
GAO

United States General Accounting Office

Report to the Chairman, Subcommittee
on Defense, Committee on
Appropriations, House of
Representatives

September 1990

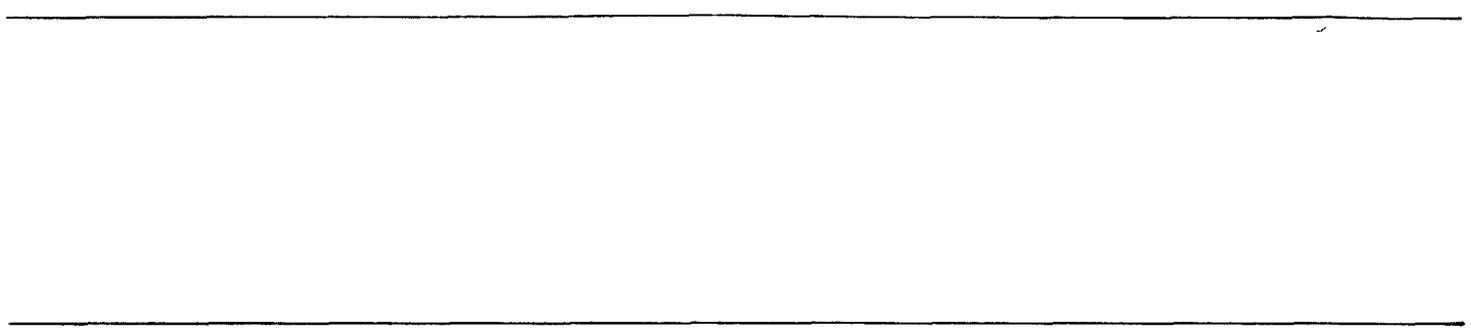
ARMY HOUSING

Overcharges and Inefficient Use of On- Base Lodging Divert Training Funds



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United States
General Accounting Office
Washington, D.C. 20548

**National Security and
International Affairs Division**

B-238071

September 28, 1990

The Honorable John P. Murtha
Chairman, Subcommittee on Defense
Committee on Appropriations
House of Representatives

Dear Mr. Chairman:

This report shows that Army training funds were diverted to other uses because of overcharges and the inefficient use of on-base lodging for temporarily assigned soldiers. These conditions occurred because of the absence of effective controls and adequate management attention.

As you requested, we plan no further distribution of this report until 15 days after its issue date. At that time we will send copies to the Chairmen of the House and Senate Committees on Armed Services and the Senate Committee on Appropriations; the Director, Office of Management and Budget; and the Secretaries of Defense and the Army. Copies will also be made available to other interested parties upon request.

Please contact me at (202) 275-4141 if you or your staff have any questions concerning this report. Other major contributors to this report are listed in appendix V.

Sincerely yours,

A handwritten signature in cursive script that reads 'Richard Davis'.

Richard Davis
Director, Army Issues

Executive Summary

Purpose

The Army spends billions of dollars each year to train its military personnel in the individual and collective tasks essential to success on the battlefield. A part of this cost is incurred for per diem paid to soldiers undergoing training while in travel status. In fiscal year 1989, the Army's costs for off-base per diem alone were about \$328 million. Additional per diem costs were incurred for soldiers who received on-base lodging. Because of concern about the effective use of training funds, the Chairman of the Subcommittee on Defense, House Committee on Appropriations, asked GAO to evaluate whether the Army has established effective controls over per diem costs.

Background

All the military services have facilities to lodge personnel who are in travel status. Some of these facilities have been specifically set aside for unaccompanied personnel who are temporarily assigned for training. These facilities, known as "transient quarters," are designated as mission-essential Morale, Welfare, and Recreation activities and are supported primarily with appropriated funds. Most installations also maintain more elaborately furnished transient quarters for distinguished visitors and high ranking officers. Transient personnel are assessed a service charge for staying at these facilities. The service charge is either paid directly or reimbursed by the home command as part of the per diem paid to the soldier, often using command training funds. When no government quarters are available, transient personnel receive an increased per diem allowance to pay for off-base lodging. To obtain the increased per diem, the travelers must obtain documentation asserting that lodging at government facilities is not available.

Results in Brief

Because of the absence of effective controls and adequate management attention, the Army has overcharged official travelers and their home commands millions of dollars for transient lodging and used the excess charges to subsidize other Morale, Welfare, and Recreation activities. The Army commingled service charges, derived from appropriated funds intended primarily for training, with nonappropriated funds from other Morale, Welfare, and Recreation activities in a single fund. This practice, a violation of congressional guidance and Department of Defense (DOD) regulations, has the effect of diverting Army training funds to other uses. GAO also found that the Army

- had used lodging funds collected from transient soldiers to provide questionable amenities for distinguished visitors' quarters and

- had paid for more expensive off-base lodgings when there were vacancies on base.

Thus, the Army has not made the most effective use of appropriated funds to train its soldiers.

Army Audit Agency reports indicate that overcharges for transient lodging and payments for off-base lodging when transient quarters were available are widespread problems.

Principal Findings

Charges for Lodging Army Transients Were Inflated and Used for Morale, Welfare, and Recreation Activities

Army regulations stipulate that transient soldiers must be charged the minimum amount needed to operate transient lodgings. In addition, DOD regulations stipulate that lodging receipts must fund improvements in transient quarters. However, GAO estimates that since the establishment of a single fund for Morale, Welfare, and Recreation activities in 1985, the Training and Doctrine Command and Forces Command have accumulated over \$70 million from inflated charges. Some Army installations have overcharged soldiers for transient lodgings and, along with the Army Community and Family Support Center, used the proceeds to subsidize Morale, Welfare, and Recreation activities—for example, officers' clubs, golf courses, arts and crafts facilities, and lodging facilities for visitors. When questioned about the inflated charges, Army headquarters and command officials said that they had increased charges to generate money for Morale, Welfare, and Recreation activities in light of cuts in appropriated funds for these activities. The officials said that they regarded these funds as essential to the operation of the Army's Morale, Welfare, and Recreation program.

Charges for Transient Lodging Were Used to Provide Questionable Amenities

Some of the charges for transient quarters were used to provide expensive amenities such as videocassette recorders and customized furniture to distinguished visitors' quarters. One Army installation had totally renovated a four-bedroom house for distinguished visitors, supplying the quarters with customized furnishings, drapes, and carpets at a cost of nearly \$144,000. Two custom throw rugs alone cost \$3,600. Moreover, the installation was planning to spend about \$272,000 for special stationery and landscaping. When GAO questioned these expenses, the

installation adjusted its plans and lowered its cost projections to \$81,600.

Financial Accounts for Transient Lodging Are Not Segregated

A DOD directive stipulates that service charges received for transient lodging should be used to maintain and improve lodging facilities. The directive also implies a requirement to maintain the integrity of transient lodging accounts. However, because the guidance is not explicit, the Army established regulations (210-11, 215-1, and 215-5) that permit the merger of funds generated from transient lodging service charges. That is, transient lodging accounts are allowed to merge with Morale, Welfare, and Recreation accounts derived from nonappropriated funds into a single account. Thus, the financial status of transient lodging operations cannot be readily determined. For example, income from interest is not reported in the income statement for transient lodging, but is credited instead to the total Morale, Welfare, and Recreation account. As a result, the transient lodging account is not credited with monies that should be identified for transient lodging's use. The merger of transient lodging accounts with other Morale, Welfare, and Recreation accounts is inconsistent with congressional committee guidance.

Off-Base Per Diem Was Authorized for Transients When Government Facilities Were Available

In an effort to reduce training costs, DOD requires the services to lodge transient personnel on base whenever possible. Only when base facilities are not available should transients be granted off-base per diem for lodging. However, transient personnel were sometimes granted the higher off-base per diem when lodgings set aside for their use were available.

For example, GAO estimates that during the last quarter of fiscal year 1989, the two Army installations it visited could have avoided about \$500,000 in off-base per diem costs. These costs were incurred because of inadequate controls over room reservation systems, the underuse of distinguished visitors' quarters and other on-base lodgings, and the lodging of personnel changing assignments in quarters set aside for transients. For example, the Army does not recheck room reservations to take advantage of cancellations or unclaimed reservations, both of which occur frequently. During a 1-month period at one Army installation, the lodging office authorized off-base per diem for 146 transient personnel for a total of 1,939 days, when during the same period, 206 reservations were canceled or unclaimed, leaving a total of 5,040 days available to lodge transient travelers.

Recommendations

GAO recommends that the Secretary of the Army take the following actions:

- Direct the major commands and the Army Community and Family Support Center to stop diverting transient lodging funds to Morale, Welfare, and Recreation activities.
- Review the Morale, Welfare, and Recreation accounts of the major Army commands to (1) identify accumulated overpayments for transient lodging, (2) recognize each overpayment as a liability to the appropriation account initially charged or its successor, (3) charge the overpayment to the general fund of the U.S. Treasury as a miscellaneous receipt if the appropriation account cannot be identified, and (4) develop and implement a repayment plan.
- Revise Army Regulations 210-11, 215-1, and 215-5 to stipulate that transient lodging funds must be applied only to transient facilities as required by DOD directives.
- Exclude transient lodging funds from the Army's single fund.
- Identify transient lodging operations as a material weakness in the Secretary of the Army's next Annual Assurance Statement.

Additional recommendations to the Secretary of the Army to improve the effectiveness of transient lodging controls and to more fully use on-base lodgings are discussed in chapters 2 and 3.

GAO recommends that the Secretary of Defense establish controls to monitor the Army's compliance with DOD transient lodging directives.

Agency Comments and GAO Evaluation

DOD generally agreed with GAO's findings and recommendations and said that both it and the Army planned corrective actions, including identifying transient lodging operations as a material weakness in the Secretary of the Army's next Annual Assurance Statement. Also, DOD said that it is reviewing current transient lodging policies and will clarify procedures and the use of service charges levied on personnel who use transient lodging that is financed by appropriated funds.

DOD did not agree with GAO's recommendation that overcharges for transient facilities be returned to either the originating appropriation or to the U.S. Treasury. Instead, it proposes to disburse the funds representing overcharges based on a DOD legal determination of the disposition question. GAO's recommendation is based on prior Comptroller General decisions regarding refunds of overpayments, which held that refunds generally should be returned to the originating appropriation.

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Abbreviations

DOD	Department of Defense
DVQ	distinguished visitors' quarters
FORSCOM	Forces Command
GAO	General Accounting Office
MWR	Morale, Welfare, and Recreation
PCS	permanent change of station
TRADOC	Training and Doctrine Command

Introduction

All the military services have facilities to lodge personnel who are in travel status. Some of these facilities have been specifically set aside for unaccompanied personnel, such as those who are temporarily assigned for training. These facilities, known as “transient quarters,” are designated as mission-essential Morale, Welfare, and Recreation (MWR) activities and are supported primarily with appropriated funds. Most installations also maintain more elaborately furnished transient quarters for distinguished visitors and high ranking officers. Transient personnel are assessed a service charge for lodging at these on-base facilities, but the service charge is either paid directly, or reimbursed by the home command as part of the per diem to the soldier, often using command training funds. When no government quarters are available, transient personnel receive an increased per diem allowance to pay for off-base lodging. To obtain the increased per diem, the travelers must obtain documentation asserting that lodging at government facilities is not available.

Part of Army Training Funds Are Spent on Per Diem

The Army spends billions of dollars each year to train its soldiers in the individual and collective tasks essential to success on the battlefield. A part of this cost is incurred for per diem paid to soldiers undergoing training while in a travel status. On any given day, about 15,000 transient Army personnel are lodged off base while on temporary duty. We estimated that in fiscal year 1989, the Army’s costs for off-base per diem alone were about \$328 million. To minimize these costs, Department of Defense (DOD) regulations prohibit the authorization of off-base per diem when government lodgings are available. Consequently, military bases maintain facilities specifically for lodging transient personnel.

Facilities and Management of Transient Lodging Vary Among the Services

Although all three services maintain lodgings for their transient personnel, they differ in the kinds of facilities offered. The Army and the Air Force maintain separate facilities as transient quarters (known as “visiting officers’ quarters” or “visiting enlisted quarters”). These lodgings are comparable in furnishings, facilities, and services to those of a commercial hotel. (See fig. 1.1.) The Navy, however, does not keep separate quarters specifically for transients; its temporary duty personnel are billeted in the bachelor officers’ or bachelor enlisted quarters, sharing the facilities that house personnel permanently assigned to the installation.

Figure 1.1: Transient Facility Comparable to Standard Commercial Lodgings



The management of transient lodging operations and finances also varies among the services. At Army and Air Force installations, the same on-base lodging office manages both transient quarters and another type of temporary lodging. This second type of temporary lodging is used mainly as interim lodging for military personnel and their dependents making permanent changes of station (PCS). In the Navy, however, temporary lodgings for PCS are managed separately from transient quarters by a nonappropriated activity. Moreover, while the Air Force considers temporary PCS housing a mission-essential activity and supports it with appropriated funds, the Army and the Navy classify such lodging as non-mission essential and support it primarily with nonappropriated funds.

