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Authority: Foreign Military Sales Act of 1968 (22 U.S.C. 2761).

The extent to which the DOD incurred millions of dollars of nonrecovered costs in training foreign students was examined. Findings/Conclusions: In the Army, estimated undercharges were $18.7 million in 1975. In the same year, Air Force training costs totaled $11.7 million at only one of eight pilot training installations. Both the Army and Air Force pricing systems excluded appreciable costs. Although the Navy's pricing procedures for training foreign students were designed to recover the full cost, the Navy did not recover about $2.7 million in costs to foreign governments during 1975. The Marine Corps did not charge foreign governments for training. The DOD failed to provide adequate guidance on the pricing of foreign training so that each of the military services developed its own guidelines. The procedures used by the military services for accounting, billing, collecting, and depositing of receipts need substantial improvement. Recommendations: The Secretaries of the Army, Navy, and Air Force should attempt recovery of those amounts which should have been included in tuition rates billed to foreign governments. (RRS)

REPORT TO THE CONGRESS

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

Millions Of Dollars Of Costs Incurred In Training Foreign Military Students Have Not Been Recovered

Department of Defense

Many millions of dollars of costs incurred in training foreign students have not been recovered by the United States due to faulty pricing, billing, and collecting systems. In the Army alone such unrecovered costs totaled about $18.7 million during fiscal year 1975.

The Department of Defense took action to improve pricing, but subsequently made major reductions to tuition prices, effective October 1, 1976, despite objections by the House and Senate Committees on Appropriations.

The recovery from foreign governments of the full cost of training is required by law. GAO is therefore recommending that the Department rescind the order to reduce tuition prices and attempt to recover from foreign governments amounts that should have been billed but were not.

FGMSD-76-91

DEC. 14, 1976

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-159835

To the President of the Senate and the
Speaker of the House of Representatives

This report discusses the extent to which the U.S. Government has not recovered the cost of training foreign military students and the problems in accounting, billing, collecting, and depositing of training reimbursements.

Our review was made pursuant to a request from Congressman George H. Mahon, Chairman of the House Committee on Appropriations. At the request of the Office of the Chairman, we did not ask the Department of Defense for formal written comments on this report. We did, however, informally discuss the contents of the report with Defense officials. Where appropriate their comments are included.

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of Defense; and the Secretaries of the Army, Navy, and Air Force.

Comptroller General
of the United States

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COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

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DIGEST

The Foreign Military Sales Act, recently renamed the Arms Export Control Act, requires that the U.S. Government be reimbursed by foreign countries for the cost of training provided to foreign students. However, many millions of dollars of costs incurred in training foreign students have not been recovered by the Department of Defense because of deficiencies in the military services' procedures for (1) pricing training courses and (2) billing and collecting reimbursements.

Concerning the pricing of training courses GAO found that:

--Although the law and the contracts with foreign governments in effect during GAO's review provided, respectively, that the value and total cost be recovered, Air Force and Army procedures omitted certain costs. As a result, these services did not recover millions of dollars incurred in training foreign students. In the Army, estimated undercharges totaled $18.7 million in fiscal year 1975. In the Air Force, at one of eight undergraduate pilot training installations alone, about $11.7 million in foreign training costs incurred during fiscal year 1975 were not recovered. (See pp. 3 to 9.)

--Although the Navy's pricing policy provided for recovering the full cost of training foreign students, about $2.7 million in costs incurred during fiscal year 1975 were not charged. (See p. 9.)

--The Marine Corps had a policy of not charging for training provided to foreign students. For example, during the 6-month period ending December 31, 1975, foreign governments received, at no charge, training valued at $252,000. (See pp. 9 and 10.)

GAO recommends that the Secretary of Defense direct the Army, Navy, and Air Force to attempt recovery of those amounts which should have been included in tuition rates billed foreign countries.

Also, in a report to the Director, Defense Security Assistance Agency (B-165731, July 15, 1976), GAO recommended that the Marine Corps attempt to recover the costs of all training provided foreign countries without charge during fiscal years 1974 through 1976.

Pricing problems have arisen because the Department of Defense had not provided adequate pricing guidance to the military services. Each military service had developed pricing procedures based on its own interpretation of the law. For example, the Navy charged $282,000 for each student attending undergraduate pilot training during fiscal year 1975, whereas the Air Force charged only $81,000 for each student.

On November 5, 1975, the Department of Defense, reacting to congressional and GAO concern over the pricing of foreign training, specified the cost elements to be included when establishing prices for training courses. This guidance generally resulted in improved pricing of training courses.

On August 12, 1976, however, the Department of Defense notified the Chairmen of the House and Senate Committees on Appropriations that the sudden and substantial increase in prices resulting from the November 5, 1975, guidelines had a drastic impact on foreign training, and that the Department was going to make substantial reductions in tuition rates. (See app. III.)

Both Committees informed the Department that they objected to the reduction in tuition rates and that Department of Defense appropriations would be reduced by amounts equal to reimbursements lost through failure to make appropriate charges to foreign governments. However, despite the Committees' objections, on September 28, 1976, the Department issued guidance to reduce tuition rates effective October 1, 1976.

The Department's reduction in tuition rates does not meet the requirement of the Arms Export Control Act that the U.S. Government be reimbursed for the full cost of providing foreign training. GAO recommends that the Secretary of Defense rescind the decision to reduce tuition rates.

In addition to pricing problems, GAO found that the procedures used by the military services for accounting, billing, collecting, and depositing of receipts needed substantial improvement. For example:

--During fiscal year 1975, the Air Force underbilled foreign governments by at at least $5.7 million because it used outdated tuition rates. The Army and Navy also used outdated tuition rates for their billings. (See pp. 19 to 23.)

--The Navy did not bill a foreign government for $250,000 because the billing organization did not know about four of the students who had received training during fiscal years 1974 and 1975. (See pp. 23 and 24.)

--The Navy took an average of 291 calendar days to bill, collect, and deposit receipts from foreign governments. As a result, the U.S. Government did not have use of these funds and therefore could have incurred additional interest costs. Further, there were appreciable delays in the reimbursement of training organization appropriations which financed the cost of training. (See pp. 24 to 26.)

--The Army did not promptly collect from foreign governments at least $2.7 million for training and therefore the U.S. Government could have incurred additional interest costs.

Also, it did not promptly reimburse its training organizations' appropriations. (See pp. 26 to 28.)

--During fiscal years 1974 and 1975, the Air Force erroneously credited its Military Personnel appropriation with $5.4 million in reimbursements which should have been credited to the Miscellaneous Receipts account of the Treasury. Also, the Army erroneously credited a procurement appropriation with at least $350,000 in reimbursements which should have been credited to the Miscellaneous Receipts account of the Treasury. These actions resulted in improperly increasing the services' appropriated funds. (See pp. 28 to 30.)

Each of the military services has taken action to improve its procedures for accounting, billing, collecting, and depositing receipts. For instance, acting on GAO's recommendation, the Air Force changed its billing system in order that only current tuition rates were billed foreign governments for training. GAO estimated that as a result of these changes, the Air Force would collect an additional $17.3 million in revenues from foreign governments during fiscal year 1976. The Air Force and Navy have taken action to recover amounts that were underbilled and the Marine Corps has indicated that it also plans to take such action.

GAO recommends that the Secretary of Defense require the Army to attempt to recover from foreign governments amounts that were underbilled due to use of outdated tuition rates. GAO is making several recommendations to help insure that receipts from foreign governments for training are credited to the proper appropriation and that all students provided training are included in billings to foreign governments.

GAO's review was made pursuant to a request from Congressman George H. Mahon, Chairman of the House Committee on Appropriations. At the request of the Office of the Chairman, GAO did not ask the Defense Department for formal written comments on this report.

GAO did, however, informally discuss the contents of this report with Defense officials, and where appropriate their comments are included.

CHAPTER 1

INTRODUCTION

In May 1975, Congressman George H. Mahon, Chairman of the House Committee on Appropriations requested us to review reimbursable collections made by the Department of Defense for services provided to foreign nations related to (1) the sale of equipment and (2) the training of foreign military personnel. (See app. I.)

The Office of the Chairman informed us that item (1) of his request was satisfied by our report to the Secretary of Defense (FGMSD-76-64, dated July 13, 1976) in which we reported that the Department had failed to act on recommendations made by Defense auditors to conduct a study to identify costs which had not been included in contracts for technical assistance. The technical assistance generally related to the sale of equipment to Iran. We also recommended that a study be made and that the Department attempt to recover from the Government of Iran the amount determined to be reimbursable.

Under the provisions of the Foreign Military Sales Act, recently renamed the Arms Export Control Act, the Department of Defense offers numerous training courses to foreign governments, including pilot training, helicopter repair, and many other technical courses.

The Department of Defense maintains a listing available to foreign governments which shows all courses offered to foreign students. The listing indicates the length of training, the estimated cost, and other pertinent information. Estimated costs, as shown in sales contracts, are developed by the military services.

During fiscal year 1975, the charges for foreign student training under the foreign military sales program totaled about $102 million as follows:

Military service	Fiscal year 1975 charges (millions)
Air Force	$ 75
Army	15
Navy	12
Total	$102

The Marine Corps is not included in the above table because, as shown in chapter 2, it provided training to foreign students at no charge to the foreign governments.

As requested by the Office of the Chairman we did not request formal written comments from the Department of Defense but rather we informally discussed the contents of this report with Defense officials and where appropriate their comments are included.

CHAPTER 2

MILLIONS OF DOLLARS IN TRAINING COSTS INCURRED BUT NOT RECOVERED BECAUSE OF DEFICIENCIES IN PRICING

Because the pricing policies and procedures of the Air Force, Army, and Marine Corps did not provide for adequate recovery of costs incurred, as intended by law and required by contractual agreement, the Department of Defense incurred many millions of dollars of costs in training foreign students that were not recovered.

