Audit Report

OFFICE OF THE INSPECTOR GENERAL

SERVICE ACADEMIES' FOREIGN STUDENT PROGRAM - TUITION BILLING

Report No. 94-026

December 28, 1993

Department of Defense

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

December 28, 1993

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR POLICY
COMPTROLLER OF THE DEPARTMENT OF DEFENSE
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on the Service Academies' Foreign Student Program - Tuition Billing (Report No. 94-026)

We are providing this report for your review and comments. It discusses the billing of foreign governments for tuition costs for foreign students attending the three Service academies. The audit was requested by the Office of the Under Secretary of Defense for Policy because of tuition billing problems. Comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, we request that the organizations identified in the chart at the end of the finding provide comments on the final report by February 28, 1994. The chart indicates the specific requirements for your comments.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Alvin L. Madison, Program Director, at (703) 614-1681 (DSN 224-1681) or Mrs. Belinda J. Finn, Project Manager, at (703) 693-0437 (DSN 223-0437). Copies of the final report will be distributed to the organizations listed in Appendix C. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Table of Contents

Executive Summary i

Part I - Introduction 1

Background 2
Objectives 2
Scope 3
Internal Controls 3
Prior Audit Coverage 4

Part II - Finding and Recommendations 5

Billing and Collecting of Tuition 6

Part III - Additional Information 15

Appendix A. Summary of Potential Benefits Resulting From Audit 16
Appendix B. Organizations Visited or Contacted 17
Appendix C. Report Distribution 18

Part IV - Management Comments 21

Office of the Assistant Secretary of Defense (Regional Security Affairs) Comments 22
Office of the Comptroller of the Department of Defense Comments 23
Department of the Army Comments 26
Department of the Navy Comments 28
Department of the Air Force Comments 31

This report was prepared by the Financial Management Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, at (703) 614-6303 (DSN 224-6303).

Office of the Inspector General, Department of Defense

Report No. 94-026 December 28, 1993
Project No. 3FA-5013

SERVICE ACADEMIES' FOREIGN STUDENT PROGRAM - TUITION BILLING

EXECUTIVE SUMMARY

Introduction. Public Law 98-94, "Defense Authorization Act of 1984," section 1004, provides guidance on the "Selection of Persons from Foreign Countries to Receive Instruction at the Service Academies." Public Law 98-94 requires that each foreign country sponsoring a student reimburse the United States Government for the student's tuition costs unless the Office of the Secretary of Defense grants the country a written waiver. In total, 229 foreign students have attended the academies under Public Law 98-94 through April 1993, and 93 of those foreign students had graduated as of June 1992. Of the foreign students in the classes of 1989 through 1996, all except 22 received full waivers of tuition. The total amount billable to foreign governments for those foreign students without waivers was approximately $1.2 million. The Under Secretary of Defense for Policy requested this audit because of a billing problem at the United States Naval Academy. Due to an administrative oversight, the United States Naval Academy did not bill tuition costs to the Government of Japan for the first 3 years a Japanese student attended the academy. Upon being billed, the Government of Japan refused to pay because it had not officially sponsored the student.

Objective. The audit objective was to determine if academy procedures for billing foreign governments for their students' tuition were adequate to ensure accurate billings occurred in a timely manner. We also reviewed internal controls over the foreign student program, including the procedures for ensuring that foreign students are officially sponsored by their governments.

Audit Results. The Office of the Comptroller of the Department of Defense (DoD Comptroller) did not set the cost of foreign student tuition in time to bill and collect costs from foreign governments sponsoring students at the academies. Further, the academies had not billed approximately $645,000 and had not collected about $110,000 in billed tuition costs owed to the United States Government by the foreign governments.

Internal Controls. There were material internal control weaknesses because of the lack of guidance implementing Public Law 98-94 within the Office of the Secretary of Defense and the Military Departments. The Military Departments need to establish foreign government sponsorship of students and obtain agreements from the foreign countries to pay tuition costs. The United States Naval Academy and the United States Air Force Academy had not established billing and collecting procedures to ensure that the foreign governments were billed for the students' tuition costs. The academies had not reported those internal control weaknesses in their annual reports required by the Federal Managers' Financial Integrity Act. A description of the internal controls assessed is in Part I.

Potential Benefits of Audit. The United States Government should collect tuition funds of approximately $645,000 not previously billed for foreign students attending the academies, as well as previously billed but unpaid tuition of $110,000. Recommended improvements should result in written guidance to implement sound billing and collecting procedures and avoid the DoD practice of waiving unbilled and uncollected student tuition. Benefits are summarized in Appendix A.

Summary of Recommendations. We recommended that the Under Secretary of Defense for Policy and the DoD Comptroller issue written guidance to implement Public Law 98-94 on the foreign student program. We also recommended that the academies take action to bill foreign countries that have not been billed for their students' full tuition and collect all billed but unpaid tuition costs (accounts receivable).

Management Comments. Comments on the draft of this report were received from the Office of the Assistant Secretary of Defense (Regional Security Affairs), the DoD Comptroller, the Department of the Army, the Department of the Navy, and the Department of the Air Force. The Office of the Assistant Secretary of Defense (Regional Security Affairs) partially concurred with the recommendations. The DoD Comptroller did not concur with Recommendation 1.a. and partially concurred with Recommendation 2. The Director of Strategy, Plans, and Policy, Department of the Army, concurred with Recommendations 1. and 2.; however, the Director nonconcurred with Recommendation 3. on recouping the unbilled tuition. The Assistant Secretary of the Navy (Manpower and Reserve Affairs) concurred with all recommendations and will revise Navy procedures after the Office of the Secretary of Defense issues guidance to implement Public Law 98-94. The Director of Military Personnel Policy, Department of the Air Force, concurred with Recommendations 3. and 4. See Part II for a full discussion of management comments received and Part IV for the complete text of those comments. Comments on this final report are required from the DoD Comptroller, the Department of the Army, the Department of the Navy, and the Department of the Air Force by February 28, 1994.