For transient quarters, the Army has divided the management functions from the accounting functions. Personnel operations for transient lodging and for temporary lodging for permanent changes of station are managed by the Army Chief of Engineers. Lodging accounts and finances, however, are managed by the Community and Family Support Center, which also manages an installation's other nonappropriated activities. (See app. II for the organizational structure of these two functions.)

These differences in the services' management of transient quarters are reflected in the following differing policies for transient lodging charges:

- In the Army, the charge for transient lodging can equal 50 percent of the local per diem for off-base lodgings before higher command approval is required. In the Navy, any charge over \$4 a night requires higher command approval.
- The Army sets transient lodging charges on a per-person, per-day basis; the Navy does not charge on weekends when maid services are not rendered.

Transient Lodging Accounts Are Maintained in the MWR Fund

In 1985, DOD requested approval from the Subcommittee on Readiness, House Committee on Armed Services, to establish a single fund for the nonappropriated MWR program. The purpose of the single fund is to achieve economies in managing the finances of numerous activities and to allow the program as a whole to be self-supporting; that is, funds from profit-making activities are available to offset losses from other activities. In its request, DOD did not list transient lodging among the activities it proposed to include in the single fund. Also, in 1985, the Army sought approval to expand the activities included in its single MWR fund. The Subcommittee approved the Army's request with strong reservations but stipulated that "lodging facilities that are part of the billeting mission and properly supported with appropriated funds should not be included in the installation Morale, Welfare, and Recreational Fund."

Even though the Subcommittee Chairman instructed the Army not to include transient lodging in the single fund, it did so nonetheless. The Subcommittee Chairman's concerns were later echoed by the House Appropriations Committee in 1986 when it criticized the Air Force for "laundering" appropriated funds by moving them between appropriated and nonappropriated accounts.¹ Also, the House Committee on Armed Services expressed concern in 1988 about the reimbursement and fund accountability associated with the single MWR fund.²

¹H.R. Rep. No. 793, 99th Cong., 2nd Sess. 43-44 (1986).

²H.R. Rep. No. 563, 100th Cong., 2nd Sess. 197-199 (1988).

Objectives, Scope, and Methodology

Because of concern about the Army's use of training funds, the Chairman of the Subcommittee on Defense, House Committee on Appropriations, asked us to evaluate whether the Army has established effective controls over per diem costs. In performing this evaluation, we sought to determine whether the Army has implemented adequate controls to ensure that the cost of per diem is minimized and that personnel are authorized per diem only when government facilities are not available. We focused on the Army because in fiscal year 1989, Army personnel accounted for about 73 percent of the transient military personnel paid per diem for off-base lodgings. However, we also did limited work in the Navy and the Air Force, primarily to compare and contrast policies and procedures for managing lodging operations.

To compare and contrast lodging procedures among the services, we visited two of the Army's largest commands—the Training and Doctrine Command (TRADOC) and Forces Command (FORSCOM)—and performed a limited review of information available on the Air Force and the Navy. At each Army command, we conducted work at one Army installation. Our review in the Army also built upon existing Army Audit Agency reports. (See app. III.) The Air Force Audit Agency is completing a report on the management of lodging operations that has identified a number of management weaknesses.

To obtain overall program and policy information, we reviewed applicable DOD regulations and previous studies done by us and by other audit agencies. To gain an understanding of transient lodging procedures, we obtained documents and interviewed officials representing numerous activities. (See app. I.) We also gathered information from the Army Audit Agency regarding work it had done on this issue.

We judgmentally selected Army installations within TRADOC and FORSCOM that had large transient populations. At these units, we reviewed the policies and procedures used to house transient personnel, visited facilities used by transient personnel, and reviewed and analyzed usage reports. To calculate the charges required for transient facilities, we reviewed financial reports and planned improvement projects maintained by the lodging offices and by the MWR fund managers.

To determine the extent of overcharging for on-base lodging within the major commands, we analyzed available financial information and requested explanations from responsible officials. We did not test the accuracy of this information. Because the Army does not segregate transient lodging accounts from other MWR accounts, we estimated the

receipts provided to the single MWR fund from lodging transients. We based our estimates on a review of income and expense summaries supplemented by other financial information provided, applied interest earned to the account's beginning balance, and considered depreciation expenses.

Our computation of per diem costs that could have been avoided represents a compilation of all costs resulting from the problems discussed in chapter 3. We based that computation on

- the number of authorizations issued to lodge personnel off base compared to available spaces within transient lodging facilities during that same period and
- the difference between average off-base lodging costs and the fee charged for on-base transient lodging.

We performed our review from July 1989 to March 1990 in accordance with generally accepted government auditing standards.

Charges for On-Base Lodging Were Inflated and Funds Diverted to Pay for Other Activities

Training funds paid to some Army installations for lodging transient personnel have been misused. Although a DOD directive states that service charges for transient lodging are to be applied to transient lodging operations, the Army has not always done so. Some Army installations have overcharged for transient lodging and used the overcharges to subsidize other MWR activities. We estimate that since 1985, TRADOC and FORSCOM have realized about \$70 million from inflated transient lodging charges. Also, some installations have increased charges for transient quarters to provide questionable amenities such as videocassette recorders and customized furniture. The Army has not segregated financial accounts for transient lodging; therefore, the financial status of lodging operations cannot readily be determined. These situations have arisen because DOD and the Army have not instituted adequate controls over operations and financial accounts for transient lodging. Consequently, the Army has not made the most effective use of funds appropriated by the Congress to train Army soldiers.

The Army Has Increased Charges to Transient Personnel to Subsidize Other Activities

Some Army installations have increased the charges for lodging transient personnel and used a portion of the payments received to subsidize other MWR activities and to provide questionable amenities.

A DOD directive states that service charges for transient lodging are to be applied to transient lodging operations. Moreover, transient lodging, as a mission-essential activity, is supposed to provide lodging at the lowest possible price. According to DOD and Army regulations,¹ charges should cover operating costs for maid and custodial services and for amenities not available from appropriated funds.² Charges can also be used to help defray the cost of minor improvements to transient quarters (e.g., the installation of telephones, televisions, and other amenities). Transient lodging should not be generating profits above and beyond these needs.

Charges to Transient Personnel Have Been Inflated

Command and lodging office officials at both the installation and major command levels and officials at the Army Community and Family Support Center confirmed that lodging charges had been set without regard to the actual costs of operating and improving transient quarters. They

¹DOD Housing Management Manual (DOD 4165.63-M, June 1988); *Billeting Operations* (Army Regulation 210-11, July 15, 1983), hereafter referred to as "Army lodging regulation;" Army Regulation 215-1, updated November 1988.

²Most operating expenses (for utilities, maintenance, and so on) and all major construction and repair should be paid with appropriated funds.

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said that the charges had been set to generate money for MWR activities in light of reductions in appropriated funds for these activities.³

For example, one Army installation established its charges at about \$4 and another at \$9 (20 percent and 46 percent, respectively) beyond the actual amounts needed to operate and accomplish their 5-year improvement projects for transient quarters. Officials at both installations cited command prerogative, rather than a required analysis of need, as justification for inflated costs. These overcharges account for substantial amounts of per diem costs. We estimated that, as of September 30, 1989, MWR funds at FORSCOM and TRADOC installations had accumulated over \$70 million since 1985 due to overcharges that were not required for planned lodging improvements.⁴ By the end of fiscal year 1990, this amount may exceed \$100 million.

Our review of financial records confirmed that excess transient funds were being used to support MWR activities such as the noncommissioned officers' clubs, arts and crafts facilities, golf courses, and other sports activities. Moreover, since 1984, TRADOC and FORSCOM have invested about \$23 million of transient lodging funds in the construction of temporary PCS housing—a nonappropriated fund activity.

The Army Audit Agency has reported similar findings.⁵ During audits covering 14 installations, the Army Audit Agency noted that lodging charges had been increased to support nonappropriated activities, with no apparent plan to reinvest the money in transient lodging operations.

**Charges for Transient
Quarters Have Been Used
for Questionable
Objectives**

The charges for transient quarters at some installations have been used to subsidize officers' clubs. According to Army records and headquarters and major command officials, six Army installations have "moved" \$1 to \$5 from each daily transient lodging charge to their officers' club accounts. These transfers were justified as necessary to cover the costs of the travelers' breakfasts at the clubs, but lodging officials told us that the transfers had been made whether or not the meals were eaten. At another installation, the accounting office moved \$5 of each daily

³Operations for some MWR activities such as libraries and gymnasiums receive appropriated funds.

⁴This figure represents profits above and beyond what MWR has invested in improving transient quarters.

⁵Summary Report of Audits of the Installation MWR Fund (AR 87-800, June 30, 1987) and Planning and Budgeting for the Installation MWR Fund (SW 90-800; Dec. 4, 1989).

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lodging charge to the officers' club account without offering any meal or service to travelers in return.

Charges to transient personnel were also used to subsidize foreign students' staying in transient quarters. Within TRADOC, foreign students are charged \$8 a day, whereas U.S. transient personnel pay the transient service charge, which ranges from \$10 to \$36 a day. Similarly, at least one FORSCOM installation charges PCS personnel staying in transient quarters a lower rate than it charges transient personnel on temporary duty. At this installation, PCS personnel were charged \$6 less than temporary duty transients to stay in transient quarters. According to lodging office officials, commanders believed that because PCS personnel were not on per diem, they could not afford to pay the higher rate.

Costly accommodations for distinguished visitors also raise the charges for other transient quarters. The Army attempts to provide its transient personnel with facilities comparable to standard commercial lodgings. (See fig. 1.1.) At the installations we visited, however, we found that this standard might have been exceeded for distinguished visitors' quarters (DVQ), which were furnished with such nonstandard amenities as customized furniture and videocassette recorders. (See figs. 2.1, 2.2, and 2.3.) Yet, the daily charge for DVQs is usually the same as for standard transient quarters.

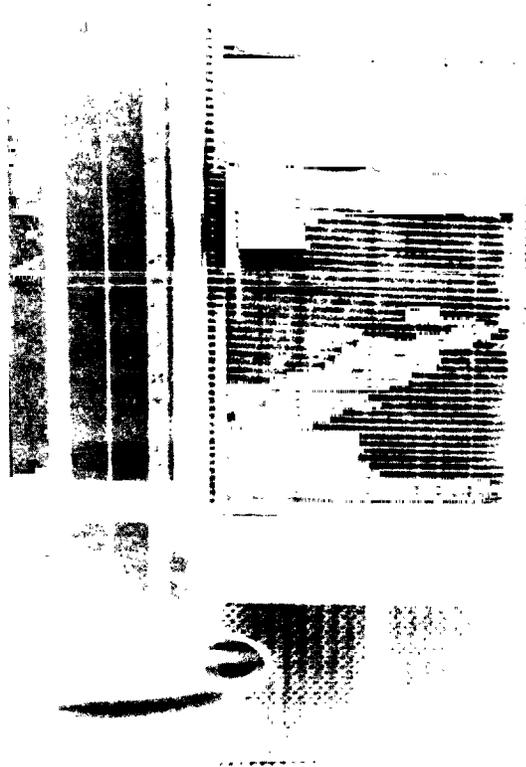
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Figure 2.1: Hallways of a Four-Bedroom
DVQ



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Figure 2.1: Continued



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Other Activities

Figure 2.2: Living Room of a DVQ



Figure 2.3: Living Room and Kitchen of a DVQ



Since the Army considers DVQs a part of transient lodging operations, the cost of these DVQs is absorbed by transient lodging. In effect, soldiers

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Other Activities

who stay in standard rooms at transient quarters subsidize the more costly, less profitable DVQs.

We found that one Army installation had created a particularly expensive DVQ, totally renovating a four-bedroom house and supplying it with customized furnishings, drapes, and carpets at a cost of nearly \$144,000. Two custom throw rugs alone cost \$3,600. Moreover, the installation was planning to spend about \$272,000 for special stationery and landscaping for DVQ. When we questioned these expenses, the installation adjusted its plans and lowered its cost projections to \$81,600.

At the same installation, a large office space in transient quarters had been converted into an exercise room with equipment, while a fully equipped gym was located across the street. According to installation officials, the exercise room was provided to meet commercial hotel standards and to ensure that guests were not inconvenienced. Another installation was planning to build a \$500,000 dome over a small pool next to a transient facility, the cost to be borne by the transient lodging account.