The Navy's pricing procedures were designed to recover the full cost of training foreign students. However, it incurred about $2.7 million in costs that were not recovered.

COST RECOVERY PROVISIONS OF THE ACT

Provisions of the Foreign Military Sales Act of 1968 as amended (22 U.S.C. 2761), which were in effect at the time of our review, stated that Defense services (including the training of foreign students) may be provided to foreign nations if the foreign governments agree to pay not less than the value thereof.

In implementing the act, the Department of Defense included the following provisions in the standard contract used for sales of Defense services to foreign governments:

--Prices of items shall be at their total cost to the U.S. Government.

--The U.S. Government will attempt to notify the foreign government of price increases which will affect the total estimated contract price by more than 10 percent; but failure to so advise does not alter the foreign government's obligation to reimburse the U.S. Government for the total cost incurred.

--The foreign government agrees to reimburse the U.S. Government if the final cost exceeds the amount estimated in the sales agreement.

We believe that the requirement that a country pay "not less than the value thereof" for defense services provided under the act supports a charge commensurate with the cost of the service rendered to the foreign government. This view is reinforced by reports of the House and Senate Appropriations Committees on the 1976 Defense Appropriations bill. The House Committee expressed its concern that the U.S. Government was not recovering the full cost of training foreign students. The Senate Committee stated that:

> "The Committee will object strongly to any country's receiving a 'free ride' under an FMS case. All foreign customers must bear their proportionate share of the fixed costs to train pilots. Collecting only the added costs but excluding a realistic share of the training base is simply not acceptable."

In addition, section 205 of the International Security Assistance and Arms Export Control Act of 1976 (Public Law 94-329, passed on June 30, 1976), amended the Foreign Military Sales Act to expressly require the payment to the U.S. Government for the "full cost" of furnishing defense services. The purpose of the amendment was to insure that such sales include a fair share of all indirect costs so that foreign governments would not be subsidized through the foreign military sales program.

AIR FORCE PRICING SYSTEM EXCLUDED APPRECIABLE COSTS

The Air Force did not recover many millions of dollars incurred in training foreign students because its procedures required that fixed costs incurred to train students be excluded from tuition rates. Fixed costs at training bases are those costs which do not vary in direct proportion to changes in student load. Air Force pricing procedures required that only the variable cost of training (those costs which vary in direct proportion to increases and decreases in student load) be included in tuition rates. The effect of excluding fixed costs from tuition rates can be seen by comparing Air Force and Navy charges for undergraduate pilot training during fiscal year 1975. The Navy, which included both variable and fixed costs in computing tuition rates, charged $282,000 for each student, whereas, the Air Force charged only $81,000 for each student.

The Air Force did not have an accounting system which separately identified variable costs. As a result, a system was devised in which manpower standards were used to estimate the fractional number of military and civilian personnel equivalents required to train one student. In making the computation, personnel identified as fixed (those positions that were not affected by changes in student load) were excluded. The number of personnel equivalents computed to train one student was multiplied by composite pay rates to determine the variable manpower cost. We found that in implementing the variable cost system the Air Training Command classified academic instructors, learning center personnel, foreign affairs personnel, and others, as fixed costs.

Procedures also provided for the inclusion of variable, nonpersonnel costs. For instance, aviation fuel costs were determined by multiplying the cost of aviation fuel per flying hour by the estimated flying hours required for each course.

Documentation showing how Air Force personnel applied the above procedures to arrive at personnel equivalents and nonpersonnel costs in computing tuition rates was not retained. We were, however, able to determine that the Air Force used a personnel equivalent of 2.8 to train one student in computing tuition rates for undergraduate pilot training. For fiscal year 1976, the Air Force estimated that 2,123 foreign and U.S. students would attend the undergraduate pilot training program at eight Air Force training installations. Applying the 2.8 personnel equivalent factor to the 2,123 students to be trained, an estimated 5,953 personnel would be the variable personnel needed under the Air Force system to provide undergraduate pilot training. A portion of the costs for these personnel would be used as a basis for billing foreign governments. As of June 1975, Air Force undergraduate pilot training installations were authorized a total of 18,188 personnel. Therefore, the cost of 12,235 (67 percent) of these personnel at the training installations (assuming that the installations were at full strength), would be classified as fixed costs and would not be considered in establishing tuition rates.

At one of the Air Force undergraduate pilot training installations, Webb Air Force Base, Texas, we compared the costs of operating the training mission and the amounts charged foreign governments for training. In fiscal year 1975, 157 of the 336 students who received training at Webb Air Force Base were foreign students. Base officials stated that both foreign and U.S. students received generally the same instruction except that some courses provided foreign students with more flying hours and longer course durations, and that most, if not all, functions located at Webb were related to the training mission.

Air Force officials said that the cost of providing training at Webb during fiscal year 1975 was about $52 million. Further, they said that foreign students received about 39 percent of the training conducted at Webb. If the cost included in foreign student tuition rates was based on the proportional amount of training received to total cost, $20 million would have been recovered from foreign governments for training at Webb. Because only variable costs were included in tuition rates, the Air Force charged foreign governments only $8.3 million for training of the 157 foreign students, or about $11.7 million less than the costs incurred in providing training. Similarly, we believe that appreciable costs incurred to train foreign students by the other Air Force training installations were not recovered.

We also noted that foreign students occupying U.S. Government quarters at Webb were charged only about $35 per month to cover service costs such as maid fees. U.S. students were required to live off base because quarters were not available, and they were therefore paid a housing allowance of about $114 per month. As a result, the Air Force incurred housing costs at Webb of about $200,000 annually for which it was not reimbursed by foreign governments. We discussed this matter with Air Force officials in October 1975. They subsequently advised us that the Air Force was not recovering annual housing costs of about $2.4 million from foreign governments.

The Air Force has since developed procedures which require that foreign students be charged for housing as prescribed by Department of Defense guidance. Air Force officials, however, stated that they do not plan to rebill foreign governments for those housing costs incurred before December 19, 1975.

ARMY PRICING SYSTEM EXCLUDED APPRECIABLE COSTS

The Army's pricing system provided that foreign tuition rates would include only the estimated additional direct and indirect costs incurred to train foreign students. For example, if two additional instructors (classified as direct cost) and one additional administrator (classified as indirect cost) were required for an installation's foreign military training program, the cost of these personnel would be included in the computation of tuition rates. With regard to the cost of supplies and the cost of operating the installation, only those additional costs attributed to training foreign students were included in the computation of tuition rates.

To gain an appreciation of the costs excluded through the use of the Army's method of pricing we visited a large

Army training installation--Fort Rucker, Alabama. We found $75.7 million in costs were not considered in computing tuition rates. The most significant of these were $32.3 million in base operations support costs; $15.2 million in school overhead costs; $14.4 million in depot maintenance costs and repair parts for aircraft used for training; and $5.1 million in air traffic control and communications costs.

We selected three courses taught at Fort Rucker and computed the full cost to the U.S. Government for training foreign students during fiscal year 1975. In making these computations we included all costs applicable to the courses and used actual fiscal year 1975 cost data and student population data. The following table shows course costs as computed by Fort Rucker and by us.

Training Cost Computations
Fiscal Year 1975

Course title	Course cost computed by Fort Rucker	Course cost computed by GAO	Difference	Percentage increase
Rotary wing aviator				
Phase I	$ 6,760	$19,116	$12,356	183
Phase II	17,070	48,602	31,532	185
Total	$23,830	$67,718	$43,888	184
Rotary wing instrument	$ 7,380	$11,420	$ 4,040	55
UH-1 (helicopter) repair	$ 1,080	$ 3,923	$ 2,843	263

As shown above, had the Army charged foreign governments the full cost of training, it would have recovered an additional $43,888 for each foreign student attending its rotary wing aviator course.

Estimated total loss in recoupments in fiscal year 1975

The Army maintained an accounting system which provided the cost per student graduated. This system included a larger portion of direct and indirect training costs in arriving at the cost per graduate than the pricing system which was used for computing tuition rates used for billing foreign governments. Therefore, it more closely approximated the full cost of training.

Using cost per graduate data, we estimated that it cost the Army's Training and Doctrine Command about $26 million to train foreign military students during fiscal year 1975. We estimated that reimbursements to the command for this training were only $7.3 million or about $18.7 million less than the estimated cost of providing the training.

Other problems in pricing experienced by the Army

Costs incurred by the Army in administering foreign military sales were not charged to foreign governments and there were some inconsistencies in the way Army training installations computed tuition rates.

In order to recover the cost of administering the foreign military sales program, the Department of Defense, in a memorandum dated March 6, 1974, directed that foreign governments pay an administrative charge equal to 2 percent of costs incurred in providing training. The Army failed to include the 2-percent charge in its fiscal year 1975 foreign tuition rates. We estimated that the administrative charge would have amounted to about $520,000 had the Army based its tuition rates on full cost which we estimated to be about $26 million during fiscal year 1975.

Army officials advised us that they did not charge for administrative costs in fiscal year 1975 because tuition rates which did not include the charge had already been quoted to foreign governments. As noted on page 3 of this report, however, foreign sales contracts contained standard clauses which stated that foreign governments would pay the full cost incurred by the U.S. Government. The amounts quoted to foreign governments were estimates which should have been adjusted to the actual cost incurred.

With regard to inconsistencies in pricing among installations, the Army's Training and Doctrine Command contacted nine of its installations at our request to determine whether they had included the costs of military retirement pay and depot maintenance of training equipment in their tuition rates as required by Army regulations. Two of the nine installations had not included military retirement pay and only one of the nine installations included the cost of depot maintenance of training equipment. Also, at three installations we visited, we noted appreciable variations in the pricing of personnel and other costs.

