, this office is involved in implementing initiatives such as the national payments system that was designed by the now defunct Coalition Provisional Authority in Iraq. The new payments system, reported the attaché, is intended to increase the efficiency and effectiveness of the Iraqi government as well as the private sector by enabling electronic payments instead of the current cash-based payment system, which was both a logistical challenge and a security risk. Additionally, as the director of fiscal and financial reconstruction, the attaché reported managing the efforts of experts (hired on short-term contracts by State) in helping the Iraqi government with budget formulation and execution. This office is also coordinating with the Iraqi Ministry of Finance to administer and close out contracts issued by the Coalition Provisional Authority, as well as transfer assets—such as schools constructed by the U.S. government—to the Iraqi government.

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<sup>8</sup>The Paris Club is an informal group of official creditors whose role is to find solutions to the payment difficulties experienced by debtor countries. Paris Club creditors agree to provide a country with debt relief through a postponement and, in the case of concessional rescheduling, a reduction in debt service obligations.



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## The Roles and the Need for Financial Attachés Have Evolved

The roles and the need for financial attachés have evolved over time due to changing Treasury priorities and budgetary considerations, as well as factors such as improved communications technology, wider range of information sources, and increased frequency of meetings among economic and finance officials from industrialized countries. Senior Treasury officials stated that while they do not have a sufficient number of financial attachés to adequately cover key financial markets, Treasury does not need as many financial attachés as it had in the early 1980's, due in part to these technological advancements (see fig. 1).

Improvements in communications technology have affected the type of work done by attachés, and, according to attachés, Treasury expects them to provide more nuanced information or detect subtle economic and financial trends that may not be captured by other information sources. Issues such as countering terrorist financing and money-laundering efforts are now of higher priority to Treasury and are part of the portfolio of issues for current financial attachés.<sup>9</sup> Furthermore, while budgetary considerations have contributed to fewer financial attachés in the field, they are expected to cover broader regions. For example, the attaché in Buenos Aires currently covers countries throughout South America. The attaché in Frankfurt covers the various member countries of the European Union, in addition to German financial and regulatory entities.

At the same time that financial attaché roles have evolved, changing economic conditions of countries have also altered the need for attachés in certain posts. For example, one State official in a U.S. mission stated that the need for an attaché in that country has decreased as the country has achieved greater economic stability over time. In addition, according to one Treasury official, forums such as meetings of the Group of Seven industrialized nations provide officials in financial and regulatory institutions opportunities to meet more often and hence may decrease the reliance on financial attachés for information exchange. However, Treasury officials also said that while the need for financial attachés in industrialized nations may have declined, the need for attachés in developing countries seems to have increased. Treasury officials emphasized the need for attachés to engage with emerging markets such as China, India, and Brazil

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<sup>9</sup>Treasury has recently drafted a plan for inclusion in its fiscal year 2007 budget proposal for having attachés jointly funded by IA and the Office of Terrorism and Financial Intelligence. According to Treasury, this would allow for not only a greater number of financial attachés, but would also allow a greater focus on combating terrorist financing.

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and to combat terrorist financing in the Middle East and elsewhere, describing these as major Treasury priorities and U.S. policy imperatives.

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## Treasury Has Begun to Formalize the Process for Determining Attaché Posts, but Budget Constraints Limit the Number of Attachés

Until recently, Treasury determined attaché placement through an informal process, according to Treasury officials. More recently, as it works with a constrained budget, Treasury has taken steps to formalize its process by specifying placement criteria. However, Treasury officials stated that budgetary considerations have been the primary factor in determining the number of attachés in recent years, and projected rising costs are likely to constrain the number of attachés in the future.

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## In the Past, Treasury Used Informal Process to Determine Attaché Posts

The determination of attaché posts has been rather informal, according to Treasury officials, as Treasury has tried to respond to changing needs. These officials went on to say that, although less structured, this process still allowed Treasury to place attachés in posts where it had key priorities. For example, when the Argentine financial crisis occurred in late 2001, the financial attaché in Mexico City was moved to Buenos Aires in response to the emergency and changing priorities in Latin America. Treasury officials stated that IA management conducts much of the discussion surrounding attaché placement through informal e-mails and conversations. According to IA officials, they prefer to use an informal method because the process of opening or closing of attaché posts is sensitive for several reasons. First, the presence of an attaché in a country is considered indicative of the country's relative importance to the United States and thus holds symbolic value. Second, financial attaché positions are highly coveted within Treasury, and officials told us that they use the possibility of attaining a financial attaché position as a recruiting tool. Furthermore, external stakeholders may express a particular interest in maintaining a certain financial attaché post. For example, the U.S. ambassador to the Organization for Economic Cooperation and Development (OECD) stated that maintaining a financial attaché position at the OECD, which Treasury closed in April 2005, supports a variety of U.S. interests.

