UNITED STATES GENERAL ACCOUNTING OFFICE
INTERNATIONAL DIVISION
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AUG 21 1969

Honorable Edward E. Johnston
U.S. High Commissioner
Trust Territory of the Pacific Islands
Saipan, Mariana Islands 96950

Dear Mr. Johnston:

We have completed a review of education allowance grants made to Trust Territory Government employees. Our review disclosed that weaknesses existed in the administration of these education allowance grants which may have resulted in unnecessary expense to the Trust Territory Government.

We examined the applicable policies governing the education allowance grant and reviewed the practices and procedures followed in administering the grants. Trust Territory Government policy is to follow the Standardized Regulations (Government Civilians, Foreign Areas), issued by the Secretary of State, which prescribes the payment of differentials and other allowances to eligible Government civilians serving in foreign areas.

The education allowance is designed to assist an employee in meeting the extraordinary and necessary expenses, not otherwise compensated for, incurred by reason of his service in a foreign area in providing adequate elementary and secondary education, ordinarily provided without charge by the public schools in the United States, for his children. In those cases where adequate schools are not available at the employee's post, the costs of room and board and periodic transportation between such posts and the locality where the least expensive, adequate school is available are provided for. It has been determined that no adequate schools are available in the Trust Territory and maximum rates of $150 per year for schools at post and $2,200 per year for schools away from post, per child, have been made available to eligible Trust Territory employees.

Our review was primarily concerned with education allowances granted for study at schools outside of the Trust Territory. In this connection, we noted that the regulations state that an

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employee is free to select any school for his children, but may not receive an amount greater than that related to costs of attending the least expensive, adequate school. According to the regulations, grants may be made to employees on the basis of estimates of cost for tuition, books, and supplies, required fees, room and board, and transportation for eligible children.

We noted several areas where the Trust Territory has granted education allowances apparently contrary to established policy, which we believe are in need of corrective action. They are: (1) the need to reexamine determinations of eligibility; (2) the need to verify estimates of educational expenses claimed; (3) the need to utilize applicable air transportation discount rates; (4) the need to improve the examination of applications (claims); and (5) the need to seek clarification of allowable expenses.

Our observations are discussed in more detail below.

NEED TO REEXAMINE DETERMINATIONS OF ELIGIBILITY

We found that the Trust Territory has made grants to employees for the education of children whose eligibility is questionable. Eligibility of children is determined by meeting the following conditions: (1) age (5 years 8 months up to age 21 years old), (2) education desired (elementary and secondary), and (3) residence (a member of the family residing at the employee's post).

In 1963 the Trust Territory Government, presumably in an effort to clarify eligibility for education allowances on behalf of dependent children under various conditions of family residence away from the post, presented several problems of this nature to the Office of Territories. The subsequent reply referred to a State Department letter that noted in part, "If family is determined not to be residing at the employee's post, then he is not eligible for allowances to be paid on their behalf."

The letter also discussed the conditions that would determine eligibility for education allowances when the mother left the post to reside with the children away from the duty post. Essentially, the condition determining eligibility is that the absence of the mother from the duty post be purely for the care and education of the children. The letter particularly noted that if the mother and children reside in the mother's hometown for this purpose, it would be difficult to establish that their residence was actually established at the post.

Our review indicated that the Trust Territory may not be complying with the education allowance policy despite the clarification from the State Department. We noted several cases where Trust Territory employees received educational allowances for children who have never resided in the Trust Territory. For example, a Trust Territory employee has over a period of 2 years received a total of about $3,600 for the education of two children from a former marriage who have never been in the Trust Territory.

In addition, employees whose wives and children no longer reside in the Trust Territory continue to receive education allowances. For instance, an employee received a grant of $2,123.30 for the 1968-69 school year to assist in defraying the costs of educating his daughter, even though his family had returned to the United States in August 1967 and has since remained there.

In other cases, payments involved wives who leave the duty post and accompany their children for schooling, but not purely for that reason. In one instance an employee received $4,543.30 in education allowances for the 1968-69 school year although his wife has been residing on Guam since February 1969 primarily for the purpose of attending the University of Guam as a scholarship recipient. She and two of their children are living with her parents, while a third child is attending elementary school in California.

In discussing these cases with responsible officials of the Trust Territory, we were told that they were unaware of the letter from the State Department clarifying the question of eligibility with regard to residence of the family. They indicated that the basis for determining eligibility rested in the Standardized Regulations and that payments were made accordingly. We were also informed that payment to employees for several questionable claims had been made on the basis that previous allowances had already been granted and they were thus presumably eligible.