DEFICIENCIES IN THE NAVY PRICING SYSTEM

Although the Navy's pricing procedures for foreign training were designed to recover the full cost of training foreign students, the Navy did not recover from foreign governments about $2.7 million in costs that were incurred during fiscal year 1975 for the courses we reviewed. These courses represented about $10 million of the approximately $12 million the Navy charged foreign governments for training during fiscal year 1975.

About $1.6 million of the amount not recovered was for expenses incurred for certain foreign students who required substantially more training than the normal amount of training which was used as a basis for tuition rates. This amount was identified in a study completed in October 1975 by the Naval Air Training Command. The study indicated that the estimated cost of flight training for certain foreign students was as much as 27 percent more than amounts charged foreign governments for the training.

About $500,000 was not recovered for the selected courses we reviewed because other costs were omitted from tuition rates. For example, some training organizations omitted the cost to maintain training equipment, such as flight simulators.

The remaining $600,000 was not recovered mainly because tuition rates which were based on fiscal year 1974 costs were not adjusted to include price increases which occurred in fiscal year 1975.

THE MARINE CORPS DID NOT CHARGE FOR TRAINING OF FOREIGN STUDENTS

We reported to the Department of Defense (B-165731, July 15, 1976) that before January 1, 1976, the Marine Corps did not charge foreign governments for training provided under the foreign military sales program, even though the Defense standard contract required that the total cost to the Government be recovered.

On January 1, 1976, the Marine Corps began charging for training in accordance with the new pricing instructions issued by the Department of Defense. Using tuition rates established by the Marine Corps for the second half of fiscal year 1976, we estimated that for the period July 1, 1975, through December 31, 1975, foreign governments received, at no charge, training valued at about $252,000.

We recommeded that the Marine Corps attempt to recover from foreign governments costs incurred in training foreign students during fiscal years 1974 through 1976. On August 17, 1976, the Department of Defense advised us that the Marine Corps had been directed to take action to make such recoveries.

THE DEPARTMENT OF DEFENSE FAILED TO PROVIDE ADEQUATE GUIDANCE FOR PRICING

The wide variances in cost recoveries by the military services during fiscal year 1975 occurred because the Department of Defense permitted the services to establish pricing systems in accordance with how each interpreted the requirements of the law. There was not adequate guidance from the Department on the pricing of foreign training.

The provisions of Department of Defense Instruction 2140.1, "Pricing of Sales of Defense Articles and Defense Services to Foreign Countries and International Organizations," which was in effect during fiscal year 1975, required that training course costs include all direct and indirect costs. The instruction, however, did not provide specific guidance as to the procedures for determining these costs. As shown above, the pricing procedures used by the military services varied considerably.

In addition to the cost of training foreign military students, Defense in the past has not recovered other costs incurred in connection with foreign military sales. Over the past several years we have issued reports to the Department of Defense and the Congress in which we recommended that the Department clarify its instructions to the military services and improve the military services' practices regarding the recovery of cost for foreign military sales. (See app. II.)

CONGRESSIONAL VIEWS ON RECOVERY OF TRAINING COSTS

The Senate and House Committees on Appropriations have expressed their concern about the amounts charged foreign governments for training. In September 1975 the House Committee on Appropriations criticized the Air Force for failing to recover the full cost of training foreign students and noted that the Air Force and the Defense Department had adequate time to take action to insure that the full cost of training foreign students was recovered. In November 1975 the Senate Committee on Appropriations stated that the Air Force had substantially underpriced the cost of foreign pilot training. The Committee directed that the Defense Department revise its instructions to make clear that charges for pilot training include both fixed and variable costs.

In response to congressional and GAO concern about the pricing of training foreign students, the Department of Defense, on November 5, 1975, issued specific pricing guidance effective January 1, 1976, which in general, materially increased tuitions charged foreign governments. On September 28, 1976, however, the Department made revisions to this guidance which substantially reduced the charges for training foreign students. Provisions of the November 5 guidance, the reasons advanced by the Defense for reducing charges, and our evaluation are contained in chapter 3.

CONCLUSIONS

The pricing systems used by the military services during fiscal year 1975 did not provide for the recovery of millions of dollars of costs incurred by the U.S. Government in training foreign students as required by the law.

This problem could have been prevented had the Department of Defense issued adequate guidance on pricing of foreign training. The military services developed their own guidelines based on each service's interpretation of what constituted the value of foreign training.

The Defense Department, recognizing the pricing problems identified during our review, and responding to congressional criticism of its pricing practices, issued detailed pricing guidelines.

With respect to the recovery of costs up to and including final billing, the Department of Defense standard sales contract for training provides that adjustments may be made to estimated costs when they are not commensurate with actual costs incurred. Therefore, any costs that were not recovered by the military services on those sales contracts for which a final billing has not been made could and should be subsequently billed.

As to undercharges which may be found subsequent to final billing, we believe that the contract, in providing for the recovery of actual costs, provides a sufficient basis to attempt to recover those costs which were clearly contemplated by both parties for inclusion in the contract, provided the attempt is made within a reasonable time.

The longer the Defense Department takes to attempt to collect undercharges the more difficult it will be to recover these costs from foreign governments. Until action is taken to attempt to collect undercharges the military services should not make final billings for those training contracts in which undercharges occurred.

RECOMMENDATIONS

We recommend that the Secretary of Defense require:

--The Army and Air Force to attempt to recover from foreign governments those undercharges which were made as a result of not including both fixed and variable costs in the computation of tuition rates.

--The Navy to attempt to recover from foreign governments those costs which were incurred in fiscal year 1975 but were not included in tuition rates for that year.

--The Army to attempt to recover from foreign governments undercharges resulting from the failure to include the administrative charge in fiscal year 1975 tuition rates.

--The Air Force to attempt to recover from foreign governments housing costs for foreign students which were not charged.

In those instances where a final billing has been made and the foreign government gives sufficient reason for contesting the rebilling, the military services should decide whether further actions are warranted. In all cases where final billing has not been made, every reasonable effort should be made to collect the amounts underbilled.

Also, we recommend that the Secretary direct the military services to have their internal audit organizations review the rebilling effort to see that effective action has been taken to recover all costs.

CHAPTER 3

EVALUATION OF DEPARTMENT OF DEFENSE GUIDELINES FOR PRICING TRAINING COURSES AND FOR BILLING OF FOREIGN GOVERNMENTS

On November 5, 1975, in response to congressional and GAO concern about the pricing of foreign training, the Assistant Secretary of Defense (Comptroller) issued specific guidance to the military services on the cost elements to be included in the pricing of training courses.

Although we believe certain changes should be made to the pricing guidance to insure that the full cost of training is recovered, the November 5 guidance resulted in substantial improvements in the pricing of training courses offered to foreign students.

On August 12, 1976, however, the Department of Defense notified the Chairmen of the House and Senate Committees on Appropriations that because the sudden and substantial increase in prices, resulting from the November 5, 1975, guidance, had a drastic impact on foreign training, the Department was going to make major reductions in tuition prices. (See app. III.) Both Chairmen have informed the Department of Defense that they object to the reductions. (See app. IV.) On September 28, 1976, however, the Department issued instructions to the military services which will result in substantial reductions in tuition rates.

IMPACT OF DEFENSE GUIDELINES ON PRICING OF TRAINING PROVIDED FOREIGN STUDENTS

The November 5, 1975, Defense guidance included detailed procedures for determining the fixed and variable costs to be included in tuition rates. Implementation of these procedures generally resulted in increased tuition charges.

The following table compares the Army and Air Force fiscal year 1976 tuition rates established under their previous pricing systems with the fiscal year 1976 tuition rates established in accordance with the November 5, 1975, pricing guidelines.

Increase Effected in Tuition Rates by New Pricing Guidelines

Service/course title	Previous pricing systems	November 5, 1975, pricing guidance	Increase
Army:			
Rotary wing aviator			
Phase I	$ 8,480	$ 14,480	$ 6,000
Phase II	19,840	54,630	34,790
Rotary wing instrument	4,150	15,850	11,700
UH-1 (helicopter) repair	1,713	4,640	2,927
Air Force:			
Undergraduate pilot training	113,880	171,310	57,430
T-37 flight training	66,130	104,600	38,470
T-38 flight training	77,800	109,770	31,970

Although the pricing guidelines appreciably increased tuition rates in the Army and Air Force, the guidelines still did not specifically require the inclusion of certain costs incurred in providing training. Also, the guidelines did not require the equitable allocation of certain other costs to courses attended by foreign students. As a result, the Navy estimates that its tuition rates, which were previously based on the full cost of training, may have been reduced by as much as 14 percent. Examples of the effect of the pricing guidelines on the Navy's fiscal year 1976 tuition rates follow.

Decrease Effected in Tuition Rates by New Pricing Guidelines

Course title	Previous pricing system	November 5, 1975, pricing guidelines	Decrease
Undergraduate jet pilot training	$337,516	$327,405	$10,111
Undergraduate helicopter pilot training	104,513	93,706	10,807
Fire control technician, class A	4,093	3,940	153

The November 5, 1975, pricing guidance was deficient for the following reasons:

--Cost allocation procedures did not provide for an equitable allocation of certain base operating costs to students. These costs were to be allocated to training on the basis of population ratios. For example costs incurred for utility and ground maintenance, the base fire department, housekeeping, refuse collections, roads, and security were to be allocated based on the ratio of the number of people being trained to the total population of the training base. Total population included active duty military, civilians, foreign and U.S. students, tenants, nonappropriated fund full-time employees, and military dependents. We believe that all base operation's costs should be allocated to the missions that are supported by the installation. Accordingly, to assure that the United States recovers the full cost of training, the total amount of base operations support costs should be allocated solely to the training missions and to other missions by the installation.