Table of Contents

Executive Summary i

Part I - Introduction 1

Background 2
Objectives 2
Scope 3
Internal Controls 3
Prior Audit Coverage 4

Part II - Finding and Recommendations 5

Billing and Collecting of Tuition 6

Part III - Additional Information 15

Appendix A. Summary of Potential Benefits Resulting From Audit 16
Appendix B. Organizations Visited or Contacted 17
Appendix C. Report Distribution 18

Part IV - Management Comments 21

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Part I - Introduction

Background

Public Law 98-94, "Defense Authorization Act of 1984," section 1004, "Selection of Persons from Foreign Countries to Receive Instruction at the Service Academies," amended 10 U.S.C. 4344, 6957, and 9344, as of September 24, 1984. Those laws provide procedures for the Secretaries of the Army, the Navy, and the Air Force to follow in the selection of foreign students to attend the Service academies. Foreign students entering the academies in July 1985 for the 1985-1986 academic year (class of 1989) at the United States Military Academy (the Military Academy), the United States Naval Academy (the Naval Academy), and the United States Air Force Academy (the Air Force Academy) were the first students admitted under Public Law 98-94.

Public Law 98-94 authorizes the Secretary of the Army, the Secretary of the Navy, and the Secretary of the Air Force to admit no more than 40 students from foreign countries at any one time to each of the academies under the foreign student program. The 40 foreign students are in addition to the authorized student strength at each academy. Public Law 98-94 states the Secretary of the Army, the Secretary of the Navy, and the Secretary of the Air Force, upon approval by the Office of the Secretary of Defense, shall determine the countries from which students may be selected for appointment and the number of students that may be selected from each country. In August 1989, the Office of the Secretary of Defense delegated the authority to issue guidelines for foreign students attending the academies to the Office of the Under Secretary of Defense for Policy.

In total, 229 foreign students have attended the academies under Public Law 98-94 through April 1993, and 93 of those foreign students had graduated as of June 1992. Of the foreign students in the classes of 1989 through 1996, all except 22 received full waivers of tuition. The total amount billable to foreign governments for those foreign students without waivers was about $1.2 million. If all the foreign students had attended without tuition waivers, the total billable tuition would have approximated $19.0 million for academic years 1985-1986 through 1992-1993.

Objectives

The Office of the Under Secretary of Defense for Policy requested this audit because of problems in billing tuition costs for a student from Japan. Due to an administrative oversight, the Naval Academy did not bill tuition costs to the Government of Japan for the first 3 years the Japanese student attended the academy. Upon being billed, the Government of Japan refused to pay because it had not officially sponsored the student. The Office of the Under Secretary of Defense for Policy retroactively granted a tuition waiver for the student's

first 3 years in the amount of $90,695. The Government of Japan arranged for the payment of tuition of $39,170 for the student's senior year with private funds. Consequently, the tuition was not paid through the type of government-to-government transaction required by Public Law 98-94.

The audit objective was to determine whether academy procedures for billing foreign governments for their students' tuition were adequate to ensure accurate billings occurred in a timely manner. We also reviewed internal controls over the foreign student program, including the procedures to ensure that foreign students are officially sponsored by their governments.

Scope and Methodology

This program audit was performed from February 1993 through May 1993. We visited the United States Military Academy, West Point, New York; the United States Naval Academy, Annapolis, Maryland; and the United States Air Force Academy, Colorado Springs, Colorado. We reviewed their policies and procedures on the selection and admission of foreign students and the determination of tuition costs, as well as the procedures used to communicate the waiver status of foreign students from the admissions office to the finance office at each academy. We also examined all the billing and collection documentation for 22 foreign students with billable tuition costs from the inception of the program in 1985 through April 1993.

We reviewed guidance from the Office of the Assistant Secretary of Defense (Regional Security Affairs)* on the foreign student program. We also evaluated how well the DoD complied with the Public Law 98-94 requirement that foreign countries pay the costs of their students at the academies.

We conducted the audit in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense, and accordingly included such tests of internal controls as were considered necessary. Appendix B lists all the organizations visited or contacted.

Internal Controls

Internal control weaknesses in the program existed because of the lack of guidance implementing Public Law 98-94 within the Office of the Secretary of Defense and the Military Departments. The Comptroller of the Department of Defense (DoD Comptroller) and the Military Departments did not have guidance on the responsibilities and procedures for establishing tuition rates or collecting and billing tuition for foreign students. Further, the Naval Academy

*Formerly the Office of the Assistant Secretary of Defense (International Security Affairs).

and the Air Force Academy did not have written procedures for billing and collecting tuition costs for foreign students. None of the Military Departments or academies had specific internal control procedures to ensure that student nominations received from the Defense Attachés (DoD and State Department representatives in the foreign countries) were officially sponsored by the students' governments. We reviewed the implementation of the Federal Managers' Financial Integrity Act at all three academies. We found that none of them had covered the deficiencies in the areas of nominating and billing of foreign students in their vulnerability assessments and control reviews due to the small number of foreign students enrolled. Part II of this report discusses the weaknesses further.

The audit identified material internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Recommendations in this report, if implemented, will correct the weaknesses. Recommendation 3. will result in approximately $645,000 in monetary benefits and Recommendation 4. will result in monetary benefits of $110,000. We could not determine the monetary benefits to be realized by implementing the internal control Recommendations 1.a.(1), 1.a.(2), and 1.b. because both the number of foreign students who will receive tuition waivers and future academy tuition rates are indeterminable. Appendix A, "Summary of Potential Benefits Resulting from Audit," describes the potential benefits from each recommendation. A copy of this report will be provided to the senior officials in the DoD responsible for internal controls.

