

GAO

Report to the Honorable
Richard J. Durbin, U.S. Senate

April 2005

MILITARY PERSONNEL

More DOD Actions Needed to Address Servicemembers' Personal Financial Management Issues



G A O

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Highlights of [GAO-05-348](#), a report to the Honorable Richard J. Durbin, U.S. Senate

Why GAO Did This Study

Congress and the Department of Defense (DOD) are concerned about the financial conditions of servicemembers and their families, particularly in light of recent deployments to Iraq and Afghanistan. Serious financial issues can negatively affect unit readiness. According to DOD, servicemembers with severe financial problems risk losing security clearances, incurring administrative or criminal penalties or, in some cases, face discharge. Despite increases in compensation and DOD programs on personal financial management (PFM), studies show that servicemembers, particularly junior enlisted personnel, continue to report financial difficulties.

GAO assessed (1) the extent deployment impacts the financial condition of active duty servicemembers and their families, (2) whether DOD has an oversight framework for evaluating military programs designed to assist deployed and non-deployed servicemembers in managing their finances, and (3) the extent junior enlisted servicemembers receive required PFM training.

What GAO Recommends

GAO is making four recommendations to enhance servicemembers' financial conditions and the effectiveness of PFM programs and training. DOD did not provide comments by the time the final report went to print.

www.gao.gov/cgi-bin/getrpt?GAO-05-348.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Derek Stewart at (202) 512-5559 or stewartd@gao.gov.

MILITARY PERSONNEL

More DOD Actions Needed to Address Servicemembers' Personal Financial Management Issues

What GAO Found

The financial conditions of deployed and non-deployed servicemembers and their families are similar, but deployed servicemembers and their families may face additional financial problems related to pay. In both a 2003 DOD-wide survey and non-generalizable focus groups that GAO conducted on 13 military installations in the United States and Germany, servicemembers who were deployed reported similar financial conditions as those who were not deployed. Some of GAO's focus group participants also noted that they—like Army Reservists in GAO's 2004 report, *Military Pay: Army Reserve Soldiers Mobilized to Active Duty Experienced Significant Pay Problems*—had not received their \$250 family separation allowance each month during their deployment. Pay record data showed that almost 6,000 deployed servicemembers had received more than the prescribed \$250 in January 2005, and 11 of them received a \$3,000 catch-up, lump sum payment—the equivalent of 12 months of the allowance. This pay problem was due, in part, to service procedures being confusing and not always followed. Families who do not receive this allowance each month may experience financial strain caused by additional expenses such as extra childcare.

DOD lacks an oversight framework—with results-oriented performance measures and reporting requirements—for evaluating the effectiveness of PFM programs across the services. DOD's 2002 human capital strategic plan stated that a standardized evaluation system for PFM programs is a desired goal; however, DOD does not currently have such a system. In 2003, GAO reported that DOD had included evaluative reporting measures in a draft of its PFM instruction to the services. However, the final PFM instruction issued by DOD in 2004 did not address outcome measures or contain a requirement that the services report program results to DOD because the services objected to these additional reporting requirements. Without a policy requiring evaluation and a reporting relationship between DOD and the services, DOD and Congress do not have the visibility or oversight needed to address issues related to the PFM programs.

Some junior enlisted servicemembers are not receiving PFM training that is required in service regulations. While each of the services implements PFM training differently, all of the services have policies requiring that PFM training be provided to junior enlisted servicemembers. Moreover, the extent to which the PFM training is not received is unknown because most of the services do not track the completion of PFM training at the service level. Only the Army collected installation-level data and could provide a service-wide estimate of PFM training completed by junior enlisted servicemembers. Senior Army officers said PFM training had not been a priority given the need to prepare for current operations. Top-level DOD officials have repeatedly stated that financial issues directly affect servicemembers' mission readiness and should be addressed. Therefore, units whose servicemembers do not receive required PFM training risk jeopardizing their ability to meet mission requirements.

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Abbreviations

DOD	Department of Defense
PFM	Personal financial management

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United States Government Accountability Office
Washington, D.C. 20548

April 26, 2005

The Honorable Richard J. Durbin
United States Senate

Dear Senator Durbin:

The finances of servicemembers and their families have been an ongoing concern of Congress and the Department of Defense (DOD), especially in light of more frequent deployments to support the war on terrorism and conflicts in Iraq and Afghanistan. DOD's Social Compact,¹ which is part of DOD's human capital strategic plan, notes that mission readiness and quality of life depend on whether servicemembers use their financial resources responsibly. Some adverse effects that may result when servicemembers experience serious financial problems include loss of security clearances, criminal or non-judicial sanctions, or adverse personnel actions including possible discharge from the military. Servicemembers with serious financial issues may also adversely impact the readiness of the unit. For example, servicemembers' financial problems may take the servicemembers and possibly their unit commanders away from their primary duties in order to address problems with creditors. In a 2002 report to Congress, the Navy identified an estimated \$250 million in productivity and salary losses due to servicemembers' poor personal financial management.²

Congress and DOD have taken steps to decrease the likelihood that deployed and non-deployed servicemembers will experience financial problems. Since 1999, DOD has requested and Congress has granted annual increases in military basic pay for all active duty servicemembers and increases in special pays and allowances for deployed servicemembers, such as the family separation allowance and hostile fire/imminent danger pay. In addition, out-of-pocket housing expenses for active duty military members living in private-sector housing have decreased since 1999. Also, the military has developed personal financial

¹See Department of Defense, Deputy Assistant Secretary of Defense (Military Community and Family Policy), *A New Social Compact: A Reciprocal Partnership between the Department of Defense, Service Members and Families* (July 2002).

² See Department of Defense, *Report on Personal and Family Financial Management Programs* (Mar. 31, 2002) in response to a House Committee on Armed Services requirement in the National Defense Authorization Act for Fiscal Year 2002.

management (PFM) programs to provide servicemembers with financial literacy training, financial counseling, and other assistance to avoid or mitigate the adverse effects associated with personal financial problems.³

Despite the added compensation and the assistance provided through the PFM programs, studies in recent years by DOD and others show that active duty servicemembers continue to report financial problems. For example, a 2002 study⁴ noted that 20 percent of junior enlisted servicemembers reported that they struggled to make ends meet financially and another 4 percent regarded themselves as “in over their heads” with respect to their finances.

The information in this report supplements our February 2004 report to you on bankruptcies among active duty servicemembers.⁵ As agreed with your office, this report answers three questions: (1) To what extent does deployment impact the financial condition of active duty servicemembers and their families? (2) Does DOD have an oversight framework for evaluating military programs that assist both deployed and non-deployed servicemembers in managing their personal finances? and (3) To what extent are junior enlisted servicemembers receiving required personal financial management training? We also are reporting on the prevalence and effect of predatory lending on servicemembers to fulfill your request for information on the financial conditions of active duty servicemembers.⁶

³ Army Regulation 608-1, *Army Community Service Center* (Oct. 20, 2003). Office of the Chief of Naval Operations Instruction 1740.5A, *Personal Financial Management Education, Training, and Counseling Program* (Jan. 30, 2002). Marine Corps Order P1700.24B, *Marine Corps Personal Services Manual* (Dec. 27, 2001), is being revised and will have a list of topics that each installation will be required to cover during financial literacy training for first-term Marines. Air Force Instruction 36-3009, *Family Support Center Program* (July 1, 1998).

⁴ See RAND, *Assessing the Personal Financial Problems of Junior Enlisted Personnel*, MR-1444-OSD (2002). This report defines junior enlisted as those enlisted servicemembers with less than 10 years of service. Our report defines junior enlisted as servicemembers in pay grades E1 to E4.

⁵ See GAO, *Military Personnel: Bankruptcy Filings among Active Duty Service Members*, [GAO-04-465R](#) (Washington, D.C.: Feb. 27, 2004).

⁶ See GAO, *Military Personnel: DOD's Tools for Curbing the Use and Effects of Predatory Lending Practices Not Fully Utilized*, [GAO-05-349](#) (Washington, D.C.: Apr. 26, 2005).

In conducting this review, we limited the scope of our work to active duty servicemembers, particularly those recently returning from deployments.⁷ Emphasis was also given to junior enlisted servicemembers, since DOD and service officials have indicated that this subgroup is more likely to encounter financial problems. Numerous methods were used to gather and assess information for this work. We examined DOD, service, and installation policies on PFM program requirements, as well as management guidance provided in the Government Performance and Results Act of 1993.⁸ In addition, we reviewed reports by GAO, other congressional research offices, DOD, and other organizations. We constructed, pre-tested, and administered an e-mail survey to 225 installation-level PFM managers. During site visits to 13 military installations located in the United States and Germany, we requested documents pertaining to the implementation and evaluation of each installation's PFM programs, and we used structured interviews to gather data from a variety of personnel on the 13 installations: command leaders, the manager of the PFM programs, financial counselors, DOD civilian and military attorneys in the Judge Advocate General corps,⁹ chaplains, and staff from the relief/aid societies; and separate discussion groups composed of 232 officers, senior enlisted personnel, and junior enlisted personnel who had recently returned from deployment and 112 who had not deployed, as well as 76 spouses of servicemembers who had not deployed or had recently returned from a deployment to address all three questions. While information from these discussion groups is not generalizable to the entire DOD population of active duty servicemembers, it provides context for findings in the report. The in-depth information about the PFM programs on the 13 installations was supplemented with information obtained from 3 group discussions with a total of 50 personnel affiliated with the PFM programs while they attended a November 2004 conference. We obtained and reviewed other

⁷ Our work focused on active duty servicemembers and DOD surveys of the Army, Navy, Marine Corps, and Air Force servicemembers, excluding National Guard and Reserve members who (1) have at least 6 months of service when the survey is fielded and (2) are below flag rank when the sample is drawn 6 months prior to the survey. Information on the financial condition of servicemembers in the Reserves and the National Guard can be found in GAO, *Military Personnel: DOD Needs More Data to Address Financial and Health Care Issues Affecting Reservists*, GAO-03-1004 (Washington, D.C.: Sept. 10, 2003), and GAO, *Military Personnel: Observations Related to Reserve Compensation, Selective Reenlistment Bonuses, and Mail Delivery to Deployed Troops*, GAO-04-582T (Washington, D.C.: Mar., 24, 2004).

⁸ Pub. L. No. 103-62, (Aug. 3, 1993).

⁹ Hereafter referred to as legal assistance attorneys in this report.

information such as service and installation PFM training materials and installation accreditation reports. We reviewed and analyzed DOD's 2003 active duty survey to obtain information on the impact of deployment on servicemembers' finances. The March 2003 survey had a response rate of 35 percent. DOD has conducted and reported on research to assess the impact of this response rate on overall estimates. They found that, among other characteristics, junior enlisted personnel (E1 to E4), servicemembers who do not have a college degree, and members in services other than the Air Force were more likely to be non-respondents. We have no reason to believe that potential non-response bias not otherwise accounted for by DOD's research is substantial for the variables we studied in this report. Therefore, we concluded the data to be sufficiently reliable to address our objectives. Further details regarding our scope and methodology are presented in appendix I. Data obtained from our discussion groups at the 13 installations are summarized in appendix II. We performed our work from March 2004 through February 2005 in accordance with generally accepted government auditing standards.

Results in Brief

The financial conditions of deployed and non-deployed servicemembers and their families are similar, but deployed servicemembers and their families may face additional financial problems in receiving their family separation allowance and communicating with creditors. In a 2003 DOD survey, responses from servicemembers who were deployed for at least 30 days were similar to those of their non-deployed peers with regards to their overall financial conditions. Moreover, while not a generalizable sample, 90 percent of the 232 recently deployed servicemembers in our focus groups indicated that their financial situations either improved or remained about the same after a deployment. Some of the recently deployed servicemembers in our focus groups also noted that they—like Army reservists in our 2004 review¹⁰—had not received their \$250 family separation allowance on a monthly basis. Pay records showed that nearly 6,000 servicemembers received more than the prescribed \$250 for January 2005, and 11 of those servicemembers received a \$3,000 catch-up, lump

¹⁰ See GAO, *Military Pay: Army Reserve Soldiers Mobilized to Active Duty Experienced Significant Pay Problems*, [GAO-04-911](#) (Washington, D.C.: Aug. 20, 2004). We found that the procedures to determine entitlement and to process family separation allowance were not well understood by either pay technicians or soldiers themselves. We recommended that the Secretary of the Army, in conjunction with the Under Secretary of Defense (Comptroller), clarify and simplify procedures and forms implementing family separation allowance entitlement policy.

sum payment—the equivalent of 12 months of the allowance. The failure to pay the family separation allowance each month is occurring, in part, because the services' procedures for initiating the allowance are confusing or not always followed. For example, the Army's regulation implies that soldiers will receive their allowance after returning from deployment; however, in practice some installations allow servicemembers to receive the allowance during deployment. Not receiving this compensation each month to help defray household costs such as extra childcare expenses can place a financial strain on the family when the servicemembers are deployed. In addition, DOD and installation officials as well as servicemembers told us that problems communicating with creditors during deployment can cause other financial difficulties. Servicemembers told us that limited Internet access, the high cost of calling from overseas, and delays in the delivery of mail often prevented them from promptly contacting creditors. Failure to avoid or promptly correct serious financial problems can result in consequences for these servicemembers, such as bad credit ratings or adverse effects on unit readiness and morale.