--There was no specific requirement to include the cost of school overhead personnel in tuition rates. Since the Army had excluded this cost in its previous system it is important that overhead personnel costs be specifically required.

--The prescribed factor for computing military retirement costs was not high enough to recover all such costs. The factor, 17 percent, was applied to the composite pay rate for each military grade. The composite rate included basic pay, allowance for quarters, and other payments. We have reported to the Chairman of the Task Force on National Defense, Senate Budget Committee (FPCD-76-43, March 4, 1976), that the cost of military retirement is about 37 percent of basic pay. The amount that would be recovered for retirement costs by charging 37 percent of basic pay versus charging 17 percent of composite pay would be appreciably higher. For example, 17 percent of the fiscal year 1976 composite pay rate of an Army officer in paygrade 05 was $4,919; whereas 37 percent of basic pay for grade 05 was $8,153--a difference of over $3,200. In order to recover total military retirement costs, the 37-percent factor should be used.

--The prescribed factor for computing the cost of other civilian benefits, such as retirement and health benefits, was not high enough to recover all such costs. The factor, 9 percent, was applied to the base pay rate for each civilian grade. The U.S. Civil Service Commission has determined that the cost of civilian retirement, life insurance, and health benefits is 28.7 percent of civilian base pay.

DEPARTMENT OF DEFENSE HAS DIRECTED THAT TUITION RATES BE REDUCED

In letters dated August 12, 1976 (see app. III), the Deputy Secretary of Defense notified the Chairmen of the House and Senate Committees on Appropriations that he had directed changes in the November 5, 1975, pricing guidance that would result in a 20- to 30-percent reduction in tuition prices.

He explained that he took this action because the sudden and substantial increase in tuition prices had a drastic impact on foreign countries which had little or no time to make adjustments in their budgets for students already scheduled for training, and that in most cases this had required substantial reductions in their input of students.

The Deputy Secretary said that the November 5, 1975, pricing guidance failed to recognize the military, political, and economic benefits to be gained by the United States in training foreign students.

To accomplish the 20- to 30-percent reduction, two changes were to be made to the November 5, 1975, guidance. The first change would eliminate personnel costs pertaining to leave, holiday, and retirement from the computation of tuition rates. The second change would require that recoupment of depreciation on aircraft by the use of an hourly use charge and the application of a rate of 1 percent to total course costs to recoup depreciation of other assets be discontinued. In the future depreciation would be recouped by charging 4 percent of the training course cost.

Both Committees strongly disagreed with the positions outlined in the Deputy Secretary's letter. (See app. IV.) They advised the Secretary that the November 5, 1975, guidelines should remain in effect; that the Defense budget is not to be used to partially subsidize the training of foreign students; and that Department of Defense appropriations will be reduced by amounts equal to reimbursements lost through failure to make adequate and appropriate charges for services rendered by the Department of Defense to foreign governments.

Despite the Committees' disagreement with the positions outlined in the Deputy Secretary's letter, the Department, on September 28, 1976, revised the November 5, 1975, pricing guidelines to affect the reduced tuition rates as discussed above.

We were unable to determine the dollar impact of the above changes since, at the time of our review, the military services had not recomputed their tuition rates using the September 28, 1976, guidelines. However, if the Deputy Secretary's estimate that tuition rates will be reduced by 20 to 30 percent is correct, and assuming foreign training sales will equal those of fiscal year 1976, the U.S. Government will recover from $50 million to $75 million less annually.

With regard to Defense's decision to cut tuition prices, on October 19, 1976, we were asked by Congressman Clarence D. Long to determine

--who in Defense made the decision,

--why and how the decision was made,

--how much it will cost the U.S. Government, and

--who will receive the benefits of the reductions in training charges.

We are now doing the work necessary to respond to this request.

CONCLUSIONS

The November 5, 1975, pricing guidelines, substantially improved the pricing of training courses offered to foreign students. Some changes should be made to the guidelines, however, to insure that the full cost of training is recovered, as expressly required by the Arms Export Control Act.

Because the act expressly requires that foreign governments pay the full cost to the U.S. Government, the Department was not justified in modifying the November 5, 1975, guidelines in order to effect reductions in tuition rates.

RECOMMENDATIONS

We recommend that the Secretary of Defense rescind the revision to the November 1975 pricing guidelines.

We also recommend that the Secretary of Defense change the November 1975 pricing guidelines to require the military services to (1) allocate base operations costs on the basis of missions, (2) specifically include the cost of school overhead personnel, and (3) use factors which will result in the full recovery of civilian and military retirement costs and the cost of civilian health benefits and life insurance.

Further, we recommend that the Secretary of Defense direct the military services to have their internal audit organizations periodically review the pricing systems to help assure that all proper costs are provided for when establishing tuition rates for foreign training.

CHAPTER 4

IMPROVEMENTS NEEDED IN THE MILITARY SERVICES BILLING, COLLECTING, DEPOSITING, AND ACCOUNTING SYSTEMS

Millions of dollars of costs incurred in training foreign students were not recovered by the Department of Defense because of deficiencies in the billing systems. We found that

--all three military services used outdated and erroneous tuition rates in billing foreign governments and

--the Navy failed to charge for several foreign students who received training.

Also, the U.S. Government did not have use of funds that could cause substantial amounts of additional interest charges because the Army and Navy failed to bill, collect, and deposit reimbursements for foreign training in a timely manner. This also resulted in delays in reimbursing training organization appropriations. Further, because of deficiencies in accounting procedures, military service appropriations were in some cases improperly credited with reimbursements.

USE OF OUTDATED AND ERRONEOUS TUITION RATES IN BILLING FOR FOREIGN TRAINING

Sales agreements with foreign countries specify that foreign governments agree to reimburse the U.S. Government if the final cost exceeds the amount estimated in sales agreements. To help insure that foreign governments pay for the full cost of training services as required by the law, military service billing systems must insure that foreign governments are charged tuition rates that are current at the time foreign students enter training.

Air Force billed outdated and erroneous tuition rates

We reported to the Secretary of Defense (FGMSD-76-21, December 1, 1975) that the Air Force had not recovered at least $5.7 million in costs incurred in training foreign students during fiscal year 1975, primarily because it did not charge foreign governments at current tuition rates and used tuition rates which were erroneously computed.

Foreign governments frequently entered into contracts with the U.S. Government for training which did not begin for a long period after the contract date. When the foreign students eventually entered training, the Air Force billed their governments on the basis of the estimated price stated in the contract rather than the current tuition rate. Costs for many Air Force courses increased greatly between the time contracts were entered into and the time foreign students actually began training. For example, in one case, the estimated tuition rate in the contract of $44,090 per student was billed, whereas the Air Force should have charged the current tuition rate of $63,160 per student.

Acting on our recommendations, the Air Force made changes in their billing system so that only current tuition rates were used as the basis for billings. We estimated that as a result of these changes, the Air Force would collect an additional $17.3 million in revenues from foreign governments for training provided during fiscal year 1976. Also, the Air Force was in the process of rebilling foreign governments to recover about $4 million in costs not previously charged because outdated and incorrect tuition rates were used.

Navy did not use current tuition rates in billing

The Navy also charged foreign governments estimated prices shown in the sales contracts rather than tuition rates that were current when foreign students entered training.

Training activities under the Chief of Naval Education and Training, which provided about 90 percent of the Navy's training to foreign students, reported that training reimbursements from foreign countries for fiscal year 1975 amounted to approximately $12 million. We reviewed billing data pertaining to five foreign governments having students in Navy training courses during fiscal years 1975 and 1976. These foreign governments had been charged $5.5 million for training provided during this period. The Navy, however, should have billed them about $6.1 million, or an additional $600,000, on the basis of tuition rates that were in effect when the training began. For example, the Navy charged a foreign government $193,900 to cover the cost of four foreign students attending flight training. If current tuition rates had been used, $292,640 would have been charged to the foreign government.

We also noted, for the five countries, cases where even though foreign students had begun training the Navy had not yet rendered a bill. Had the Navy followed its normal procedure of billing at the estimated contract price, approximately $2 million would have been billed for these students. Using tuition rates that were current at the time the students entered training, the billings for the cases we selected would have been about $2.7 million. Therefore, lacking any corrective action the Navy would have undercharged foreign governments by about $700,000.

Navy officials agreed that current tuition rates rather than the estimated contract price should have been charged foreign governments. They said that they thought that contract prices were current but they had not taken into consideration that prices sometimes change between the contract date and the start of training.

Acting on our suggestion, the Navy revised its billing system to provide that current tuition rates will be charged foreign governments.

Further, Navy officials acted to recover amounts that previously were not billed due to use of outdated tuition rates.

<u>Army used outdated tuition rates</u>

We reviewed 248 charges made by the Army to foreign governments for training totaling $3.5 million. For 45 of these charges, the foreign government was billed an amount less than the current tuition rate; for 25 of the charges, amounts greater than the current tuition rates were charged. Underbillings totaled $234,000, while amounts overbilled totaled $104,000.

Army regulations did not specifically require that foreign governments be charged tuition rates current when foreign students entered training. The regulations provided that applicable approved course costs be used by training organizations in establishing charges to foreign governments. The regulation, however, did not explain what was meant by "applicable approved course costs."

Officials at one Army training installation we visited stated that they had received verbal guidance from the Army's Training and Doctrine Command which required them to use either the tuition rate in effect on the date the foreign student was issued travel orders to attend training or the tuition rate cited in the sales contract. As a result, foreign governments were not charged tuition rates that were current at the time students entered training when (1) travel orders for foreign students were dated before the period the students entered training or (2) the estimated tuition es in the sales contract were more or less than the current rates.