Prior Audit Coverage

No prior audits have been conducted in the last 5 years on tuition billing for foreign students at the three academies.

Part II - Finding and Recommendations

Billing and Collecting of Tuition

The DoD Comptroller did not set tuition rates in time for the Service academies to use the rates to bill and collect costs from foreign governments sponsoring students at the three academies. Two academies did not bill foreign governments for tuition costs because employees did not have written procedures to follow for billing and collecting. Further, the Military Departments did not obtain acknowledgments of official government sponsorships and obligation to reimburse tuition costs before a student entered the academy. Those conditions occurred because the Office of the Secretary of Defense had not issued guidance to the Military Departments to implement Public Law 98-94, "Defense Authorization Act of 1984," section 1004, "Selection of Persons from Foreign Countries to Receive Instruction at the Service Academies," which authorized attendance of foreign students at the academies. As a result, the academies had not billed tuition of about $645,000 and had not collected additional tuition of about $110,000 owed by foreign governments to the U.S. Government. Further, the potential existed for foreign students to attend the academies without the official sponsorship of their governments, making reimbursement of tuition costs for those students difficult.

Background

Public Law 98-94 established the program under which foreign students are admitted to the Service academies. Public Law 98-94 requires that each foreign country sponsoring a student reimburse the U.S. Government for the student's tuition costs unless the Office of the Secretary of Defense grants a written waiver. Public Law 98-94 also authorizes the academies to establish entrance qualifications and methods of competition for selection of foreign applicants.

The Office of the Assistant Secretary of Defense (Regional Security Affairs) sends a list of the countries invited to nominate students for the academies to the Defense Attaché Offices at the American Embassies of each country about one year before the beginning of the academic year. The Defense Attachés are U.S. military personnel performing liaison functions in their respective host countries for the DoD and the Department of State.

The invited country list sent to the Defense Attachés by the Office of the Assistant Secretary of Defense (Regional Security Affairs) specifies each country's waiver status (based on its per-capita gross national product) and gives the academy tuition rate set by the DoD Comptroller in effect at the time of the message. A student entering an academy under a half- or full-tuition waiver retains that status until graduation.

The DoD Comptroller, with input from the academies, determines the yearly cost of a foreign student's tuition. The approximate cost of a foreign student's instruction ranged from $20,000 to $40,000 annually for the academic years

1985-1986 through 1992-1993. The DoD Comptroller required foreign governments to pay the cost of the year's tuition for a foreign student on a government-to-government basis before that academic year began.

DoD Instruction 2140.4, "Collecting and Reporting of Foreign Indebtedness Within the Department of Defense," establishes standard procedures for collecting and reporting of foreign indebtedness related to sales of Defense articles and services, operation of military missions, logistical support agreements, and other programs listed in an enclosure. The enclosure lists several specific programs; however, it does not list the foreign student program, nor does it state that the list is not all inclusive.

The academies are responsible for billing and collecting tuition funds for foreign students from the students' sponsoring foreign governments. After selecting foreign students, the academies use the invited country message sent from the Office of the Assistant Secretary of Defense (Regional Security Affairs) to determine those countries to bill and what percentage (100 percent for no waiver and 50 percent for a half waiver) of the cost of a foreign student's tuition to charge in each case. When collected, the funds are deposited to the U.S. Treasury's Miscellaneous Receipts account.

Foreign Students' Tuition Costs

As a result of the lack of guidance on procedures and responsibilities, the DoD Comptroller did not establish a tuition rate and provide it to the academies to bill foreign countries before the foreign students began each academic year. The DoD Comptroller developed one standard reimbursable rate each year for the cost of foreign students' tuition at the academies from a report on the cost of foreign students' instruction at each academy. The DoD Comptroller included the reimbursable rate in a memorandum sent to each Military Department's Office of the Assistant Secretary for Financial Management, for forwarding to various offices within the Departments. The DoD Comptroller sent the memorandum to those offices in October of each year; however, the foreign students had already arrived at the academies in July. Ideally, the DoD Comptroller should establish and provide the rate in April of each year before the students arrive. That would allow the academies to bill and collect the tuition costs before the academic year begins.

In addition to the DoD Comptroller tuition rate not being established in a timely manner, another problem was that the memorandum did not reach the offices at the academies that perform the billing functions. The Navy routinely forwarded the memorandum to the Defense Finance and Accounting Service-Cleveland Center for inclusion in the Naval Comptroller manual; however, the reimbursable rate was not published in the manual. The Army and the Air Force did not forward the DoD Comptroller's memorandum to their correct offices. Neither the comptrollers nor the finance offices that prepared the

tuition bills at the academies routinely received the memorandum. While the Military Academy and the Naval Academy received the memorandum in some years, the Air Force Academy did not receive it.

Implementation of Public Law

The lack of DoD guidance implementing section 1004 of Public Law 98-94 and lack of monitoring by the Office of the Secretary of Defense and the Military Departments caused billing errors and sponsorship problems in the foreign student program.

Billing and Collecting of Tuition. Because of the lack of DoD guidance, the Naval Academy and the Air Force Academy did not implement written procedures for the billing and collecting of foreign student tuition costs. At both academies, the personnel responsible for and knowledgeable of the billing process left without training replacements. If written procedures on billings had been in place at the Naval Academy and the Air Force Academy, billings would have occurred despite the turnovers in employees.