The Army Has Not Segregated Financial Accounts for Transient Lodging

The DOD Housing Management Manual, which stipulates that funds received from lodging transients shall be used to maintain and improve lodging facilities, implies a requirement to maintain the integrity of the related financial account.⁶ However, in the absence of explicit DOD guidance on accounting for lodging funds, the Army, unlike the Navy or the Air Force, has established a single MWR fund that merges transient lodging accounts with other MWR accounts. Moreover, the Army system, contrary to congressional committee guidance, allows transient lodging funds to be used for other MWR activities. Army policy requires that 90 percent of the net income resulting from lodging operations be reinvested within a 5-year period to meet the capital expenditure needs of either transient lodging or temporary PCS housing. However, Army policy also stipulates that within the 5-year period, transient lodging cash balances may be used for the short-term benefit of other MWR programs.

As permitted under Army Regulations 210-11, 215-1, and 215-5, transient lodging accounts are first combined with the largely nonappropriated temporary PCS housing accounts, and this combined lodging account is then commingled with the accounts of all MWR activities. The

⁶While the manual does not state that funds shall be used "only" or "solely" for transient lodging facilities, the legislative history discussed in chapter 1 clearly requires such an interpretation.

Army's practice thereby fails to provide controls that preserve the integrity of the transient lodging accounts, and the financial status of lodging operations cannot be readily determined. For example, interest income from transient lodging is not reported in the lodging income statement; it is credited instead to the total MWR account. In addition, depreciation expenses are reported in the lodging accounts as reductions to income, but no corresponding lodging reserve account is recognized. The effect of these actions is that the lodging account is not credited with monies that, by DOD directive, should be identified for transient lodging use. According to officials responsible for the directive, DOD expects the Army to ensure that its guidance is followed. However, DOD has not followed up to check Army compliance.

DOD and the Army Have Not Effectively Monitored Operations and Costs for Transient Lodging

Under DOD and Army internal control programs, management is responsible for establishing a comprehensive system of controls to ensure that the organization's objectives are met and its procedures are efficiently operating. These controls consist, in general terms, of (1) sufficiently specific guidelines (regulations, directives, instructions, and so on) to achieve objectives; (2) clear, comprehensive procedures that properly implement those guidelines under an integrated management program; and (3) a process of program evaluation and monitoring that regularly reviews operations to ensure the proper observance of procedures and guidance.

In reviewing DOD's and the Army's controls over transient lodging accounting and operations, we found that neither DOD nor the Army had effectively evaluated or monitored transient lodging operations to ensure that lodging costs were kept to the minimum needed for authorized operation and minor improvements. DOD and the Army have delegated the task of policy enforcement to the major command level. The major commands responsible for transient lodging, however, have also declined to be policy enforcers. As a result, the Army has not properly implemented DOD directives or its own regulations. For example, at the time of our visits, neither FORSCOM nor TRADOC lodging organizations had reviewed the justification for transient lodging charges. In fact, neither FORSCOM nor TRADOC had an up-to-date list of installation charges at the beginning of our review. During our review, Army headquarters officials responsible for transient lodging expressed concern about the trend of increasing transient lodging charges, especially in the European command, which charges as much as \$65 a day for on-base lodging. However, they believed that they lacked the authority to question these

charges. By default, this internal control check was passed on to the installation level.

Conclusions

DOD's and the Army's controls have not been effective in ensuring an efficient and effective transient lodging program. The conflict between DOD regulations and Army practices concerning the use of transient lodging funds has led to millions of dollars in overcharges and to the misapplication of transient lodging funds. Neither DOD nor the Army has established a system of guidelines, program evaluation, and monitoring to ensure that the Army makes proper charges for transient lodging and does not divert transient lodging proceeds to support MWR activities. Further, in the absence of effective guidance and monitoring by the Army, some installations have provided DVQs with questionable and expensive amenities. As a result of this lack of effective controls over per diem costs, the Army has not made the most effective use of funds appropriated by the Congress to train its soldiers.

Recommendations

We recommend that the Secretary of the Army take the following actions:

- Direct the major commands and the Army Community and Family Support Center to stop diverting transient lodging funds to MWR activities.
- Review the MWR accounts of the major Army commands to (1) identify accumulated overpayments for transient lodging, (2) recognize each overpayment as a liability to the appropriation account initially charged or its successor, (3) charge the overpayment to the general fund of the U.S. Treasury as a miscellaneous receipt if the appropriation account cannot be identified, and (4) develop and implement a repayment plan.
- Revise Army Regulations 210-11, 215-1, and 215-5 to stipulate that transient lodging funds must be applied only to transient facilities, as required by DOD directives.
- Exclude transient lodging funds from the Army's single fund.
- Establish controls to monitor Army installations' compliance with DOD and Army regulations that stipulate that lodging charges should not exceed the minimum amount needed to meet authorized costs and planned improvements.
- Provide more specific guidance to commanders on the types and quality of furnishings appropriate for transient quarters.

We also recommend that the Secretary of Defense establish controls to monitor the Army's compliance with DOD's transient lodging directives.

Agency Comments and Our Evaluation

DOD generally agreed with our findings and recommendations and stated that the Army will

- implement a policy directing the separation of temporary lodging funds from the single fund when DOD announces its guidance in fiscal year 1991,
- revise its transient lodging regulations to comply with the guidance to be issued by DOD in fiscal year 1991,
- develop and implement a reporting system to monitor installations' compliance with regulations governing charges for transient lodging, and
- issue guidance to commanders on the types and quality of furnishings appropriate for transient lodging.

DOD also said that it would develop a program evaluation and monitoring system to ensure the military services' compliance with its transient lodging regulations.

In addition, DOD said that the Army will review all its transient lodgings to determine the full extent of overcharges to their occupants. The Army expects to complete the review by July 31, 1991. DOD noted that the instances of overcharges had occurred during a period of major policy transition, when it adopted practices to operate nonappropriated fund programs and facilities in a business-like manner. DOD also pointed out that, over the years, the military services have attempted to meet the government's responsibility to provide required transient lodging in the absence of military construction funding.

DOD did not agree with our recommendation that overcharges be returned to either the originating appropriation or to the U.S. Treasury. Although DOD agreed with the intent of our recommendation, it proposed, instead, that it disburse the funds representing overcharges based on DOD's legal determination of the disposition question.

We continue to believe that our recommendation is sound since it is based on prior Comptroller General decisions regarding the handling of overpayments. For example, in Defense Logistics Agency-Disposition of Funds Paid in Settlement of Contract Action, 67 Comp. Gen. 129 (1987), the Comptroller General decided that generally all collections from sources outside the government for the use of the United States shall be deposited to the general fund of the Treasury. An exception involves collections that are considered to be refunds. A "refund" is an adjustment for previous amounts disbursed or a recovery of an erroneous disbursement from appropriation accounts that are directly related to, and

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reductions of, previously recorded payments from the accounts. Money is returned from an outside source (the nonappropriated single fund) for the use of the United States when the excess was paid in error (when it constituted an overcharge) and when an adjustment for a previously disbursed amount is being made. Clearly, the appropriated fund, which either reimbursed the soldier or directly paid part of the service charge, is the entity directly affected by the overcharge, and therefore, it should be credited with the adjustment. When funds cannot be identified as a refund of monies paid from particular appropriations, the general rule applies, and refunds must be deposited to the general fund of the Treasury as miscellaneous receipts.

With respect to the disposition of funds representing overcharges, Army officials told us that, due to congressional reluctance to fund transient housing used for PCS personnel and their families, the Army would prefer to use the overcharges to renovate transient facilities and, as it has done in the past, to construct temporary PCS facilities, since funds for both types of lodging are in the single fund. We do not agree that funds generated through overcharges in transient lodging should be used to construct or renovate temporary PCS housing. DOD regulations do not allow for this transfer of funds, and more importantly, the Army's current practice bypasses legislative oversight by using appropriated monies to fund a requirement that the Congress has been reluctant to support. Congressional guidance did not favor including mission-essential transient lodging in the single fund. Moreover, in January 1986, in a report on nonappropriated fund construction, the MWR Panel of the Subcommittee on Readiness, House Committee on Armed Services, directed that temporary PCS housing be operated on a self-sufficient basis.

A proposed DOD directive would include temporary PCS lodging as a mission-essential activity. If this directive is adopted, funds generated by transient lodging could become available to fund temporary PCS housing. In essence, DOD would accomplish through a change in regulations, a justification for using appropriated funds for temporary PCS facilities, thereby circumventing congressional intent.

DOD believes that the Army's inclusion of transient lodging funds in an installation's single fund was not contrary to congressional guidance, citing two congressional actions. In DOD's view, the Army reasonably interpreted the Readiness Subcommittee MWR Panel's September 9, 1985, guidance as authority to designate all rooms used for less than 30 days

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as short-term appropriated fund transient facilities and to include this activity in the single fund.

In our opinion, the panel's guidance clearly indicates that the only short-term transient lodging facilities permitted to be included in the single fund were recreational facilities. The panel Chairman wrote that

...you advised me that if the single fund NAFI [Nonappropriated Fund Instrumentality] is approved, the Army intends to include short-term transient lodging and accommodations under this approach. It is my understanding this would apply to recreation facilities such as guest houses, the Armed Forces Recreation Centers, cottages and cabins. I approve including such short-term transient lodging facilities in the single-fund NAFI. Lodging facilities that are part of the billeting mission and properly supported with appropriated funds should not be included in the Installation Morale, Welfare, and Recreation Fund. (Emphasis added.)

We believe that the Chairman's guidance clearly excludes transient lodging supported by appropriated funds.

DOD also cited the congressional response to an August 10, 1987, letter from the Office of the Assistant Secretary of Defense for Force Management and Personnel. In this letter, DOD proposed a recategorization of installations' MWR programs, including temporary lodging facilities (in support of official travel). The letter also encouraged the services to organize according to the single-fund concept, citing the Army's successful implementation of the concept. According to DOD, congressional approval of the recategorization was tantamount to approval of the Army's inclusion of transient lodging in the single fund.

Our review of DOD's letter shows that while it discusses a reclassification of MWR activities and certain management improvements in their operation, comments regarding the single fund are very general and do not specifically refer to transient lodging facilities. Moreover, these comments do not suggest that the single fund would include all MWR activities without exception. For example, the letter states that "most" of each installation's nonappropriated fund assets will be merged. The discussion on recategorization of MWR activities (for example, category VIII to category A and so forth) says nothing regarding the application of single-fund accounting. Moreover, the Air Force and the Navy have reclassified transient lodging but have not included it in their "single funds." Under such circumstances, a nullification of the Chairman's guidance that excludes appropriated fund transient lodging from the single fund cannot be fairly implied.

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Given the Army's reluctance to ensure the integrity of transient lodging funds, we have added a recommendation to this report that, if adopted, will result in the exclusion of transient lodging from the Army's single fund.

The Army Paid for More Costly Off-Base Lodging When On-Base Lodging Was Available

Although DOD regulations prohibit the lodging of transient personnel in commercial accommodations off base when government facilities are available, the Army has done just that because of inadequate controls over room reservation systems, inefficient assignment priorities for DVQs, and the lodging of personnel changing assignments in quarters set aside for transients. Consequently, training funds were spent unnecessarily on more expensive off-base lodgings.

Off-Base Per Diem Was Granted When Transient Quarters Were Available

In an effort to reduce training costs, DOD regulations require the services to lodge transient personnel on base to the maximum extent possible.¹ Only when installation accommodations are not available should transients be granted the more expensive off-base per diem (based on local commercial costs) for lodging. To get this increased per diem, transients must obtain documentation that lodging at government facilities is not available. However, the Army was granting transient personnel the off-base per diem when lodgings set aside for their use were available. For example, we estimated that, during the last quarter of fiscal year 1989, the two Army installations we visited could have avoided more than \$500,000 in off-base per diem costs. The Army Audit Agency has reported similar findings at a number of Army installations.²

Faulty Reservation System Fosters Inefficient Use of Transient Quarters

The Army's reservation system lacked the controls necessary to ensure the efficient management of transient quarters. In the Army, the assignment of transient quarters for most ranks is managed by lodging offices. The Army's standard reservation procedures enable transient personnel to call the lodging office at their temporary duty sites at least 15 days before their actual travel to reserve rooms on base. If the reservation system shows no vacancy in transient quarters for the dates requested, the traveler is guaranteed authorization for off-base lodging. After transient personnel arrive, they go to the lodging office to pick up the forms (statements of nonavailability) documenting the lack of quarters.

The Army's reservation system does not contain a recheck procedure to take advantage of cancellations or unclaimed reservations, which occur frequently. Transients who have been guaranteed off-base per diem are not required to check with the lodging office again to see whether rooms

¹The Joint Federal Travel Regulations: Uniformed Service Members, Para. U4400 (Change No. 15, Mar. 1, 1988).

²Advisory Report on Transient Lodging (SW 89-A3, Jan. 11, 1989) and Troop Housing (SO 89-204, Jan. 23, 1989).