Army officials said that they will take appropriate action to insure that current tuition rates are used in future billings. They also said that no decision has been made as to whether the Army will seek to recover amounts underbilled to foreign countries or refund amounts overbilled.

Conclusions

Underbillings by the military services have resulted in nonrecovery of millions of dollars in costs incurred in training foreign students. In accordance with the terms of the standard Department of Defense contract for training, foreign governments must reimburse the U.S. Government for costs that exceed the amount estimated in the sales agreement. Therefore, an attempt should be made to recover from foreign governments amounts that were underbilled, and amounts overbilled should be refunded.

The Air Force and Navy have taken action to (1) help assure that future billings are at current tuition rates and (2) recover amounts underbilled. The Army has not taken such action nor has it nded amounts overbilled.

As we said prev y, with respect to the recovery of costs up to and including final billing, the Department of Defense standard sales contract for training provides that adjustments may be made to estimated costs when they are not commensurate with actual costs incurred. Therefore, any costs that were not recovered by the Army on those sales contracts for which a final billing has not been made could and should be subsequently billed.

As to undercharges which may be found subsequent to final billing, the contract, in providing for the recovery of actual costs, provides a sufficient basis to attempt to recover those costs which were clearly contemplated by both parties for inclusion in the contract, provided the attempt is made within a reasonable time. The longer the Army delays in attempting to collect undercharges the more difficult it will be to recover these costs from foreign governments.

Recommendations

We recommend that the Secretary of Defense direct the Army to

--change its billing system so that only current tuition rates will be used in future billings to foreign governments,

--attempt to recover from foreign governments amounts not charged during fiscal years 1975 and 1976 because outdated tuition rates were used, and

--refund to foreign governments amounts that represent overcharges.

Further, we recommend that the Secretary of Defense direct the military services to require their internal audit organizations to periodically review the billing system for training foreign students to help insure that billings are made on the basis of current costs.

FAILURE OF THE NAVY TO BILL FOR ALL FOREIGN STUDENTS ATTENDING TRAINING

The Navy's billing organization did not bill a foreign government $230,000 for the training of four foreign students because it did not know that these individuals had received training. This situation occurred because the Navy's billing system did not have adequate controls to insure that foreign governments were billed for all foreign students entering training.

The Navy organization responsible for billing foreign governments for training prepared bills upon receipt of the foreign student's travel orders. If for some reason the billing activity did not receive the travel orders, it had no way of knowing who was receiving training or the amount to bill the foreign government. Officials at the Navy billing organization stated that to their knowledge they had not received the travel orders for the four students and therefore were not aware that these individuals had attended training. Further, they said that information pertaining to foreign students attending Navy courses was not periodically reconciled with information at the billing organization to insure that foreign governments were billed for all students attending training.

Conceivably, the billing organization could have received travel orders for a foreign student who did not attend training. Because billings were based on receipt of the students' travel orders, a foreign country could have been charged for students who did not attend training. Our review, however, did not turn up any such cases.

After we discussed these matters with Navy officials, they billed the foreign government for training the four students. Also, procedures were established which should insure that foreign governments are correctly billed for training received by all foreign students.

Recommendations

In order that foreign governments are billed for all training received and are not charged for training which was not received, we recommend that the Secretary of Defense direct the Navy to match information on students entering training for fiscal years 1973 through 1975 with billing data, and to bill foreign governments in those cases where bills should have been rendered, and make refunds where appropriate.

DELAYS IN BILLING, COLLECTING, AND DEPOSITING OF REMITTANCES FOR FOREIGN TRAINING

Army and Navy systems for billing, collecting, and depositing of reimbursements for foreign training were not adequate to assure the prompt collection and deposit of amounts owed by foreign governments.

Navy systems did not provide for timely billing, collecting, and depositing

The Navy did not promptly bill foreign governments for training, nor did it deposit remittances on the day of receipt. Furthermore, foreign governments did not pay their bills promptly.

Under Department of Defense regulations, the Navy is required to insure that foreign governments pay for training in advance. Further, the Department of Treasury requires that funds received for credit to the U.S. Government be deposited on the date of receipt. Timely deposit of receipts makes funds available to the Treasury and may reduce the amount which it must borrow, thereby reducing interest cost of the Government.

We reviewed billing, collecting, and depositing information pertaining to seven foreign countries which had students in Navy training courses. About $4.3 million was collected from these countries for training received by foreign students during fiscal years 1973 through 1975. Our analysis showed that it took an average of 291 calendar days from the date training began to the date the payment from the foreign government was deposited for credit to the U.S. Government as follows:

Delays in Billing, Collecting, and Depositing of Training Reimbursements

Description	Average calendar days
Billing of foreign governments from the convening date of training	137
Foreign governments' payment of billing	134
Depositing of reimbursements	20
Total	291

Using the fiscal year 1975 Treasury average borrowing rate of 7 percent we estimated that the extensive delay in billing, collecting, and depositing the $4.3 million could have cost the U.S. Government about $240,000 in additional interest charges.

Delays in billing, collecting, and depositing of training reimbursements also resulted in appreciable delays in reimbursing training organization appropriations which were initially used to finance training of foreign students. In November 1975 installations under the Chief of Naval Education and Training were awaiting reimbursements of over $20 million for training provided during fiscal years 1973 through 1975 as follows:

Fiscal year	Estimated reimbursements earned	Reimbursements received	Outstanding reimbursements
1973	$ 5,163,038	$5,030,381	$ 132,657
1974	12,217,925	3,935,402	8,282,523
1975	13,094,375	995,305	12,099,070
Total	$30,475,338	$9,961,088	$20,514,250

We discussed these matters with Navy officials and suggested that billings for training be made in advance on a quarterly basis so that funds would be on deposit at the time training courses began. We also suggested that checks be deposited on the date of receipt. The Navy did adopt new billing procedures where foreign countries would be billed 90 days before training began. If properly implemented, this system should help insure the timely receipt of payments. In addition, officials stated that the Navy would deposit checks promptly.

Weaknesses in the Army's systems for billing, collecting, and depositing

Army systems for billing and collecting were not adequate to insure the prompt collection of charges for training foreign students or the timely reimbursement of training installations. Further, there were delays in depositing payments from foreign governments.

The Army International Logistics Center was responsible for centralized financial control over the foreign military sales program which included the functions of billing and collecting. Army training organizations requested reimbursement for foreign training at the beginning of each training course by submitting reimbursement vouchers to the International Logistics Center. Other Army organizations providing articles and services to foreign governments also requested reimbursement by submitting reimbursement vouchers to the International Logistics Center. A single billing and collecting system handled all Army sales of equipment and services. This was different from the Navy where there was a billing and collecting system for training apart from the billing and collecting system for articles and other services sold to foreign governments.

Billing and collecting systems deficiencies

The Army Audit Agency made an extensive review of the Army's billing and collecting systems and reported on October 20, 1975, that:

--Controls were not adequate to insure that delinquent payments were properly identified and that foreign governments were promptly asked to pay the delinquent amounts. The auditors found that as of June 15, 1975, payments of over $230 million were delinquent, including $69 million in payments which were over 180 days late. The auditors also identified $575 million in previously collected payments which were received after the due date, of which $125 million was received over 180 days late. In all cases reviewed, the auditors found that the initial follow-up on delinquent payments was late. As a result, the U.S. Government did not have use of these funds and therefore could have incurred additional interest costs.

--Reimbursement vouchers submitted by Army organizations were not processed promptly. During the second quarter of fiscal year 1975, the Army took an average of 75 calendar days to process the vouchers. The range was 28-218 calendar days. These delays caused a backlog of unprocessed vouchers which on the average amounted to $154 million during the 44-week period ended May 31, 1975. Further, the auditors identified vouchers valued at $8.2 million which had been awaiting action for up to 3 years. The delays in processing were attributed to various system weaknesses, such as inadequate control over vouchers rejected by the system.

We reviewed the billing and collecting for a number of transactions to determine if the weaknesses found by the Army Audit Agency applied to training cases. We identified six training contracts for which foreign governments had not made required payments totaling $1.6 million. We also identified two proposed contracts for training valued at $420,000 which had not been accepted or paid for by the foreign government even though students covered in the proposed contract had begun training. The proposed contracts required payment in advance. Further, we reviewed selected reimbursement vouchers for training submitted by Fort Rucker and identified vouchers amounting to $719,500 which had not been reimbursed to Fort Rucker because the foreign government had not fully paid for the training. As a result, the U.S. Government could have incurred additional interest charges and there were delays in reimbursing training organization appropriations which financed the cost of training.

The Army has recognized the seriousness of its problems. Numerous system changes have been made and other changes have been recommended and are in process. For instance, actions are underway to

--accelerate the billing and reimbursement process,

--centralize accounting records and cash flow control,

--audit financial management records and establish procedures to audit financial systems on a systematic and periodic basis,and

--follow up the results of financial audits closely.

A plan for correction of the problems identified has been completed and target dates for implementation of corrective actions have been established.

Because of the extensive ongoing effort by the Army to improve its billing and collecting systems for foreign military sales, we are making no recommendations on these matters at this time.

Delays in depositing payments

On February 20, 1975, we reported to the Commander, Army International Logistics Center, that funds received for credit to the U.S. Government were being deposited an average of 3 days after the date of receipt. We estimated that the Army would receive about $1.4 billion in payments from foreign governments during fiscal year 1975 and that by delaying deposit of checks for 3 days the U.S. Government would not have use of funds that could cost over $800,000 in additional interest.