Sponsorship of Students. Without clear guidance on the procedures to establish the sponsorship of students, the Military Departments did not ensure that acknowledgments of sponsorship and obligation to pay were obtained from foreign countries. The Chief of Naval Operations Instruction 1531.6C implemented 10 U.S.C. 6957 and provided guidance to the U.S. Naval Attachés on the Naval Academy nomination procedures and academic requirements for citizens of foreign countries. This instruction, however, did not provide guidance to the Naval Attachés on ensuring official sponsorship and payment of tuition for foreign students.

In the case of the Japanese student described in Part I, the U.S. Defense Attaché Office informed the Office of the Secretary of Defense before the student's arrival that the Government of Japan might be unwilling to sponsor the student and reimburse the U.S. Government for tuition costs. The Department of State requested that the American Embassy make sure that the Government of Japan understood the sponsorship and tuition reimbursement requirements and that the U.S. Government considered the Japanese student to be nominated and funded by the Government of Japan. When the American Embassy did not respond, the Naval Academy admissions office assumed that the Government of Japan would officially sponsor the student and would reimburse tuition costs. After the student had started classes at the Naval Academy, the Defense Attaché in Japan again requested guidance on sponsorship procedures from the Office of the Secretary of Defense. The Office of the Secretary of Defense responded with a message stating that no formal sponsorship procedures existed, but that reimbursement for tuition costs for foreign students must be paid on official checks from the sponsoring government. The Office of the Secretary of Defense resolved the matter of payment from the Government of Japan for the student before requesting this audit.

The Naval Academy discovered the lack of sponsorship when it billed the foreign government. Sponsorship problems may never surface in countries that have their tuition costs waived. Establishing procedures for the academies to follow during the nomination process to ensure that countries acknowledge sponsorship will provide an internal control for the program.

Service Academy Billings and Collections

The Military Academy had guidance for the employees to use to bill and collect tuition from the foreign governments. The Naval Academy and the Air Force Academy each experienced problems in billing and collecting tuition for the foreign students attending their academies. Both the Naval Academy and the Air Force Academy had turnovers in key personnel and had no written billing and collecting procedures to guide new personnel. As a result, the academies failed to bill foreign governments for a total of approximately $645,000 in foreign student tuition costs. Additional tuition of approximately $110,000 was billed by the Air Force Academy, but the foreign governments have not yet paid. Therefore, the total tuition owed to the U.S. Government is about $755,000, not including tuition for the 1993-94 academic year.

Military Academy. The Military Academy consistently billed and collected tuition costs from sponsoring countries for all foreign students who did not receive tuition waivers. In years when the Military Academy did not receive the DoD reimbursable rate memorandum, personnel there initiated follow-up action to obtain the tuition rate to bill the foreign governments for their students. The only error in billing at the Military Academy was an underbilling of $745 that occurred because it received an incorrect rate from the former Army Finance Center in Indianapolis, Indiana. Further, the Office of the Comptroller at the Military Academy had developed a written Standard Operating Procedure on the costs of instruction for foreign students that provided procedures on when and how to prepare billings to the foreign governments. Also, the Military Academy followed Army Regulation 37-60, which implements 10 U.S.C. 4344, for reimbursement of tuition funds from foreign governments.

Naval Academy. The Naval Academy did not bill and collect a total of approximately $245,000 in foreign student tuition costs from 1987 to 1991. The Naval Academy billed the foreign governments in 1985 and 1986, but did not consistently bill from 1987 through 1991. While the Naval Academy billed for one student in 1989, it did not bill for the other students then attending the academy. After a new employee discovered the lapse in billings, the Naval Academy's Office of the Comptroller retroactively billed in 1991 for all unbilled years for foreign students still in attendance. It did not bill for five students who had graduated from the academy. The Naval Academy had previously billed foreign countries the first year's tuition for four of

the five graduated students, but not the tuition for those students' second through fourth years of attendance. One country, the United Arab Emirates, was not billed for any tuition for a student who graduated in 1991.

Air Force Academy. The Air Force Academy did not bill total tuition costs of approximately $399,000. It had billed for tuition of approximately $110,000, all of which remains uncollected. The Air Force Academy billed and collected all tuition funds from the foreign countries for their students from 1985 to 1987. After 1987, the Air Force Academy did not bill for any foreign students; therefore, it did not collect approximately $386,000 for foreign students who graduated from 1989 through 1991. When the Office of the Assistant Secretary of Defense (Regional Security Affairs) personnel became aware of the Naval Academy billing problem in May 1992, they questioned the Air Force Academy about its billings. The Air Force Academy finance office retroactively billed countries for all foreign students still attending the academy who did not have waivers. That billed amount, $110,000, was still outstanding in August 1993. Because the Air Force Academy personnel did not have the DoD Comptroller's tuition memorandums when they retroactively billed, they used the previous year's rate as stated in the Office of the Assistant Secretary of Defense (Regional Security Affairs) invitational messages. That resulted in countries being underbilled approximately $13,000. The Air Force Academy's Office of Admissions had an operating instruction that applied to the processing of foreign students for entrance into the Air Force Academy, but that instruction did not cover billing and collecting procedures applicable to the foreign student program.

Summary

The Office of the Secretary of Defense needs to issue guidance to formally implement the foreign student program and establish responsibilities for nominating and billing foreign governments for their sponsored students under the law. Financial management of the foreign student program, as it applies to academies, should be the responsibility of an executive agent that would set reimbursable tuition rates and oversee the process of billing and collecting tuition costs from foreign countries for foreign students at all three Service academies. Designating a single organization, such as the Defense Finance and Accounting Service, to be responsible for billing for all foreign students at the academies would facilitate the collection of tuition costs from foreign governments. Further, the Military Departments should develop procedures for formally establishing official government sponsorship of each candidate. Additionally, if revised to include the foreign student program, DoD Instruction 2140.4 would provide needed guidance on collecting delinquent debt from foreign countries applicable to that program.

