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

B-159635

DEC 1 1975

The Honorable
The Secretary of Defense

Dear Mr. Secretary:

At the request of the Chairman of the House Appropriations Committee, we have undertaken a review to determine whether the Department of Defense obtains full reimbursement from foreign governments for training provided to foreign military students.

Our review to date has shown that the Air Force has not recovered from foreign governments millions of dollars for costs incurred in training foreign students, and additional substantial costs will not be recovered unless effective corrective action is taken. Although our work is continuing in the Air Force, as well as in the Army and the Navy, the Office of the Chairman has requested that we report our findings to you at this time so that prompt corrective action can be taken.

In our review we analyzed Defense regulations, interviewed responsible officials, and tested billing and collection transactions to evaluate the Air Force system for recovering the full cost of training foreign students as envisioned by the law and Defense regulations. Our review was done at Headquarters, United States Air Force; Headquarters, Air Training Command, Randolph Air Force Base, Texas; and the Air Force Accounting and Finance Center, Denver, Colorado.

BACKGROUND

Training courses are offered to foreign nations on the basis of authority granted in the Foreign Military Sales Act of 1968 (22 U.S.C. 2761), which states that Defense services may be provided to foreign nations if the foreign governments agree to pay not less than the value of the service.

Department of Defense Form 1513 is used as the formal contract between the United States and foreign governments for sales of Defense services. All sales are subject to the following contractual conditions set forth therein.

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--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.

COSTS OF TRAINING FOREIGN MILITARY STUDENTS NOT FULLY RECOVERED

Our tests of charges made for courses involving primarily flight training students conducted during fiscal year 1975 showed that 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 used in billings to foreign governments.

Further, substantial additional costs will not be recovered for courses conducted in fiscal year 1976 unless prompt corrective action is taken to insure that current tuition rates are used in billing foreign governments. For example, for just four of the fiscal year 1976 courses that will be provided, undercharges of about $5 million will occur unless current tuition rates are charged.

Use of outdated tuition rates results in unrecovered costs

To insure that foreign governments pay for the actual value of training received, as required by the Foreign

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Military Sales Act, the Air Force must base its course charges on current costs.

Foreign nations frequently entered into contracts with the U.S. Government for training which did not begin for a long period after the contract date. When these students eventually started training, the Air Force billed foreign governments on the basis of the estimated price contained in the contract rather than at current cost. We noted that costs for many courses increased greatly between the time contracts were entered into and the time foreign students actually began training.

We reviewed billing data for 116 of the 647 foreign students who entered training classes during fiscal year 1975 under prior years' contracts. The 116 students were provided training on the basis of contracts entered into in fiscal years 1973 and 1974. The foreign governments were billed approximately $5.4 million for the students' training. The Air Force, however, should have billed the foreign governments about $6.5 million, or an additional $1.1 million, on the basis of fiscal year 1975 tuition rates to recover current costs. Also, if the billings for the remaining 531 students were not at 1975 tuition rates, the total unrecovered costs would be even larger.

We also reviewed billing data for 237 foreign students who entered on-the-job training courses during fiscal year 1975 on the basis of contracts entered into during fiscal years 1972 to 1974. The Air Force billed foreign governments at a rate of $50 a course as established in prior years' contracts, although the fiscal year 1975 tuition rate was $200 a week. The Air Force billed the foreign governments $75,000 for the 1,500 weeks of training provided these students. If the Air Force had used the current fiscal year 1975 training tuition rate as required, it would have recovered $300,000, or an additional $225,000.

We identified 547 foreign students who will enter four courses in fiscal year 1976 under contracts entered into in fiscal year 1975. If foreign governments are charged the estimated tuition rates stated in the contracts, the Air Force will collect about $24 million for training these students. However, if current tuition rates are charged, the Air Force will more closely recover actual costs and collect about $29 million, or $5 million more than the

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contract estimates. Similarly, substantial costs in providing many other training courses will not be recovered unless the Air Force bills the foreign governments at current tuition rates in fiscal year 1976.

Headquarters Air Force officials agreed that current course costs should be charged rather than the estimated contract price. These officials, however, could not explain why Air Training Command personnel who instruct the Air Force Accounting and Finance Center as to amounts to be billed foreign countries failed to use current course prices. Air Training Command officials said they understood that the contract price was to be used, but they could not give us any written instructions directing them to do so. Thus it appeared that the failure to appropriately bill foreign governments at current costs resulted from a lack of effective communications.

After we discussed this matter with Air Force Headquarters officials, they provided the Air Training Command with written instructions which require that, effective July 1, 1975, foreign governments be billed on the basis of current course costs, rather than estimated contract prices, to insure that all costs incurred are recovered.

