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

MAY 7, 1980

B-198250

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The Honorable Frank Church
Chairman, Committee on
Foreign Relations
United States Senate



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Dear Mr. Chairman:

Subject: Improvements Needed in Accounting for Foreign Student Participation in Defense Training Programs (FGMSD-80-58)

In your letter of January 15, 1980, and during subsequent discussions with your office, concerns were expressed that increases in the cost of the military training provided foreign nationals may have discouraged them from participating in Defense training programs. Your letter requested a comparison of (1) trends over the past decade for the number of students and countries and for course costs for the International Military Education and Training Program and the Foreign Military Sales Training Program and (2) the tuition rates charged foreign nationals who participated in these Defense training programs. (See app. I.)

As agreed with your office, we provided you with a report (FGMSD-80-48, Apr. 15, 1980) which contained the statistics developed during our review of the Department of Defense training of foreign military personnel and responded to the questions raised in your January request. The report compared trends over the past decade for the number of students and countries involved and course costs under the International Military Education and Training Program. Comparable data was not available for the Foreign Military Sales Training Program for fiscal 1970-1975. As a result, only data for fiscal 1976-1979 could be provided. This report is our final response to your January request and discusses deficiencies disclosed during our review and recommendations for corrective action.

In compiling the data you requested, we concluded that the Congress has not been provided accurate information for determining the amount of money which should be made available to other countries to purchase Defense training and has not always been aware of the amount of training costs paid from monies appropriated to Defense. This situation resulted from two basic problems:

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--Defense's accounting system did not accurately record the number of foreign students trained.

--Defense had not established an accounting system to determine the amount of costs not charged by the Department of Defense in training foreign military students.

SCOPE OF REVIEW

Our review was designed to make a comparison of the trends over the past decade for the number of students trained, the countries involved, and course costs for the International Military Education and Training Program, the Foreign Military Sales Training Program, and the training provided to North Atlantic Treaty Organization countries.

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

--Department of Defense, Washington, D.C.

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

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

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

Our review included an examination of legislation, policies, procedures, documents and reports dealing with training of foreign students. We interviewed responsible officials to discuss policies, procedures, and other matters. We also reviewed the Defense Security Assistance Agency's and the military departments' accounting systems for compiling and recording the number of foreign students trained in the Defense training programs.

DEFENSE'S ACCOUNTING SYSTEM DOES NOT PROVIDE ACCURATE DATA ON STUDENT PARTICIPATION

The Department of Defense accounting system does not provide data on the actual number of students trained in the various Defense training programs. The system records the number of students that are programed to be trained but that number is not always adjusted to reflect the actual number trained. Because of this system deficiency, Defense is not compiling or reporting accurate information on the number of foreign students trained.

The Defense Security Assistance Agency is responsible for directing and supervising the administration of the Defense training programs. The Agency maintains various automated systems which, when augmented by manual records, provide detailed information on the International Military Education and Training Program and the Foreign Military Sales Training Program.

Accurate data not reported for the
International Military Education
and Training Program

The Defense Security Assistance Agency maintains information on the number of students programed for training in the United States and overseas under the International Military Education and Training Program. This information, however, is not always adjusted to show the actual number of foreign students trained under this program.

According to Defense personnel, the programed figures represent the number of foreign students that each military department planned to train each fiscal year. Defense personnel further stated that the military departments generally failed to notify the Agency when changes were made to the program.

When notification was received, the necessary adjustments were made to the programed data to reflect the number of foreign students actually trained. Also, we were informed that changes received 6 months after the end of the fiscal year were not inputted into the system and, therefore, the necessary adjustments were not made. According to Defense personnel, even though this data is the best available, the number of students programed for training and the number of students actually trained differ.

Considering the current circumstances, we cannot be certain that all the changes were forwarded to and inputted into the system to reflect changes between the number of students programed for training and the actual number of students trained. Because of this, we were unable to verify that the data obtained does in fact reflect the actual students trained under the International Military Education and Training Program.

For Defense to effectively manage the program, it should know the actual number of foreign students trained. Also, in fiscal 1979, the Congress appropriated \$33.6 million for training under this program. Accurate and reliable information is needed by the Congress in making future appropriations decisions.