DOD does not have an oversight framework that includes results-oriented performance measures and the reporting requirements needed to evaluate the effectiveness of DOD and service programs that assist servicemembers in managing their personal finances. The principles of the Government Performance and Results Act of 1993 offer federal agencies a sound methodology for establishing such a framework. While DOD's 2002 human capital strategic plan stated that a standardized evaluation system to measure the effectiveness of the PFM programs is a desired goal, DOD does not currently have such a system. One factor contributing to the absence of adequate outcome measures and a standardized evaluation system is the lack of DOD guidance to measure or report on the programs' results. Although DOD had included evaluative reporting measures in a draft of its PFM instruction to the services, the final instruction issued in 2004 did not contain outcome measures or reporting requirements because the services objected to the additional requirements. Without a policy requiring the evaluation and reporting relationship between DOD and the services, DOD has limited visibility and oversight to make improvements in the program and limited ability to achieve a standardized evaluation system. Moreover, Congress does not have the visibility or oversight it needs to address issues related to DOD's PFM programs.

Some junior enlisted servicemembers are not receiving the required PFM training. While each service implements PFM training differently, all of the services have policies requiring that PFM training must be provided to

junior enlisted servicemembers. Moreover, the extent to which the PFM training is not received is unknown because most of the services do not track the completion of PFM training at the service level. The Army was the only service that collected installation-level data and could provide a servicewide estimate of PFM training completed by junior enlisted servicemembers. Senior Army officers at most of the Army installations we visited acknowledged the need for PFM training, but noted that PFM training was not a priority because current deployment schedules limit the time available to prepare soldiers for their warfighting mission. Top-level DOD officials, however, have repeatedly stated that financial issues directly affect unit readiness and morale and should be addressed. Thus, units whose servicemembers do not receive required PFM training risk jeopardizing their ability to meet mission requirements.

We are making four recommendations to DOD to enhance the financial conditions of deployed servicemembers and improve the effectiveness of PFM programs: (1) take steps to provide deployed servicemembers with their family separation allowance on a monthly basis, (2) take steps to provide better communications access for deployed servicemembers with their creditors, (3) develop a DOD-wide oversight framework with an evaluation plan for the PFM programs and formalize DOD's oversight role in the evaluation by including evaluation and reporting requirements in the PFM instruction, and (4) develop and implement a tactical plan with time-based milestones to show how the appropriate service policy offices will monitor and ensure required financial management training is provided to junior enlisted servicemembers. On March 17, 2005, we provided a draft of this report to DOD for review and comment. As of the time this report went to final printing, DOD had not provided comments as requested.

Background

Because large numbers of Americans lack knowledge about basic personal economics and financial planning, U.S. policymakers and others have been focusing on financial literacy, i.e., the ability to make informed judgments and to take effective actions regarding the current and future use and

management of money.¹¹ While informed consumers can choose appropriate financial investments, products, and services, those who exercise poor money management and financial decision making can lower their family's standard of living and interfere with crucial long-term goals.

One vehicle for promoting the financial literacy of Americans is the congressionally created Financial Literacy and Education Commission.¹² Created in 2003, the Commission is charged with (1) developing a national strategy to promote financial literacy and education for all Americans; (2) coordinating financial education efforts among federal agencies and among the federal government, state and local governments, non-profit organizations, and private enterprises; and (3) identifying areas of overlap and duplication among federal financial literacy activities.

To minimize financial burdens on servicemembers, DOD has requested and Congress has increased cash compensation for active duty military personnel over the last 5 years. For example, the average increases in military basic pay have exceeded the average increases in private-sector wages for each of the past 5 years.¹³ Also, DOD has a plan to totally eliminate out-of-pocket expenses that servicemembers pay when living in private-sector housing from 19 percent in fiscal year 2000 to zero in fiscal year 2005.¹⁴

Furthermore, in April 2003, Congress increased the family separation allowance from \$100 to \$250 per month and hostile fire/imminent danger pay from \$150 to \$225 per month for eligible deployed servicemembers.¹⁵

¹¹ See GAO, *Highlights of a GAO Forum: The Federal Government's Role in Improving Financial Literacy*, [GAO-05-93SP](#) (Washington, D.C.: Nov. 15, 2004). This report resulted from a July 28, 2004, forum that GAO hosted to develop recommendations on the role of the federal government in improving financial literacy. The forum's participants included a select group of individuals with expertise in financial literacy and education. They included representatives of federal and state agencies, the financial industry, non-profit organizations, and academic institutions.

¹² Pub. L. No. 108-159, Title V, (Dec. 4, 2003).

¹³ See [GAO-04-465R](#).

¹⁴ See [GAO-04-465R](#).

¹⁵ Congress in the Ronald Reagan National Defense Authorization Act for Fiscal Year 2005 (Pub. L. 108-375, Section 623 (Oct. 28, 2004)) made this a permanent increase for servicemembers.

The family separation allowance¹⁶ is designed to provide compensation for servicemembers with dependents for the added expenses incurred because of involuntary separations such as deployments in support of contingency operations like Operation Iraqi Freedom. The expenses include extra childcare costs, automobile maintenance, or home repairs the deployed servicemember would normally do while home. Hostile fire/imminent danger pay provides special pay for “duty subject to hostile fire or imminent danger” and is designed to compensate servicemembers for physical danger.¹⁷ Iraq, Afghanistan, Kuwait, Saudi Arabia, and many other nearby countries have been declared imminent danger zones.¹⁸ In addition to these special pays, some or all income that active duty servicemembers earn in a combat zone is tax free.¹⁹

Since at least the 1980s, the military services have offered PFM programs to help servicemembers address their financial conditions. Among other things, the PFM programs provide financial literacy training to servicemembers, particularly to junior enlisted personnel during their first months in the military. The group-provided financial literacy training is supplemented with other types of financial management assistance, often on a one-on-one basis. For example, servicemembers might obtain one-on-one counseling from staff in their unit or legal assistance attorneys at the installation.

¹⁶ DOD Financial Management Regulation 7000.14.R, Volume 7A, Chapter 27, *Family Separation Allowance (FSA)*, (January 2005).

¹⁷ DOD Financial Management Regulation 7000.14R, Volume 7A, Chapter 10, *Special Pay-Duty Subject to Hostile Fire or Imminent Danger* (November 2004).

¹⁸ See Congressional Research Service Report for Congress, *Military Pay: Controversy Over Hostile Fire/Imminent Danger Pay and Family Separation Allowance Rates*, (Washington, D.C.: Oct. 8, 2003).

¹⁹ Department of the Treasury, Internal Revenue Service, *Armed Forces' Tax Guide: For Use in Preparing 2003 Returns*, Publication 3, Cat. No. 46072M. This publication noted that all military pay for the month is excluded from income when an enlisted service member, warrant officer, or commissioned warrant officer served in a combat zone during any part of a month or while hospitalized as a result of service in the combat zone. The amount of the exclusion for a commissioned officer (other than a commissioned warrant officer) is limited to the highest rate of enlisted pay, plus hostile fire/imminent danger pay for each month during any part of which an officer served in a combat zone or while hospitalized as a result of service there.

In May 2003, the Office of the Under Secretary of Defense for Personnel and Readiness,²⁰ DOD's policy office for the PFM programs, established its Financial Readiness Campaign, with objectives that include increasing personal readiness by, among other things, (1) increasing financial awareness and abilities and (2) increasing savings and reducing dependence on credit.²¹ The Campaign attempts to accomplish these objectives largely by providing on-installation PFM program providers with access to national-level programs, products, and support through links from DOD's Web site (www.dodpfm.org) to other Web sites, tools, and contacts.²²

Figure 1 illustrates some of the major types of financial management training and assistance available to servicemembers (see app. III for additional details). For instance, most active duty military installations have an on-site manager who implements the service's PFM programs. Among other things, PFM program managers and others teach classes and offer counseling on financial issues, ranging from basic budgeting and checkbook management to purchasing a car. In addition, the PFM program managers might work closely with the services' relief/aid societies. The relief/aid societies offer grants or no interest loans for emergency situations. Figure 1 also shows that servicemembers may choose to use non-DOD resources if, for example, they do not want the command to be

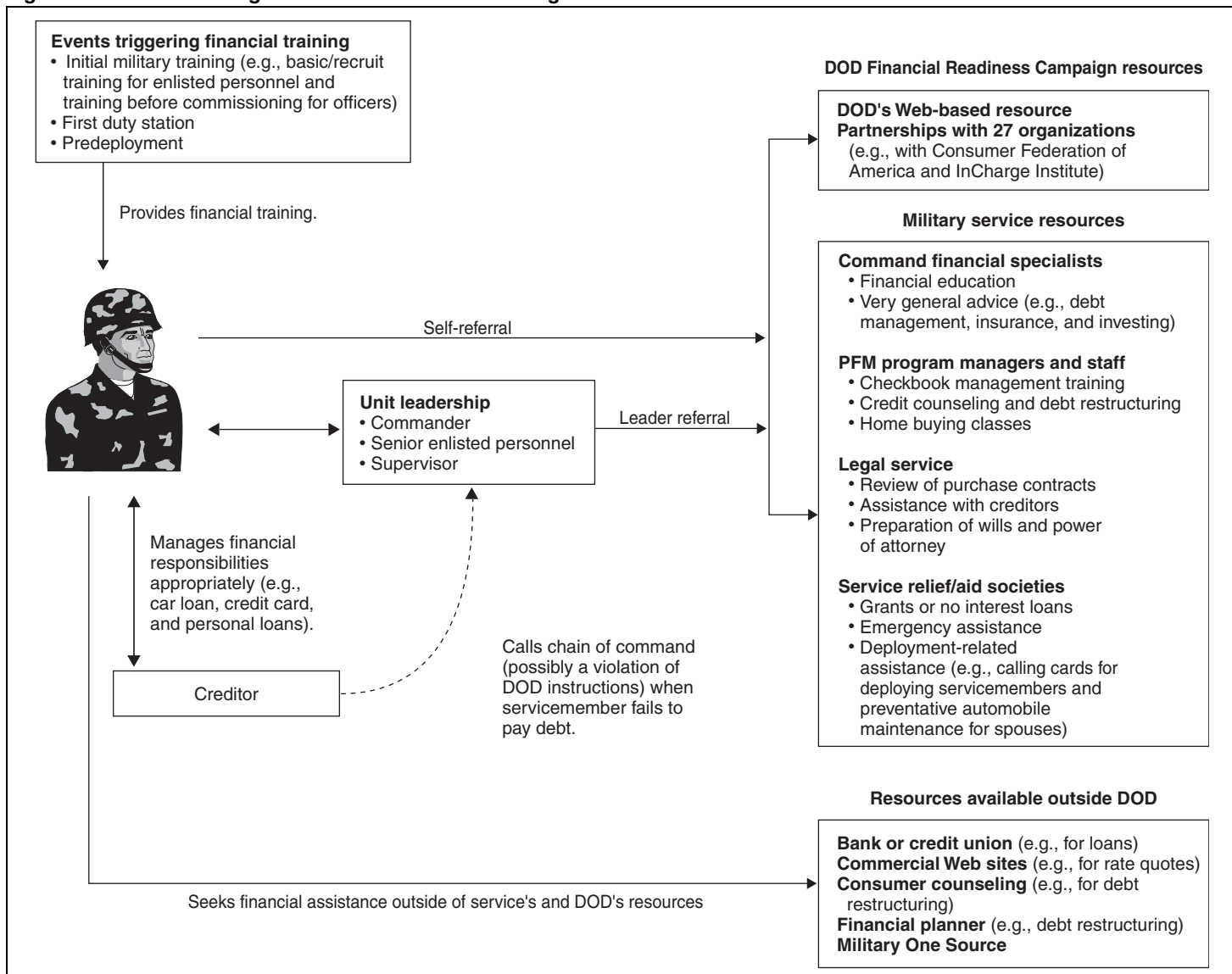
²⁰ The offices with PFM policy responsibility in the services include the Army's Community and Family Support Center Directorate, Navy's Office of the Deputy Chief of Naval Operations (Manpower and Personnel), Air Force's Office of the Deputy Assistant Secretary of the Air Force for Force Management and Personnel's Assistant Deputy for Family Programs, and the Marine Corps Community Services.

²¹ See Office of the Deputy Under Secretary of Defense (Military Community and Family Policy), *Initial Assessment and Follow-on Plan for the Department of Defense Financial Readiness Campaign* (May 27, 2004).