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Was Available

have become available since their first inquiry, which might have been months in advance. As a result, temporary duty travelers were lodged off base when transient quarters were available. For example, at one Army installation during a 1-month period, the lodging office authorized 146 transient personnel off-base per diem for a total of 1,939 days, when during the same period 206 reservations were canceled or unclaimed, leaving a total of 5,040 days available to lodge transient travelers.

The Army's Inefficient Use
of DVQs Has Increased Per
Diem Costs

At Army installations, the assignment of DVQs is usually controlled by the protocol office, which limits occupancy to the ranks of colonel and above. At the installations we visited, DVQs had vacancies when transient personnel of lower rank were granted off-base per diem for lack of government rooms. The average usage rate of DVQs for TRADOC and FORSCOM were much lower than that for other transient temporary duty quarters. For the installations visited, we estimated that the DVQ usage rates in fiscal year 1989 were less than 55 percent.

Some lodging office officials told us that they believe that if lodging offices were responsible for the assignment of DVQs, the DVQ usage rate could be substantially increased.

Use of Transient Quarters
by Army PCS Personnel
Has Denied Rooms to
Temporary Duty Travelers

PCS personnel receive an allowance to pay for quarters off base or for the lower priced temporary PCS quarters on base. DOD's Housing Management Manual and the Army's lodging regulation also allow them to use transient lodging facilities designated for temporary duty transients if space is available. However, some installations have allowed PCS personnel to stay in transient lodging quarters, thereby causing the authorization of off-base lodging for temporary duty travelers. During 3 months at one installation in 1989, PCS personnel and their families occupied approximately 34 rooms of its transient quarters per month. This occupancy equates to approximately 2,040 spaces that could have been used by transient personnel. According to our analysis of this period, we estimated that it cost an additional \$30,600 to send travelers off base while PCS personnel occupied these transient quarters.

Inefficient Management of Army Barracks Can Lead to Unnecessary Off-Base Per Diem

The Army's lodging regulation authorizes installations to lodge transients in barracks set aside for unaccompanied personnel. Army commanders who control these barracks may, at their discretion, set aside spaces for lodging transients.

Though DOD regulations require the maximum use of government facilities before granting off-base per diem, the barracks at one TRADOC installation we visited were not fully used. These barracks had vacancies while transient personnel able to be housed in them were lodged off base. This condition was the result of the (1) lodging officers' failure to monitor barracks vacancies and use the available spaces before issuing off-base authorizations and (2) commanders' inefficient assignment procedures.

DOD's Joint Federal Travel Regulations and the Army's lodging regulation require that facilities for transient personnel be used to the maximum extent possible. They also require that authorizations for off-base per diem be granted only if adequate facilities are not available on base. The Army's lodging regulation also requires the lodging office to monitor the use of unaccompanied personnel housing. However, the Army has not adequately monitored off-base authorization for unaccompanied personnel housing. Monitoring could result in the discovery of unused facilities as we found at one installation that had just instituted a validation review. As a result of its first check of occupancy figures, the lodging office found that Army commanders had not properly computed the availability of spaces within their barracks. On the basis of that review and the management initiative of one battalion, some barracks were realigned, and approximately 90 more spaces were identified that could be made available to transient personnel. The battalion also found that it could provide quarters to 20 permanent personnel lodged off base. The Army similarly lacks effective control over the commanders' requests for off-base per diem. According to lodging officials, they have the responsibility for granting off-base housing authorizations, but lack the authority to question a commander's management of unaccompanied personnel housing barracks. Therefore, they rely on commanders' requests in authorizing off-base per diem.

Lodging officials, however, told us of instances in which commanders had requested off-base authorization to preserve "unit integrity," that is, in cases when an entire unit of transient personnel could not be housed within transient barracks. Lodging officials granted such requests to maintain unit integrity, even though the requests were not properly justified. Command officials explained that training missions

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Was Available

depend upon transient classes being together; however, this requirement was not on the travelers' orders as required, and when personnel were authorized off-base lodging, they were housed in different motels in the community—a practice that seems to dispute the argument that unit integrity should be maintained. The Army Audit Agency has reported similar problems, and for a 3-month period at seven installations, it estimated that \$760,000 had been spent for off-base lodging when transient quarters had reported vacancies.³

In addition, some units had diverted barracks spaces to administrative uses such as storage, study, and supply without approval of the major command as required. For example, at one TRADOC installation, eight spaces in a 48-person barracks had been diverted and used as study halls or storage areas without proper approval. We also found that FORSCOM had not approved any of the reported 9,800 unaccompanied personnel housing diversions, although it is required to do so. These inaccuracies and unauthorized diversions could have resulted in transient personnel being denied on-base lodging and receiving off-base per diem. The Army Audit Agency has reported similar problems at a number of locations.⁴

Army Internal Control System Is Incomplete

The Army's internal control system requires all organizations to review internal controls annually to verify that they are in place and working. Army Regulation 11-2, governing the internal control system, requires an annual statement of assurance that adequate internal controls exist to help prevent fraud, waste, mismanagement, and misappropriation in compliance with the 1982 Federal Managers' Financial Integrity Act.⁵ The annual statement of assurance must report material weaknesses discovered in the internal controls during the current period, with plans for corrective action and a status report on previously reported unresolved material weaknesses. The regulation also requires that, if audit organizations have reported deficiencies in a program or if the program has been subjected to congressional hearings, the organization responsible for the program should consider it as potentially having material weaknesses in internal controls.

³Troop Housing (SO 89-204, Jan. 23, 1989).

⁴Troop Housing (SO 89-204, Jan. 23, 1989).

⁵The act requires heads of agencies to make annual examinations of their internal controls and issue annual reports on their systems and plans to correct identified weaknesses.

operations as a material weakness would help to ensure top management's attention.

Recommendations

We recommend that the Secretary of the Army establish controls to ensure that installations fully use on-base facilities before authorizing off-base per diem. At a minimum, these controls should include

- making authorization of off-base per diem contingent upon a vacancy recheck at some specified time before arrival,
- revising room assignment procedures to better use DVQS,
- ensuring that personnel moving to new stations do not displace transient personnel in transient lodging,
- instituting regular reviews at all installations of the accuracy of barracks occupancy rates to ensure the identification of vacancies for transient personnel, and
- identifying transient lodging operations as a material weakness in the Secretary of the Army's next Annual Assurance Statement.

Agency Comments

DOD agreed with our audit findings and recommendations. It stated that the Army will take a number of actions to help ensure the full use of on-base facilities before off-base per diem is authorized, including the following:

- The Army will review the current housing reservation system with a view towards improving the use of transient lodging facilities. The review, along with reservation system improvements, is expected to be completed by July 31, 1991.
- The Army will enforce existing policy requiring that DVQS be occupied by temporary duty travelers when they are not reserved for distinguished visitors.
- The Army will regularly review barracks occupancy rates at all installations.

DOD also said that the Secretary of the Army's fiscal year 1991 Annual Assurance Statement will identify transient lodging operations as a material weakness.

Commands and Units GAO Visited

Office of the Assistant Secretary of Defense:

- Directorate of Construction and Housing (Production and Logistics), Washington, D.C.

Department of the Army:

- Office of the Chief of Army Reserves, Washington, D.C.
- National Guard Bureau, Washington, D.C.
- Office of the Chief of Engineers, Washington, D.C.
- Army Audit Agency, Washington, D.C., and San Antonio, Texas
- U.S. Army Community and Family Support Center, Washington, D.C.
- Headquarters, U.S. Army Training and Doctrine Command, Fort Monroe, Virginia
- Fort Lee, Virginia
- Headquarters, U.S. Forces Command, Fort McPherson, Georgia
- Fort Hood, Texas

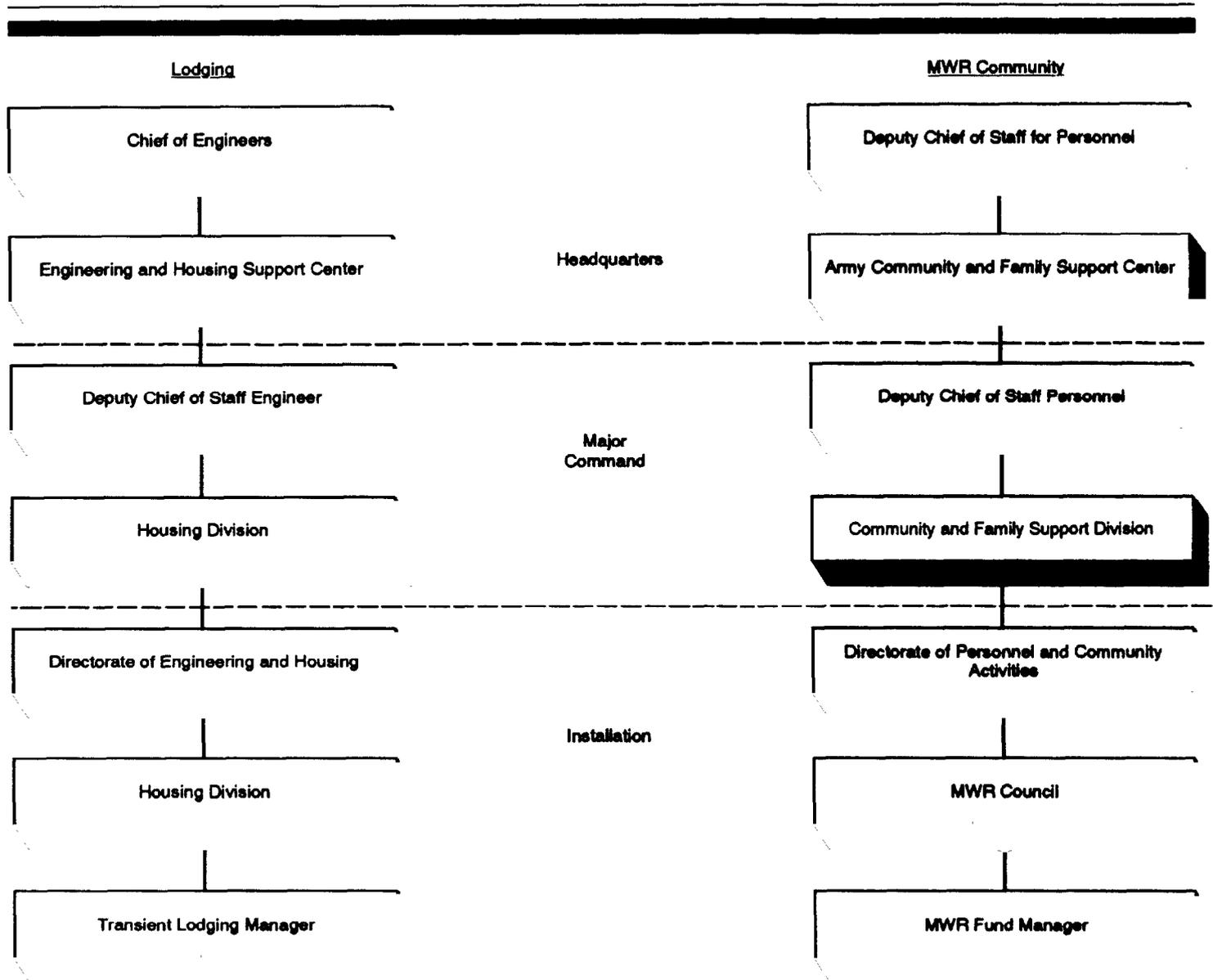
Department of the Navy:

- Commander-in-Chief, U.S. Atlantic Fleet, Norfolk, Virginia
- Naval Military Personnel Command, Washington, D.C.
- U.S. Naval Amphibious Base, Norfolk, Virginia
- Fleet Combat Training Center, Atlantic Dam Neck, Virginia

Department of the Air Force:

- Air Force Directorate of Engineering and Housing, Tyndall Air Force Base, Florida
- Air Force Audit Agency, Washington, D.C.

Organizational Relationship of Army Lodging and the MWR Community



Army Audit Agency Reports on Lodging and MWR Operations

Planning and Budgeting for the Installation Morale, Welfare, and Recreation Fund (SW 90-800, Dec. 4, 1989).

Troop Housing (SO 89-204, Jan. 23, 1989).

Fort Sam Houston, Texas (SW 89-802, Sept. 6, 1989).

XVIII Airborne Corps and Fort Bragg, Fort Bragg, North Carolina (SO 88-202, June 13, 1988).

6th Infantry Division (Light), Fort Richardson, Alaska (SO 88-201, May 31, 1988).

U.S. Army Infantry Center and Fort Benning, Fort Benning, Georgia (SO 88-200, Mar. 17, 1988).

U.S. Army Field Artillery Center and Fort Sill, Fort Sill, Oklahoma (SW 88-202, Dec. 17, 1987).

1st Infantry Division (Mechanized) and Fort Riley, Fort Riley, Kansas (SW 88-201, Dec. 16, 1987).

