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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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FEDERAL PERSONNEL AND  
COMPENSATION DIVISION

FEB 28 1973

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The Honorable Elliot L. Richardson  
Secretary of Defense

Dear Mr. Secretary:

In our current review of the management of the Overseas Dependents School System, we found that at Bahrain tuition charges for outside students (those not sponsored by the U.S. Government) were resulting in losses to the Government. Although our review is still underway, we are bringing this matter to your attention now, because prompt action in correcting these charges can minimize the Government's losses.

The Government may lose about \$280,000 this school year because the United States Dependents Schools, European Area (USDESEA), do not charge outside students at its school on Bahrain Island in the Persian Gulf sufficient tuition. USDESEA computed the per pupil cost of operating that school for the 1972-73 school year at \$1,733; the amount charged for each outside student is \$982. The \$982 rate is the average cost per student for all USDESEA schools and is about \$750 per student short of recovering the full cost incurred.

We believe that a tuition billing rate based on actual costs should be used for the Bahrain school, where nearly three-quarters of the students are not dependents of Government employees.

EXPANSION OF BAHRAIN SCHOOL  
FOR OUTSIDE STUDENTS

In August 1972 the Assistant Secretary of Defense (Manpower and Reserve Affairs) authorized USDESEA to expand the school from grade 8 to grade 12 and to hire the additional staff needed to educate outside students who would attend. This was an exception to the normal policy that such students

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be accepted in the Overseas Dependent Schools System only when space was available. It was estimated that over two-thirds of the total number of students at the school would not be dependents of Government employees.

The expansion approval granted by the Assistant Secretary stipulated that the entire cost to the Government of providing education and other services to outside students be fully reimbursed. He directed that the actual cost of the Bahrain school operations be computed and that a separate tuition fee be charged.

Although USDESEA officials computed a per student cost of \$1,733 for the Bahrain school, they recommended that the areawide rate of \$982 be charged. Their rationale was that costs differed at many schools attended by outside students and that a separate rate for Bahrain, although equitable for that school, would not eliminate the disparity at those other schools.

In October 1972 the Deputy Assistant Secretary of the Army (Military Personnel Policy and Programs) informed the Assistant Secretary of Defense that the per student cost of operating the Bahrain school was over \$1,700 and that, charging this full tuition rate would result in many administrative problems and costs and would cause political sensitivity in numerous countries. He requested approval for charging the regular areawide rate of \$982 and assured the Assistant Secretary that this rate provided for recovering the full cost. The Assistant Secretary of Defense approved the \$982 tuition charge on the basis of this assurance and reemphasized that all costs related to the education of outside students be fully recovered.

AMOUNT OF GOVERNMENT SUBSIDY  
IN TUITION RATE AT THE BAHRAIN SCHOOL

Over 10 percent of all outside students in the USDESEA system are enrolled at the Bahrain school. There are relatively few such students at most other USDESEA schools--an average of only 3 percent throughout the system.

As of August 31, 1972, 532 students were enrolled in the Bahrain school: 144, or 27 percent, were U.S. Government-sponsored students; the remaining 388 were the children of

private U.S. citizens, Bahrain citizens, and third-country nationals. Of the 127 resident students in the Bahrain dormitory, only 9 were dependents of U.S. Government personnel. In all other USDESEA schools, there is a total of only about 40 outside students living in the dormitories.

Charging the areawide rate of \$982 per student is, in effect, a subsidy of \$750 per student, or \$290,000 for the 388 outside students at Bahrain.

Use of the area-wide average rate would not provide for recovering the total costs of operating a particular school if that school was known to have a higher cost per student than the average of other schools in the system. This fact should have been obvious to both the Army and the Office of the Secretary of Defense.

If the cost of the Bahrain school were excluded from the USDESEA-wide standard tuition rate, the average cost per student would be reduced from \$982 to \$979. For the approximately 3,200 outside students at all other schools, the total tuition fees collected would be about \$10,000 less. Thus the net correction of charging the full cost of tuition at Bahrain and excluding its costs from the standard tuition rate charged elsewhere could be an increase of about \$280,000 collected for outside students.

#### CONCLUSION AND RECOMMENDATION

The tuition charged for outside students, comprising over 70 percent of the students attending the school at Bahrain does not provide for recovering the full costs incurred to provide that education. This is contrary to the requirement of the Assistant Secretary.

We therefore recommend that you direct USDESEA to charge a tuition rate to recover the entire cost of providing education and other services to outside students enrolled in the Bahrain school, consistent with the Department of Defense directive.

We are sending copies of this letter to the Director, Office of Management and Budget; the Secretary of the Army;

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and the Chairmen, House and Senate Committees on  
Appropriations, Armed Services, and Government Operations.

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Sincerely yours,

*Thomas D. Morris*

Thomas D. Morris  
Acting Director