²² DOD's 27 Campaign partners are Air Force Aid Society, Army Emergency Relief Society, Association of Military Banks of America, Better Business Bureau, Consumer Federation of America, Defense Credit Union Council, Department of Labor, Department of the Treasury, Employee Benefits Research Institute and American Savings Education Council, Federal Citizen's Information Center, Federal Deposit Insurance Corporation, Federal Reserve Board, Federal Trade Commission, Freddie Mac, InCharge Institute of America, JumpStart Coalition for Personal Financial Literacy, Moneywise with Kelvin Boston, National Association of Federal Credit Unions, National Endowment for Financial Education, National Foundation for Credit Counseling, National Military Family Association, Navy and Marine Corps Relief Society, North American Securities Administrators Association, Securities and Exchange Commission, Social Security Administration, U.S. Department of Agriculture Cooperative State Research Education and Extension Service, and Women's Institute for Financial Education.

aware of their financial conditions or they need products or support not offered through DOD, the services, or the installation.

Figure 1: Financial Management Assistance and Training Available to Servicemembers



Sources: GAO analysis of DOD data; Image Art Explosion.

Financial Conditions Similar for Deployed and Non-Deployed Servicemembers, but Pay Administration and Communication Problems Exist for Deployed Members

DOD-wide survey data suggest that the financial conditions of deployed and non-deployed personnel are similar, but problems were found with the administration of a special pay to deployed personnel, as well as the ability of deployed servicemembers to communicate with creditors. Servicemembers who were deployed for at least 30 days reported similar levels of financial health or problems as those who had not deployed when they responded to a 2003 DOD-wide survey. However, some deployed servicemembers are not obtaining their family separation allowance on a monthly basis while they are deployed and separated from the families. And, problems communicating with creditors—caused by limited Internet access, few telephones and high fees, and delays in receiving ground mail—can affect deployed servicemembers’ abilities to resolve financial issues.

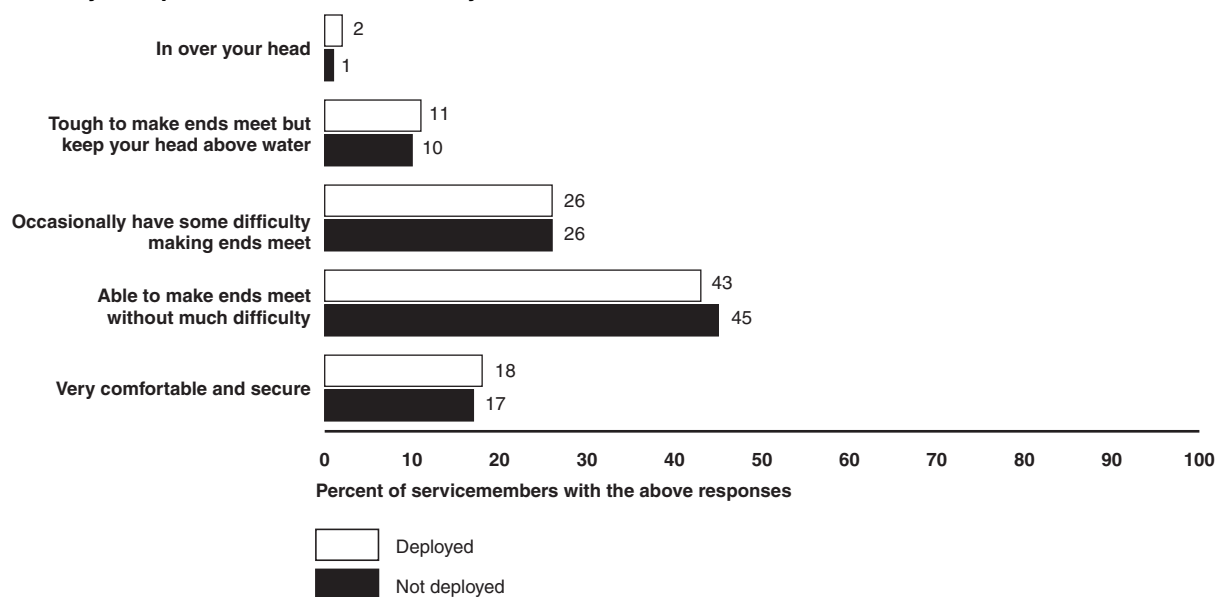
Data Suggest Financial Conditions of Deployed Servicemembers and Their Families Similar to Non-Deployed Servicemembers and Their Families

Data from DOD suggest that the financial conditions for deployed and non-deployed servicemembers and their families are similar. Figure 2 shows estimates of servicemembers’ financial conditions based on their responses to a 2003 DOD-wide survey.²³ For each of the five response options, the findings for servicemembers who were on a deployment for at least 30 days were very similar to those of servicemembers who had not deployed during that time. An additional analysis of the responses for only junior enlisted personnel showed similar responses for the two groups. For example, 3 percent of the deployed group and 2 percent of the non-deployed group indicated that they were in “over their heads” financially; and 13 percent of the deployed group and 15 percent of non-deployed group responded that they found it “tough to make ends meet but keeping your head above water” financially. These responses are consistent with the findings that we obtained in a survey of all PFM program managers and during our 13 site visits. In the survey of PFM program managers, about 21 percent indicated that they believed servicemembers are better off financially after a deployment; about 54 percent indicated that the servicemembers are about the same financially after a deployment; and about 25 percent believed the servicemembers are worse off financially after a deployment. Also, 90 percent of the 232 recently deployed servicemembers surveyed in

²³ DOD’s March 2003 survey sample consisted of 34,929 individuals identified by stratified random sampling procedures. DOD reported that completed surveys were received from 10,828 respondents, which resulted in an overall weighted response rate for eligibles, corrected for non-proportional sampling of 35 percent.

our focus groups²⁴ said that their financial situations either improved or remained about the same after a deployment.

Figure 2: Self-Reported Financial Condition of Servicemembers Who Were and Were Not Deployed for at Least 30 Days at the Time They Completed the 2003 DOD Survey^a



Source: GAO analysis of DOD data.

^aSampling errors of estimates for servicemembers who were not deployed do not exceed +/-2 percentage points. Sampling errors of estimates for servicemembers who were deployed do not exceed +/-5 percentage points. These sampling errors do not include errors due to other sources, such as potential bias attributable to the overall 35 percent response rate. DOD conducted research to assess the impact of this response rate on overall estimates. We have no reason to believe that potential non-response bias not otherwise accounted for by DOD's research is substantial for the variables we studied in this report.

The special pays and allowances that some servicemembers receive when deployed, particularly to dangerous locations, may be one reason for the similar findings for the deployed and non-deployed groups. The hypothetical situations shown in table 1 demonstrate that deployment-related special pays and allowances can increase servicemembers' total cash compensation by hundreds of dollars per month. Moreover, as we noted previously in the Background section of this report, some or all

²⁴ Findings from our focus groups do not represent the population of servicemembers and therefore are not generalizable.

income that servicemembers earn while serving in a combat zone is tax free.

Table 1: Hypothetical Examples of Monthly Cash Compensation for Servicemembers Deployed to Iraq

	Hypothetical situation 1: (E-3) ^a Years of service: 3 No dependents Barracks housing	Hypothetical situation 2: (E-3) ^a Years of service: 3 Dependents On-installation housing	Hypothetical situation 3: (E-3) ^a Years of service: 3 Dependents Private-sector housing	Hypothetical situation 4: (E-6) ^a Years of service: 10 Dependents Private-sector housing	Hypothetical situation 5: (O-3) ^a Years of service: 10 Dependents Private-sector housing
Base compensation	\$1,641	\$1,641	\$1,641	\$2,687	\$4,729
Basic allowance for housing	In kind (living in barracks)	In kind (living in on-base housing)	622	793	923
Basic allowance for subsistence	In kind (eating in mess halls)	267	267	267	175
Subtotal: Basic military compensation	\$1,641	\$1,908	\$2,530	\$3,747	\$5,827
Family separation allowance	0	250	250	250	250
Hostile fire/Imminent danger pay	225	225	225	225	225
Per diem	105	105	105	105	105
Hardship duty pay	100	100	100	100	100
Subtotal: Deployment related compensation	\$430	\$680	\$680	\$680	\$680
Total	\$2,071	\$2,588	\$3,210	\$4,427	\$6,507

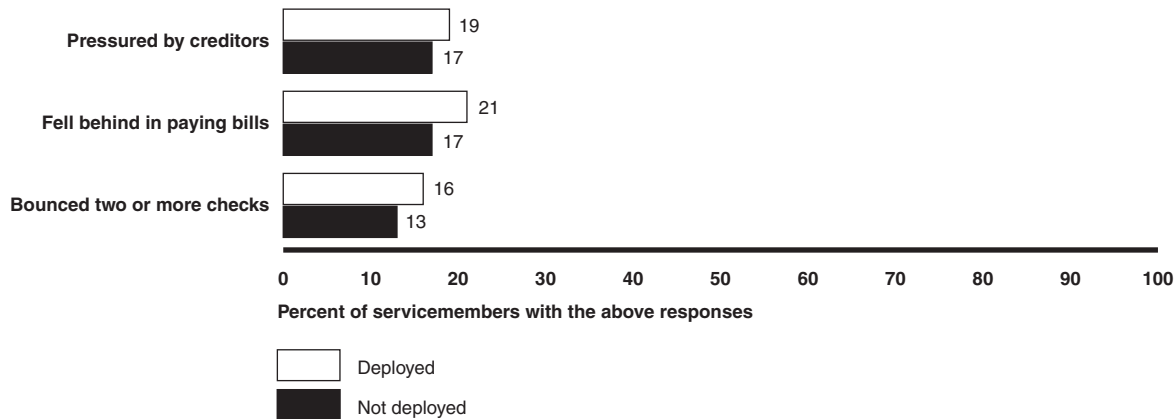
Source: GAO analysis of DOD data.

^a E = enlisted servicemember, O = Officer.

Note: Some values are rounded to the nearest whole dollar. Also, housing data are for Fort Campbell, Kentucky.

The 2003 DOD survey also asked servicemembers whether they had experienced various types of negative financial events. The differences in percentages were small between the deployed and non-deployed groups. As figure 3 shows, the largest of the three differences was 4 percentage points and pertained to falling behind in paying bills.

Figure 3: Negative Financial Events for Servicemembers Who Were and Were Not Deployed for at Least 30 Days at the Time They Completed the 2003 DOD Survey^a



Source: GAO analysis of DOD data.

^aSampling errors of estimates for Servicemembers who were not deployed do not exceed +/-2 percentage points. Sampling errors of estimates for Servicemembers who were deployed do not exceed +/-5 percentage points. These sampling errors do not include errors due to other sources, such as potential bias attributable to the overall 35 percent response rate. DOD conducted research to assess the impact of this response rate on overall estimates. We have no reason to believe that potential non-response bias in the estimates not otherwise accounted for by DOD's research is substantial for the variables we studied in this report.

Several Thousand Deployed Servicemembers Not Receiving Family Separation Allowance Promptly

Based on DOD data for January 2005, almost 6,000 of 71,000 deployed servicemembers who have dependents did not obtain their family separation allowance²⁵ in a timely manner. The family separation allowance of \$250 per month is designed to compensate servicemembers for extra expenses that result when they are involuntarily separated from their families. Servicemembers in our focus groups told us that the family separation allowance helps their families with added costs encountered during their absence such as childcare costs, automobile maintenance, and home repairs. Delays in obtaining family separation allowances could cause undue hardship for some families faced with such extra expenses.

Table 2 shows the amount of family separation allowance received in January 2005 by servicemembers who were deployed and receiving hostile fire pay. No Marines received more than the prescribed \$250 monthly allowance for January, but approximately 10 percent of the Army and Navy

²⁵ 37 U.S.C. 427.

servicemembers and nearly 5 percent of the Air Force personnel who were entitled to the \$250 monthly allowance received more than that prescribed amount. This indicates that servicemembers for three of the services had not received the \$250 allowance on a monthly basis and were given catch-up, lump sum payments. In total, almost 6,000 servicemembers received more than the prescribed \$250 monthly allowance, with 11 servicemembers (1.5 percent) receiving a \$3,000 catch-up, lump sum payment—the equivalent of 12 months of family separation pay.²⁶ We have previously reported similar findings for the administration of family separation allowance to Army Reserve soldiers and recommended that the Secretary of the Army, in conjunction with the DOD Comptroller, clarify and simplify procedures and forms for implementing the family separation allowance entitlement policy.²⁷

Table 2: January 2005 Payments of the \$250 per Month Family Separation Allowance to Servicemembers Deployed and Receiving Hostile Fire Pay^a

Amount of payment	Army		Navy		Marine Corps		Air Force		Total	
	Number ^b	%	Number ^b	%	Number ^b	%	Number ^b	%	Number ^b	%
\$500-\$3,000 ^c	2,479	6	545	6	0	0	28	2	3,052	4
\$251-\$499 ^c	2,335	5	401	4	0	0	43	3	2,779	4
\$250 ^d	40,120	89	8,727	90	12,672	85	1,168	94	62,687	88
\$1-\$249 ^e	89	0	21	0	2,201	15	9	1	2,320	3
Total	45,023	100	9,694	100	14,873	100	1,248	100	70,838	99

Source: GAO analysis of DOD data.