We were further advised that the Trust Territory is re-evaluating the question of eligibility requirements under the regulations. In March 1969, the Personnel Officer of the Trust Territory sought assistance from the Office of Territories in verifying:

"*** a 'new' interpretation of the education allowance by the Trust Territory Director of Budget and Finance who is of the opinion that the Trust Territory may not pay an education allowance for a dependent child of a Trust Territory employee, when that child has never resided in the Trust Territory. This is based on the definition of 'family' in Chapter 040m, Standardized Regulation which is said to include 'one or more of the following relatives of an employee residing at his post.'"

He went on to note that:

"In the past we have not recognized this regulatory requirement and we now have employees with children in school who have never been in the Trust Territory. Furthermore, we have new claims pending, which likewise cannot be honored, if this interpretation is correct."

Based on our review, we believe that the Trust Territory does not have sufficiently clear criteria for determining the eligibility for education allowances and may be incurring unnecessary costs as a result.

We found seven cases, amounting to about $23,500, where education allowances were granted for possibly ineligible dependents. However, this does not represent a complete audit of all education allowances granted recently. An extensive review of the necessary records may result in more questionable grants of this nature.

We believe, therefore, that there is a need for Trust Territory officials to establish in writing objective and authoritative criteria for ascertaining whether a family, or child, is considered as residing at an employee's post of duty for purposes of receiving an educational allowance.

We recommend that Trust Territory officials reexamine the determinations of eligibility and, where such reexamination shows it would be appropriate, to take action to recover funds.

In connection with our recommendations, responsible Trust Territory officials assured us that they would recover funds where the facts indicate children were ineligible. They also stated their intention to correct the faulty practices and procedures which have allowed the payment of education allowances for ineligible children.

NEED TO VERIFY ESTIMATES OF
EDUCATIONAL EXPENSES CLAIMED

We found that because estimated educational expenses claimed were not being verified the Trust Territory may be incurring unnecessary costs.

According to the Standardized Regulations, Section 273, an application for an education allowance may include estimates of costs for tuition, books and supplies, required fees, room and board, and transportation. While the regulations do not require receipts, the officer designated to authorize allowances is required to authorize smaller amounts when he determines that the employee's expenses for education justify such lesser amounts.

Trust Territory practice is to process applications for educational allowances based on estimated costs. Documentation is not required to support the cost estimates at the time of application and the claims are examined and paid on the basis of the estimates. No receipts or other records are later required to justify the cost estimates submitted.

We found that as a result of this practice there is no assurance that: (1) only allowable estimates are paid; and (2) the expenses claimed are actually incurred.

An example of payment for unallowable fees is that made for a dormitory fee of $40, which according to school officials is not a required fee. In another case an employee was paid for a claim including a room deposit fee of $40. We learned that this is simply a deposit to reserve a room and upon matriculation is applied to the comprehensive room, board, and tuition fee which he had already claimed. Thus, we believe that without adequate documentation to support expenses claimed the authorizing officer would not be able to determine if the expenses claimed are allowable.

We found instances where employees have claimed estimated expenses that they have not incurred. For example, an employee claimed estimated transportation costs of $866 for his son who has never been to the Trust Territory. Other examples include an employee who claimed estimated expenses of $1,450 for comprehensive room, board, and tuition fees, when actual charges were $1,250. Another employee received $200 more than he was entitled to because he claimed the full comprehensive fee for his son, even though he received the $200 discount the school offers when two children from the same family are enrolled concurrently.

In essence, employees are receiving education allowance grants generally based on inadequately supported cost estimates which are not subject to reductions even though actual expenses may later justify such action. Thus, despite the requirement that the authorizing officer reduce the amounts of grants when expenses justify lesser amounts, present practice precludes this determination because estimated expenses are not verified. Therefore, while we realize that the nature of many of the costs involved allow only estimates at the time most applications are filed, we believe that this increases the need to at least test the validity of these estimated expenses to conform with sound financial management practices.

Accordingly, we recommend that the Trust Territory authorizing officer test the validity of estimated expenses and where he has reason to believe that the costs incurred may vary significantly from the estimate, the claimant be required to provide suitable documentation in support of the claim.

In response to our recommendations, Trust Territory officials have proposed new procedures governing payment of education allowances that would require documented receipts.