System not established for reporting on
Foreign Military Sales Training Program

The Defense Security Assistance Agency has not established a uniform system to provide accurate and reliable data on the number of students trained under the Foreign Military Sales Training Program. The military departments were responsible for this problem because they either did not report the data or the data was not updated to reflect the actual number of students trained.

Air Force

Prior to fiscal 1978, Air Force headquarters inputted data to the Defense Security Assistance Agency on the actual number of foreign students trained under the program. During fiscal 1978, the Air Force's Air Training Command assumed responsibility for maintaining data on the number of foreign students trained. The Training Command, however, did not inform the Defense Security Assistance Agency of the changes in the programmed data that were necessary to reflect the actual number of foreign students trained in fiscal 1978.

The Agency's system did not contain any data for fiscal 1979, because it had not been reported by the Training Command. According to Air Force and Agency officials, the fiscal 1979 data as well as the fiscal 1978 data should have been reported.

Army

Prior to fiscal 1979, the Army did not provide the Defense Security Assistance Agency with the number of foreign students trained under the Foreign Military Sales Training Program. Starting with fiscal 1979, the Army began providing such data to the Agency, but according to the Army's Training and Doctrine Command, the fiscal 1979 data recorded on the system as of January 8, 1980, was not completely accurate because all changes had not been provided to the Agency. Therefore, the figures were not a true representation of the actual number of students trained.

Navy

The Defense Security Assistance Agency system maintained data on the number of foreign students trained by the Navy. According to Navy officials, however, this data represented the number of foreign students programmed for training and not the actual number of students trained. The figures in the Agency system are not always updated when changes in the

training program occur. At our request, the Navy's Education and Training Command provided us with data on the actual number of foreign students trained by the Navy.

The Navy system at the Education and Training Command is mechanized and can readily determine the number of foreign students trained each year. This data, however, is not routinely forwarded through the Navy commands to the Defense Security Assistance Agency for inclusion in its system.

In future fiscal years, similar reporting situations may occur. Programed student data should be reported to the Defense Security Assistance Agency by all services and then be updated by the services when changes occur. This process, if followed, would yield the actual number of students trained. Without such data, Defense cannot report accurate information to the Congress on the number of foreign students trained under the Foreign Military Sales Training Program.

CERTAIN TRAINING NOT
ACCUMULATED AND RECORDED

Defense has not established an accounting system to accumulate and record the amount of costs incurred but not charged from foreign governments in training foreign students under the International Military Education and Training Program. As a result, Defense does not inform the Congress of the amount of training costs which are paid from appropriated funds.

The Foreign Assistance Act of 1961, as amended, states that salaries and other military personnel costs will not be charged to the International Military Education and Training Program, although such personnel are directly engaged in training foreign military students. Because of this exclusion, the total cost of furnishing the training is much greater than the costs recorded for the program.

We attempted to obtain data on the amount of costs charged to the International Military Education and Training Program. Defense officials stated that such data was not retained. Further, the officials stated that it would be a very tedious and time consuming process to obtain the data. In order to gather the data, it would be necessary to (1) review every course cost sheet which shows the costs to be charged to each student, (2) determine the military personnel costs and indirect costs included for each student taking the course, and (3) multiply those costs by the number of students that received the training.

We recognize that the law authorizes not charging for certain costs incurred in the training of foreign military students. We believe, however, that Defense should accumulate data on these costs so that the Congress will know the total cost of training foreign nationals and the amount of costs absorbed by funds appropriated to Defense. The yearly cost of training should be known by the Congress during the appropriation review process.

EFFECT OF INCREMENTAL COSTING ON
COMPUTATION OF TUITION RATES

On April 24, 1980, we were informed by your office that legislation had been introduced in the House of Representatives to change the methodology for computing tuition rates from the full cost concept to the incremental cost concept for the International Military Education and Training Program and the Foreign Military Sales Training Program. Further, in October 1979, Defense proposed legislation that would allow charging only incremental costs to North Atlantic Treaty Organization countries. Your office requested that we determine the overall effect of the legislation.