Recommendations for Corrective Action

1. We recommend that the Office of the Under Secretary of Defense for Policy issue guidance to implement Public Law 98-94, "Defense Authorization Act of 1984," section 1004, "Selection of Persons from Foreign Countries to Receive Instruction at the Service Academies" to establish policy, responsibilities, and procedures for the Service academies' foreign student program. Such guidance should:

a. Designate the Office of the Comptroller of the Department of Defense as an executive agent for financial management of the foreign student program with responsibility to:

(1) Designate a single office responsible for billing and collecting tuition costs of foreign students for all three academies.

(2) Establish and promulgate tuition rates each year in a timely manner so that the single office can bill and collect tuition for foreign students before the start of a student's first academic year and subsequent years.

b. Require the Military Departments to obtain acknowledgment of a foreign country's official sponsorship and the obligation to reimburse the U.S. Government for tuition costs for foreign students, in the event those costs are not waived.

2. We recommend that the Office of the Comptroller of the Department of Defense revise DoD Instruction 2140.4, "Collecting and Reporting of Foreign Indebtedness Within the Department of Defense," dated October 15, 1986, to include explicit guidance on collecting delinquent debts under the foreign student program at the academies.

3. We recommend that the United States Military Academy, the United States Naval Academy, and the United States Air Force Academy bill and collect from sponsoring countries of foreign students approximately $645,000 in unbilled and underbilled tuition costs.

4. We recommend that the United States Air Force Academy follow up to collect from foreign countries unpaid student tuition billings of about $110,000.

Managements Comments

Responding for the Under Secretary of Defense for Policy, the Office of the Assistant Secretary of Defense (Regional Security Affairs) partially concurred with the recommendations, saying that only the Secretary of Defense can designate the Office of the Comptroller of the Department of Defense as an executive agent. The Office of the Assistant Secretary of Defense (Regional

Security Affairs) agreed to undertake coordination with the Comptroller of the Department of Defense and the Military Departments in the development and promulgation of the suggested guidance.

The Office of the Comptroller of the Department of Defense (DoD Comptroller) did not concur with recommendation 1.a. because it feels that the Under Secretary of Defense for Policy cannot designate the Office of the DoD Comptroller as an executive agent and further, an executive agent is not needed. The DoD Comptroller concurred with recommendations 1.a.(1) and 1.a.(2). The DoD Comptroller will issue the tuition rate prior to the start of each academic year and request that the Defense Finance and Accounting Service develop a plan to support billing and collecting of the foreign student tuition, with the academies retaining the responsibility to ensure payment is received prior to student arrival. The DoD Comptroller partially concurred with Recommendation 2., disagreeing that DoD Directive 2140.4 did not apply to the foreign student program. However, the DoD Comptroller said that the collection of delinquent debts under the foreign student program will be incorporated in Volume 6, Chapter 12 of the DoD Financial Management Regulation and the DoD Directive 2140.4 will be canceled.

Responding for the Military Academy, the Director of Strategy, Plans, and Policy, Department of the Army, partially concurred with the recommendations. The Director strongly endorsed designating a single DoD office to bill and collect tuition for foreign students. The Director nonconcurred with recouping the $745 unbilled tuition because the underbilling was the result of an administrative error and collecting it would cause embarrassment to the U.S. Government. The Director also suggested adding a separate recommendation to differentiate between unbilled and underbilled tuition.

Responding for the Naval Academy, the Assistant Secretary of the Navy (Manpower and Reserve Affairs) concurred with the recommendations and will revise Navy procedures after the Office of Secretary of Defense issues new guidance to implement Public Law 98-94.

Responding for the Air Force Academy, the Director of Military Personnel Policy, Department of the Air Force, concurred with the recommendations and will bill the sponsoring countries for the unbilled tuition. The Air Force Academy has referred the previous billings to the Defense Finance and Accounting Service for further action.

Audit Response to Management Comments

The comments from the Office of the Assistant Secretary of Defense (Regional Security Affairs) were generally responsive to the recommendations. We disagree that the Under Secretary of Defense for Policy does not have the authority to designate an executive agent or establish policy and procedures. DoD Directive 5111.1, "Under Secretary of Defense for Policy," dated July 14, 1992, states that the Under Secretary of Defense for Policy has the authority to

issue DoD instructions that implement policy approved by the Secretary of Defense for responsibilities assigned to the Office of the Under Secretary for Policy. The Under Secretary of Defense for Policy was explicitly delegated the responsibility for the foreign student program and also has the responsibility to develop and coordinate plans and programs undertaken in cooperation with foreign governments and military establishments.

The comments from the DoD Comptroller were responsive, and the proposed actions are consistent with the executive agent responsibilities. We have revised the discussion on the DoD Instruction 2140.4 to clarify the applicability of the instruction. We request that the DoD Comptroller provide final comments to the report with an estimated completion date on the incorporation of DoD Directive 2140.4 into the DoD Financial Management Regulation.

The comments from the Director of Strategy, Plans, and Policy, Department of the Army, were not totally responsive. We disagree with the position on recoupment of the unbilled tuition. The academies do not have the authority to waive tuition for foreign students. Further, embarrassment to the U.S. Government is not a legitimate reason for not recouping the tuition. We consider Recommendation 3. valid and request that the Department of the Army reconsider its position. We revised Recommendation 3. to recommend collection of all unbilled and underbilled tuition costs.