^aDOD supplied information on servicemembers who were eligible to receive family separation allowance while in Afghanistan, Algeria, Angola, Arabian Sea, Bahrain, Belarus, Bosnia and Herzegovina, Colombia, Croatia, Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Ethiopia, Georgia, Gulf of Aden, Haiti, Indonesia, Iraq, Israel, Jordan, Kenya, Kuwait, Kyrgyzstan, Lebanon,

²⁶ See GAO, *DOD Systems Modernization: Management of Integrated Military Human Capital Program Needs Additional Improvement*, GAO-05-189 (Washington, D.C.: Feb. 11, 2005) and GAO, *Military Pay: Army National Guard Personnel Mobilized to Active Duty Experienced Significant Pay Problems*, GAO-04-89 (Washington, D.C.: Nov. 13, 2003). We have found serious problems in DOD's systems supporting military personnel and pay, noting that they were error prone and required manual data reconciliation, correction, and entry across nonintegrated systems. While we noted that a significant system enhancement project is under way to improve military pay, it is likely the department will continue to operate with existing system constraints for several more years.

²⁷ See GAO-04-911.

Liberia, Macedonia, Malaysia, Oman, Pakistan, Palestine, Persian Gulf, Philippines, Qatar, Red Sea, Saudi Arabia, Serbia, Sierra Leone, South Africa, Tajikistan, Turkey, United Arab Emirates, Uzbekistan, Yemen, and 30 locations that were simply identified as “other locations.”

^bThe Defense Finance and Accounting Service identified the number of servicemembers who were receiving hostile fire and eligible to receive family separation allowance.

^cAmounts in these rows represent the number of servicemembers who received a catch-up, lump sum payment that exceeded the \$250 per month.

^dAmounts in this row represent the number of servicemembers who received the prescribed \$250 per month family separation allowance.

^eAmounts in this row represent the number of servicemembers who received partial payment for the \$250 per month family separation allowance.

The services have different procedures that servicemembers must perform to obtain the family separation allowance, and some of these procedures are confusing and are not always followed. For example, an Army regulation²⁸ states that soldiers must file a DD Form 1561 (Statement to Substantiate Payment of Family Separation Allowance) to substantiate eligibility to receive the allowance, along with a copy of the travel voucher to indicate the period of entitlement—which implies family separation allowance is received after deployment because substantiating documents are generally provided upon completion of travel with a voucher. The Army’s pay manual, however, states that only a DD Form 1561 is required to receive family separation allowance.²⁹ Officials at the Defense Finance and Accounting Service and Army Finance Office stated that, although they were following this regulation, they were requiring the DD Form 1561 prior to departure so soldiers could receive family separation allowance during deployment, which is contrary to the Army regulation.³⁰ In contrast, Defense Finance and Accounting Service procedures for Air Force servicemembers³¹ state that servicemembers may substantiate eligibility to receive family separation allowance prior to departure, using the travel order and the DD Form 1561. By using the travel order, Air Force servicemembers can receive family separation allowance during

²⁸ Army regulation 37-104-4, Military Pay and Allowances Policy and Procedures Active Component (Sept. 30, 1994).

²⁹ Military Pay Procedures Manual, January 1995, Section 4.3.32.25, *Family Separation Allowance*.

³⁰ An Army finance official at Fort Bragg, North Carolina, provided local guidance, which stated that his installation was allowed to obtain substantiating documents for family separation allowance before the servicemember’s departure.

³¹ See Defense Finance and Accounting Service-DEM 7073-1, Chapter 27, *Family Separation Allowance* (Jan. 15, 1998).

deployment. However, elsewhere in the Defense Finance and Accounting procedures, it notes that most Air Force members are paid family separation allowance upon returning from deployment. In April 2003, Air Force officials attempted to clear up any confusion over how Air Force personnel should initiate payments of family separation allowance, by sending a message to a Defense Finance and Accounting official stating that family separation allowance paperwork should be filed before servicemembers depart for deployment.³² Despite this subsequent change, Air Force servicemembers in our June 2004 focus group noted that they had not received the family separation allowance during their deployments. An August 2004 message from the Defense Finance and Accounting Service reminded Air Force finance officials of this policy change.

DOD officials suggested many factors other than policy-implementation differences to explain why some eligible servicemembers are not receiving their family separation allowance on a monthly basis. Officials at the Defense Finance and Accounting Service and at service finance offices suggested that servicemembers might not obtain the allowance monthly because they are not aware of the benefit, they do not file the required eligibility form, they file incorrect documentation, or errors or delays occur when the unit enters the information into the pay system. Others noted

³² An April 2003 message from the Air Force Accounting and Finance Office requested the change in its current business practice of paying family separation allowance to servicemembers at the completion of a deployment or temporary duty of 30 days or more. It further stated that the Air Force agreed with the Army's and Navy's approaches as to the purpose of the allowance—i.e., to defray additional costs incurred because of the forced separation and should be paid to the servicemembers during temporary duty, which includes deployment.

that servicemembers may elect to receive the allowance as a one-time lump sum payment.³³

Problems Communicating with Creditors and Families During Deployment May Cause Financial Difficulties

Servicemembers may experience financial difficulties as a result of communication constraints while deployed. In our March 2004 testimony, we documented some of the problems associated with mail delivery to deployed troops. With regard to deployed servicemembers' financial management, our focus group participants, surveyed PFM program managers, and interviewed installation officials noted that delays in receiving correspondence from creditors have resulted in late payments and possibly longer-term problems for servicemembers. The longer-term problems might include negative information about the late payments being entered in one's financial credit report, which could make it more difficult or expensive for servicemembers to obtain credit in the future. Similarly, limited access to telephones or Internet can have negative financial effects such as (1) delaying or preventing contact with a creditor when a financial issue arises, (2) making it impossible to electronically transfer money from a financial institution to a creditor, and (3) incurring overdraft expenses because the spouse could not be informed in a timely manner about a cash advance that the servicemember requested.

Individuals in our focus groups suggested that the access to Internet and telephones may not be the same across the pay grades and services. For example, some servicemembers noted that deployed junior enlisted personnel sometimes had less access to Internet than did senior deployed personnel, making it difficult for the former to keep up with their bills. In addition, some Army servicemembers told us that they (1) could not call

³³ Allowing the government to keep the allowance until the end of the deployment is contrary to the purpose of the allowance, which is to compensate servicemembers for the added monthly expenses incurred due to being involuntarily separated from their families. In addition, allowing servicemembers to choose to wait until the end of a deployment to receive a catch-up, lump sum amount of family separation allowance is probably not a prudent financial decision because interim payments could have been invested, for example, in the government-sponsored Savings Deposit Program. This program guarantees servicemembers that they will receive a 10 percent return on money deposited in the program during their deployment. According to DOD's Financial Management Regulation, Volume 7A, Chapter 51, members of the armed forces serving outside the United States or its possessions under arduous conditions (as determined by the Secretary of Defense) in connection with a designated contingency operation are authorized to make deposits of unallocated current pay and allowances and earn interest under this program. Amounts up to \$10,000 (including accrued interest) can be deposited with interest accrual at the rate of 10 percent per year.

stateside toll-free numbers because the numbers were inaccessible from overseas or (2) incurred substantial costs—sometimes \$1 per minute—to call stateside creditors. In contrast, Air Force servicemembers in Germany said that the cost of calls to stateside creditors from Iraq or Afghanistan was not an issue for them because the Air Force had provided telephone calling cards that could be used to make such calls free of charge.

Failure to avoid or promptly correct financial problems can result in negative consequences for servicemembers. This includes increased debt for servicemembers, bad credit histories, and poor performance of their duties when distracted by financial problems. In addition, servicemembers who cannot stay on top of their finances, while deployed, may require assistance from officials in their chain of command to address financial problems, which takes those officials from their normal military duties. This can translate into adverse effects on a unit's readiness and morale.

DOD Does Not Have the Oversight Framework Needed to Assess the Effectiveness of PFM Programs

DOD lacks the results-oriented, departmentwide data needed to assess the effectiveness of its PFM programs and provide the necessary oversight. The principles of the Government Performance and Results Act of 1993 offer federal agencies a methodology to establish a results-oriented framework that includes strategic plans for program activities that identifies, among other things, program goals, performance measures, and reporting on the degree to which goals are met.³⁴ These principles would assist DOD in shifting the focus of accountability for its PFM program from outputs, such as the number of training classes provided, to outcomes, such as impact of training on servicemembers' financial behavior.

The November 2004 DOD instruction that provides guidance to the services on servicemembers' financial management does not address program evaluation or the reports that services should supply to DOD for its oversight role.³⁵ However, an earlier draft of the instruction included these

³⁴ Pub. L. No. 103-62, (Aug. 3, 1993). See GAO, *The Results Act: An Evaluator's Guide to Assessing Agency Annual Performance Plans*, GAO/GGD-10.1.20 (Washington, D.C.: Apr. 1, 1998) for a discussion of key performance indicators, the means used to verify and validate the measured values, and other characteristics such as those GAO identified in its report on assessing an agency's annual performance plans.

³⁵ DOD Instruction 1342.17, *Personal Financial Management for Service Members* (Nov. 12, 2004).

requirements. In our 2003 report,³⁶ we noted that the earlier draft instruction emphasized evaluating the programs and cited metrics such as the number of delinquent government credit cards, servicemembers with wages garnished, and administrative actions for financial indebtedness and irresponsibility taken under the Uniform Code of Military Justice. When asked what caused the evaluation and oversight reporting requirements to be dropped from the finalized instruction, DOD officials said that they were eliminated because of objections voiced by the services. The DOD officials told us that the services did not want the additional reporting requirements.

DOD's 2002 Social Compact noted that the impact of efforts to improve financial literacy cannot be determined without effective evaluation. The Social Compact also stated that a systematic approach to measuring PFM programs is needed to identify best practices and improved program performance. Currently, the only DOD-wide evaluative data available for assessing the PFM programs and servicemembers' financial conditions are obtained from a general-purpose annual survey that focuses on the financial conditions of servicemembers as well as a range of other non-related issues. The data are limited because DOD policy officials for the PFM programs can only include a few financial related items to this general-purpose survey. Additionally, a response rate of 35 percent on the March 2003 active duty survey leads to questions about the generalizability of the findings. Furthermore, DOD has no means for confirming the self-reported information for survey items that ask about objective events such as filing for bankruptcy. Without a policy requiring common evaluation DOD-wide and reporting relationships among DOD and the services, DOD will continue to have limited oversight to make improvements in the PFM programs and limited ability to achieve a standardized evaluation system. In addition, Congress will not have the visibility or oversight it needs to address issues related to DOD's financial management training and assistance to servicemembers.

Currently, service-specific efforts to assess the PFM programs are largely in their early stages. The services told us that they are developing outcome measures for evaluating their PFM programs, but none was operational at the time of our review. In Spring 2005, the Navy plans to develop and refine Navy-wide metrics such as the number of sailors performing good and poor financial behaviors, e.g., participating in the government's retirement plan, filing for bankruptcy, and bouncing checks. Similarly, in the third quarter

³⁶ See [GAO-03-1004](#).

of fiscal year 2005, Army officials said they expect to implement outcome measures for assessing programs such as Financial Readiness, Family Advocacy, and Relocation Readiness. The Marine Corps and Air Force did not provide details for their plans to develop results-oriented data or indicate when evaluation systems would be operational. Additionally, our visits to 13 installations in the United States and Germany revealed much variability with regard to the use of performance metrics. The installations that provided us with their metrics often used output measures such as the number of people trained, rather than results-oriented outcome measures.

Some Junior Enlisted Servicemembers Are Not Receiving Required PFM Training

Some junior enlisted servicemembers are not receiving the required PFM training. While each of the services implements PFM training differently, all of the services have policies requiring that PFM training must be provided to junior enlisted servicemembers. At the time of our review, the services' policies varied on where and when the initial training should occur. For example, the Army, Marine Corps, and Air Force regulations required the training at the servicemembers' first duty station; however, the Navy guidance required such training prior to the servicemembers' first duty station.