Full cost concept mandates the
recovery of all incurred costs

The Arms Export Control Act of 1976, as amended, authorizes the training of foreign nationals if the foreign government agrees to pay all direct and indirect costs. In complying with this act, Defense in March 1977, issued Instruction 2140.1, Pricing of Sales of Defense Articles and Defense Services to Foreign Countries and International Organizations.

This instruction provides the methodology to be used by the military services in computing tuition rates. The instruction defines direct costs as: the salaries of civilian and military instructors; training material; equipment and supplies; petroleum; maintenance of aircraft, ships, and motorized vehicles; use of simulators; and operation and maintenance of airfields.

The indirect costs charged under the Foreign Military Sales Training Program include all costs associated with the general operation and maintenance of the training facility. These costs include family housing, food service activities, and operation of military personnel quarters, but do not include costs associated with the chapel, equal rights office, and special services. In addition to base operating costs, a 4-percent asset use charge is applied to the total course cost to cover depreciation of United States assets that are used in training foreign students.

The Foreign Assistance Act of 1961, as amended, provides authority for training of foreign military students under the International Military Education and Training Program. Under the provisions of the act, the cost of salaries and allowances of military personnel is not to be included in the tuition rates. In addition, the asset use charge and the administrative surcharge are excluded from the tuition rate computation. Except for the above cost elements, the computed course cost should include all other direct and indirect costs associated with training a foreign student under this program.

Incremental costing charges
less than all costs incurred

Incremental costing provides that tuition rates include only the additional costs incurred to train foreign military students. For example, if a training course was structured to have 2 instructors train 20 students, and by adding 10 foreign students, it was necessary to provide one more instructor, the cost of this instructor would be included in the tuition rate. Further, if the additional students caused an increase in the amount of supplies necessary to conduct the course, these additional costs would also be included in the tuition rate. Regarding the costs associated with operating the training installation, the foreign student's tuition rate will reflect only the additional costs incurred as a result of the increased student participation. Training costs not charged because of the incremental costing concept will be absorbed by Department of Defense appropriations.

Incremental costing for North
Atlantic Treaty Organization countries

The Arms Export Control Act provides for the waiving of certain indirect costs associated with the training of North Atlantic Treaty Organization military personnel. In April 1980, Defense informed the Senate Armed Services Committee and the Senate and House Appropriations Committees that for the 15-month period ending December 31, 1979, about \$17 million of training costs had been waived.

In October 1979, Defense proposed legislation that would result in charging North Atlantic Treaty Organization countries only the incremental cost of student training. This legislation, if passed, would result in a substantial reduction in the tuition rates charged for the training of military personnel from North Atlantic Treaty Organization countries. In its proposal, Defense stated that it would require an additional \$32 million in appropriated funds in fiscal 1980 to cover the shortfall from implementing the incremental pricing concept.

Incremental costing for
other foreign countries

Legislation has been recently proposed to charge only the incremental cost for training provided under the International Military Education and Training Program and for selected countries that participate in the Foreign Military Sales Training Program.

According to Defense personnel, the proposed amendment will apply to all countries that participate in the International Military Education and Training Program. Defense personnel further stated the amendment is not applicable to all countries that receive training under the Foreign Military Sales Training Program. A foreign country will be charged only the incremental costs of training if it participates in the International Military Education and Training Program. On the other hand, countries such as Japan, Saudi Arabia, and other non-North Atlantic Treaty Organization countries that participate in only the Foreign Military Sales Training Program, will continue to pay the full cost of training. Countries such as Turkey and Korea, will only be charged the incremental costs of the training received under the Foreign Military Sales Training Program. According to Defense personnel, the proposed legislation will result in Defense's appropriations absorbing a greater portion of the indirect costs of each program. Further, the proposal, if approved by the Congress, could increase the number of foreign personnel trained under each program.

The funds for the International Military Education and Training Program are appropriated by the Congress on an annual basis and all applicable incurred costs are charged against the appropriation. If the appropriation is increased or remains constant, and since a significant portion of the indirect costs will no longer be charged, the foreign governments will be able to increase the number of students trained. If the appropriation decreases, however, the number of students trained may also decrease. Such a decrease in students trained would occur if the decrease in the appropriation is greater than the decrease in indirect costs. A Defense official stated that since military personnel costs are already excluded from tuition rates, the exclusion of indirect costs will result in the tuition rates of most nonflying courses being reduced to virtually nothing. For flying courses, the tuition rate would also be significantly reduced.