10th Mountain Division (Light Infantry) and Fort Drum, Fort Drum, New York (SO 87-204, Sept. 30, 1987).

Advisory Report: Transient Lodging (SW 89-A3, Jan. 11, 1989).

Morale, Welfare, and Recreation Activities, U.S. Army South (Panama) (SW 87-802, Sept. 14, 1987).

Summary Report of Audits of the Installation Morale, Welfare, and Recreation Fund (HQ 87-800, June 30, 1987).

Fort Dix, New Jersey (NE 87-800, June 10, 1987).

Fort Sill, Oklahoma (SW 87-801, May 12, 1987).

Fort Jackson, South Carolina (SW 87-801, Jan. 6, 1987).

Fort Benjamin Harrison, Indiana (MW 87-800, Dec. 3, 1986).

Fort Bliss, Texas (SW 86-801, Mar. 17, 1986).

Appendix III
Army Audit Agency Reports on Lodging and
MWR Operations

Family and Troop Housing:

Fort Carson and 4th Infantry Division (Mechanized), Fort Carson, Colorado (SW 86-8, Dec. 23, 1985).

7th Infantry Division and Fort Ord, Fort Ord, California (WE 85-12, Aug. 20, 1985).

U.S. Army Chemical and Military Police Center and Fort McClellan, Fort McClellan, Alabama (SO 85-8, Jan. 30, 1985).

Installation Facility Management, XVIII Airborne Corps and Fort Bragg, Fort Bragg, North Carolina (SO 85-701, Jan. 7, 1985).

Comments From DOD

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



FORCE MANAGEMENT
AND PERSONNEL

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301-4000

AUG 31 1990

Mr. Frank C. Conahan
Assistant Comptroller General
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) Draft Report, "ARMY HOUSING: Overcharges and Inefficient Use of On-Base Lodging Divert Training Funds," dated July 6, 1990 (GAO Code 393355/OSD Case #8285-A). The DoD generally concurs with the GAO findings and recommendations.

The Department has taken action to review, address, and correct the deficiencies identified by the GAO. During the past several years, numerous changes have evolved in the management of nonappropriated funds as a result of DoD initiatives and congressional direction. Therefore, it should be noted that the identified problems occurred during a period of major policy transition in which the Department adopted practices to operate nonappropriated fund programs and facilities in a business-like manner. Over the years, the Services have attempted to meet the Government's responsibility to provide required transient housing in the absence of military construction funding. During the time, the Army formulated and began to put into place the policies designed to achieve that result.

One of the major findings in the report is an outgrowth of the period of significant policy change. Specifically, the report states that \$70 million may have been accumulated over several years from transient billeting fees in excess of actual expenses and used for purposes other than transient housing. The report recommends these funds be returned to the Treasury or the originating appropriation. While the Department agrees with the intent of the proposed action, any transfer should be made on a detailed review. A complete review of all temporary duty transient housing locations will be conducted to determine the extent of excess billeting service charges that were made in violation of DoD policy. To the extent excess charges accrued, those funds so identified will be disbursed based on a DoD legal determination of the appropriate disposition of those funds.

**Appendix IV
Comments From DOD**

As a result of the GAO review, the Department is also reviewing the transient housing policies currently in place. The DoD will implement new policies that clarify procedures and use of service charges that may be levied on personnel using appropriated funds built and operated transient housing.

Detailed DoD comments on the specific findings and recommendations contained in the report are provided in the enclosure. Please be assured that the Department is committed to ensuring proper use of appropriated funds. The Department appreciates the opportunity to comment on the draft report.

Sincerely,


Christopher Jehn

Enclosure:
As Stated

GAO DRAFT REPORT - DATED JULY 5, 1990
GAO CODE 393355, OSD CASE #8285-A

ARMY HOUSING: OVERCHARGES AND INEFFICIENT USE OF ON-BASE
LODGING DIVERT TRAINING FUNDS

DEPARTMENT OF DEFENSE COMMENTS

* * * * *
FINDINGS

FINDING A: Background--Lodging of Personnel in Travel

Status. The GAO observed that all of the Military Services have facilities to lodge personnel in travel status. The GAO explained that some of those facilities have been specifically set aside for unaccompanied personnel who are temporarily assigned for training. The GAO reported that such facilities, known as transient quarters, are supported with appropriated funds. The GAO noted that some installations also maintain more elaborately furnished quarters for distinguished visitors and high ranking officers.

The GAO pointed out that transient personnel pay for lodging at the on-base facilities with a per diem allowance provided by their home commands. The GAO indicated that, when Government quarters are not available, transient personnel receive an increased per diem allowance to pay for off-base lodging. (p. 2, p. 10/GAO Draft Report)

DoD Response: Concur. It should be noted, however, that all Military Services have some transient facilities to lodge personnel who travel in an official and/or an unofficial capacity to installations located away from their normal duty station. Some of those facilities have been specifically set aside for unaccompanied personnel traveling on official temporary duty. The transient quarters are authorized support with appropriated funds and are built, maintained, and operated with appropriated funds. Individuals who travel in temporary duty status are generally housed in those quarters, if available and deemed adequate and livable.

If no personal amenities are provided, there is no service charge to the individual; however, if maid service, televisions, video players, upgrades in furniture and wall coverings, and other items equivalent to a commercial hotel are provided, a service charge is made to the individual staying at those facilities to pay for those amenities not provided with appropriated funds. Transient personnel personally pay the service charge and then are partially or fully reimbursed from a per diem allowance granted by their home command. The amount of per diem allowed is

Now on pp. 2 and 8.

limited, depending on the geographical location of the military installation visited. When Government quarters are not available, transient personnel stay in off-base commercial lodging and generally pay the commercial or corporate room rate for their accommodations. Again, they are reimbursed for their expenses from their per diem allowance. Transient personnel, who stay in off-base commercial facilities, must obtain documentation that lodging at Government facilities is not available.

Many installations also maintain other appropriated fund quarters for distinguished visitors and high ranking officers.

It should also be noted that, although transient quarters are authorized appropriated fund support, actual funding of this support has not necessarily matched authorization levels.

FINDING B: A Part of Army Training Funds Are Spent on Per Diem.

The GAO noted that the Army spends billions of dollars each year to train its soldiers in the individual and collective tasks essential to success on the battlefield. The GAO explained that a part of this cost is incurred for "per diem" and paid to soldiers undergoing training while in a travel status. The GAO pointed out that on any given day, about 15,000 transient Army personnel are lodged off-base while on temporary duty for training and other official business. The GAO reported that, in FY 1989, the Army's "per diem" costs for personnel staying at commercial off-installation locations were about \$328 million.

The GAO found that Public Law and Department of Defense regulations prohibit authorizing off-base per diem when Government lodgings are available. The GAO noted that, as a result, military bases maintain facilities specifically for lodging transient personnel. (p. 10/GAO Draft Report)

DoD Response: Concur. Public Law, DoD guidance, and Joint Federal Travel Regulation state that, when adequate Government quarters are not available, commercial facilities may be used.

FINDING C: Facilities and Management of Transient Lodging Vary Among the Services.

The GAO learned that, although all three Military Departments maintain lodgings for their transient personnel, they differ in the kinds of facilities offered. The GAO reported that the Army and the Air Force maintain separate facilities as transient quarters. The GAO noted that these are known as visiting officers or visiting enlisted quarters and the lodgings are comparable in furnishings, facilities, and services offered at a commercial hotel. The GAO explained, however, that the Navy does not keep separate quarters specifically for transients; instead they provide temporary duty personnel

Now on p. 8.

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billeting in the bachelor officers or bachelor enlisted quarters, sharing those facilities with personnel who are permanently assigned to the installation.

The GAO further found that the management of transient lodging operations and finances also varies among the Military Services. The GAO pointed out that Army and Air Force installations have the same on-base lodging office managing both transient quarters and those temporary lodging facilities used mainly as interim lodging for military active duty personnel and their dependents who are making a permanent change of station. The GAO noted that the Navy has temporary lodgings for permanent change of station personnel managed separately from transient quarters by a nonappropriated activity.

The GAO explained that the Army has divided the management and accounting function for transient quarters between the Army Chief of Engineers and the U.S. Army Community and Family Support Center. According to the GAO, transient lodging and temporary lodging for permanent change of station personnel operations are managed by the Army Chief of Engineers organization, an appropriated fund activity. The GAO noted that lodging accounts and finances, however, are managed by the Community Family Support Command, an organization that oversees and provides Army policy for nonappropriated activities.

The GAO concluded that the cited differences in the Military Services' management of transient quarters are reflected in different charges for lodging transient personnel. The GAO found that, in the Army, the charge for transient quarters may equal 50 percent of the local per diem for off-base lodging without higher command approval, while, in the Navy, any charge over \$4 per night requires higher command approval. (pp. 11-12/GAO Draft Report)

Now on pp. 9 and 10.

See comment 1.

DoD Response: Concur. However, it should be noted that within the Army, the Army Chief of Engineers has the appropriated fund billeting program management responsibilities. The U.S. Army Community and Family Support Center is responsible for nonappropriated fund financial management policy for billeting programs, in coordination with the Army Chief of Engineers. The U.S. Army Community and Family Support Center is not a nonappropriated fund entity, but a Field Operating Agency of the Army Deputy Chief of Staff for Personnel.

FINDING D: Transient Lodging Accounts Are Maintained in the Morale, Welfare and Recreation Fund. The GAO observed that, in 1985, the DoD obtained approval from the Subcommittee on Readiness, House Committee on Armed Services, to establish a single fund for the nonappropriated morale, welfare, and

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recreation program. According to the GAO, the purpose of the single fund was to achieve economies in managing the finances of numerous activities and to allow the program, as a whole, to be self supporting--i.e., funds from profit-making activities are available to offset losses from other activities. The GAO indicated, however, that the DoD request to the Subcommittee did not list transient lodging among the activities it proposed to include in the single fund. The GAO also noted, that in 1985, the Army sought approval to expand the activities included in its morale, welfare, and recreation fund.

According to the GAO, the Subcommittee approved the request "with strong reservations" and specifically stipulated that "lodging facilities that are...properly supported with appropriated funds should not be included in the morale, welfare, and recreation fund." The GAO found that despite the fact that the Subcommittee Chairman of the Morale, Welfare and Recreation Panel instructed the Army not to include transient lodging in the single fund, the Army nonetheless did so. The GAO pointed out that the Air Force and the Navy have likewise included transient lodging in their single morale, welfare, and recreation funds.

The GAO emphasized that, in 1986, the Subcommittee Chairman's concerns were later echoed by another congressional committee when the House Appropriations Committee criticized the Air Force for the "laundering" of appropriated funds between appropriated and nonappropriated funds. The GAO also cited the House Committee on Armed Services 1988 expression of concern about reimbursement and fund accountability associated with the single morale, welfare, and recreation fund. (pp. 11-12/GAO Draft Report)

DoD Response: Concur. The management and control of appropriated fund facilities varies among the Military Services due to various interpretations of DoD, the Military Services and congressional guidance, and attempts by the Military Services to maintain adequate facilities for the transient traveler. The implementation of the Installation Morale, Welfare, and Recreation Fund, which was designed to make maximum use of available nonappropriated funds at an installation for the common good, followed by the recategorization of morale, welfare, and recreation programs as agreed between the Department of Defense and the Congress, has caused the Military Services to go through a transition period of readjustment and reevaluation of how programs have operated and been managed.

In a letter to the Congress, dated August 10, 1987, the Assistant Secretary of Defense for Force Management and Personnel, proposed a recategorization of morale, welfare, and recreation programs and encouraged the Military Services to organize according to the

Now on p. 10.

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single-fund concept. That guidance cited the Army's successful implementation of the single-fund concept and the proposed recategorization list of morale, welfare, and recreation programs, included the transient lodging fund (official travel) as a Category A, morale, welfare, and recreation activity.

That recategorization of military morale, welfare, and recreation programs was approved in congressional report language in late 1987 and early 1988. The Department and the Military Services have been implementing that joint DoD and congressional guidance, which includes the management of nonappropriated funds in the transient facilities provided for personnel on temporary duty and permanent change of station personnel.

The official guidance, in the draft Department of Defense Directive 1015.1, address all nonappropriated fund management, including (1) military morale, welfare, and recreation programs, (2) civilian morale, welfare, and recreation programs, (3) mission supplemental funds, and (4) billeting funds. The draft directive is in the final stages of coordination and will be implemented later this year. The directive includes specific guidance on the amount and use of service charges that appropriated fund transient facilities may charge and how those service charge funds (billeting funds) may be used to enhance appropriated fund transient facilities used by temporary duty travelers.