During the most recent cycle of determining attaché placement, Treasury officials reported considering the views of both external and internal stakeholders. The former included U.S. mission officials as well as the private sector, and the latter included office directors and Deputy Assistant

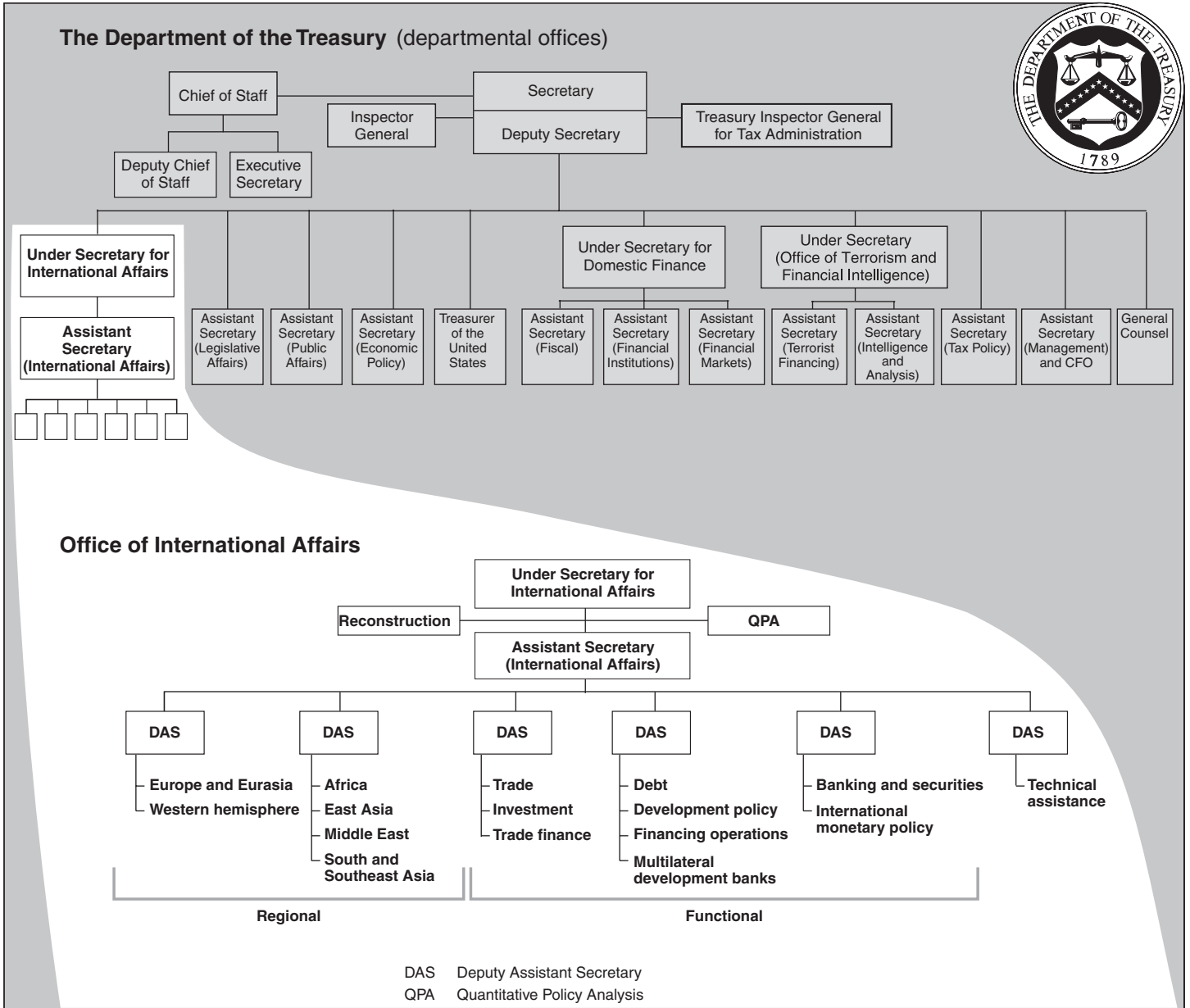
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Secretaries (DAS). The private sector officials with whom we spoke, for example, made it known through various meetings with Treasury officials that they wanted a financial services expert on the ground in key financial market countries. These officials also support legislation to allow more flexible funding of financial attachés.<sup>10</sup> In terms of internal stakeholders, figure 4 shows the organizational chart for IA and its location with respect to other Treasury offices. IA officials said that office directors made their preferences known to their respective DAS by way of narrowly distributed internal memorandums, rather than through a formal report or even a department-wide memorandum. Each DAS, in turn, sent his or her preferences via memorandum to the Under Secretary for International Affairs and to the Secretary. The Secretary of the Treasury makes the final decision on placing attachés.