In those instances where incremental costs may be charged under the Foreign Military Sales Training Program, the tuition rates will be considerably less than the rates charged under

the full cost concept. As a result, the foreign governments will be able to purchase more training for the same amount of money.

On April 28, 1980, we were informed by Department of Defense officials that they had not developed any cost data showing the effects of the proposed legislation upon tuition rates or Defense's appropriations. We were also informed that the Congress had not yet requested such data.

If incremental costing is implemented, it could cause pricing problems for the military departments. Prior to the issuance of the uniform pricing guidance in November 1975, the Army was using incremental pricing and it was not applied in a consistent manner. In our report, December 14, 1976, report (FGMSD-76-91), we found inconsistencies at the various Army training installations in the computation of tuition rates. As a result of previous problems in the use of incremental pricing, if the proposed legislation is authorized, Defense must issue specific guidance for the computation of tuition rates using the incremental costing concept.

CONCLUSIONS AND RECOMMENDATIONS

The Department of Defense does not have an adequate system to record and report the number of foreign students trained by Defense. Defense's system maintains data on the number of foreign students programed for training and is not always adjusted to reflect the actual number of students trained. Because of this system deficiency, Defense is not reporting accurate information on the actual number of students trained.

Also, neither the Congress nor Defense is aware of the total cost of operating Defense programs for the training of foreign military personnel. Defense does not have an accounting system to accumulate and report the amount of costs incurred but not charged in the training of foreign military students under the International Military Education and Training Program. Until Defense accumulates these costs, the reported value of training provided under these programs will be understated. To give the Congress a better idea of the total program cost, we believe all costs not charged should be reported.

We recommend that the Secretary of Defense:

- Establish procedures requiring the military services to promptly report to the Defense Security Assistance Agency accurate data on the actual number of students trained.

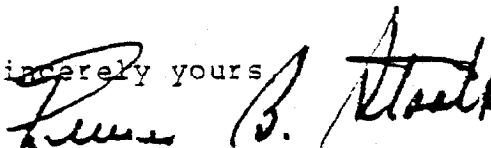
--Establish an accounting system to enable the Agency to determine the amount of costs incurred but not charged by Defense in training foreign students under the International Military Education and Training Program.

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The information in this report is based, for the most part, on Department of Defense records and on information provided by Defense officials. Because of the amounts of information requested and the short time to gather it, we were not always able to verify its accuracy.

As requested by your office, we did not request written comments from the Department of Defense. We did, however, discuss the contents of this report with Defense officials and they generally agreed with the results. Further, your office asked that unless you publicly announce its contents earlier, we make no further distribution of this report until 7 days from its date. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours



Comptroller General
of the United States

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United States Senate

COMMITTEE ON FOREIGN RELATIONS

WASHINGTON, D.C. 20510

January 15, 1980

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

Dear Mr. Staats:

Concern has been expressed that increases in the cost of military training provided to foreign nationals may have discouraged their participation in these Defense programs.

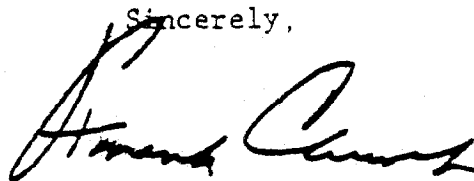
In order to pursue this matter, I would like to request that your office make a comparison of the trends over the past decade, if possible, for the number of students, countries, courses taken, course costs, etc., for the International Military Education and Training Program (IMET) and the Foreign Military Sales Training Program (FMS).

In your study, I would appreciate knowing the various types of training offered under each program and the related value of such training. Also, the Committee would like a comparison of the types of costs included in IMET courses versus those included in the FMS courses. This information will assist the Senate Foreign Relations Committee in evaluating the impact of increased course costs on participation in these training programs.

The Committee staff has discussed this review with members of your Financial and General Management Studies Division, Systems in Operation group. I would appreciate a report on this matter by April 15, 1980.

With best wishes,

Sincerely,



Frank Church
Chairman