In August 1985, prior to the latest DoD and congressional guidance, the Army notified the Chairman of the Morale, Welfare and Recreation Panel, Subcommittee on Readiness, House Armed Services Committee on August 6, 1985, that in the absence of other guidance, the Army intended to include short-term transient lodging and accommodations under the single-fund nonappropriated fund instrumentality approach. Congressman Dan Daniel, the Morale, Welfare and Recreation Panel Chairman at that time, stated in a September 1985 letter to the Army, that he agreed with implementation of the installation single fund concept and that it would "...apply to recreation facilities such as guest houses, the Armed Forces recreation lodging centers, cottages, and cabins...approve including such short-term facilities in the single-fund NAFI... (however)...lodging facilities that are part of the billeting mission and properly supported with appropriated funds should not be included in the Installation Morale, Welfare, and Recreation Fund."

The Army interpreted that direction to mean rooms used for periods of less than 30 days duration could be designated as short-term appropriated fund transient facilities and included within the management controls of the "Single Fund."

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It should be noted that the Navy, the Marine Corps, and the Air Force manage the nonappropriated fund portion of the transient facilities; however, they do not include those funds within the "Single Fund."

FINDING E: The Army has Increased Charges to Transient Personnel to Subsidize Other Activities. The GAO found that some Army installations have increased charges for lodging transient personnel and used a portion of the payments received to subsidize morale, welfare, and recreation activities and to provide questionable amenities.

The GAO explained that DoD directives state that transient lodging service charges are to be applied to transient lodging operations. The GAO further noted that transient lodging, as a mission-essential activity, is supposed to provide lodging at the lowest possible price. According to the GAO, DoD and Army regulations, service charges should cover transient housing operating costs for maid and custodial services and for amenities not available from appropriated funds.

The GAO indicated that charges can also be used to help defray the cost of minor improvements to transient quarters such as installation of telephones, televisions, and other amenities. The GAO concluded that transient lodging should not be generating profits above and beyond those specified needs.

The GAO estimated that, since the establishment of a single fund for morale, welfare, and recreation activities in 1985, the Training and Doctrine Command and the Forces Command have accumulated over \$70 million from "inflated charges." The GAO found that some Army installations have overcharged soldiers for transient lodgings and used the proceeds to subsidize morale, welfare, and recreation activities such as officers clubs, golf courses, arts and crafts facilities, and lodging facilities for visitors.

According to the GAO, Army officials said that they increased charges to generate money for nonappropriated morale, welfare, and recreation activities and to balance cuts in other morale, welfare, and recreation accounts. The GAO added that, according to these same officials, these funds were regarded as essential to the operation of the Army's morale, welfare, and recreation program. (pp. 3-4, pp. 16-20, pp. 22/GAO Draft Report)

DoD Response. Partially concur. The Department agrees that questionable amenities may have been provided. Although DoD agrees that some confusion has existed in the use and funding of transient facilities, it is imperative to understand the policy

Now on pp. 3 and 13 to 19.

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evolution that has been occurring during the past 8 years. The following outlines the evolving events and policies that may have engendered this situation.

The Department disagrees that funds generated from transient facilities were the only funds being used to subsidize officers clubs, golf courses, arts and crafts facilities and lodging facilities for visitors. In FY 1988, the total net income generated before depreciation from all field operating nonappropriated instrumentality programs, less transient lodging and guesthouses, in the Army was \$97.0 million.

- **Installation Morale, Welfare, and Recreation Fund.** In the early 1980s, pertinent billeting function policies were developed within the Army that included billeting funds in the Installation Morale, Welfare, and Recreation Fund--the "Single Fund." The purpose of the "Single Fund" was to consolidate and allow the installation commander the ability to better manage all nonappropriated funds including billeting funds. Prior to the implementation of the "Single Fund," transient lodging (official temporary duty) and guesthouse (permanent change of station travel) existed as separate departments within a billeting fund with no parameters established for the use of funds created by one or the other departments.

When the Army began the implementation of the "Single Fund," those comments that had been received from the Chairman, Morale, Welfare and Recreation Panel were evaluated and interpreted to mean that short-term transient lodging funds were eligible for inclusion in the "Single Fund." Appropriate accounting program codes were established to track these short-term transient lodging funds. Concurrently, those facilities, known as guesthouses, became eligible for financing as nonappropriated fund major construction projects.

- **Self-Sufficiency in Nonappropriated Fund Programs.** When the Army's Community and Family Review Committee adopted self-sufficiency as a traditional break from the former policy of subsidizing installation morale support operating programs and minor capital improvements, it appeared logical to add guesthouses as a type of facility that could be built with monies made available in lieu of the former subsidies. Until that time, guesthouses could only be financed in total or partially by using funds from the then existing separate installation billeting fund or by a loan from the then existing Army Club Fund, with monies to be repaid over time by the billeting fund.

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During that period, the installation nonappropriated fund instrumentalities were merged into the "Single Fund." The Army Morale Support and Club Funds were merged into the Army Morale, Welfare, and Recreation Fund; nonappropriated fund subsidies to the installations were eliminated; all morale, welfare, and recreation construction, including guesthouses, was focused into one program; and loan programs were eliminated. The Army took measures to ensure the continued existence of the billeting fund function (transient lodging and guesthouses) in the "Single Fund."

Prior to total implementation of the "Single Fund," there existed seven sets of budget instructions for various functional nonappropriated fund instrumentalities, with as many approval chains, compounded by guidance provided in some 28 different regulations. Due to the complexity, guidance and a single set of budget instructions were developed and included in Chapter 19, Army Regulation 215-1, and four basic regulations pertaining to the morale, welfare, and recreation program.

- **Congressional and DoD Concerns.** With past concerns about management of nonappropriated funds and morale, welfare, and recreation programs being expressed by the Office of the Secretary of Defense and the Morale, Welfare and Recreation Panel of the Readiness Subcommittee, House Armed Services Committee, on implementation of the "Single Fund," it became incumbent on the Army to create the appropriate valid policy to ensure the continued existence of the billeting fund function in the "Single Fund." That policy formulation resulted in the development of the current Army reinvestment policy, which stipulates 90 percent of the net income resulting from billeting operations be applied to capital expenditure needs of billeting for either transient lodging or guesthouses. The Army policy development was precedent setting, since previously there was no concise reinvestment policy. An inherent feature of the revised policy was that monies created could be reinvested in either transient lodging or guesthouses. The policy protects monies generated by the billeting function and provides for "Single Fund" overhead expenses, so that billeting does not exist at the expense of other programs.
- **Morale, Welfare, and Recreation Program Recategorization.** The DoD recategorization of morale, welfare, and recreation programs was developed in 1987 and congressionally approved in FY 1988. The recategorization addressed transient lodging (official temporary duty) and guesthouses, which the Army interpreted as allowing monies created from those

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operations to be reinvested in both programs. The Army initiated action to array all programs into the new designations effective with the beginning of FY 1989.

- **Current Army Policy Concerning Use of Billeting Funds.** The current reinvestment policy requires appropriate amounts to be reinvested over a 5-year period; however, the Army has yet to conclude a full 5 years of operation under the "Single Fund" fiscal structure, with the specific reinvestment policy being effective only in FY 1988. Therefore, it is appropriate to judge the Army based upon the current policy. A reinvestment policy was created when none other existed.

The report assumes a much narrower view in the use of funds generated from service charges and by limiting their use to reinvest solely into transient facilities for temporary duty personnel. The current Army policy and the DoD policy is being clarified to indicate how service charges--received from personnel staying at appropriated fund transient facilities--may be used.

FINDING F: The Army has Not Segregated Transient Lodging Accounts. The GAO observed that DoD directives stipulate that funds received from lodging facilities must be used to maintain and improve lodging facilities. According to the GAO, the directives imply a requirement to maintain the integrity of the related financial account.

The GAO found that, in the absence of explicit DoD guidance on accounting for lodging funds, the Army (unlike the Navy and the Air Force), has established a single morale, welfare, and recreation fund which merges transient lodging accounts with morale, welfare, and recreation accounts. The GAO further found that the Army system, contrary to congressional committee guidance, allows transient lodging funds to be used for other morale, welfare, and recreation activities.

The GAO explained that under the Army practice, as permitted by Army Regulations 210-11, 215-1 and 215-5, transient lodging accounts are combined with the larger nonappropriated permanent change of station housing accounts of all the activities under the morale, welfare, and recreation category.

The GAO concluded that the Army's practice fails to provide controls that preserve the integrity of the transient lodging accounts and the financial status of lodging operation, therefore, cannot be readily determined. The GAO cited an

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example where interest income from transient lodging is not reported in the lodging income statement; instead, it is credited to the total morale, welfare, and recreation account.

The GAO also found that depreciation expenses are reported in the lodging accounts as a reduction to income, while no corresponding lodging reserve account is recognized. The GAO further concluded that the effect of these actions is that the lodging account is not credited with the monies which, by DoD directive, should be identified for transient lodging use." (p. 4, pp. 20-22/GAO Draft Report)

Now on pp. 4, 19, and 20.

DoD Response: Concur. The Army did not have a separate, segregated transient lodging account. The Army does, however, have a policy to include those funds within the "Single Fund," as reported to the Congress on August 6, 1985, and that funds generated by the billeting function must be reinvested within a 5-year period.

Within that 5-year period, Army policy also allows the use of billeting cash balances for short-term benefit of morale, welfare, and recreation programs. Some billeting funds have already been reinvested and remaining funds are currently programmed for reinvestment in billeting capital purchases and minor construction or nonappropriated fund major construction.

As noted in the DoD response to Finding E, prior to the implementation of the Installation Morale, Welfare, and Recreation Fund or the "Single Fund" concept, billeting activities were included in the DoD classification as Category VIII, Supplemental Mission Nonappropriated Fund Instrumentalities.

The existing billeting fund(s) included bachelor officer quarters, bachelor enlisted quarters, visiting officers quarters, distinguished visiting officer quarters, and guesthouses. Each activity had a separate income statement, but funds were commingled in a single billeting nonappropriated fund instrumentality without any particular reinvestment criteria.

In FY 1987, the first year of the Installation Morale, Welfare, Fund operation, business codes were developed that specifically defined the nonappropriated fund financial structure. Separate business codes were established for short-term and long-term transient lodging with Visiting Officers Quarters, Visiting Enlisted Quarters, Distinguished Visiting Officers Quarters and guesthouses as departments under Business Code - 81, Short-Term Transient Lodging (Category VIII).

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As noted in the DoD response to Finding E, after congressional acceptance of the Department of Defense letter, dated August 10, 1987, that outlined the recategorization of morale, welfare, and recreation programs, the Army realigned those business codes and the former eight nonappropriated categories into program codes for the new categories. Those program codes were effective with FY 1989. The designations for short and long-term transient lodging were dropped. Separate profit and loss results are provided for the programs in the current accounting policy, thus establishing an audit trail.

FINDING G: The DoD and the Army Have Not Effectively Monitored Temporary Lodging Operations and Costs. The GAO pointed out that under the DoD and the Army internal control programs, management is responsible for establishing a comprehensive system of controls to ensure that the organization's objectives are met and its procedures are efficiently operating. According to the GAO, these controls consist, in general terms, of (1) sufficiently specific guidelines (regulations, directives, instructions, etc.) to achieve objectives, (2) clear, comprehensive procedures that properly implement those guidelines under an integrated management program, and (3) a process of program evaluation and monitoring that regularly reviews operations to ensure proper observance of procedures and guidance.

The GAO found that neither the Department of Defense nor the Army has evaluated or monitored transient lodging operations to ensure that lodging costs are kept to the minimum needed for authorized operation and minor improvements. The GAO explained that the DoD and the Army have delegated the task of policy enforcement to the major command level. The GAO found that the major commands responsible for transient lodging have also declined to be policy enforcers. The GAO concluded, therefore, that the Army has not properly implemented DoD directives nor its own regulations. The GAO asserted that neither Forces Command nor Training and Doctrine Command lodging organizations reviewed the justification for transient lodging charges.

The GAO stressed that at the beginning of its review, that neither command had an up-to-date list of installation charges. The GAO pointed out that Army headquarters officials expressed concern about the trend of increasing transient lodging charges, especially in the European Command, which charges as much as \$65 a day for on-base lodging.

According to the GAO, command officials believed that they lacked the authority to question these charges. The GAO concluded that by default, this internal control check was passed on to the installation level. (pp. 4-5, pp. 21- 22/GAO Draft Report)

Now on pp. 20 and 21.

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DoD Response. Concur. The DoD will implement policy, within 1991, requiring the Military Services to evaluate and monitor temporary duty transient housing and related operations to ensure proper observance of regulations and procedures. Areas to be evaluated and monitored include: (1) adequacy of accommodations, (2) service charges, (3) accounting procedures, and (4) billeting funds management policy review and amendment and implementation. The level of monitorship for the Army will be fixed at the Army headquarters level with no further authorization for delegation.