Despite having these policies, some servicemembers have not received the required training, but the extent to which the training is not received is unknown because servicewide totals are not always collected. Table 3 shows how each service monitors PFM training. The Marine Corps, for example, only tracks PFM training at the unit level and does not tabulate these data for a servicewide total. As shown in the table, the Army was the only service that collected installation-level PFM data and could provide a rough servicewide estimate of PFM training completed by junior enlisted servicemembers. Overall, the Army estimates that about 82 percent of its junior enlisted soldiers completed PFM training in fiscal year 2003, leaving 18 percent who did not receive training. PFM program staff at five of the six Army installations we visited told us that required PFM training was not being provided to all first-term soldiers. Some of the senior Army officers at these installations acknowledged the need to provide the PFM training to junior enlisted servicemembers but also noted that current deployment schedules limited the time available to prepare soldiers for their warfighting mission. The officers said they believed that improving servicemembers' ability to perform duties related to their mission (e.g., firing a weapon) was more important than improving their personal financial literacy.

Table 3: Characteristics of Each Service’s Required PFM Training for Junior Enlisted Servicemembers

Characteristic	Army	Navy	Marine Corps	Air Force
How does the service monitor whether required PFM training is completed?	Monitored at installation level; data then compiled for servicewide total	Monitored by Navy Education and Training Command; data are not compiled for higher-level total	Monitored at unit level; data are not compiled for higher-level total	Monitored at squadron level; data are not compiled for higher-level total
Is the number of hours of required training in a servicewide regulation?	No ^a	Yes	No	No
How many hours of PFM training are required, according to the service’s PFM program oversight office?	12	16	No minimum requirement	No minimum requirement
When is the PFM training provided to servicemembers?	2 hours during basic training, 2 hours during advanced individual training, and 8 hours at the first duty station	16 hours during advanced individual training	Within 45 days of arrival at first duty station	Upon arrival at first duty station

Source: GAO analysis of DOD data.

^aThe Army oversight office stated the number of PFM training hours it requires is in a 1998 memorandum to the Army Chief of Staff.

In addition to how the services monitor servicemembers’ completion of PFM training, table 3 also shows that the services’ requirements for PFM training for junior enlisted personnel differ on three other characteristics: where the requirements are documented, the length of training, and when the training is administered.

- The Navy is the only service that specifies in servicewide regulations the number of hours of PFM training that junior enlisted servicemembers must complete. The oversight office for the Army identified the number of hours of required PFM training for first-term soldiers in a 1998 memorandum to the Army Chief of Staff.³⁷ The Air Force and Marine Corps do not specify the number of hours in servicewide regulations or other documents.

³⁷ Memorandum for Army Chief of Staff regarding: Proposed Weekly Summary Item—Financial Readiness Training for First Term Soldiers (Nov. 23, 1998).

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- The Navy's required length of PFM training for junior enlisted servicemembers is 4 hours longer than the Army requirement. The Air Force and Marine Corps have no minimum requirement pertaining to the length of the PFM training provided on its installations.
 - The services use different schedules for identifying when PFM training is to be administered. PFM managers noted that these schedules take into account service-specific constraints, such as the length of time available for PFM training at servicemembers' first duty station.

Top-level DOD officials have stated repeatedly that financial issues have a direct effect on servicemembers' mission readiness and that the lack of basic consumer skills and training in finances sets the stage for financial difficulties. For example, we reported in 2003 that a 2002 Navy report to Congress had identified \$250 million in productivity and salary losses due to poor personal financial management by servicemembers.³⁸ Therefore, units whose servicemembers do not receive required PFM training risk jeopardizing their ability to meet mission requirements.

Some services are taking steps to improve their monitoring of PFM training. During the second quarter of 2005, the Army officials said they hope to implement Army's Client Tracking System that will allow the service as well as current and future installations to track the financial counseling and training that servicemembers receive. The Marine Corps is updating its order on personal services and developing a system to track financial management training. While such steps may improve the monitoring of PFM training completion—an important output—they still do not address the larger issues of training outcomes such as whether or not PFM training helps servicemembers to manage their finances better.³⁹

³⁸ See [GAO-03-1004](#).

³⁹ The new DOD Instruction 1342.17, dated November 2004, states that "within 3 months after arriving at the first permanent duty station, a servicemember shall demonstrate a basic understanding of pay and entitlements, banking and allotments, checkbook management, budgeting and saving (to include the thrift savings plan), insurance, credit management, car buying, permanent change of station moves and information on obtaining counseling or assistance on financial matters." The instruction, however, does not specify how this is to be measured. It simply says that such an understanding means to comprehend the underlying principles of a subject and apply them to everyday life situations.

Conclusions

Although DOD-wide data show that the financial conditions for deployed and non-deployed servicemembers and their families are similar, some deployed servicemembers experience delays in obtaining their monthly family separation allowance. Not receiving this compensation each month to help defray extra household costs incurred when the servicemembers are deployed can result in financial hardship for the servicemembers' family. Without changes to the administration of the family separation allowance, DOD risks placing a further financial strain on servicemembers. In addition, problems communicating with creditors during deployment can cause financial difficulties for servicemembers. Limited Internet access, delays in ground mail, and the high cost of calling from overseas often prevent servicemembers from promptly contacting creditors when financial issues arise. Delays in responding to creditors can result in serious consequences, including bad credit ratings for the servicemembers and adverse effects on unit readiness and morale.

While DOD states in its Social Compact that a standardized evaluation system to measure the effectiveness of the PFM programs is a desired goal, the department does not have an oversight framework that includes the performance measures and reporting requirements needed to fully measure results from its programs. In addition, the absence of evaluation and reporting requirements in DOD's newly issued instruction on personnel financial management suggests that DOD will continue to have limited visibility and oversight over the PFM programs and little ability to require standardized assessments of the PFM programs. These deficiencies, in turn, will limit Congress' ability to address issues related to DOD's PFM programs.

While DOD and service officials have acknowledged that the lack of PFM training sets the stage for servicemembers having financial difficulties later, high deployment levels limit the time available for some servicemembers to take the PFM training. The absence of servicewide systems for monitoring the completion of this required training could result in some servicemembers never being provided such training if they are unable to take it at the prescribed time. Moreover, the lack of a monitoring system also will hamper efforts to improve PFM training since it will be impossible to establish a measurable relationship between whether or not someone completed training and how well they subsequently managed their finances.

Recommendations for Executive Actions

To address issues related to servicemembers' financial management, we recommend that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness to take the following four actions:

- Take the necessary steps, in conjunction with the Defense Finance and Accounting Service and the services, to ensure servicemembers receive family separation allowances on a monthly basis during deployments. These steps might include those recommended in our prior review of Army Reserve pay,⁴⁰ such as clarifying and simplifying procedures and forms implementing family separation allowance entitlements or having DOD and the operational components of the services work together to ensure family separation allowance entitlement eligibility form is received by the Defense Finance and Accounting Service to start the allowance when the servicemember is entitled to it.
- Identify and implement, with the services, steps that can be taken to allow deployed servicemembers better communications with creditors. These steps may include increasing Internet access and providing toll-free telephone access for deployed servicemembers when they need to address personal financial issues.
- Develop and implement, in conjunction with the services, a DOD-wide oversight framework with a results-oriented evaluation plan for the PFM programs and formalize DOD's oversight role by including evaluation and reporting requirements in the PFM instruction.
- Require the services to develop and implement a tactical plan with time-based milestones to show how the appropriate service policy office will monitor financial management training and thereby ensure that junior enlisted servicemembers receive the required training.

Agency Comments

On March 17, 2005, we provided a draft of this report to DOD for review and comment. As of the time this report went to final printing, DOD had not provided comments as requested.

⁴⁰See [GAO-04-911](#).

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its issue date. At that time we will provide copies of this report to interested congressional committees and the Secretary of Defense. We will also make copies available to others upon request. This report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions regarding this report, please contact me at (202) 512-5559 (stewartd@gao.gov) or Jack E. Edwards at (202) 512-8246 (edwardsj@gao.gov). Other staff members who made key contributions to this report are listed in appendix IV.

Sincerely yours,

A handwritten signature in black ink that reads "Derek B. Stewart". The signature is written in a cursive style with a large initial 'D' and a long horizontal stroke at the end.

Derek B. Stewart
Director, Defense Capabilities and Management

Scope and Methodology

In addressing the objectives of our engagement, we limited our scope to active duty servicemembers because we have previously issued a number of reports on the compensation, benefits, and pay-related problems of reservists.¹ Emphasis was placed on servicemembers who had returned from a deployment within the last year because these individuals were most likely to have recent personal knowledge of deployment-related financial issues, as well as familiarity with financial issues of servicemembers serving on installations in the United States. During the course of our work, we visited 13 installations with high deployment levels, as identified by service officials² (see table 4). During these site visits to installations in the United States and Germany, special emphasis was given to ascertaining the financial conditions of junior enlisted servicemembers because DOD and service officials have reported that this subgroup is more likely to encounter financial problems.

Table 4: Installations in the United States and Germany Where GAO Conducted Site Visits from May to October 2004

Service	Installation
Army	Fort Bragg, North Carolina
	Fort Campbell, Kentucky
	Fort Drum, New York
	Fort Lewis, Washington
	Fort Stewart, Georgia
	Ray Barracks, Friedberg, Germany
Navy	Naval Air Station Jacksonville, Florida
	Naval Station San Diego, California

¹ Our work focused on active duty servicemembers, with the exception of DOD active duty surveys where the survey population included reservists serving on active duty assignments for at least 6 months. The Related GAO Products section at the end of this report lists several products that focus on reservists and their compensation, benefits, and pay-related problems that result from deployment.

² Bolling Air Force Base, Washington, D.C., did not have high deployment rates; however, Air Force officials suggested we visit this installation to quickly obtain information on the financial condition of junior enlisted servicemembers in an area with a high cost of living.

(Continued From Previous Page)

Service	Installation
Marine Corps	Camp Lejeune, North Carolina
	Camp Pendleton, California
Air Force	Bolling Air Force Base, Washington, D.C.
	Langley Air Force Base, Virginia
	Ramstein Air Base, Germany

Source: GAO.

To address the extent to which there is a financial impact of deployment on active duty servicemembers and their families, we reviewed and analyzed laws, policies, and directives governing military pay, such as the Servicemembers Civil Relief Act³ and DOD's Financial Management Regulation 7000.14R, Volume 7A, as well as documents related to the tax treatment of military pay, including the *Internal Revenue Service Armed Forces' Tax Guide: For Use in Preparing 2003 Returns*. We also reviewed and analyzed GAO reports on military compensation and deployment and reports from other agencies, including DOD, the Congressional Research Service, and the Congressional Budget Office. We contacted the Federal Trade Commission to ascertain what data were available through Military Sentinel⁴ on servicemembers' financial conditions and complaints. We conducted focus groups and surveyed servicemembers and spouses and held individual interviews with PFM program managers, non-commissioned officers, and legal assistance attorneys at installations we visited to obtain their perspectives on the impact of deployment on servicemembers. We also compared and contrasted results of our survey of servicemembers and spouses with data obtained through DOD-wide active duty surveys from 2003 for face validity and to identify trends and other indicators of financial impact. We assessed the reliability of survey data that DOD uses to obtain information on the financial conditions of servicemembers and their families. The March 2003 survey had a response rate of 35 percent. DOD has conducted and reported on research to assess

³ 50 U.S.C. App. § 501.

⁴ According to the Federal Trade Commission, Military Sentinel is a joint initiative with DOD that aims to improve consumer protection for servicemembers. Military Sentinel is designed to centralize the online collection of consumer complaints from DOD and military communities, which is intended to, among other things, help target law enforcement actions.

the impact of this response rate on overall estimates. They found that, among other characteristics, junior enlisted personnel (E1 to E4), servicemembers who do not have a college degree, and members in services other than the Air Force were more likely to be non-respondents. We have no reason to believe that potential non-response bias not otherwise accounted for by DOD's research is substantial for the variables we studied in this report. Therefore, we concluded the data to be sufficiently reliable to address our objectives. Additional perspectives regarding the financial impact of deployment were obtained in interviews with DOD and service policy officials. Still other perspectives were obtained from installation officials using the structured interviews and an e-mail survey to all PFM program managers. This information was supplemented with information obtained from three group discussions with a total of 50 personnel affiliated with the PFM programs while they attended a November 2004 conference. We also reviewed family separation allowance data from the Defense Finance and Accounting Service for servicemembers who were deployed and receiving imminent danger pay in January 2005.⁵

To facilitate the data gathering process for all three questions,⁶ we developed and pre-tested four types of data collection instruments. The content of the instruments was identified through review of policies, reports, and other materials, and from interviews with DOD and service officials.

- Structured questionnaires and focus group protocols were used to increase the likelihood that the questions were asked and procedures were conducted in a standardized manner, regardless of which GAO analyst conducted the interviews and focus groups during the 13 site visits. While the interviews and focus groups provided valuable

⁵Over the years, we found serious problems in DOD's systems supporting military personnel and pay. We noted that the systems were error prone and required manual data reconciliation, correction, and entry across nonintegrated systems. While we noted that a significant system enhancement project is under way to improve military pay, it is likely the department will continue to operate with existing system constraints for several more years. See [GAO-05-189](#) and [GAO-04-89](#).