We recommended in our report that checks be deposited on the date of receipt as required by the Department of the Treasury. On March 20, 1975, Army officials advised us that new procedures had been developed which would insure that remittances from foreign governments were deposited on the date of receipt. We subsequently tested foreign government remittances for articles and services totaling about $116 million which were deposited from August 4 to September 4, 1975, to see if the new procedures were effective. We found that all the remittances were deposited on the day received except for 1 day's receipts of about $6 million which were deposited on the following day.

CREDITING OF TRAINING REIMBURSEMENTS TO IMPROPER APPROPRIATION ACCOUNTS

The Air Force and Army did not in all cases credit earned reimbursements for training to the proper appropriations.

In its report on the fiscal year 1976 Defense Appropriations Bill (report number 94-517), the House Committee on Appropriations stressed the importance of crediting reimbursements from foreign governments to the proper appropriation account.

Department of Defense instructions provide that when the reimbursement cannot be identified as financed by any appropriation or fund, the amount collected should be deposited in Miscellaneous Receipts, United States Treasury. Collections deposited in the Miscellaneous Receipts include reimbursements for military retirement pay, depreciation, attrition (damage beyond repair), asset use charges, and royalty fees.

The Air Force improperly credited reimbursements for military retirement pay to its Military Personnel appropriation

During fiscal years 1974 and 1975 the Air Force credited its Military Personnel appropriation with $5.4 million in reimbursements for military retirement pay. These amounts should have been deposited in the Miscellaneous Receipts of the Treasury because the reimbursements were not financed by any appropriation or fund.

After we discussed this matter with Air Force officials, the Air Force made changes in its accounting system, effective July 1, 1975, which should insure that the Miscellaneous Receipts of the Treasury will be properly credited with reimbursements for military retirement pay. For the period July 1, 1975, through June 30, 1976, such reimbursements totaling $6.2 million were credited to the Miscellaneous Receipts of the Treasury. However, the Air Force had not transferred the amounts that were improperly credited from its Military Personnel appropriation to the Miscellaneous Receipts of the Treasury.

The Army improperly credited reimbursements for aircraft depreciation and military retirement pay to its appropriations

The Army erroneously credited to its Procurement and Military Personnel appropriations certain reimbursements which should have been credited to the Miscellaneous Receipts of the Treasury.

During fiscal year 1975 Fort Rucker improperly credited about $350,000 in reimbursements for depreciation cost of aircraft used in training foreign students to its procurement appropriation. In addition, reimbursements for military retirement pay relating to the training program were credited by Fort Rucker to the Army's Military Personnel appropriation. These amounts should have been credited as prescribed in Department of Defense instructions to the Miscellaneous Receipts of the Treasury since the reimbursements were not financed by any appropriation fund.

We discussed this matter with Army officials and suggested that the accounting procedures for foreign training reimbursements be improved to insure that such reimbursements are credited to the appropriations which incurred the costs or to the Miscellaneous Receipts of the Treasury as required. We were advised that the Army would develop such procedures.

Conclusions

Accounting for reimbursements by the Air Force and Army was not adequate to assure proper crediting of appropriations. The Air Force has taken action to improve its accounting procedures and the Army advised us that it would take such action. Neither service, however, has transferred from their appropriations to the Miscellaneous Receipts of the Treasury amounts improperly credited during prior years.

Recommendations

We recommend that the Secretary of Defense direct the Army to make necessary changes in its accounting procedures in order that applicable reimbursements are credited to the Miscellaneous Receipts of the Treasury.

We also recommend that the Secretary of Defense require the Air Force and Army to identify all reimbursements which were improperly credited to appropriations since fiscal year 1974, and correct entries in their accounting records so that all reimbursements for the cost of military retirement pay and the cost of depreciation are credited to the Miscellaneous Receipts of the Treasury.

CHAPTER 5

SCOPE OF REVIEW

We reviewed the military services systems for pricing, accounting, billing, collecting, and depositing receipts for foreign military student training.

Our review included an examination of legislation, policies, procedures, documents, transactions, and reports dealing with training of foreign students. We interviewed responsible officials to discuss policies, procedures, and other matters.

We made our review at the following military departments and organizations:

--Departments of Defense, Army, Navy, and Air Force, Washington, D.C.

--Defense Security Assistance Agency, Washington, D.C.

--Air Training Command, Randolph Air Force Base, Texas.

--Webb Air Force Base, Texas.

--Army Training and Doctrine Command, Fort Monroe, Virginia.

--U.S. Army Aviation Center, Fort Rucker, Alabama.

--U.S. Army Infantry School, Fort Benning, Georgia.

--U.S. Army Missile and Munitions Center, Redstone Arsenal, Alabama.

--Chief of Naval Education and Training, Pensacola, Florida.

--Naval Air Training Command, Corpus Christi, Texas.

--Naval Technical Training Command, Memphis, Tennessee.

Congress of the United States
House of Representatives
Committee on Appropriations
Washington, D.C. 20515

May 20, 1975

Honorable Elmer B. Staats
Comptroller General of the
United States
Washington, D. C. 20548

Dear Mr. Staats:

It would be appreciated if you would direct your staff to conduct a review of reimbursable collections made by the Department of Defense for services provided to foreign nations related to the sale of military equipment and the training of foreign military personnel. The Committee discussed this and related subjects in its report on the FY 1975 Defense Appropriations Bill (Report No. 93-1255, pages 19-2[illegible]). The Department of Defense has had adequate time to take certain corrective measures to insure that full reimbursement for personnel and support services is received whenever feasible. The Committee desires to insure that changes in policy, procedures, billing methods, etc. have taken place and to determine if there is a possibility of further savings to the U. S. taxpayer through such collections.

The Committee staff has discussed the need for this review with members of your office's Financial and General Management Studies Division. If your office has any additional questions regarding the need for or scope of this study, please contact the Defense Subcommittee staff.

Sincerely,

George Mahon

Chairman

SUMMARIES OF GAO REPORTS

CONCERNING FOREIGN MILITARY

SALES COST RECOVERY

REIMBURSEMENT TO THE MARINE CORPS FOR COSTS INCURRED IN THE TRAINING OF FOREIGN MILITARY STUDENTS. Report to Lt. Gen. H. M. Fish, Director, Defense Security Assistance Agency and Deputy Assistant Secretary (ISA), Security Assistance. July 15, 1976, B-165731

Prior to January 1, 1976, the Marine Corps did not bill foreign governments for all training provided under foreign military sales contracts and did not assign dollar values to training provided as grant aid under the Military Assistance Program.

As a result of its pricing practices, the Marine Corps did not recover approximately $252,000 for the training of foreign students under the Foreign Military Sales Act for the 6-month period ended December 1975. In addition, for fiscal year 1975, about $464,000 was not reimbursed to the Marine Corps for training provided as grant aid.

GAO recommended that the Marine Corps:

--Attempt to recover from foreign governments all costs incurred for training provided without charge during the last 3 fiscal years.

--Insure that in the future the Foreign Assistance Act appropriations will be charged for training services provided by the act.

REIMBURSEMENT FOR TECHNICAL ASSISTANCE AND TRAINING SERVICES PROVIDED TO FOREIGN GOVERNMENTS BY THE DEPARTMENT OF DEFENSE.
Report to the Secretary of Defense. July 13, 1976, FGMSD-76-64

In their "Report on Review of Security Assistance Program in Iran" the Office of the Deputy Assistant Secretary of Defense (Audit) reported that roughly $28.5 million in costs incurred by the U.S. Government in fiscal year 1976 will not be recovered. The Defense auditors concluded that much of the $28.5 million should be charged to Iran and recommended that (1) a study be made to insure that all costs of providing services are identified and (2) reimbursement for such costs be obtained.

GAO found that the Department of Defense had not initiated the study recommended by the Defense auditors and recommended that the Director, Defense Security Assistance Agency be directed to:

--Initiate and complete the recommended study before the fiscal year 1976 contracts expire, to identify the costs which should be reimbursed to the U.S. Government.

--Attempt to recover from Iran all reimbursable costs not billed.

--Include in future foreign military sales contracts all costs identified as being associated with providing technical assistance and training services to Iran.

THE UNITED STATES SHOULD RECOVER FULL COSTS OF REIMBURSABLE SATELLITE LAUNCHES.
Report to the Congress. May 6, 1975,
LCD-74-107

Defense and National Aeronautics and Space Administration (NASA) were providing satellite launches on a reimbursable basis to other governments, international organizations, and commercial corporations.

GAO found that procedures used to identify and allocate costs of six launches did not result in recovery of the full costs of these programs. NASA's estimates for two European Space Research Organization launches would have been increased by about $1.9 million, and Defense and NASA's billings for two United Kingdom and two NATO launches would have been increased by about $13.5 million, if they had been computed on a full cost basis.

GAO recommended that NASA and Defense:

--In agreements for all future launches, adopt and enforce a policy of recovering full costs in the absence of fully documented evidence, to justify a discount.

--Require that cost estimates and billings for reimbursable launches be reviewed by internal auditors to insure they are in accord with agency policy and procedures and Government laws and regulations.

PILOT AND NAVIGATOR TRAINING RATES.
Report to the House Committee on Appropriations.
April 11, 1975, FPCD-75-151

The military services were not recovering all costs associated with pilot training under the Foreign Military Sales Act. Also, the military services used different methods in developing reimbursement rates, resulting in a wide variance in the reimbursements for training foreign pilots. Navy prices were based on full average costs incurred, while Air Force prices included only variable costs. As a result, the Navy charged $282,000 for undergraduate jet pilot training while the Air Force charged only $81,000.

Flight training is the most costly training the services provide. GAO recommended that in reviewing the Defense Appropriation request for fiscal year 1976, the Committee may wish to consider whether the services should use the same methodology in computing charges for training foreign pilots.