FINDING H: Off-Base Per Diem was Granted when Transient Quarters were Available. The GAO explained that public law and DoD directives require the Military Services to lodge transient personnel on-base to the maximum extent possible. According to the GAO, only when installation accommodations are not available should transients be granted the more expensive off-base per diem (based on local commercial costs) for lodging. The GAO pointed out that, to get this increased per diem, transients must obtain documentation that lodging at Government facilities is not available. The GAO found that the Army was granting transient personnel the off-base per diem when lodgings set aside for their use had vacancies. The GAO estimated that, during the last quarter of Fiscal Year 1989, two Army installations, included in the GAO review, could have avoided more than \$500,000 in off-base per diem costs. The GAO observed that the U.S. Army Audit Agency had reported similar findings at a number of Army installations.

The GAO attributed this situation to (1) inadequate controls over room reservation systems, (2) inefficient assignment priorities for distinguished visitor quarters, and (3) lodging of personnel changing assignments in quarters set aside for transients. The GAO concluded that, as a result of such practices, training funds were spent unnecessarily on more expensive off-base lodging. (p.5, pp. 25-30, pp. 31-32/GAO Draft Report)

Now on pp. 4, 26 and 27.

DoD Response: Concur.

FINDING I: Internal Controls: Army Internal Control System is Incomplete. The GAO explained that the Army internal control system requires all organizations to review internal controls annually to verify that they are in place and working. The GAO pointed out that Army Regulation 11-2, which governs the internal control system, requires an annual statement of assurance that adequate controls exist to help prevent fraud, waste, mismanagement and misappropriation in compliance with the 1982 Federal Managers' Financial Integrity Act. The GAO noted that the annual statement of assurance must report material weaknesses discovered in the internal controls during the current period, with plans for corrective action and a status report on previously reported unresolved material weaknesses. The GAO

further pointed out the regulation also requires that, if audit organizations have reported deficiencies in a program or if the program has been subjected to congressional hearings, the organization responsible for the program should consider it as potentially having material weaknesses in internal controls.

The GAO found that the Army Regulation 210-11, which governs lodging operations, has been under revision for a number of years. The GAO reported that Army headquarters officials responsible for the regulation stated that it will not be included in the Army internal control system until the revision is complete. The GAO reported that Army Regulations 215-1 and 215-5, which cover the accounting for transient lodging, are included in its internal control system.

Based on the GAO and the Army Audit Agency work, however, the GAO concluded that transient lodging managers are not assessing internal control weaknesses. The GAO indicated that may explain why no material weaknesses in transient lodging were reported in the Secretary of the Army's Annual Statement of Assurance for Fiscal Year 1987 through Fiscal Year 1989, even though problems have been reported previously by the Army Audit Agency and have been the subject of congressional hearings.

The GAO further concluded that, because of the widespread control weaknesses identified in its review and their adverse impact on the Army's ability to make effective use of training funds, the Army should focus the attention of top management on their ultimate resolution, especially via the Annual Assurance Statement. (pp. 30-32/GAO Draft Report)

Now on pp. 29 and 30.

DoD Response: Concur.

RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommended that the Secretary of the Army direct the major commands and the Army Community and Family Support Center to stop diverting transient lodging funds to morale, welfare, and recreation activities. (pp. 6-7, pp. 23/GAO Draft Report)

Now on pp. 5 and 21.

DoD Response: Concur. Within 180 days after the guidance is promulgate by the DoD, which will be during FY 1991, the Army will implement policy that will direct the future separation of temporary lodging (non-morale, welfare, and recreation) billeting monies as a separate nonappropriated fund category from the "Single Fund."

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Now on pp. 5 and 21.

RECOMMENDATION 2: The GAO recommended that the Secretary of the Army review the morale, welfare, and recreation accounts of the major Army commands to (1) identify accumulated overpayments for transient lodging, (2) recognize each overpayment as a liability to the appropriation account initially charged or, if the appropriation account cannot be identified, then to the General Funds of the Treasury as a miscellaneous receipt, and (3) develop and implement a repayment plan. (pp. 6-7, p. 23/GAO Draft Report)

DoD Response: Partially concur. The DoD agrees with the intent of the recommendation, however, disagrees with the proposed action and offers the following alternative.

The DoD will conduct a complete review at all Army temporary duty transient housing locations and determine the extent to which transient billeting service charges to occupants staying at those facilities were made in excess of operational expenses at each location during the period FY 1987 through FY 1989. That review is expected to be accomplished by July 31, 1991. Identified excess service charges will be disbursed based on a DoD legal determination of the appropriate disposition of those funds.

By July 31, 1991, the Army will also conduct a complete review of all installations to determine their temporary duty transient housing requirements.

RECOMMENDATION 3: The GAO recommended that the Secretary of the Army revise Army Regulations 210-11, 215-1, and 215-5 to stipulate that transient lodging funds be applied only to transient facilities, as required by the Defense Department directives, to include procedures to maintain the integrity of lodging accounts. (pp. 6-7, p. 23/GAO Draft Report)

Now on pp. 5 and 21.

DoD Response: Concur. Within 180 days after promulgation of new DoD guidance which will occur during FY 1991, the Army will implement that policy.

RECOMMENDATION 4: The GAO recommended that the Secretary of the Army establish controls to monitor Army installations, which stipulate that lodging charges will not exceed the minimum amount needed to meet authorize costs and planned improvements. (pp. 6-7, p. 23/GAO Draft Report)

Now on p. 21.

DoD Response: Concur. The Army will develop and implement a reporting system to ensure compliance with DoD guidance. The planning of the reporting system will begin in September 1990 for implementation in FY 1991.

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Now on p. 21.

RECOMMENDATION 5: The GAO recommended that the Secretary of the Army provide more specific guidance to commanders on the types and quality of furnishings appropriate for transient quarters. (pp. 6-7, p. 23/GAO Draft Report)

DoD Response: Concur. The Army will issue specific guidance to commanders on the types and quality of furnishings appropriated for transient quarters by October 31, 1990.

Now on pp. 5 and 21.

RECOMMENDATION 6: The GAO recommended that the Secretary of Defense establish controls to monitor the Army's compliance with the Department's transient lodging directives. (pp. 6-7, p. 23/GAO Draft Report)

DoD Response: Concur. The DoD will convene a panel of representatives from each of the Military Services by October 1, 1991, to develop a DoD program evaluation and monitoring system the objective of which will be to regularly review temporary duty housing and related operations on a regular basis to ensure proper observance of regulation and procedures.

RECOMMENDATION 7: The GAO recommended that the Secretary of the Army establish controls to ensure that installations fully use on-base facilities before authorizing off-base per diem--at a minimum including the following:

- revising room assignment procedures to better use distinguished visitors quarters;
- making authorizations of off-base per diem contingent upon a vacancy re-check at some specified time prior to arrival;
- ensuring that personnel moving to new stations do not displace transient personnel; and
- instituting regular review at all installations of the accuracy of barracks occupancy rates, to ensure identification of vacancies for transient personnel. (pp. 6-7, p. 32/ GAO Draft Report)

Now on p. 31.

DoD Response: Concur. The Secretary of the Army will establish controls to ensure that installations fully use on-base facilities before authorizing off-base per diem.

- Current regulations require occupancy by temporary duty travelers when Distinguished Visitor Quarters are not reserved for distinguished visitors. The Army will enforce the existing policies and the Office of the Chief of Engineers for Army will send a message to all commands restating the policy by September 1, 1990.

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- Current Army policy is consistent with DoD Instruction 4165.63-M which requires 15-day advance notification of a firm temporary duty housing reservation. The Office of the Chief of Engineers for Army will send a message by September 1, 1990 to all commands reiterating current Army policy.
- The Army will review and enforce policies concerning personnel moving to new stations use of transient housing facilities. The current Army transient housing reservation system will be reviewed to determine whether it is possible to improve utilization of transient housing facilities by transient personnel with the current reservation system. This review and reservation system improvements are expected to be accomplished by July 31, 1991. Current Army policy already complies with DoD Instruction 4165.63M and gives priority placement to transient temporary personnel.
- The Army will ensure that the DoD Form 2085, Unaccompanied Personnel Housing Inventory and Utilization Data, is updated in accordance with DoD policy letter dated May 17, 1987. This report is prepared annually at the installation level and is forwarded to the major command and then provided to Army Headquarters for compilation and use in the planning cycles.

RECOMMENDATION 8: The GAO recommended that the Secretary of the Army identify transient lodging operations as a material weakness in the Secretary's next Annual Assurance Statement. (p. 7, p. 33/ GAO Draft Report)

DoD Response: Concur. The Secretary of Army FY 1991 Annual Assurance Statement will identify transient lodging operations as a material weakness.

Now on pp. 5 and 31.

The following is GAO's comment on DOD's letter dated August 31, 1990.

GAO Comment

1. We changed the report to clarify the management responsibilities of the Army Community and Family Support Center.

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Comments From the Indiana Agency



August 24, 1990

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Mr. Joseph J. Eglin, Jr.
Assistant Director
Human Resources Division
General Accounting Office
Washington, D.C. 20548

Dear Mr. Eglin:

Thank you for the draft report entitled "Guaranteed Student Loans Secondary Market Lenders Profits Vary Widely." I have reviewed the report in detail and I believe it fairly represents information provided to the General Accounting Office by our organization. I cannot comment regarding the accuracy of the information in regard to other organizations.

It is important to note, as a matter of update, that costs of operations have increased substantially since those periods covered by the report and now represent 1.74% of outstanding student loan assets. This increase in cost of operations is largely attributable to the imposition of very prescriptive due diligence requirements of questionable value in the collection of loans. We continue to believe that greater efficiencies can be realized in costs of operations while enhancing collection effectiveness if the level of regulatory direction is tied to delinquency and default rates. Through this approach, those organizations who are ineffective in their collections would receive increased regulatory oversight and those organizations which have proven themselves capable in collection of education loans would be permitted to retain that effectiveness unfettered by prescriptive due diligence requirements.

We appreciate the opportunity to be involved in the study. Please call me if you have any questions about my comments.

Sincerely,

Stephen W. Clinton

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Comments From the Nebraska Agency



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August 22, 1990

Mr. Franklin Frazier
Director, Education and Employment Issues
United State General Accounting Office
Washington, DC 20548

Dear Mr. Frazier:

Thank you for the opportunity to comment on the draft of the GAO's report on the profitability of guaranteed student loans held by secondary markets. As we understand them, the objectives of the report as directed by the House Committee on Education and Labor and the Senate Committee on Labor and Human Resources were to determine:

- the profitability of student loans held by major secondary markets,
- the reason for the variations in profitability, and
- the effect of the 1986 reduction in the interest subsidy rate on profitability.

It would be difficult for people not directly involved in the student loan industry to comprehend the difficult nature of this undertaking, and we applaud your efforts. The Nebraska Higher Education Loan Program, Inc. (NEBHELP) has several concerns about the report, however, which we will address in this letter. Our concerns include the scope of the report, major changes that have occurred since the period covered in the report that make the information in the report obsolete, and the impact of the Student Loan Marketing Association's (Sallie Mae) inclusion in this report.

Scope

The scope of the report and the large number of variations in the agencies and data studied preclude making any general conclusions related to the objectives of the report. To illustrate, in the first paragraph on page 41 of the conclusion you state, "the 1986 subsidy reduction had little or no effect on lenders' revenues." The discussion on pages 30 - 32 and the data in Table III.8 in Appendix III suggest, however, that the subsidy reduction may not have effected lenders' revenues because secondary markets did not have significant loan volume in their portfolios subject to the reduced subsidies. A more accurate conclusion based on the information you provide would be, "The effect of the 1986 subsidy reductions cannot be determined at this time since the subsidy reduction has yet to be passed from originating lenders to secondary markets." We agree with your conclusion in the final paragraph of the conclusion on page 41: "The variations in profit levels, and the many reasons for them indicate that profitability measures do not, in themselves, provide a sound basis for determining the appropriate special allowance factor."

Dated Information

The data used to generate the analysis and draw conclusions in this report was collected

Now on p. 36.

Now on pp. 28-29.

Now on p. 36.

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from fiscal years 1985 through 1988. A number of significant events and changes have occurred in the student loan industry since 1988 and increased the costs associated with acquiring, owning, and servicing loans. These events and changes include the UES failure, changes in regulations, and most recently, the financial difficulty of the Higher Educational Assistance Foundation (HEAF), the nation's largest student loan guarantor.

UES failure

The UES incident has created a dramatically different cost of funds structure. Due to both real and perceived risks, credit providers, particularly the Japanese banks, have made a wholesale exit from the student loan industry since 1988. As funds become less available, they become more costly. The fact that letter of credit fees have increased 30% - 40% since July, 1988 is proof of that statement. The resulting increased cost of obtaining credit facility has narrowed the already slim margins of many secondary markets and increased the need for maintaining the existing special allowance rate.