⁶ In this engagement, we assessed (1) the extent deployment impacts the financial condition of active duty servicemembers and their families, (2) whether DOD has an oversight framework for evaluating military programs designed to assist both deployed and non-deployed servicemembers in managing their personal finances, and (3) the extent junior enlisted servicemembers receive required PFM training.

qualitative data to illustrate important issues, the findings were not generalizable to the population of all active duty servicemembers because of the small non-random samples of personnel who participated in the data collection sessions.

- Separate structured interview protocols were created for seven types of officials: installation commanders, PFM program managers, senior non-commissioned officers (E8 to E9), legal assistance attorneys, chaplains, command financial specialists, and officials representing service relief/aid societies. While some of the questions were the same or very similar for some issues, the content of the structured interviews was tailored to the type of official interviewed.
- A single focus group protocol, with seven central questions and follow-up questions, was used to solicit information from each of the four types of homogeneous groups: junior enlisted servicemembers (E1 to E4), non-commissioned officers (E5 to E9), company-grade officers (O1 to O3), and spouses of servicemembers who had recently returned from deployments.
- An anonymous survey was administered at the beginning of each focus group to obtain specific, sensitive (e.g., financial difficulties experienced by the servicemembers and their families) information that focus group participants might not feel comfortable discussing with other servicemembers present. Administering the survey before the focus group questions were asked allowed us to quantify participants' perspectives and situations, without the servicemembers being influenced by the subsequent discussions.
- An e-mail survey was administered to the DOD-wide population of 225 PFM program managers identified by service officials. The response rate for the survey was 74 percent. Because we surveyed the population of PFM program managers and obtained a sufficiently high response rate, the findings from this survey are generalizable to the population of all PFM managers.

To assess the adequacy of DOD's oversight framework for evaluating military programs that assist both deployed and non-deployed servicemembers in managing their personal finances, we reviewed DOD's, the services', and selected installations' PFM program policies, along with DOD's strategic and tactical plans for implementing the PFM programs. In addition, we reviewed DOD's 2002 report on Personal and Family Financial

Management Programs submitted to the House of Representatives Armed Services Committee. The Government Performance and Results Act of 1993⁷ and *Standards for Internal Control in the Federal Government*⁸ provided model criteria for determining the adequacy of the oversight framework. We gathered perspectives about the outcome measures to evaluate the PFM programs from DOD and service-level officials, along with responses from the previously mentioned discussion groups at the November 2004 conference and the DOD-wide survey of PFM managers. We reviewed and analyzed data related to the effectiveness of the PFM programs from DOD-wide active duty survey conducted in 2003. We also reviewed accreditation reports for installation PFM programs, where available, and other materials documenting the use or effectiveness of PFM programs. Finally, we attended a GAO-sponsored forum in November 2004, in which a select group of individuals with expertise in financial literacy and education developed recommendations on the role of the federal government in improving financial literacy among consumers.⁹

To assess the extent to which DOD and the services provide PFM training to junior enlisted servicemembers, we examined the regulations and other materials that document PFM training requirements such as the number of hours of training provided and when the training should occur. We reviewed DOD's, the services', and selected installations' PFM training materials, and procedures for monitoring completion of the training. We also reviewed reports issued by GAO, DOD, and other organizations that addressed the PFM programs or the content and delivery of similar programs designed to either increase financial literacy or address financial problems. Additionally, we interviewed service headquarters, as well as installation PFM officials about required training for junior enlisted servicemembers and how it is administered and monitored.

⁷ Pub. L. No. 103-62 (Aug. 3, 1993).

⁸ See GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-0021.3.1](#) (Washington, D.C.: November 1999).

⁹ See [GAO-05-93SP](#).

Sampling Error and Non-Sampling Error

The e-mail survey that was administered by GAO to the DOD-wide population of 225 PFM program managers is not subject to sampling error since it was sent to the universe of PFM program managers. With a response rate for the survey of 74 percent and no clear differences between respondents and non-respondents, the findings from this survey are generalizable to the population of all PFM managers. Our PFM survey had differential response rates that were as low as 65 percent for the Air Force and as high as 89 percent for the Navy.

The questionnaire provided to focus group participants was to gather supplemental information only and is not generalizable to DOD, but rather to those who participated in our focus groups only.

Because DOD surveyed a sample of servicemembers in its 2003 active duty survey, their results are estimates and are subject to sampling errors. However, the practical difficulties in conducting surveys of this type may introduce other types of errors, commonly known as non-sampling errors. Non-sampling errors can include problem(s) with the list from which the sample was selected, non-response in obtaining data from sample members, and/or inadequacies in obtaining correct data from respondents. These errors are in addition to the sampling errors. In this survey, the response rate was 35 percent. The estimates obtained from the respondents will differ from the population value to the extent that values for non-respondents are different, in the aggregate, from values for respondents.

Non-Sampling Error and Data Quality

We conducted in-depth pre-testing of the PFM program manager survey, as well as the questionnaire disseminated to focus group participants, to minimize measurement error. However, the practical difficulties in conducting surveys of this type may introduce other types of errors, commonly known as non-sampling errors. For example, measurement errors can be introduced if (1) respondents have difficulty interpreting a particular question, (2) respondents have access to different amounts of information in answering a question, or (3) those entering raw survey data make key-entry errors. We took extensive steps to minimize such errors in developing the questionnaire, collecting the data, and editing and analyzing the information. For example, we edited all surveys for consistency before sending them for key-entry. All questionnaire responses were double key-entered into our database (that is, the entries were 100 percent verified), and a random sample of the questionnaires was further verified for

completeness and accuracy. In addition, we performed computer analyses to identify inconsistencies and other indicators of errors.

DOD also pre-tested its questionnaire to minimize measurement error and performed analysis to assess non-response error.

We performed our work from March 2004 through February 2005 in accordance with generally accepted government auditing standards.

Findings from GAO-led Focus Groups Held at 13 Installations

We held focus group sessions at the 13 military installations we visited during the course of this engagement to obtain servicemembers' perspectives on a broad range of topics, including the impact of deployment on servicemembers' finances and the types of lenders military families use, along with the PFM training and assistance provided to servicemembers by DOD and service programs (see app. I for a list of installations visited). Servicemembers who participated in the focus groups were divided into three types of groups: junior enlisted personnel (E1 to E4), mid-grade and senior enlisted personnel (E5 to E9), and junior officers (O1 to O3). Although we requested to meet with servicemembers who had returned from a deployment within the last 12 months, some servicemembers who had not yet deployed also participated in the focus groups. At some installations, we also held separate focus groups with spouses of servicemembers. Typically, focus groups consisted of 6 to 12 participants.

We developed a standard protocol, with seven central questions and several follow-up questions, to assist the GAO moderator in leading the focus group discussions. The protocol was pre-tested during our first installation visit and was used at the remaining 12 installations. During each focus group session, the GAO moderator posed questions to participants who, in turn, provided their perspectives on the topics presented. We essentially used the same questions for each focus group, with some slight variations to questions posed to the spouse groups.

We sorted the 2,090 summary statements resulting from the 60 focus groups into categories of themes through a systematic content analysis. First, our staff reviewed the responses and agreed on response categories. Then, two staff members independently placed responses into the appropriate response categories. A third staff member resolved any discrepancies.

Below, we have identified the seven questions and sample responses/statements associated with each question. The themes and the number of installations for which a statement about a theme was cited are provided in italics. Also, two examples of the statements categorized in the theme are provided. Only those themes cited at a minimum of three installations are presented. The number of installations—rather than the number of statements—is provided because (1) the focus of this engagement was on DOD-wide issues and (2) a lengthy discussion in a single focus group may have generated numerous comments.

1. How has deployment affected military families financially in your unit?

1.a. Other reason deployment affects families financially (N=13)¹

- Example: Financial problems stem from relationship problems. Many Marines file for divorce when they return from a deployment.
- Example: Another sailor said they have to buy a lot of supplies, such as stocks of deodorant and other toiletries, to take on the deployment. The government does not pay for those supplies.

1.b. Better financially – increased income (N=13)

- Example: A soldier stated that his family was barely making ends meet when he left for a deployment. However, when he returned, his wife had paid off all of the bills and saved some of the money. He and his wife look forward to deployments as a way to catch up on expenses and savings.
- Example: Some cited receiving additional hazardous/combat duty pay and attendant tax exemptions during deployment as reasons for the financial benefits. In addition, some servicemembers mentioned that they no longer had to pay rent and incur related household expenses such as food and other household goods while deployed. The additional money allowed families to pay off debts and outstanding bills.

1.c. Worse financially – increased needs (e.g., childcare and transportation) (N=12)

- Example: Deployment worsens some servicemembers' finances because childcare expenses increased. In many instances, to avoid having childcare expenses, one parent will work during the day and one during the night. When the servicemember deploys, the remaining spouse must find suitable daycare for the children. This is an added expense the deployment forces on the family.

¹ N=number of installations out of a possible 13, where the theme was cited.

- Example: During a deployment there are more expenses because the spouse has to pay for things that the servicemember would usually do personally, like house and car repairs.

1.d. Worse financially – other (N=11)

- Example: The military encourages soldiers to obtain a power of attorney before they deploy, but the power of attorney gives the spouse access to all of the soldier's finances. In many cases, the spouse has used this power to spend all of the soldier's money. One soldier returned from his deployment to find that he only had \$80 left in his bank account.
- Example: One unmarried soldier said he was 5 months behind in paying his bills because he's single and did not have anyone to help him while he was deployed.

1.e. No change financially because of deployment (N=11)

- Example: Overall, servicemembers are not really making more money when they are deployed. The additional pay and allowances make up for the increased spending that a family must do when the servicemember is not at home.
- Example: Another servicemember stated that she was a single parent and had to send her child back to the west coast with her parents. She stated she came out about even financially because the extra money she made was spent on the additional expenses to care for her son.

1.f. Effect issue – servicemember has dependents (N=11)

- Example: Single parents face an entirely different set of issues during a deployment. For example, in many cases, the member will be the only parent for a child; therefore, when that member is deployed long-term childcare must be arranged. In most situations, the member will arrange for an immediate or extended family member to assume the childcare responsibilities.
- Example: Some Navy servicemembers said that the status of personal finances during a deployment will vary based on the marital

status of the sailor. For example, sailors with dependents will collect more entitlements than those who are single.

1.g. Worse financially – increased wants (N=11)

- Example: Some soldiers were buying expensive cars with their deployment pays. However, when the servicemembers returned from deployment to their regular pay they were not able to afford their deployment standards of living because the increase in income and tax free status no longer applied.
- Example: The spouse may be depressed during the deployment and spend the money the soldier is being paid. In these cases, they have no one around telling them to save it or to pay the bills. They shop to fight the depression and to make themselves feel better.

1.h. Better financially – other (N=10)

- Example: In some cases, the family's finances actually improve because the spouse takes control of the bills during the deployment.
- Example: Another participant stated that she and her husband are more financially responsible now compared to when they were younger. Thus, they are able to benefit more from the monetary benefits of deployment.

1.i. Effect issue – personal ability to manage money (N=9)

- Example: Poor post-deployment spending habits (e.g., buying a new expensive car) of some single servicemembers caused them to lose extra income earned during deployment. This left them with more debt than before they left for the deployment.
- Example: In many cases, it is when the soldier returns from the deployment that families will get into financial troubles. During the deployment, there is a significant increase in pay and an increase in spending. After the deployment, the servicemember's pay returns to normal and the family may have trouble dealing with the loss of income, which can encourage increased debt.

1.j. Effect issue – servicemember does not have dependents (N=7)

- Example: Single servicemembers seemed to fare better financially because they do not incur the same expenses as married couples, such as childcare and transportation costs. The single member is more likely to be living with roommates and when deployed, he/she only has a small amount to pay for rent. The married servicemember, on the other hand, still has a mortgage to pay back home, along with the additional expenses previously mentioned.
- Example: Single servicemembers are better off financially because they only have to take care of themselves financially.

1.k. Effect issue – where deployed (N=6)

- Example: The effect on finances depends on the location to which a servicemember is deployed. The pay and allowances that a soldier receives vary from location to location. In some places, soldiers can make a lot of money; in others, they will not.
- Example: The financial impact of deployment depends on where an officer was deployed. In South Korea, servicemembers pay taxes and do not receive extra pay, as did those who served in combat zones. In addition, individuals deployed to South Korea lost their Basic Allowance for Housing, even though they needed it while deployed. The officer needed to live off base because of a lack of housing on base there. This meant paying for two households, one on deployment and one for the spouse and children at home.