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<sup>10</sup>See H.R. 3058, 109<sup>th</sup> Cong., 1<sup>st</sup> Sess., which would allow the Secretary of the Treasury to transfer funds from within Treasury accounts for any costs necessary to pay for both career and non-career Senior Executive Service positions and support staff in locations of economic strategic interests throughout the world.

Figure 4: Organizational Chart of Treasury Offices and the Office of International Affairs



Sources: GAO and Department of the Treasury.

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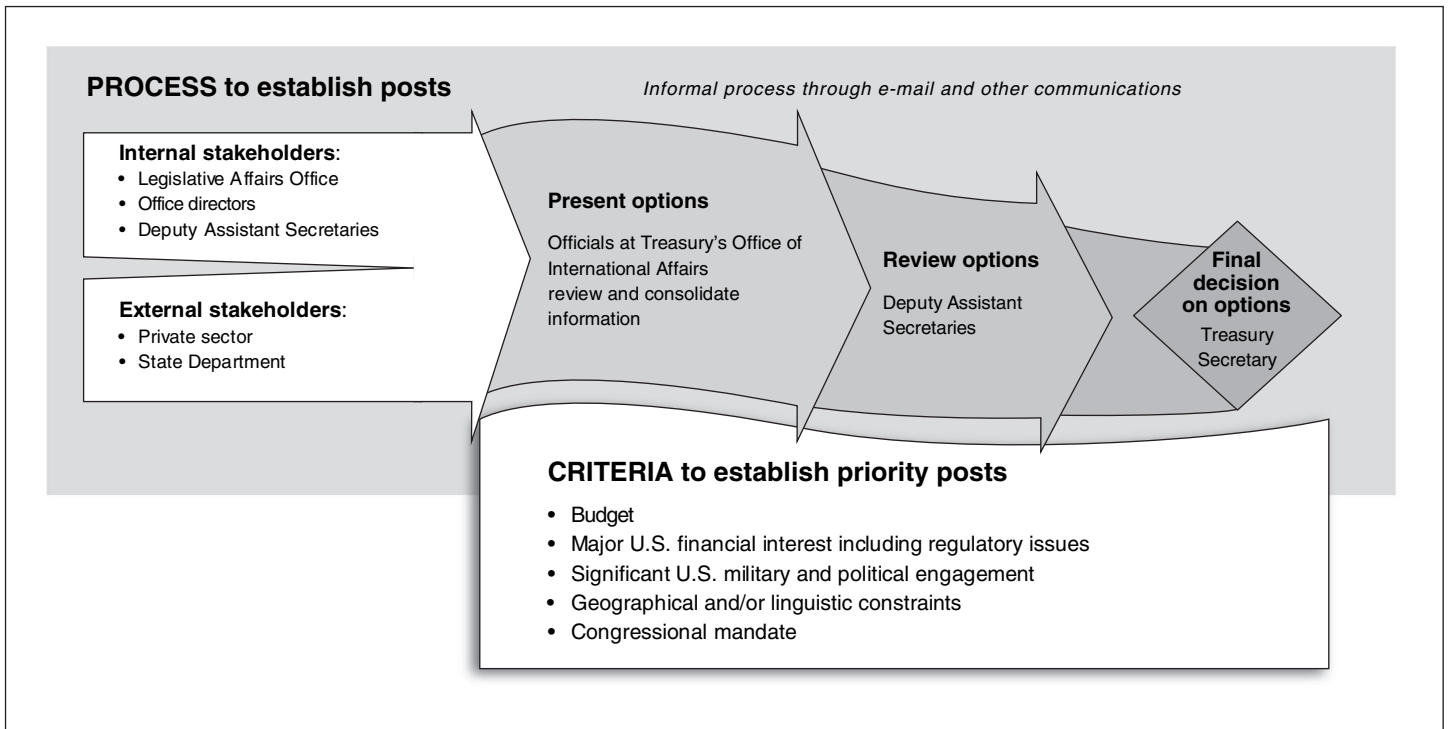
## Treasury Has Taken Steps to Formalize Some Aspects of the Process

Treasury has recently begun to take steps to formalize certain aspects of the process to determine attaché placement. As of June 2005, Treasury decided to formally review the necessity of financial attaché posts either every 2 years or upon the conclusion of the attaché's term of service. Treasury officials reported that they have established criteria for determining priority posts for attaché placement (see fig. 5). These criteria include the following:

- Whether the United States has major financial interest in the country, including regulatory issues and emerging markets;
- Whether there is significant U.S. military or political engagement such as in Iraq and Afghanistan;
- Whether the country is difficult to cover from Washington, D.C., due to time differences or language barriers; and
- Whether Treasury has a congressional mandate to place a financial attaché in a certain post.