We request the Assistant Secretary of the Navy (Manpower and Reserve Affairs) provide final comments to the report with estimated completion dates on the revised procedures and recoupment of the unbilled tuition. We request that the Director of Military Personnel Policy provide final comments to the report with an estimated completion date on the recoupment of unbilled and previously billed tuition.

Response Requirements for Each Recommendation

		Response Should Cover:			
Number	Respondent	Concur/ Nonconcur	Proposed Action	Completion Date	Related Issues[1]
2.	DoD Comptroller			X	
3.	DAMO-SS[2]	X	X	X	M
	ASN(MRA)[3]			X	
	AF/DPX[4]			X	M
4.	AF/DPX			X	M

[1]M = Monetary Benefit.
[2]Department of the Army, Director of Strategy, Plans, and Policy.
[3]Assistant Secretary of the Navy (Manpower and Reserve Affairs).
[4]Air Force, Director of Military Personnel Policy.

Part III - Additional Information

Appendix A: Summary of Potential Benefits Resulting from Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1.a.(1)	Internal Controls. Designate a single office for billing and collecting of tuition costs for the foreign student program.	Nonmonetary
1.a.(2)	Internal Controls. Establish tuition rates in a timely manner.	Nonmonetary
1.b.	Internal Controls. Ensure that the Military Departments obtain acknowledgments of official sponsorship and responsibility to reimburse the tuition costs for foreign students.	Nonmonetary
2.	Compliance with Laws and Regulations. Ensure compliance with DoD Instruction 2140.4.	Nonmonetary
3.	Economy and efficiency. Collect tuition due from foreign governments.	Funds Put to Better Use. Approximately $645,000.
4.	Economy and efficiency. Follow up on billed tuition due from foreign governments.	Funds Put to Better Use. Approximately $110,000.

Appendix B. Organizations Visited or Contacted

Office of the Secretary of Defense

Assistant Secretary of Defense (Regional Security Affairs)
Office of the Comptroller of the Department of Defense

Department of the Army

Assistant Secretary of the Army (Financial Management), Washington, DC
United States Military Academy, West Point, NY
Deputy Chief of Staff for Operations and Plans, Washington, DC
Strategic Plans & Policy Directorate, Washington, DC

Department of the Navy

Assistant Secretary of the Navy (Financial Management), Washington, DC
United States Naval Academy, Annapolis, MD
Director of Naval Training, Washington, DC

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller), Washington, DC
United States Air Force Academy, Colorado Springs, CO
Air Force Academy Activities Group, Washington, DC

Defense Agencies

Defense Intelligence Agency, Washington, DC
Defense Security Assistance Agency, Washington, DC

Non-Defense Federal Organizations

U.S. General Accounting Office, Washington, DC

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Policy
Assistant Secretary of Defense (Regional Security Affairs)
Comptroller of the Department of Defense

Department of the Army

Assistant Secretary of the Army (Financial Management)
Deputy Chief of Staff for Operations and Plans, Strategic Plans & Policy Directorate
Superintendent, United States Military Academy
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management)
Director of Naval Training
Superintendent, United States Naval Academy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Deputy Chief of Staff, Personnel
Superintendent, United States Air Force Academy
Chief, Air Force Academy Activities Group

Defense Agencies

Director, Defense Intelligence Agency
Director, Defense Finance and Accounting Service
Director, Defense Security Assistance Agency

Non-Defense Federal Organizations

U.S. General Accounting Office, National Security and International Affairs Directorate, Technical Information Center

Chairman and Ranking Minority Member of Each of the Following Congressional Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Foreign Relations
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Foreign Affairs
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations

Part IV - Management Comments

Office of the Assistant Secretary of Defense (Regional Security Affairs) Comments

REGIONAL SECURITY AFFAIRS

THE OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

2400 DEFENSE PENTAGON
WASHINGTON, DC 20301-2400

I-93/43282

15 September 1993

MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE
OFFICE OF THE INSPECTOR GENERAL, DOD

SUBJECT: Draft Audit Report on the Service Academies Foreign Student Program Tuition Billing (Project No. 3FA-5013)

We have reviewed your draft audit report on this subject, dated 30 August 1993, and concur in its findings and recommendations, except as noted herein. The one aspect of your recommendations with which we do not agree is the requirement that the Under Secretary of Defense for Policy issue guidance to implement Public Law 98-94. The Under Secretary of Defense for Policy does not supervise the DoD Comptroller, and thus cannot designate the Office of the Comptroller as executive agent for financial management of this program. Such direction must come from the Secretary or Deputy Secretary of Defense.

A Secretarial-level directive obviously could be secured, but that seems needlessly complex. Because of the small size of this program, we question the benefit that would be derived from this effort. On the other hand, we are willing to undertake coordination with the DoD Comptroller and the Military Departments towards the development and promulgation of your suggested guidance. We would expect to complete this coordination by January 1994.

The investigation was conducted very professionally, and appears to cover the subject matter fully. Your recommendations, when implemented, should resolve the reimbursement collection problems detailed in the report.

/s/ Philip Barringer
Philip E. Barringer
Director
Foreign Military Rights Affairs

Office of the Comptroller of the Department of Defense Comments

OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

(Management Systems) DEC

MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE, OFFICE OF THE DoD INSPECTOR GENERAL

SUBJECT: Draft Audit Report on the Service Academies Foreign Student Program-Tuition Billing (Project No. 3FA-5013)

This memorandum responds to your request for comments on the draft report of the subject audit.

This office partially concurs with recommendation 1 and partially concurs with recommendation 2. Attached are more detailed comments on each of those recommendations.