Regulation changes

Arbitrage regulations issued by the Treasury Department since fiscal year 1988 remove many of the benefits of utilizing tax exempt financing as vehicle for financing student loans. As discussed in the report, many state agencies and not-for-profit secondary markets have utilized tax exempt financing as the major source of financing student loan purchases. Typically, state agencies and not-for-profit secondary markets have accepted lower rates of return to fulfill the mandate of providing access and service to areas that for-profit lenders do not serve. The arbitrage earnings have allowed state agencies and not-for-profit secondary markets to subsidize otherwise unprofitable student loan operations and provide additional services and access to students. As the full extent of arbitrage restrictions is realized the possibility exists that not-for-profit and state agencies will have to curtail services to borrowers.

Increased due diligence regulations implemented by the Department of Education in 1988 have increased the cost of servicing and operations and, directly influenced the secondary market profitability. In light of increased servicing and operation costs, it is inconceivable that further cuts can be made in the special allowance or any other facet of the program which reduces secondary market profitability.

HEAF situation

HEAF's apparent collapse has created substantial doubt about the stability of the student loan industry. Statements by the Department of Education implying that the federal government's guarantee applies only to the guarantee agency and not the lender has caused anxiety among originating lenders, secondary markets, and letter of credit providers. To date, several letter of credit providers have expressed strong concern regarding HEAF-guaranteed loans and others have requested that subsequent purchases not include HEAF paper. As the uncertainty persists, the possibility exists that student credit providers may cease any and all involvement with student loan financing thus creating a serious access problem for students.

These three areas of change have created an operating environment quite different from that of 1985 - 1988 when your study took place. While your report provides an excellent historical perspective on the profitability of secondary markets, it should not be

**Appendix IX
Comments From the Nebraska Agency**

Page 3, Franklin Frazier, August 22, 1990

used to predict the future or set policies governing secondary markets.

Sallie Mae

The inclusion of Sallie Mae as just another secondary market skews the report and its conclusions. The federal agency status that Sallie Mae alone enjoys and the economies of scale created by their sizable portfolio and lending powers place Sallie Mae in a totally different competitive arena. Sallie Mae's many advantages and few limitations make realistic comparisons to state or bank secondary markets impossible. The required parallels do not exist.

As perceived today, the student loan industry presents greater risk than ever to credit providers. Increased risk means increased cost of funds. Since the federal government has, through arbitrage regulations, placed a cap on return to the secondary markets, special allowance provides a way to offset those increased costs. If secondary market income is cut by decreasing special allowance payments, secondary market liquidity drops, and access is reduced.

If issued as drafted, your report has severe implications for the entire student credit industry and could result in restricted access to higher education. The conflict between the mandate of the student loan programs which is access, and the standards by which we, and other providers of those programs are increasingly judged (including profitability), is escalated by your report.

Once again, I appreciate the opportunity to comment on this draft of your report and your attention to our concerns. If you have any questions, please contact me.

Sincerely,



Don R. Bouc
President

gpc2

Comments From Nellie Mae

The New England Education Loan Marketing Corporation

August 7, 1990

Mr. Franklin Frazier
Director, Education and Employment
Issues
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Frazier:

Thank you for the opportunity to comment on the draft report of GAO regarding the profitability of guaranteed student loans to lenders and holders. I believe that the GAO staff has done an effective job of compiling and analyzing data provided by study participants who themselves are quite diverse in structure, financing and servicing characteristics, and portfolio composition.

The draft study clearly demonstrates how political and economic factors effect program participants in different and often dramatic ways. It is important for Congress to know that these factors are delicately balanced and, when out of balance, result in program participants, including some of the largest in the nation, suffering diminished financial returns and even losses.

It is telling that four of the five non-profit secondary markets realized losses in some years, and that both commercial banks, while being profitable, achieved earnings well below those of other bank products. The only consistently profitable entity was Sallie Mae, buttressed by the advantages of low cost "agency" borrowing and lower cost centralized servicing.

It is also interesting to review how fast the statutory and regulatory environment (both Department of Education and Treasury) have changed. Simply over the period covered by the study we've seen:

- Reduction in SAP yield to T-Bill + 3.25%
- Gramm-Rudman-Hollings sequestration reduction to T-Bill + 3.1%
- Creation, expansion and reduction of SLS program
- Consolidation loan program
- Department of Education strict due diligence and cure regulations
- Private Activity Bond caps
- Change in Plan for Doing Business approvals

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Appendix X
Comments From Nellie Mae

Mr. Franklin Frazier
Page two

August 7, 1990

Further, the Treasury regulations proposed in July 1989 and effective January, 1990 including SAP within the arbitrage calculation and limiting permissible operating expenses to 2%, effectively eliminates the use of tax-exempt financing for federal student loan programs.

Material deleted, see p. 37.

Two minor corrections:

Now on p. 2.

Page 3: the "New England Loan Marketing Association" should be "The New England Education Loan Marketing Corporation."

Now on pp. 23-24.

Page 25: In 1985 and 1986 the US Department of Education was refusing to issue approvals of many "plans for doing business" submitted by non-profit secondary markets. Such approval was necessary in order to receive special allowance payments, not interest benefits, when using tax-exempt funds. To continue our secondary market support of lenders, Nellie Mae did not receive SAP on loans funded with tax-exempt bonds until the Higher Education Act was amended to transfer responsibility for plan for doing business approval from the Secretary to the Governor of the State.

Again, thank you for the opportunity to comment. I hope that you will take my comments here and those submitted earlier into consideration before releasing the final report.

Very truly yours,



Lawrence W. O'Toole
President

LWO/dms

Attachment



The New England Education Loan Marketing Corporation

Comments From the Colorado Agency



Colorado Student Obligation Bond Authority

1981 Blake Street
Suite 201
Denver, CO 80202
(303) 295-1981
1-800-448-2424
FAX (303) 296-4811

William A. Stoltus
President

August 17, 1990

Mr. Franklin Frazier
Director
Education and Employment Issues
Human Resources Division
United States General Accounting Office
Washington, D.C. 20548

RE: Draft GAO Study Regarding Secondary Market Profitability

Dear Mr. Frazier:

Enclosed is our response to the draft of your organization's proposed report to Congress regarding the profitability of guaranteed student loans to secondary market lenders. During our review of the report draft, we did make several observations concerning the report's findings and conclusions which we would now like to submit to your office for additional consideration before the final report is issued.

Page 5 of the cover letter to Senator Kennedy states unequivocally that "The 1986 subsidy reductions had little, if any, effect on lenders' revenues." While this may be true for the period under review, we were not able to find a meaningful reference to what percentage of the study's portfolios was subject to this reduction. It would appear that, as the secondary markets continue to provide lender liquidity, and the loans within the portfolio continue to have declining balances through normal borrower repayment, the percentage of loans within the portfolio which is subject to lower subsidy will play an ever increasing part in the calculation of gross revenues as a percent of outstanding loans. Therefore, the statement quoted above should be modified to reflect its narrow application.

The report's conclusion that "variations in profitability among (secondary markets) indicate that revenue and cost information does not provide a sufficient basis for determining appropriate subsidy levels" and that a number of the agencies you investigated showed

Now on p. 3.

Appendix XI
Comments From the Colorado Agency

Mr. Franklin Frazier
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Page Two

losses from time-to-time suggests that there may have been insufficient scrutiny by Congress when reducing subsidy levels. These conclusions indicate that much more detailed research must be accomplished before subsidies are changed.

Bond funded secondary markets earn income from student loan interest, special allowance payments, in-school interest if the loan is purchased prior to graduation, and investment income. As opposed to the free market, secondary markets cannot adjust interest rates to meet changing market conditions. They are confined to a legislatively-mandated rate structure; normal market competitive pricing structures do not exist in this industry. Hence, secondary markets are restricted in the earning potential on a student loan.

Now on p. 3.

Profitability of a secondary market hinges largely on costs. As pointed out on pages 4 & 5 of the draft, "profit variations were due primarily to differences in the lenders' financing, servicing, operating, and other costs." Financing costs depend greatly on market conditions and timing of the issue. State secondary markets exist under a restrictive state volume cap, which can affect timing of a bond issue or portfolio purchase. If timing is off, financing costs can spiral or portfolios cannot be purchased. These restrictions do not apply to Sallie Mae or banks.

Now on p. 29.

We ask that the reference to financing costs being related to outstanding portfolio balance be corrected to reflect the relationship to outstanding DEBT (Page 33). The ability to be cost effective in issuing debt is hindered by state volume cap restrictions. Colorado would prefer to offer fewer, larger bond issues and access the financial markets with the obvious economies of scale, however, current volume caps on tax exempt issues make this impossible.

Servicing costs have recently been escalating because of federal due diligence requirements. The study used data prior to the impact of the new due diligence regulations rendering the finding somewhat out of date already. The Office of Education has found technical violations of due diligence in almost every secondary market and servicer, the cost implications of which are unknown at this time. Also, those secondary markets using third-party servicing cannot directly control these servicing costs.

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Page Three

This essentially leaves operating costs as the major control factor in "costs". For most organizations, this cost is a very small proportion of overall costs, much smaller than financing or servicing costs. Thus, state secondary markets are faced with a situation where cost control, to a large degree, is not directly under their influence.

Now on p. 5.

Now on pp. 18 and 5.

The report's heading statement on page 7 ("Loans financed with tax exempt funds can be more profitable than others".) is very misleading. The study defines profitability as gross revenues less costs (page 17). What is being said on page 7 is that tax exempt financed loans may, UNDER CERTAIN MARKET CONDITIONS, earn a higher special allowance (revenue) than loans financed by other means. Profitability includes costs; the report's statement does not and is a major disservice to state secondary markets which use tax exempt financing. If this referenced statement is to remain part of the report, it should read as follows:
"Loans financed with tax exempt funds may, under certain market conditions, generate more in revenue than other loans." If the term "profitability" is used, then costs must be included.

Now on p. 22.

As Colorado is a non-profit, state secondary market, we find of particular interest the report's statement that for-profit secondary markets were consistently profitable (page 23), while also stating that those agencies which use tax exempt financing included some of the least profitable of the agencies studied. State secondary markets are under far more restrictions in terms of the markets they must serve. Enacting legislation requires we provide liquidity to all lenders for all eligible loans (guaranty still in effect, certain geographic requirements of either the borrower or the school etc.). The result is we frequently purchase and service the highest risk loans, without any off-setting compensation derived from increased subsidy (normal credit environments provide an increased rate of return for increased risk).

Material deleted, see p. 37.

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Comments From the Colorado Agency

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Page Four

We appreciate the opportunity to comment on the GAO report draft and sincerely trust our concerns will be seriously addressed prior to the final report being issued. Please feel free to contact me or my staff should you have any questions regarding our comments.

Sincerely,

William A. Stolfus
William A. Stolfus
President

Comments From the Pennsylvania Agency



PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY

660 BOAS STREET
HARRISBURG, PENNSYLVANIA 17102-1396

August 31, 1990

Mr. Franklin Frazier
Director, Education and
Employment Issues
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Frazier:

This is in response to your letter of July 19, 1990 concerning PHEAA's comments on the draft report of the GAO regarding the profitability of guaranteed student loans to lenders and holders.

A review of the draft report clearly indicates that GAO's staff has done a very good job of compiling and analyzing data provided by the ten participants in the study which demonstrate quite a diverse approach to providing capital for secondary market purposes.

Although PHEAA does hold approximately \$40 million in Stafford loans purchased from various lenders, the statutory and public purpose is served by making loans for postsecondary education purposes to Pennsylvania residents at or below market rate levels to provide middle income families with a moderate cost source of credit to fund the costs of postsecondary education. To accomplish this goal, PHEAA must:

- a. Finance at tax-exempt rates.
- b. Subsidize the tax-exempt financings via an issuer contribution valued at five to ten percent of the face amount of the financing.
- c. Administer the direct loan program, including loan origination and servicing within the limitations of cost recovery mechanisms controlled by the allowable spread inherent in tax-exempt financing.
- d. As Stafford loan eligibility continues to become less of a reality for the middle and upper income family, the need for PHEAA to meet this increasing demand for direct loans and the PHEAA "secondary market" activity is of the utmost importance and our program is not driven by concerns of profitability or competition.

Because of the unique role of PHEAA, staff believes the Agency should be excluded from this secondary market report or placed in a separate category for the purposes of the report.

Appendix XII
Comments From the Pennsylvania Agency

- 2 -

Also, it is important that the final report makes it clear to Congress that political and economic factors directly affect the administration of each of the program participants and these factors need to be considered before legislative changes are made. This is clearly evident when you look back at the numerous changes on both the statutory and regulatory level that have taken place which greatly impact on profitability of student loans to not only secondary markets but also direct lenders and guaranty agencies.

Thank you for the opportunity to comment, and I will be looking forward to reviewing the final report.

Sincerely,



Thomas R. Fabian
Executive Deputy Director

TRF:mbm
TF4.99900831/03

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