These criteria, however, are not given equal weight, according to Treasury officials. For example, officials noted that Treasury would consider major U.S. financial interest in a country of more importance than whether a country is more difficult to cover from Washington, D.C. Furthermore, U.S. military and political engagement geared toward reconstruction efforts, as is the case in Afghanistan, tend to be shorter term. The relative importance of that criterion, therefore, may be temporary and eventually give way to other criteria. Irrespective of the process, however, Treasury officials noted that they continue to consider the IA's overall budgetary resources and other IA priorities before determining priority posts for financial attaché placement. For example, although Russia is both an important source of energy for the United States and is a G-8 partner, Treasury plans to close the Moscow financial attaché post by the end of fiscal year 2005 because of budget constraints and also because this post is of lower priority compared with some other regions.

**Figure 5: Treasury’s Process and Criteria to Establish Financial Attaché Posts**



Source: GAO.

To further formalize the process, IA defined the term of service for a financial attaché as per a memorandum signed by the Secretary of the Treasury in June 2005. According to this memorandum, an attaché can normally expect to serve at a post for a period of 2 years. In the past, some financial attachés have stayed at a post for 5 years or more. Treasury officials noted that limiting the term of attachés would allow IA to provide more employees the professional development opportunity afforded by the attaché position. Furthermore, rotating staff more often through financial attaché positions could be used as an incentive for employee retention.

### Rising Cost of Overseas Presence Constrain the Number of Financial Attaché Posts

Treasury’s overall IA budget has implications for the number of financial attaché posts it can maintain overseas. Specifically, a relatively constant IA budget, coupled with the increasing cost of maintaining attachés overseas, has forced Treasury to make trade-offs between the number of financial attachés and the number of IA staff at headquarters, according to Treasury

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officials. In addition, these officials said that the demands on IA resources have gone up considerably, while the overall staffing level of this office has been declining since at least 1981 (as shown in fig. 1). Treasury officials cited a study, conducted by a private company in 2002, that recommended a minimum IA staffing level of 220. Currently, however, this office has a staffing level of 175. Treasury officials noted that understaffing at headquarters has limited IA's flexibility in reassigning staff to important areas and adopting a strategic approach. For example, there are three desk officers for Africa, and on average each desk officer covers 10 to 20 countries. IA officials noted that it is difficult to cover so many countries effectively. Furthermore, one financial attaché also noted that IA may not be effectively using the information that attachés provide.

Treasury officials said that they expect the cost of maintaining overseas posts to increase due to cost-sharing programs such as ICASS and CSCS. Hence, one of the trade-offs Treasury officials are considering is to reduce the number of attachés to two by fiscal year 2008. Although they are considering reducing the overall number of attaché posts, Treasury officials are planning to open new posts and close some existing ones in response to changing priorities. However, Treasury officials noted that closing some existing posts would significantly reduce their ability to carry out policy mandates in those regions. In at least one such proposed closure, Treasury expects both the host government and a U.S. private sector industry association to lobby strongly against the closure of the attaché office. State officials as well representatives from the industry association confirmed this response.

Reducing the number of attaché positions, however, would allow Treasury to send staff from Washington overseas on temporary duty more often, according to Treasury officials, as the cost of sending an employee on temporary duty every 2 months would be less than half the cost of maintaining an attaché position. At the same time, Treasury officials noted that relying primarily on short-term travel rather than maintaining an attaché position overseas may not allow staff to develop the necessary contact and expertise in the given region. According to the OECD ambassador, a group of senior Treasury officials could travel for ministerial meetings, but the U.S. mission to the OECD needs a financial attaché weeks or months in advance to undertake the preparatory work leading up to those meetings. Two attachés with whom we spoke also expressed concerns about Treasury's ability to fund more travel. Treasury officials in Washington noted that IA's overall travel budget in fiscal year 2005 is capped internally at \$1.2 million, and IA has noted other program priorities

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for which funds saved from attaché post closures would be used. These other priorities include more engagement with key emerging markets in Asia and focusing on economic development initiatives in the Middle East, by hiring economists at headquarters that focus on these regions and issues. Given these other IA priorities, according to Treasury officials, travel fund limits may further restrict the attaché functions that could be undertaken by staff in Washington.