With respect to the body of the report, this office suggests that paragraph 3 on page 7 be revised. This paragraph states that DoD Instruction 2140.4 does not apply to the foreign student program. However, there is no provision in the cited Instruction that would explicitly exclude academy foreign student program debts from being subject to the provisions of the Instruction. In fact, paragraph F. provides both for "Foreign Military Sales (FMS) Indebtedness" and "All Other Foreign Indebtedness." Regardless, it is the view of this office that programs need not be named specifically in an Instruction in order for the Instruction to be applied. It simply is not feasible to list, in each Instruction, all specific DoD programs to which the provisions of the Instruction apply. Rather, Instructions are written to include a broad range of programs. The Instruction in question is intended to cover such applicable programs as the Congress may authorize.

This office appreciates the opportunity to comment on this draft report. My staff is available to discuss these comments upon your request.

The point of contact on this matter is Mr. Henry Bezold. He can be reached at (703) 614-2523.

Alvin Tucker
Deputy Comptroller
(Management Systems)

Attachment

DODIG DRAFT AUDIT REPORT ON THE SERVICE ACADEMIES
FOREIGN STUDENT PROGRAM - TUITION BILLING
(PROJECT NO. 3FA-5013), DATED AUGUST 30, 1993

Office of the DoD Comptroller
Responses to Recommendations

Recommendation 1. We recommend that the Office of the Under Secretary of Defense for Policy issue guidance to implement Section 1004 of Public Law 98-94 to establish policy, responsibilities, and procedures for the Service academies foreign student program. Such guidance should:

a. Designate the Office of the Comptroller of the Department of Defense as an executive agent for financial management of the foreign student program with responsibility to:

i. Designate a single office responsible for billing and collecting tuition costs of foreign students for all three academies.

ii. Establish and promulgate tuition rates each year in a timely manner so that the single office can bill and collect tuition for foreign students before the start of the student's first academic year and subsequent years.

DoD Comptroller Response. Partially concur. This office does not concur with the recommendation that the DoD Comptroller be designated as the executive agent for financial management of the academy foreign student program. Furthermore, the Under Secretary for Policy does not have the authority to task the DoD Comptroller to be executive agent. Further, the Military Departments are responsible for managing their financial operations. The fact that collections from billings for foreign student are deposited into the United States Treasury General Receipts account does not mean that the program requires a separate executive agent for financial management.

This office does concur with the recommendation to designate a single billing and collecting office. We will request that the Defense Finance and Accounting Service develop a plan to support the billing and collection of foreign student tuition for three academies from a single office. However, it should remain the responsibility of each Military Department, and academy, to followup as needed, to ensure payment is received prior to admittance of each foreign student whose tuition has not been waived.

This office does concur with the recommendation to promulgate annual tuition rates early in the fiscal year. Effective with rates for FY 1995, academy foreign student rates will be issued prior to the start of the upcoming academic year, rather than at the start of the fiscal year as currently is the

1 Attachment

case. This change should allow sufficient time to bill and collect tuition amounts prior to the arrival of the students.

Recommendation 1.b. Require the Military Departments to obtain acknowledgement of a foreign country's official sponsorship and the obligation to reimburse the United States government for tuition costs for foreign students, if those costs are not waived.

DoD Comptroller Response. *Concur.*

Recommendation 2. We recommend that the Office of the Comptroller of the Department of Defense revise DoD Instruction 2140.4, "Collecting and Reporting of Foreign Indebtedness Within the Department of Defense," dated October 15, 1986, to include explicit guidance on collecting delinquent debts under the foreign student program at the academies.

DoD Comptroller Response. Partially Concur. The requirements for collecting delinquent debts under the foreign student program will be incorporated in Volume 6, Chapter 12 of the DoD Financial Management Regulation. Section 1202, "Collection and Followup Procedures," will contain the followup actions for all foreign debts other than those arising under security assistance programs. DoD Instruction 2140.4 will be canceled when Volume 6 of the DoD Financial Management Regulation is issued.

2 Attachment

Department of the Army Comments

DEPARTMENT OF THE ARMY
OFFICE OF THE DEPUTY CHIEF OF STAFF FOR OPERATIONS AND PLANS
WASHINGTON, DC 20310-0400

REPLY TO
ATTENTION OF

DAMO-SSM

26 OCT 1993

MEMORANDUM THRU ~~DEPUTY CHIEF OF STAFF FOR OPERATIONS AND PLANS~~ ~~DIRECTOR OF THE ARMY STAFF~~ 28/10/93 ~~ASSISTANT SECRETARY OF THE ARMY (MANPOWER AND RESERVE AFFAIRS)~~ T. Wilson Assistant Deputy (MPP) 3/12/93

FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE, ATTN: ASSISTANT IG FOR AUDIT POLICY AND OVERSIGHT

SUBJECT: Draft Audit Report on the Service Academies Foreign Student Program -- Tuition Billing (Project No. 3FA-5013)

1. Headquarters, Department of the Army has reviewed this report and is in agreement with the findings therein with regard to the United States Military Academy.

2. In general, we have no objection to the substance of the recommendations in the report. However, it should be noted under Recommendation 3 that the Military Academy does not have any unbilled tuition costs The report clearly indicated that West Point had implemented all appropriate procedures in billing and collecting tuition costs from foreign sponsors To be consistent with the findings, the Military Academy's underbilling of $745 should be included, if at all, as a separate recommendation.

3. This office would nonconcur with a recommendation that West Point go back to the sponsor government to recoup the $745 underbilled. The embarrassment caused to our government by asking a foreign sponsor to compensate for our own administrative error would more than outweigh any monetary benefit to be gained from this sum.

4. We strongly endorse the proposal to consolidate the billing and collection of tuition for foreign students at all three academies under a single office in DoD. The individual services will accomplish their role in the selection process by obtaining acknowledgment from the foreign countries of official sponsorship for their students.