REIMBURSEMENTS FROM FOREIGN GOVERNMENTS FOR MILITARY PERSONNEL SERVICES PROVIDED UNDER THE FOREIGN MILITARY SALES ACT. Report to Representative Les Aspin. August 16, 1974, ID-75-6

Reimbursements to the Air Force for personnel services in connection with military sales programs during fiscal years 1973 and 1974 totaled $28.8 million and involved an estimated 2,865 manyears. Twenty-six countries were involved, with Iran and Germany making up more than half the total dollars. Most services performed were for pilot training.

In contrast to procedures followed by the Air Force in crediting moneys received to its Military Personnel appropriation account, the Army deposits reimbursements for similar services into the Miscellaneous Receipts of the U.S. Treasury. At the time of GAO's review, efforts were underway to resolve this inconsistency by requiring each military service to follow Air Force procedure.

ACTION NEEDED TO RECOVER FULL COSTS TO THE GOVERNMENT OF PRODUCING WEAPONS FOR SALE TO FOREIGN GOVERNMENTS. Report to the Secretary of Defense. September 7, 1972, B-174901

Department of Defense regulations required industrial activities to charge non-Federal Government customers, including foreign governments, for the use of plant and equipment in producing weapon systems.

GAO found that two industrial activities were not complying with the Department of Defense regulations. As a result, approximately $396,000 was not charged foreign governments during fiscal years 1969 and 1970.

GAO recommended that:

--Department of Defense internal review organizations should review prices charged non-Federal Government customers for work performed at industrial activities to insure Defense regulations are implemented.

--Department of Defense should take action to recover for the Government a fair share of the cost of Government-owned plant and equipment used by contractors in the production of equipment for sale to foreign governments, and should submit appropriate detailed reports to the Congress when a fair share is not recovered.

RECOVERY OF COSTS TO THE GOVERNMENT FOR PRODUCING WEAPONS FOR SALE TO FOREIGN GOVERNMENTS. Report to the Secretary of Defense. April 9, 1973

GAO reported that the Army Material Command's subordinate commands were not charging for depreciation of Government-owned plant and equipment used in the production of weapons for sale to foreign governments as required by Department of Defense regulations.

This matter was previously reported to the Secretary of Defense in September 1972.

GAO recommended that the Secretary of Defense take necessary action to insure that the Army Material Command follows Department of Defense regulations.

RECOVERY OF COSTS ON GOVERNMENT-OWNED PLANT AND EQUIPMENT. Report to the Secretary of Defense. October 7, 1974, FGMS-75-5

GAO repeated its previous recommendations to the Department of Defense to recover the cost of Government-owned plant and equipment used in foreign military sales.

Subsequently Defense instructions were implemented which provided that an "asset use charge" of 4 percent to cover the costs of depreciation, attrition, and imputed interest on investment be applied to all foreign military sales cases which required the use of Defense assets located in other than contractor-operated facilities.

AIRLIFT OPERATIONS OF THE MILITARY AIRLIFT COMMAND DURING THE 1973 MIDDLE EAST WAR. Report to the Congress. April 16, 1975, LCD-75-204

GAO found that Israel was not billed for about $45.1 million in costs incurred in airlift services provided by the Air Force during the 1973 Middle East War. GAO recommended that the Secretary of the Air Force should bill the Government of Israel for all costs--funded and unfunded--of the airlift services provided, including depreciation, on a basis consistent with the methods established by the Airlift Service's Industrial Fund and industry practices.

OMISSION OF SIGNIFICANT COSTS FROM CHARGES TO THE FEDERAL REPUBLIC OF GERMANY FOR PILOT TRAINING. Report to the Congress. November 19, 1969, B-167363

GAO found that the prices charged by the Air Force to recover the cost of training provided the Republic of Germany did not include all direct and indirect costs incurred by the Air Force. As a result, the Air Force incurred costs of about $6 million which was not recovered.

GAO recommended that the Secretary of Defense insure that full costs of the Republic of Germany pilot training program are included in future charges and that an attempt be made to recover those costs omitted in the past.

REIMBURSEMENT FOR FOREIGN MILITARY STUDENT TRAINING. Report to the Secretary of Defense. December 1, 1975, FGMSD-76-21

During fiscal year '75 the Air Force did not recover from foreign governments at least $5.7 million in costs incurred in training foreign students primarily because the Air Force:

--Did not charge foreign governments at current tuition rates.

--Used erroneous tuition rates in billing foreign governments.

--Did not include aircraft depreciation costs in tuition rates billed to foreign governments.

Substantial costs would not be recovered for courses conducted in fiscal year 1976 unless prompt action was taken to insure that current tuition rates were used in billing foreign governments. GAO recommended that the Secretary of the Air Force identify and recover amounts undercharged foreign governments. Acting on GAO's suggestions, the Air Force took action to assure that in the future foreign governments would be billed current course costs. As a result of these actions, GAO estimated that an additional $17.3 million was recovered from foreign governments during fiscal year 1976.

COPY

THE DEPUTY SECRETARY OF DEFENSE
Washington, D.C. 20301

AUG 12 1976

Honorable George H. Mahon
Chairman, Committee on Appropriations
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

The House Committee on Appropriations Report on the Department of Defense Appropriation Bill, 1976 indicated a concern that the Air Force was neglecting to charge foreign countries the full cost of the training including a realistic share of the training base. The Senate Committee on Appropriations concurred in this position.

In view of these concerns, the Department of Defense (DoD) made a review of the pricing policy for charging foreign countries for training. A revised pricing policy was issued on November 5, 1975. The revised policy required a charge to the foreign student of a share of all cost at the training base, including such costs as salaries of instructor and training staff; supplies and materials; aircraft POL and maintenance; a share of base overhead; and a charge for the use of base assets including aircraft.

This revised pricing policy which was made effective January 1, 1976, resulted in substantial increases in most Air Force and Army courses, for both pilot and technical training. The most substantial increases were in Army courses where the previous policy had been to charge essentially "out-of-pocket" costs.

You can appreciate that this sudden and substantial increase in prices had a drastic impact on the foreign countries who were using our training programs. They had little or no time to make adjustments in their budgets for students already scheduled into training. In most cases, this has required substantial reductions in their input of students.

I have had several discussions with representatives of foreign governments with reference to the higher prices. Based on these discussions as well as recommendations from several U.S. ambassadors, the Chairman, Joint Chiefs of Staff, and other DoD personnel, I have personally reviewed our November 5, 1975, pricing policy. It is my conclusion that it goes well beyond the intent of your direction since it fails to give any recognition to the military and political benefits to be gained by the U.S. from such training. Such benefits include improved regional stabilization and the lessening of our requirements for overseas deployed forces. In addition, training is frequently an integral part of a package arrangement involving the sale of hardware which in many instances results in reduced costs for the U.S. when the items are being procured for the DoD.

Therefore, I have directed that two changes which are discussed below, be made to our training pricing policy. These changes will result in a 20-30% reduction in tuition prices established by the November 1975 policy but still substantially higher than those under our prior policy. Examples of the difference between the price of several courses using both methods are attached. Under this changed policy, we will establish a fair price and recoup full cost for training which will not require any subsidy from DoD appropriations nor adversely impact the training of U.S. students.

The first change involves the pricing of military and civilian pay. The November 5, 1975, policy requires that a foreign student bear a straight pro rata share of the cost of all direct and indirect base personnel who directly or indirectly support the training program. Salaries are costed using base pay plus acceleration rates for leave, retirement, medical, etc. In certain instances, the foreign student is absorbed into the training program without the necessity of increasing the base staffing. The U.S. instructors and/or other personnel associated with foreign military training are highly trained assets which we can use almost immediately in any contingency. The costs of keeping these personnel in a high state of readiness are borne by the foreign nations. For example, instructor pilots will augment our tactical fighter force after minimum check-out time in the weapon system and aircraft maintenance personnel will augment mobility forces as our forces surge prior to mobilization of Reserve Forces. I believe that our pricing should give some recognition to this fact. While this could be done by the review of each course to determine the student staff relationship and making a judgmental decision on the exact amount of the staff costs to be charged, it would be an enormous task and could result in widely varying rates for similar courses. To insure that all courses are priced on a consistent basis and to reduce the pricing workload, I plan on a pricing system that will give each course an equal basis for charging the cost of personnel involved in training. The revised procedure will exclude the acceleration factors for leave, holiday and retirement from the computation when costing direct and indirect base personnel.

APPENDIX III

The second change involves the use of DoD assets. Our present policy provides for the recoupment of depreciation on aircraft by the use of an hourly use charge which is predicated on the cost of the aircraft and its useful life expressed in flying hours. Depreciation for all other assets used in training is recouped by means of application of a rate of 1% to the total course costs. Depreciation on assets used in foreign military sales, other than training, is recouped by application of a rate of 4%. In order to bring the training method of recouping depreciation into agreeement with the method used on other Foreign Military Sales, the hourly use charge and the 1% rate are being deleted from our pricing policy and replaced by a 4% rate on the total cost of training.

I plan to issue this revised guidance to be effective October 1, 1976, for the FY 1977 program. In view of the Committee's continuing interest in our pricing policy for training foreign students, as evidenced in your report on the 1977 appropriations, I want to keep you informed of our planned actions.