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## Agency Comments and Our Evaluation

We provided a draft of this report to the Departments of the Treasury and State. Treasury considered our report to be fair and accurate. Both Treasury and State provided technical comments, which we have incorporated where appropriate.

We are sending copies of this report to the Secretaries of the Treasury and State, and interested congressional committees. We will make copies available to other interested parties upon request. In addition, this report will be available on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-4347 or [yagerl@gao.gov](mailto:yagerl@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix III.



Loren Yager  
Director, International Affairs and Trade



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# Objectives, Scope, and Methodology

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To explain the role of financial attachés, we interviewed officials at the Department of the Treasury's (Treasury) Office of International Affairs (IA) in Washington, D.C., as well as contacted all five current financial attachés posted overseas. In addition, we interviewed three former financial attachés who recently returned to Washington. We reviewed position descriptions and other Treasury documents on financial attachés. Treasury officials provided us with data on the number of total IA staff from 1981 to 2005 and the number of attachés from 1985 to 2001. Treasury was not able to provide precise figures for attachés prior to 1985 but did give us an estimate for the number of attachés in 1981. We did not assess the reliability of these data because we used them as background to our researchable objectives. In addition, since Treasury officials could not provide accurate locations prior to fiscal year 2002, we are unable to authoritatively comment on how changes in attaché posts have paralleled Treasury's changing priorities or lack thereof. Furthermore, we interviewed officials from the Department of State (State), as well as obtained information from officials in four U.S. missions, of which three have financial attachés, to assess the role of financial attachés within the context of U.S. missions and understand how the State Economic Section of U.S. missions either works with financial attachés or substitutes for them in locations that lack a financial attaché. Due to time constraints, we could only contact State officials in five posts, including one post where there is not a financial attaché. As a result, we are unable to comprehensively describe the extent to which State Economic Sections currently fulfill the financial attaché role in U.S. missions that lack a financial attaché.

To document the financial attaché placement process, we interviewed officials from IA and reviewed relevant memorandums and documents. To understand how resource requirements and budgetary considerations affect attaché placement decisions, we reviewed various planning, cost, and budget-related documents provided by Treasury. To assess the reliability of the cost data, we considered the specific expense categories for reasonableness, and compared the categories to other sources of data when that was possible. However, we were unable to determine fully the reliability of the cost data due to time constraints. We are using these data to provide details into Treasury's position about the high costs of maintaining attaches overseas. No conclusions rely upon these data. To obtain the perspective of the private sector on the financial attaché placement and role, we interviewed officials from the Securities Industry Association. We also interviewed the U.S. ambassador to the Organization for Economic Cooperation and Development, where Treasury recently

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**Appendix I**  
**Objectives, Scope, and Methodology**

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closed an attaché post. Additionally, due to time constraints and the scope of this engagement, we did not undertake any travel to relevant financial attaché posts. We conducted our work in Washington, D.C., from June 2005 to August 2005 in accordance with generally accepted government auditing standards.

# Comparison of Financial Attachés and Technical Advisors

While some financial attachés have served in the capacity of technical advisors with Treasury’s Office of Technical Assistance, and other attachés, specifically those in Afghanistan and Iraq, see their role as guiding and coordinating the efforts of technical advisors, the role of a financial attaché differs in some key respects from a technical advisor, as summarized in table 1 below:

**Table 1: Key Differences between Treasury’s Financial Attaché vs. Technical Advisor**

<b>Financial attaché</b>	<b>Technical advisor</b>
Primarily engaged in broad policy functions relating to economic and financial issues, such as influencing host country policies and regulations, as well as helping shape U.S. economic policy; relies on networks of contacts within key host country institutions	Advises other governments on specific issues such as pension reforms, money-laundering, etc.
Advocates U.S. interests and policies	Does not engage in advocacy of U.S. interests
Tends to work closely and is colocated with U.S. embassy officials, especially in the Economic Section	Tends to be located in host country institutions, such as the Ministry of Finance, administering technical advice
Primarily stationed in areas where the United States has significant economic and financial interest	Not necessarily in locations where the United States has the greatest financial interests
In the past, some financial attachés have stayed at a post for 5 years or more (new policy would make a typical posting for a 2-year term)	Duration of assignments range from months to several years

Source: Based on information provided by Treasury officials.

# GAO Contact and Staff Acknowledgments

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**Staff  
Acknowledgments**

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