Further, Air Force officials told us that they are waiting for the Office of the Secretary of Defense to make a policy decision as to whether foreign governments should be billed retroactively for undercharges. We noted that, with respect to the recovery of actual costs up to and including final billing, the foreign sales contract (DD Form 1513) specifically provided that adjustments may be made to estimated costs when they are not commensurate with actual costs incurred. Therefore, any costs that were not recovered could and should be subsequently billed.

As to those 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. For example, in those cases where outdated tuition rates were used in billings and where there were errors in computing tuition rates, we believe that an effort should be made to recover costs not previously billed.

We believe that the longer the Air Force delays in recouping the undercharges caused by using outdated and

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incorrect tuition rates, the more difficult it will be to recover these costs from foreign governments.

Recommendations

We recommend that you direct the Secretary of the Air Force to:

--Attempt to recover from foreign governments amounts not previously charged because outdated and incorrect tuition rates were used.

--Require the Air Force Auditor General to periodically review the billing system for services provided foreign nations to insure that billings are made on the basis of current costs.

In view of the Air Force's action requiring that, in the future, foreign governments be billed for current course costs, we are making no specific recommendations on this matter at this time.

Unrecovered costs resulting from erroneous computation of tuition rates

During fiscal year 1975 the Air Force did not fully recover from foreign governments the costs of providing T-41 and T-37 flight training courses because either erroneous data was used to compute the tuition rates or cost data was omitted from the billings.

The tuition rate for the T-41 course was understated in billings because the Air Training Command erroneously used cost data that had been computed for another course. The tuition rate for the T-37 flight training course was understated because the cost for maintaining aircraft was omitted from the computation.

Although the Air Training Command eventually corrected the tuition rates, recovery was not made for the difference between the amount that was billed for the two courses and the amount that should have been billed.

We found that 408 foreign students entered the two courses in fiscal year 1975 for which the Air Force recovered about $7.1 million using the erroneous tuition

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rates. Had the corrected tuition rate been used for these courses, the Air Force would have recovered about $9.2 million, or an additional $2.1 million.

Headquarters Air Force officials again explained that recoupment from foreign governments was not made because it did not believe that it was authorized to do so and that such authorization must come from the Office of the Secretary of Defense.

As stated previously, we believe that an effort should be made to recover from foreign governments amounts underbilled resulting from errors in computing the cost of courses.

Recommendation

We recommend that you direct the Secretary of the Air Force to:

--Identify those undercharges in fiscal year 1975 resulting from the erroneous computation of costs, and attempt to recover from foreign governments the amount of the undercharges.

--Promptly bill foreign governments in the future for all undercharges caused by erroneous computation of course costs.

Unrecovered costs resulting from exclusion of depreciation costs from tuition rates

We found that 683 foreign students entered fiscal year 1975 flight training courses for which the Air Force excluded from the tuition charges all costs for depreciation of aircraft. The depreciation as computed, but not charged by the Air Force, for these courses amounted to $2.2 million.

In our report to you of October 7, 1974 (B-174901), we expressed concern over the losses the Government was sustaining because the military services were failing to recover the costs of depreciation in making sales to foreign governments.

Depreciation is clearly a cost factor that should go into the determination of tuition rates to be charged for training courses given to foreign students. Defense has

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recognized this and requires in a directive revised June 17, 1975, that a 4-percent asset use charge to recover the cost of depreciation will be included in all tuition rates for training of foreign military personnel.

We noted that Army and Navy included aircraft depreciation costs in computing tuition rates for fiscal year 1975. We asked responsible Air Force officials why they did not follow this practice. They said the Office of the Secretary of Defense did not provide timely guidance to them as to whether depreciation costs should be included in course costs for fiscal year 1975.

Recommendation

We recommend that you direct the Secretary of the Air Force to attempt to recover from foreign countries aircraft depreciation costs incurred in providing flight training to foreign military students under all open contracts since depreciation costs should be recovered in sales to foreign governments.

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We discussed our findings with Air Force officials and representatives of your office. Their comments have been included in this report. We would appreciate being informed of actions taken on the matters discussed in this report and the amounts of recoveries of previously unbilled costs discussed in this report.

We are sending copies of this report today to the Chairmen of the House and Senate Committees on Government Operations, Appropriations, and Armed Services; the Secretaries of the Army, Navy, and Air Force; the Director, Office of Management and Budget; and the Administrator, General Services Administration.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions he has taken on our

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recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Sincerely yours,

Comptroller General
of the United States

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