1.l. Worse financially – loss of income (N=5)

- Example: Some spouses mentioned that they know of some soldiers that had to give up their second jobs when they left on the deployment and the loss of this income had a big impact on the family's finances.
- Example: While at their home station, sailors collect commuted rations, also referred to as comrats. Commuted rations are a pay allowance given to sailors to cover the cost of meals incurred off base when they are not serving on and eating aboard the ship. When a sailor goes out to sea, the commuted rations payments are stopped and sea pay is started. Also, a sailor is entitled to Career Sea special pay, or sea pay, at a monthly rate of up to \$750. The actual amount of sea pay varies based on the sailor's rank and number of years served

and can range from \$70 to \$750 a month. However, younger sailors do not have enough time accrued on their sea pay clock to make up for the loss of commuted rations pay. Therefore, some families will actually lose money during the deployment.

1.m. Better financially – decreased expenses (N=5)

- Example: At some deployment locations, there is nowhere to spend the extra income. There are no bars, no daily expenses like gasoline, and no phone bills. Yet the Marines are being paid the additional entitlements and pay.
- Example: One participant said she thought her family's finances were in better shape during her husband's deployment because he was not able to spend the extra money he earned and the family was able to save more money while he was deployed.

2. Could you tell me about servicemembers you know who have gone through any financial difficulties such as declaring bankruptcy, falling behind on bills, or having a car or appliance repossessed?

2.a. Overspending/bad money management (N=13)

- Example: There were servicemembers who ran into severe financial problems after they returned from deployment due to overspending and overextending themselves financially while they were deployed.
- Example: Another participant said that he knew of a few junior enlisted servicemembers who spent all their money on expensive cars and other things, once they returned from deployment. They did not save any of the extra money they received.

2.b. Other experiences with financial difficulties (N=13)

- Example: One airman experienced a situation in which a creditor would not accept the automatic money transfer that was set up before the deployment.
- Example: One soldier's ex-wife took him to court while he was deployed in an attempt to obtain additional child support money. Because of the additional entitlements and pay that the soldier was

collecting, the court increased the payments to match. The soldier was unable to return home or communicate to prevent the action or mediate in the situation.

2.c. Defense Finance and Accounting Service errors (N=11)

- Example: One of the airmen had a series of late payments during a deployment because Defense Finance and Accounting Service did not process an allotment correctly and the money was not getting sent to the correct place.
- Example: Almost all of the airmen knew someone who did not have their pay entitlements stopped after returning from the deployment. In most instances, Defense Finance and Accounting Service was continuing to pay the entitlement for several months; unfortunately, once the problem was resolved, Defense Finance and Accounting Service took back the amount owed in one lump sum. This left the airmen with paychecks amounting to zero dollars.

2.d. Communication problems (lack of Internet/e-mail/mail/phone) (N=10)

- Example: A servicemember stated that a major issue with deployment was not being able to pay bills on time because the infrastructure down range (combat zone) was not immediately set up to deliver/send mail.
- Example: During deployments, the junior enlisted personnel do not have as much access to the Internet as the senior Marines. This can have a negative impact on their ability to access their checking and other financial accounts, thereby impacting their ability to manage their finances.

2.e. Difficulty maintaining checkbook/finances (N=10)

- Example: Many servicemembers have the mentality that because they earn the money it is theirs to manage. When the soldier is at home, he or she controls the finances; and when the soldier leaves, the spouse does not know how to handle the bills, finances, or budget.

- Example: In many situations, single sailors may not have someone back home to take care of their bills or manage their finances.

2.f. Car repossessed (N=9)

- Example: Some soldiers spent their money quickly after they returned from the deployment and bought expensive cars. In a few instances, these cars were repossessed because the soldiers could not make the monthly payments.
- Example: A soldier stated that some servicemembers' allotments were not processed, which resulted in their cars being repossessed. This also left the servicemembers with a bad credit rating.

2.g. Did not experience financial difficulties during deployment (N=6)

- Example: A participant stated he knew of very few soldiers who were negatively affected financially because of deployment.
- Example: Those who fared well with their finances had relationships with helpful people/spouses who were able to manage their finances for the servicemembers while they were deployed.

2.h. Fell behind in bills (N=6)

- Example: A servicemember said that he and his spouse had fallen behind on paying their bills.
- Example: A soldier said that a servicemember's phone was disconnected because his spouse went to another state to visit relatives for 2 months and the phone bill was not paid.

2.i. Bankruptcy (N=5)

- Example: Participants stated that they had heard of very few servicemembers who had to file for bankruptcy as a result of deployment.
- Example: One of the officers was aware of a sergeant who had to file bankruptcy upon returning from deployment. During the

deployment, the sergeant's spouse spent all of the extra money and took out "a ton" of additional debt.

2.j. Problems with government credit card (N=4)

- Example: The government travel card causes more problems than other cards. Sailors are traveling back to back with several deployments and take out back to back debts. The Travel Processing Center may not process the travel claims in 10 days like they are supposed to, so people are running up debt on the government travel card that they cannot pay off.
- Example: Sometimes servicemembers have had to pay (their government travel card bill) with their own money while waiting for funds to be provided/reimbursed by the government. This takes money out of their household and can affect their credit rating. It can take up to 2 months to get their money from the Defense Finance and Accounting Service.

3. During your deployment, how did servicemembers in your unit handle situations when there were financial problems at home?

3.a. Used in-theatre resources (chain of command, e-mail, Internet) (N=10)

- Example: Soldiers had to go through their chain of command to take care of some of their financial situations and the issues were resolved with the assistance of the chain of command.
- Example: Most of the other participants said they had a non-commissioned officer log them onto the Internet to check on their bills, and this helped them.

3.b. Used resources at home (family support center, family readiness officer) (N=8)

- Example: There are many people on base that help spouses during the deployment. The key volunteers group that meets once or twice a week is a good resource for the families to use if they need assistance during the deployment.

- Example: On Air Force bases, there is an abundance of assistance for servicemembers with financial problems. Information is provided through: First Term Airman Center, Personal Financial Counseling, Air Force Aid Society, Air Force Assistance Fund, First Sergeants, Finance, and the Judge Advocate General. These are some of the resources available to servicemembers for finance-related issues.

3.c. Other financial problems on homefront (N=5)

- Example: Sometimes a single servicemember will leave advance rent checks for the landlord of the apartment and the landlord will deposit all of the checks at once, which results in overdrafts for the servicemember.
- Example: There are many instances of spouses back home that spend all of the additional income that the Marine is making during the deployment. When the Marine returns, he or she will find all of their money gone and nothing to show for it.

3.d. Waited until they got home (N=5)

- Example: Some participants said they just waited to handle the problems until after they returned home if they do not have anyone to help them and the situation had not been brought to the command's attention. They did not want the command involved in their finances.
- Example: In instances where the servicemember's spouse spends all of the money, the member normally is not able to do anything until he or she returns from the deployment.

4. What kind of financial assistance does your service or the military need to take care of financial problems when people are deployed?

4.a. Pre-deployment briefs (more information or briefs before deployment notice received) (N=11)

- Example: More financial awareness training prior to the deployment would have helped alleviate many problems that individuals experienced. The current 2-minute brief is not enough.

- Example: Even though the base legal office offers a will and power of attorney class every Tuesday, some Marines are unable to attend. The information in the classes needs to be incorporated into the pre-deployment briefings.

4.b. Other kinds of financial assistance needed (N=9)

- Example: Small groups, such as married servicemembers with children or single servicemembers, should be given specific attention or focus when information on finances is distributed because the different groups have different needs when it comes to finances.
- Example: The First Term Airmen Center should give out warnings to new airmen about which lenders around base are good to work with and which ones are not so good.

4.c. Sustained training (provided throughout career) (N=7)

- Example: Financial training should occur upfront and be proactive—not be reactive, like it is now. Currently, classes are required only if the soldier has written bad checks.
- Example: More overall financial education is needed. One soldier was enlisted for 5 years before he got any formal financial management training, and that was only because he got in trouble. Education is the key in improving financial management.

4.d. Early training (boot camp, Advanced Individual Training) (N=6)

- Example: The military needs to provide more financial training in basic/boot camp to include in-depth discussions of allotments, deductions, and leave and earnings statements. One soldier said he did not know what a leave and earnings statement was until he came to his unit.
- Example: Financial training courses should be incorporated into basic training or technical school. By conducting this training early, DOD may have an impact on initial purchase decisions made by servicemembers.

5. What kinds of experiences have your fellow servicemembers or subordinates had with predatory lenders?

*5.a. Other issues regarding experiences with predatory lenders
(N=13)*

- Example: Business representatives will tell young Marines that they can buy an item for a certain amount each month. They keep the Marine focused on the low monthly payments and not on the interest rate or the term of the loan.
- Example: Some Marines feel that a business would not take advantage of them because they are in the military. This leads them to be more trusting of the local businesses than they should be, which in turn, leads the businesses to take advantage of them.

5.b. Predatory lender used – car dealers (N=11)

- Example: Most of the participants stated that the car dealerships around the base were the worst predatory lenders because they charge high interest rates and often provide cars that are “lemons.” They said that most of the sales people at the dealerships are former military who know how to talk to servicemembers to obtain the members’ trust. The servicemember does not expect this.
- Example: One captain had a Marine in his unit who signed a contract with a car dealer for a loan with 26 percent interest rate. The captain took the Marine to the Marine Credit Union and got him a new loan with 9.5 percent interest rate.

5.c. Predatory lender used – payday lenders (N=10)

- Example: A master sergeant got caught in the check-cashing cycle. He would write a check at one payday lender in order to cover a check written at another lender during a previous week.
- Example: One participant told us that when he was a younger Marine he got caught up with a payday lender. The problem did not resolve itself until he deployed and was not able to go to the lender anymore.

*5.d. Reason for using predatory lender – get fast cash and no hassle
(N=10)*

- Example: People use payday lenders because they are quick and easy. All the soldiers have to do is to provide their leave and earnings statement and they get the money.
- Example: Most of the participants say they know people who have used a payday lender, and those soldiers use them because they have bad credit and can get quick cash.

5.e. Predatory lender targeting – close proximity and clustering around bases (N=9)

- Example: It is almost impossible to be unaware of lenders and dealerships because many are clustered in close proximity to the installation. They also distribute flyers and use pervasive advertising in local and installation papers.
- Example: The stores and car lots near the installation use signs that say “E1 and up approved” or “all military approved” to get the attention of the military servicemembers.

5.f. Command role when contacted by creditors (N=8)

- Example: The non-commissioned officers offer to go with the junior enlisted to places like car dealers; but the young soldiers do not take them up on these offers.
- Example: One participant said that debt collectors do call his house and the command. He noted that one lender called him nine times in one day and his Chief Petty Officer eventually asked the lender to stop harassing his sailor.

5.g. Predatory lender targeting – advertising in installation/local newspaper (N=7)

- Example: Soldiers are being targeted by predatory lenders in a variety of ways; for example, flyers are left on parked cars at the barracks, advertising is done at installation functions, and words such as “military” are used on every piece of advertising to make the servicemember believe that the company is part of or supported by the military. The servicemember would normally trust lenders associated with the military.

- Example: Most predatory lenders have signs that say “military approved” or have commercials that say the same thing or “E1 and above approved.”

5.h. Reason for using predatory lender – urgent need (N=6)

- Example: Many soldiers use payday lenders because they are in a bind for money and they know these lenders can provide quick cash.
- Example: Soldiers will use a payday lender because they need money for a child, the kids, the house payment, etc. In many cases, it does not matter why they need it; they just need it. So, they go where they can get cash the fastest and the easiest way possible.

5.i. Predatory lender used – furniture/rent-to-own (N=6)

- Example: One of the participants stated that he had obtained a loan to purchase a new washer and dryer. The loan had a 55 percent interest rate and the appliances cost a lot more than they should have.
- Example: Rent-to-own businesses are widely used by soldiers. One soldier paid \$3,000 for an \$800 washer and dryer set.

5.j. No problem with predatory lenders (N=5)

- Example: There have not been any problems with predatory lenders lately. The state of Florida has been using legislation to shut them down.
- Example: The participants said that they had never encountered an officer that had to use payday lenders or predatory lenders. Most of the officers’ problems come when they have a bitter divorce.

5.k. Reason for using predatory lender – other reasons (N=5)

- Example: One soldier stated that his credit was so bad that he had no other option but to use high interest rate lenders. He stated that, “I have bad credit and I will always get bad credit.”
- Example: One participant said he has several friends that use payday lenders because they are E1s or E2s and don’t make much money.

5.l. Predatory lender targeting – employing former military members (N=4)

- Example: The people running and working for the predatory businesses are usually former military servicemembers. They will use their knowledge of the system to take advantage of Marines.
- Example: Many times the predatory lenders are veterans, former Marines, or retirees. The participant said that by using these types of people, it gives the younger Marines a false sense of trust and then the lenders will take advantage of the servicemember or “stab them in the back.”