NEED TO UTILIZE APPLICABLE AIR TRANSPORTATION DISCOUNT RATES

The Standardized Regulations, Section 270, Education Allowance, does not include reference to the need to utilize student transportation rates. However, Section 285 dealing with educational travel states, "Student transportation rates, if available, shall be authorized. If student rates are not available, but other transportation is available at lower than first class fares, these lower rates shall be authorized."

Student discount rates are available in the Trust Territory at substantial savings. Formerly, discounts varied between the districts and Honolulu. The discounts were about 30 percent from Majuro, 28 percent from Ponape, etc. Present discounts are 50 percent from all points in the Trust Territory. In addition, youth fare discounts on a standby basis are available between Hawaii and points in the continental United States. Although the Trust Territory is aware of the existence of student discount rates, employees are not required to utilize them. In fact, we discovered that applications claiming student rates have been processed and paid while at the same time others claiming full fare are being honored.

The result is that the Government is incurring unnecessary expense even though the Trust Territory is aware of this fact. Furthermore, at the time of our review no steps had been taken to inform employees that the newer, more liberal student discounts were available and that they should utilize them for their returning children.

A related aspect which is resulting in unnecessary expense is that the Trust Territory does not require employees to take advantage of round trip discount rates where applicable. As in the case of student discount rates, applications have been processed and paid for both those utilizing the discounts and those failing to do so.

Therefore, we recommend that the Trust Territory Government only authorize the payment of full air fares when use of student air fares are not practicable and that all employees be notified that student discount rates should be utilized whenever available. In addition, we recommend that the Trust Territory Government require round trip ticketing whenever applicable.

NEED TO IMPROVE EXAMINATION OF APPLICATIONS

Ineffective examination of applications has led to overpayments to employees. The problems generally result (1) from approving claims in excess of authorized amounts, and (2) from allowing questionable expenses.

Trust Territory policy is to limit reimbursements for room and board at a private residence to $125 per month per child up to a maximum of 9 months. However, examination of processed applications revealed that in several instances, employees received more than this maximum. For example, an employee claimed and received payment for room and board expenses of $1,323.60 for one child and $1,377.00 for another despite the limitation of $1,125 (9 x $125).

Regulations state that applications may include estimates of costs for tuition, books and supplies, required fees, room and board, and transportation. However, our review disclosed that employees were reimbursed for estimates of costs not covered in the regulations. The costs of uniforms and laundry were being allowed. Furthermore, employees were receiving funds up to $150 simply by claiming on their applications "miscellaneous" expenses.

The result to the Government is unwarranted expense due to ineffective examination of applications. Accordingly, we believe the Trust Territory should take the necessary steps to improve the examination of applications to ensure that only allowable expenses within the maximum prescribed limits are paid.

NEED TO SEEK CLARIFICATION OF ALLOWABLE ITEMS

The education allowance is designed to assist the employee in meeting the extraordinary and necessary expenses of obtaining educational services, ordinarily provided without charge by the public schools in the United States. However, we found that the Trust Territory is approving for payment, education expenses that are normally not provided without charge by public schools in the United States. In several instances, payments were made for expenses charged by public schools.

Trust Territory practice is to allow within the maximum education allowance rate, all expenses that may fall into one of the following categories: tuition, books, supplies, required fees, transportation, and room and board. According to Trust Territory officials this practice is in conformance with Section 273 of the Standardized Regulations.

We agree that Section 273 does allow an employee to file estimates of costs for the expenses noted above. However, we believe that while expenses in those categories may be allowable, certain of them would also have to fit the criteria of being ordinarily provided without charge by public schools in the United States.

Discussion with the State Department revealed that the expense categories, particularly dealing with required fees, books, supplies, and board, would have to meet the criteria of being ordinarily provided without charge by public schools in the United States.

The State Department informed us that school lunches were not allowable as a reimbursable expense because lunches are not ordinarily provided without charge by public schools. According to the State Department, student dues, locker fees, visas, passports, and other similar items are not allowable expenses.

Therefore, we believe that the Trust Territory has reimbursed employees for unallowable expenses. We recommend that the Trust Territory seek clarification from the State Department on the definitions of allowable expenses and to the extent that unallowable items are identified, take action to recover past payments for such items.

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Copies of this report are being sent to the Director, Office of Territories. We would appreciate your advice on the actions taken in response to the matters discussed in this report. In particular, we request that you provide us with information on the refunds obtained for past overpayments.

We wish to acknowledge the courtesy and cooperation extended our representatives during the review.

Sincerely yours,

C Gould

C. Roman
Director,