5. SAFM (Ms. O'Brien), ODCSPER (CPT Page) and USMA (Mr. Wendel) concur

9306810

6. POC this headquarters is MAJ Fletcher, ext. 74242.

for P. Hinsking COL, GS DEP DIR PLNS
JOHN C. ELLERSON 26.10.93
Major General, GS
Director of Strategy, Plans and Policy

Department of the Navy Comments

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON D C 20350 1000

NOV 16 1993

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

Subj: DRAFT AUDIT REPORT ON THE SERVICE ACADEMIES FOREIGN STUDENT PROGRAM - TUITION BILLING (PROJECT NO. 3FA-5013)

Ref: (a) DoDIG memo of 30 Aug 93

Encl: (1) Status of Actions on Recommendations

In response to reference (a), Department of the Navy comments on the subject draft audit report are provided in enclosure (1).

The Department concurs with the findings of the report on failure of the military academies to bill foreign governments for tuition reimbursement in some prior years, and welcomes the proposed OSD policy changes to standardize development of tuition estimates and billing procedures. The Department also concurs with the recommendation to pursue the possibility of collection for foreign students who have graduated from the U.S. Naval Academy. However, past experience indicates that foreign governments will refuse payment resulting in strained relations with those governments and wasted effort in trying to obtain payment. The U.S. Naval Academy has been billing correctly in recent years, and priority efforts are being concentrated on billing for current students.

Comments from the Superintendent, U.S. Naval Academy have been considered in enclosure (1).

FREDERICK F. Y. PANG
Assistant Secretary of the Navy
(Manpower and Reserve Affairs)

Copy to:
NAVINSGEN
NAVCOMPT (NCB-53)

STATUS OF ACTIONS ON RECOMMENDATIONS
DRAFT AUDIT REPORT ON THE SERVICE ACADEMIES
FOREIGN STUDENT PROGRAM-TUITION BILLING (PROJECT NO. 3FA-5013)

1. Recommendation No. 1. Recommend the Office of the Under Secretary of Defense for Policy issue guidance to implement Section 1004 of Public Law 98-94 to establish policy, responsibilities, and procedures for the Service academies foreign student program. Such guidance should:

a. Designate the Office of the Comptroller of the Department of Defense as an executive agent for financial management of the foreign student program with responsibility to:

i. Designate a single office responsible for billing and collecting tuition costs of foreign students for all three academies.

ii. Establish and promulgate tuition rates each year in a timely manner so that the single office can bill and collect tuition for foreign students before the start of a student's first academic year and subsequent years.

b. Require the Military Departments to obtain acknowledgment of a foreign country's official sponsorship and the obligation to reimburse the United States government for tuition costs for foreign students, if those costs are not waived.

Navy response: Concur. The Department of the Navy will implement the revised regulations upon promulgation by OSD. The requirement for the Military Departments to obtain acknowledgment of a country's official sponsorship and the obligation to reimburse the U.S. government for tuition costs of foreign students, if those costs are not waived, is a necessary practical control to the broader policy aspects of the Foreign Student Program. In addition, the Naval Academy Admissions Department will notify the Naval Academy Comptroller in writing as to which countries from the SECDEF eligible list will actually have students participating in each incoming class, so that the Comptroller will be able to expeditiously coordinate collection of student tuition costs.

2. Recommendation No. 2. Recommend the Office of the Comptroller of the Department of Defense revise DoD Instruction 2140.4, "Collecting and Reporting of Foreign Indebtedness Within the Department of Defense," dated October 15, 1986, to include explicit guidance on collecting delinquent debts under the foreign student program at the academies.

Navy response: Concur. The Department of the Navy will implement the revised procedures upon promulgation by OSD.

3. Recommendation No. 3. Recommend that the United States Military Academy, the United States Naval Academy, and the United States Air Force Academy bill and collect sponsoring countries of foreign students for approximately $645,000 in unbilled tuition costs.

Navy response: Concur. Agree that $245,000 in foreign tuition costs from 1987-1991 have not been collected, and that the possibility of collection should be pursued. However, the Naval Academy recently tried to bill Japan for previous years tuition for a student who was still here. After many phone calls and letters to the Embassy of Japan and the Assistant Secretary of Defense, costs for previous years were waived. Billing for foreign midshipmen who have long since graduated and returned to their respective countries could prove embarrassing to the U.S. government, and costs will probably be waived in the end.

Department of the Air Force Comments

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON DC

10 DEC 1993

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT
OF DEFENSE

FROM: AF/DPX

SUBJECT: Draft Audit Report on the Service Academies Foreign Student Program - Tuition Billing, 30 August 1993, DOD (IG) Report 3FA-5013 - INFORMATION MEMORANDUM

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) to provide Air Force comments on subject report. We are required to respond to recommendations 3 and 4.

Recommendation 3: We recommend that the United States Military Academy, the United States Naval Academy, and the United States Air Force Academy bill and collect sponsoring countries of foreign students for approximately $645,000 in unbilled tuition costs.

Answer: We concur with the recommendation to bill for the Air Force share of these tuition costs.

Recommendation 4: We recommend that the United States Air Force Academy follow up to collect from foreign countries unpaid student tuition billings of about $110,000.

Answer: Concur. The Air Force Academy is taking action to collect on the approximately $110,000 it previously billed. As the embassies in question have been notified on two occasions, the billings have been forwarded to the Defense Finance and Accounting Service for further action.

WILLIAM B. DAVITTE
Major General, USAF
Director, Military Personnel Policy

Audit Team Members

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Alvin L. Madison	Audit Program Director
Belinda J. Finn	Audit Project Manager
Maureen F. Hollingsworth	Senior Auditor
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