5.m. Reason for using predatory lender – command will not know financial conditions (N=3)

- Example: When a soldier needs money, a payday loan can be used without notifying the chain of command. Any of the Army forms of assistance require a soldier to obtain approval from “a dozen people” before they can get any money.
- Example: The most significant reason that people use payday lenders is privacy. The spouses stated that if you try to obtain assistance through the Air Force, you must use the chain of command to obtain approval. By doing so, everyone in the unit will know your business.

6. What types of financial services have fellow servicemembers and/or subordinates in your unit used?

6.a. Service relief/aid societies (N=13)

- Example: Servicemembers are often reluctant to approach Army Emergency Relief Society because they have to complete too much paperwork. Some have concerns that their superiors will find out that they used these services and superiors may think this is a sign of weakness or failure on the part of the servicemember.
- Example: One soldier stated that he used the Army Emergency Relief Society because he did not have good credit and needed \$1,400 as a security deposit. He said they gave him a loan and that he is paying them back at \$60 per month.

6.b. Other types of services used/aware of (N=13)

- Example: Assistance is available for Marines with financial problems. For example, there is a Key Volunteers Network made up of enlisted and officers' wives.
- Example: One of the sailors was having financial problems and did not want the command to know, so he sought help from the Federal Credit Union. The credit union was able to help with the \$50,000 he had accumulated in debt. They contacted the lenders for him and told them not to contact anyone in the command about the problem. The debt was re-organized and repayment began. All of this was accomplished without the help of the Navy.

6.c. Community service center/family support center's personal financial managers (N=13)

- Example: Some servicemembers who have problems have received help from Army Community Services. Army Community Services does not provide money or loans but does give some household items such as pots and pans and these items do provide some help to those in financial trouble.
- Example: When supervisors recognize a subordinate is having financial problems, most of them will refer the subordinate to the family support center for counseling, budget planning, and basic personal finance skills like balancing a checkbook.

6.d. DOD Financial Readiness Campaign/services' Internet resources (N=11)

- Example: None of the participants had heard of the Financial Readiness Campaign.
- Example: Only one of the 11 participants was aware of the Financial Readiness Campaign. The servicemember that did know about it said that the information was difficult to sort through and may not be helpful to those without a basic knowledge of finances.

6.e. Servicemembers Civil Relief Act (N=9)

- Example: One airman said that he used the Servicemembers Civil Relief Act to reduce his total indebtedness during his deployment. In fact, after returning from the deployment, the credit companies kept the interest rates at 6 percent or less.
- Example: One of the participants talked about how he used the Servicemembers Civil Relief Act to get out of a lease prior to deployment.

6.f. No services used or not aware that any service was used (N=7)

- Example: One participant said that there are financial services available but because they are not very well advertised, many servicemembers do not know about them.
- Example: The spouse stated she was not aware of any available assistance programs because information about programs does not get communicated well at the installation.

6.g. Legal office (N=6)

- Example: There is a legal office that can review purchase contracts while the sailor is at home and a legal assistance attorney onboard ship who can provide assistance.
- Example: Sometimes the family at home cannot take care of financial issues, even if they have power of attorney. The best solution is to obtain help from the on base legal office.

6.h. Command financial specialists (N=5)

- Example: Soldiers have used the command financial specialist within their units to receive counseling, training, and information.
- Example: Most of the participants said that they had a command financial specialist in their unit but did not use these individuals, primarily because of a lack of trust. They said that if a servicemember talked about financial problems with these people, it would end up through the chain of command. If someone were to see a servicemember in the command financial specialist's office, then they would know/assume the servicemember had a financial problem.

7. Is there additional assistance that could be provided to servicemembers or subordinates by the chain of command or DOD to improve the financial condition of military families?

7.a. Additional financial management training at installation and throughout career (N=13)

- Example: Some of the participants said the briefings provided to soldiers during base “in processing” are too quick. They normally last about 10 minutes and that is not enough time to discuss financial matters.
- Example: There should be financial management training points throughout a sailor’s career. For example, basic training, Advanced Individual Training, reenlistment, and then annual recurring training.

7.b. Other additional assistance (N=12)

- Example: A soldier stated that the offices that provide finance information are closed when the servicemembers get off work. Their hours should be longer because the soldiers’ unit will not allow them time off to go to the finance centers just to browse and acquire general financial information.
- Example: The military credit unions should be combined into one institution. No more Marine, Navy, or Army Federal Credit Unions, just one large credit union. This would lead to more lending power and better interest rates.

7.c. More money (N=10)

- Example: All military members should get pay raises. The pay increase should be significant and not just a few dollars every paycheck. People are dying every day for their country, so they should get paid well.
- Example: Servicemembers, particularly in the junior enlisted ranks, should be given more pay.

7.d. Improve timeliness/accuracy of Defense Finance and Accounting Service (N=7)

- Example: Make the finance office provide more timely reimbursement for vouchers. One soldier just got back from Iraq and said that currently, it takes the Defense Finance and Accounting Service about 6 months to pay the voucher.
- Example: The deployment actually messes up the servicemember's paychecks. When starting the deployment, the addition of certain pay and allowances and the subtraction of other allowances are never done quickly and efficiently. Defense Finance and Accounting Service is always either overpaying or underpaying the Marine. When they overpay, they take the money back in one shot, not over a period of time.

7.e. Armed Forces Disciplinary Control Board/off-limits list (N=7)

- Example: When the Armed Forces Disciplinary Control Board does put a business on the off-limits list, the word is not put out and it is never enforced.
- Example: The Navy needs to blacklist places that practice predatory lending. One participant, who is a legal officer in her unit, does provide a list of places to avoid to her sailors when they check in even though she is not allowed to do this. She does not understand why the Navy is allowed to tell sailors not to go to a porn shop, but is not supposed to tell them not to go to predatory lenders. The Navy needs some type of list of businesses that have done questionable things. It does not necessarily have to be an "off-limits" list.

7.f. Care packages (N=6)

- Example: It is common for spouses to send care packages to soldiers during a deployment. The expense of shipping these packages is significant. In addition, they generally include items for friends of soldiers who do not have spouses or families sending items.
- Example: Care packages can be expensive for the family, especially when they have to send equipment that is not supplied by the military.

7.g. Improve Internet access during deployment (N=5)

Appendix II
Findings from GAO-led Focus Groups Held at
13 Installations

- Example: Navy should have better Internet access on the ships. They could provide Internet access in the library. Right now the junior enlisted have to ask officers to log them on.
- Example: The Navy needs to increase the number of computers on ships and the access to the Internet. It is not beneficial to have Internet-based resources if no one can access the Internet during a deployment. Furthermore, when the sailors are at home station, the work computers are used for work and not for personal use. Therefore, the sailors still cannot access information on the Financial Readiness Campaign.

Resources Available to Assist Servicemembers with Financial Issues

Several resources exist to assist servicemembers with financial issues. These include military-sponsored PFM training, DOD's Financial Readiness Campaign, individual service resources, such as command financial specialists and personal financial managers, and resources outside of DOD such as those provided through on- and off-installation banks and credit unions.

Financial Management Training

All four military services require PFM training for servicemembers, and the timing and location of the training varies by service. The Army begins this training at initial military, or basic, where soldiers receive 2 hours of PFM training. Training continues at Advanced Individual Training schools, where soldiers receive an additional 2 hours of training and at the soldiers' first duty station, where they are to receive an additional 8 hours of PFM training. In contrast, Navy personnel receive 16 hours of PFM training during Advanced Individual Training. The Marine Corps and the Air Force, on the other hand, begin training servicemembers on financial issues at their first duty stations.

Events, such as deployment or a permanent change of station, can trigger additional financial management training for servicemembers. The length of this additional training and the topics covered can vary by installation and command. Also, unit leadership may refer servicemembers for financial management training or counseling if the unit command is made aware of an individual's financial problems. For example, the Army requires refresher financial training for personnel who have abused check-cashing privileges.

DOD's Financial Readiness Campaign Resources

DOD's Financial Readiness Campaign, which was launched in May 2003, supplements PFM programs offered by the individual services. The Under Secretary of Defense for Personnel and Readiness stated that the department initiated the campaign to improve the financial management available to servicemembers and their families and to stimulate a culture that values financial health and savings. The campaign allows installation-level providers of PFM programs to access national programs and services developed by federal agencies and non-profit organizations. The primary components of the campaign are the Web-based resources and partnerships with federal agencies and non-profit organizations.

DOD's Web-based Resources

The primary tool of the Financial Readiness Campaign is a Web site¹ designed to assist PFM program managers in developing installation-level campaigns to meet the financial management needs of their local military community. This Web site, which is also available to the public, contains important documents for the campaign as well as links to partners' Web sites. For example, the DOD Web site contains the original memorandum announcing the start of the campaign, overall campaign objectives, as well as the names of, agreements with, and links to the campaign's 27 partner organizations. DOD's May 2004 assessment of the campaign² noted, however, that installation-level PFM staffs have made minimal use of the campaign's Web site. DOD campaign officials stated that it was early in implementation of campaign efforts and that they have been brainstorming ideas to repackage information given to PFM program managers, as well as servicemembers and their families. For example, officials are considering distributing financial information to servicemembers and military families at off-installation locations, as well as implementing "financial fairs" and "road shows" at military communities to increase awareness and encourage financial education.

Partnerships with 27 Organizations

DOD has partnered with 27 organizations that have pledged to support DOD in implementing its Financial Readiness Campaign. For example, the Association of Military Banks of America is a not-for-profit association of banks that operate (1) on military installations, (2) off military installations but serving military customers, and (3) within military banking facilities designated by the U.S. Treasury. That association is supporting the Financial Readiness Campaign by encouraging member banks to provide, participate in, and assist DOD with financial training events. Another partner, the InCharge Institute of America, is producing a quarterly periodical called *Military Money*. The periodical is aimed at promoting financial awareness among the spouses of servicemembers.

¹ See <http://www.dodpfm.org>.

² Office of the Deputy Under Secretary of Defense (Military Community and Family Policy), *Initial Assessment and Follow-on Plan for the Department of Defense Financial Readiness Campaign* (May 27, 2004).

Military Service Resources

Each military service has several resources available at the installation level to assist servicemembers with financial issues. These include command financial specialists, the PFM program managers and staff, legal services, and service relief/aid societies.

Command Financial Specialists

Command financial specialists are senior enlisted personnel (usually E6 and above) who are trained by PFM program managers to assist servicemembers at the unit level, by providing financial education and counseling. These non-commissioned officers may perform the role of the command financial specialist as a collateral duty in some units or as a full-time duty in others. The Navy, Marine Corps, and Army use command financial specialists to provide unit assistance to servicemembers in financial difficulties; the Air Force does not use command financial specialists within the unit, but has the squadron First Sergeant provide first-level counseling.

PFM Program Managers and Staff

Individual servicemembers who require counseling beyond the capability of the command financial specialists or First Sergeant in the Air Force can see the installation's PFM program manager or PFM staff. The PFM program manager is a professional staff member designated and trained to organize and execute financial planning and counseling programs for the military community. PFM program managers and staff offer individual financial counseling as well as group classes on financial issues.

Army, Navy, and Marine Corps regulations state that each installation should have a manager for PFM issues. The Air Force no longer designates one staff member as the PFM program manager, but it uses "work life consultants" in its family support centers to provide PFM training and counseling. The DOD's November 2004 PFM instruction³ places certain requirements on staff who provide PFM training and counseling. For example, it states that the one staff member within a family support center shall be designated and trained to organize and execute financial planning and counseling programs for the military community. In addition, that staff member must receive continuing education on PFM annually and maintain professional certification.

³See DOD Instruction 1342.17, *Personal Financial Management for Service Members* (Nov. 12, 2004).

Legal Services

Individual installation legal offices also offer financial services to servicemembers. For example, the legal assistance attorneys may review purchase contracts for large items such as homes and cars. In addition, the legal assistance attorneys offer classes on varying financial issues including powers of attorney, wills, and divorces.

Service Relief/Aid Societies

Each service has a relief or aid society designed to provide financial assistance to servicemembers. The Army Emergency Relief, Navy-Marine Corps Relief Society, and the Air Force Aid Society are all private, non-profit organizations. These societies provide counseling and education as well as financial relief through grants or no-interest loans to eligible servicemembers experiencing emergencies. Emergencies include funds needed to attend the funeral of a family member, repair of a primary vehicle, or funds for food. For example, in 2003, the Navy-Marine Corps Relief Society provided \$26.6 million in interest-free loans and \$4.8 million in grants to servicemembers who needed the loans for emergencies.

Resources Available Outside of DOD

Servicemembers may utilize financial resources outside of DOD, which are available to the general public. These can include banks or credit unions for competitive rates on home or automobile loans, commercial Web sites for interest rate quotes on other consumer loans, consumer counseling for debt restructuring, and financial planners for advice on issues such as retirement planning.

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