Sincerely,

Bill Clements

Enclosure

GAO Note: The same letter was sent to Senator John L. McClellan, Chairman, Senate Committee on Appropriations

Examples of Price Changes
(in thousands)

	Pre 5 Nov 1975 Prices	Pricing Policy 5 Nov 1975	Proposed Revision
Air Force			
UPT	$140.0	$214.4	$151.5
Army			
UH-1 Instructor Pilot Course	4.4	13.1	9.7
Improved Hawk Mechanic System Repair	2.9	10.9	7.0
Ammunition Officers Course	1.2	3.1	2.3
Navy			
Jet UPT	337.1	301.2	230.1
Electrician Mate Class B	3.5	3.5	2.8

COPY

UNITED STATE SENATE
COMMITTEE ON APPROPRIATIONS
WASHINGTON, D.C 20510

August 16, 1976

The Honorable William P. Clements, Jr.
Deputy Secretary of Defense
Washington, D.C. 20301

Dear Mr. Secretary:

Thank you for your letter of August 12, 1976, regarding a proposed revision in the current prices being charged foreign customers for training their personnel in the U.S. training establishment.

As you know, last year both the Senate and House Appropriations Committees expressed concern that the Services (in particular the Air Force) were neglecting to charge foreign countries the full cost of this training, including a realistic share of the training base.

Last year's conference report on Department of Defense appropriations (House Report 94-710) strongly emphasized the need to charge a realistic price to foreign countries for training, and it included the following statement:

> "The conferees agreed that applicable Defense regulations should be revised to require that Foreign Military Sales charges for pilot training include realistic estimates of the full and proportionate cost of training support, base operations support, and training organization overhead".

Subsequent to issuance of that report, the Committee carefully reviewed the new pricing guidance issued by the Department. The Committee's report on FY 1977 Department of Defense appropriations treated this as an item of special interest and stated the following:

> "On November 5, 1975, the DOD published new pricing guidance for all FMS training, including pilot training. This guidance provides for the recovery of the full and proportionate cost of training support, base operations support and training organization overhead. The Defense Department went even further and developed an hourly cost rate for each type of aircraft utilized in

flight training. These hourly rates were issued on January 16, 1976. DOD intends to revise Instruction 2140.1 to include the guidance provided on November 5, 1975, and the new aircraft hourly use rates.

"The Committee reviewed the rates being charged for pilot training to foreign governments under the new guidance, and believes that the pricing methodology and the resultant rates are responsive to its direction. DOD is to be complimented for its actions in this area.

"To insure that the charges for training continue to reflect the full cost of such training for that portion of the student load that is FMS, the Committee insists that any alteration in the present pricing policies which would cause any significant change in the charge rates be submitted to the Committee for approval prior to implementation. This policy is to be applied to all categories of FMS training."

The Committee might further point out that, because of the actions taken by the Committee last year and our strong feelings on this matter, it gave careful scrutiny to the rates established on November 5, 1975, and carefully considered whether they were adequate. Upon review, it was determined that DoD had complied with the Committee's direction, and had finally begun to charge proper and realistic rates.

It now appears that, as a result of complaints on the part of our foreign customers that prices are too high, DoD has decided to make downward adjustments to a pricing policy specifically approved by this Committee. According to your letter, the changes will result in a 20-30% reduction in tuition prices specifically approved by this Committee and deemed to be a reasonalbe interpretation of the direction contained both in Senate Report 94-446 and House Report 94-710.

The rationale offered in your letter for a reduction in the present pricing policy is identical to the rationale offered in 1976 and explicitly rejected by both the Senate and the House Appropriations Committees when they reviewed these charges. Frankly, the Committee is somewhat surprised that the Department of Defense is even contemplating the subsidy of Foreign Military Sales customers when the Congress long ago explicitly rejected the arguments advanced in favor of such a subsidy.

The Committee must advise you that it strongly objects to the proposed revision in pricing policy. This would completely upset the careful work accomplished last year and again this year by both the Senate and House Appropriations Committees and result in providing a "free ride" to many countries under many Foreign Military Sales cases. Such a free ride is totally unacceptable to the Committee.

If the Department should implement the policy outlined in your letter, the Committee would have no recourse other than to repeat the action taken last year in reducing the DoD appropriations by the amount that should be collected from FMS sales as a reimbursement.

Please advise me of actions taken in this matter.

With kind regards, I am

Sincerely,

John L. McClellan
Chairman

JLM:ljm

COPY

Congress of the United States
House of Representatives
Committee on Appropriations
Washington, D.C. 20515
August 25, 1976

Honorable William P. Clements, Jr.
Deputy Secretary of Defense
Washington, D.C. 20301

Dear Mr. Secretary:

This is in response to your letter of August 12, 1976, in which you conveyed to the Committee a decision to substantially reduce the charges made for training foreign nationals at U.S. defense installations. The sizable cost to the United States taxpayer is evidenced by the fact that over $140 million would be lost in reimbursements from the few examples contained in your letter.

It is the considered opinion of the Committee that the pricing policies which went into effect on November 5, 1975, in response to direction from the Appropriations Committees of the House and Senate should remain in effect. The Committee has recognized and continues to recognize that the United States receives many military and political benefits as a result of providing training for foreign countries. However, we also are aware of the fact that the foreign nations benefit from such training. If they had to undertake this training on their own it would be either more expensive for them or the training would not provide the same level of professionalism.

If the foreign governments receiving training or other manpower intensive services from the Department of Defense are unable to pay the full cost, the required support should then be sought from the Congress through the Military Assistance Program, and the Department of Defense reimbursed accordingly. The Defense budget is not to be used to partially subsidize the Military Assistance Program.

I must also point out that the sudden and substantial increases in prices which you mention in your letter would not have been necessary had the Air Force and Army been charging foreign customers at rates comparable to those charged by the Navy. The examples contained in your letter show how Navy reimbursement rates were actually reduced as a result of the November 5, 1975, revised pricing policies. This is a further indication that the November 5 rates are not excessive. I must also point out that the Committee had in previous years recommended increases in these charges, but little or nothing was done by the Air Force and Army. Thus, in the case of Air Force pilot training it became necessary for the Committee to reduce the request by an amount equal to one-half the amount the General Accounting Office determined should have been obtained through appropriate charges to foreign governments.

Your letter points out, and the Committee fully appreciates, that training is frequently an integral part of a package arrangement involving the sale of hardware which in many instances results in reduced costs for the U.S. when the items are also being procured for the Department of Defense. However, if the Department continues to provide training, logistics, and other manpower related activities in support of weapons sales at far less than cost to the U.S. Government, the American taxpayer, and the U.S. economy is losing the financial benefit from the hardware sale. As you are aware, GAO has expanded its review in this overall area of reimbursements to foreign military sales.

The Committee does not support your recent decision on this matter and considers the guidelines in your November 1975 directive to be more in line with our direction. The Committee intends to closely monitor the estimates for reimbursable collections contained in the FY 1978 budget when it is received. It is the Committee's intention to reduce requests for direct funding by amounts equal to reimbursements lost through failure to make adequate and appropriate charges for services rendered by the Department of Defense to foreign governments.

Sincerely,

George Mahon
Chairman

PRINCIPAL OFFICIALS

RESPONSIBLE FOR ADMINISTERING ACTIVITIES

DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
DEPARTMENT OF DEFENSE		
SECRETARY OF DEFENSE:		
Donald H. Rumsfeld	Nov. 1975	Present
Dr. James R. Schlesinger	July 1973	Nov. 1975
William P. Clements (acting)	Apr. 1973	July 1973
Elliot L. Richardson	Jan. 1973	May 1973
Melvin R. Laird	Jan. 1969	Jan. 1973
ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER):		
Fred P. Wacker	Sept. 1976	Present
Terence E. McClary	June 1973	Aug. 1976
Don R. Brazier (acting)	Feb. 1973	June 1973
Robert C. Moot	Jan. 1969	Jan. 1973
DEPARTMENT OF THE ARMY		
SECRETARY OF THE ARMY:		
Martin R. Hoffman	Aug. 1975	Present
Howard H. Callaway	May 1973	July 1975
Robert F. Froehlke	July 1971	May 1973
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT):		
Hadlai A. Hull	Mar. 1973	Present
Richard L. Saint Sing (acting)	Sept. 1972	Mar. 1973
COMPTROLLER OF THE ARMY:		
Lt. Gen. John A. Kjellstrom	July 1974	Present
Lt. Gen. E. M. Flanagan, Jr.	Jan. 1973	July 1974
Lt. Gen. John H. Wright, Jr.	Aug. 1970	Jan. 1973
DEPARTMENT OF THE NAVY		
SECRETARY OF THE NAVY:		
J. William Middendorf	June 1974	Present
John W. Warner	May 1972	Apr. 1974

APPENDIX V

	Tenure of office From	To
DEPARTMENT OF THE NAVY (Continued)		
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT):		
Gary D. Penisten	Oct. 1974	Present
Vacant	May 1974	Oct. 1974
Robert D. Nesen	May 1972	May 1974
MARINE CORPS (COMMANDANT):		
Gen. Louis H. Wilson	Jan. 1975	Present
Gen. R. E. Cushman, Jr.	Jan. 1972	Dec. 1974
DEPARTMENT OF THE AIR FORCE		
SECRETARY OF THE AIR FORCE:		
John J. McLucas	July 1973	Present
Dr. Robert C. Seamans, Jr.	July 1969	July 1973
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT):		
William W. Woodruff	Apr. 1973	Present
Spencer J. Schedler	Jan. 1969	Apr. 1973
COMPTROLLER OF THE AIR FORCE:		
Lt. Gen. Charles G. Buckingham	Sept. 1975	Present
Lt. Gen. J. R. DeLuca	Oct. 1973	Sept. 1975
Lt. Gen. D. L. Crow	Apr. 1969	Oct. 1973
DEPARTMENT OF STATE		
SECRETARY OF STATE:		
Henry A. Kissinger	Sept. 1973	Present
William P. Rogers	Jan. 1969	Sept. 1973