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United States Government Accountability Office
Washington, DC 20548

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Congressional Committees

Subject: Military Personnel: Better Debt Management Procedures and Resolution of Stipend Recoupment Issues Are Needed for Improved Collection of Medical Education Debts

Military physicians and other health care professionals are needed to support operational forces during war or other military conflicts and to maintain the well-being of the forces during nonoperational periods. These professionals also provide health care services to military retirees and dependents. The Department of Defense (DOD) acquires its health care professionals primarily through two programs—the Armed Forces Health Professions Scholarship Program and the Financial Assistance Program—with which it recruits and trains military health care providers who fill medical specialty positions. These programs offer participants reimbursement for tuition, books, fees, other education expenses, and a stipend, which is a fixed amount of money given to the participants on a monthly basis, in return for an active duty service obligation. Recruiting and retaining highly qualified health care professionals, however, is becoming more challenging for each of the military services. The added stresses of repeated deployments and the general perceptions of war, along with the potential for health care providers to earn significantly more money outside of DOD, have caused some professionals to choose to separate themselves from military service, even after DOD has paid for all or part of their medical education. Because DOD medical training programs can take years and are a costly investment, DOD is negatively affected both financially and operationally when individuals do not fulfill their active duty obligations.

The Conference Report accompanying the National Defense Authorization Act for Fiscal Year 2008¹ directed the Comptroller General of the United States to report to the congressional defense committees by April 1, 2008, on the number of Health Professions Scholarship Program or Financial Assistance Program participants who do not enter active duty following completion of the program of studies for which they were enrolled, including the extent to which the military services have sought and received reimbursement for stipends or annual grants paid. Accordingly, we examined the extent to which (1) participants in the Health Professions Scholarship

¹H.R. Conf. Rep. No. 110-477, at 928 (2007).

Program or Financial Assistance Program fail to enter active duty service, as obligated; (2) DOD has procedures in place to recoup expenditures paid under the Health Professions Scholarship Program or Financial Assistance Program to participants who failed to meet their contractual obligations; and, (3) DOD has specifically sought and received reimbursement for stipends.

To address our first objective, we obtained information related to the programs' authorized levels, goals, accession, and attrition rates. Using participant separation data from fiscal years 2003 through 2007, we identified the reasons for participants to separate or fail to serve their obligation. For our second objective, we interviewed officials from the Defense Finance and Accounting Service (DFAS); the Offices of the Surgeons General of the Army and Air Force; the Office of the Secretary of the Air Force for Manpower and Reserve Affairs; the Air Reserve Personnel Center, and the Navy's Bureau of Medicine and Surgery. Additionally, we obtained and reviewed DOD debt collection procedures, participant separation data from each of the services, and delinquent account information from DFAS for fiscal years 2003 through 2007. We assessed the reliability of DFAS' data from the Defense Debt Management System by obtaining information on its management of the system and any data reliability procedures in place. We determined that the DFAS' Defense Debt Management System's data were sufficiently reliable for the purposes of this report. For our last objective, we obtained legal documentation from DOD and the military services and interviewed DFAS and service officials to discuss their interpretations of how the collection of stipends has changed over the years. Further, we analyzed changes to the statutes concerning DOD's authority to recoup stipends. We also obtained and reviewed the service agreements that program participants sign and their disclosure of recoupable expenses.

We conducted this performance audit from February 2008 through March 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Further details on our scope and methodology can be found in enclosure I.

Results in Brief

Only a small percentage of the participants in the Armed Forces Health Professions Scholarship Program and Financial Assistance Program have failed to complete their education or serve their active duty service obligation. Our analyses of service and DFAS data showed that, for fiscal years 2003 through 2007, fewer than 1 percent (171) of the total number of participants (19,921) withdrew from the programs or, alternatively, graduated but did not go on to active duty service. The most common reasons cited by these participants were voluntary withdrawal from the program, medical disqualification, and academic failure. Upon withdrawal or release from the program, participants are obligated to reimburse the government for all or some portion of their medical education expenses unless relieved of that obligation by their respective service secretary.

DOD has procedures in place to recoup medical education expenditures from participants who fail to complete their education or serve their active duty obligation, and many cases we reviewed were processed in a timely manner. However, in some cases, it took more than 5 years from the time recoupment actions on individuals' debts were initiated until the time DFAS established an official debt account and began collection efforts. Further, we found that confusion exists between the military services and DFAS as to who bears responsibility for initiating the debt recoupment actions. DFAS officials told us that they believe the military services are to make attempts to collect on the debts before turning them over to DFAS. However, officials from each of the military services said that they do not attempt to collect any money themselves because they claim to have neither (1) the debt collection authorities that DFAS has, nor (2) the resources to dedicate to this task, even if they had the authority to do so. We also found that DFAS did not always follow debt collection procedures, as they often accepted Air Force debt recoupment packages without the necessary transmittal letter, which is used to track the routing and processing of the debts. In addition, the military services reported that they would like to know more about the status of the debts sent to DFAS, but DFAS contended that it returns to the services the signed and dated transmittal letters, when they exist, as an indication that the debt has been officially accepted and is being pursued. Nevertheless, service officials indicated that they could benefit from more frequent and clearer communication about the status of the debts and any need to reconcile DFAS and service data. For example, during the course of our review, we found that DFAS was pursuing about \$6 million in medical education debt, while service records identified about \$8.5 million in debts. Until DOD takes steps to clarify the roles and responsibilities for initiating debt recoupment actions, follow established debt collection procedures, and improve communications, its collection of medical education debts will be hindered by confusion and inconsistency.

DOD's practice of seeking reimbursement for stipends has changed over time, and the department's efforts to recoup money are diminished by conflicting views among the services and DFAS over DOD's legal authority to recoup stipends. Recent changes in the laws have resulted in inconsistent interpretations among the military services and DFAS, which collects the debts for the services. Accordingly, the agreements that program participants sign upon accepting DOD's financial assistance do not consistently state whether stipends are to be recouped. Without a clear determination regarding the recoupability of stipends and communication of this determination to all program participants, DOD is not in a position to ensure that it is collecting all of the money to which it is authorized or collecting reimbursements consistently across the services. Further, program participants do not have full and accurate information regarding DOD's recoupment policies.

We are recommending that the Secretary of Defense take several measures, first, to help strengthen debt collection procedures among the services and DFAS, and second, to resolve conflicting interpretations of the legal authority to recoup stipends, so as to ensure that DOD can collect all of the money to which it is authorized and can do so consistently across the services and in a timely manner. In commenting on a draft of our report, DOD concurred with each of our recommendations and included estimated completion dates for taking corrective actions. The department's comments are reprinted in enclosure II.

Background

With the end of the draft in 1972, the military services needed a new means of acquiring active duty physicians. To address this need, the Uniformed Services Health Professions Revitalization Act of 1972 contained provisions that allowed the secretaries of each military department to establish and maintain a health professions scholarship program for their respective department under regulations prescribed by the Secretary of Defense.² Under these provisions, DOD developed the F. Edward Hébert Armed Forces Health Professions Scholarship Program and Financial Assistance Program, which is the military services' largest source for physicians.³ While the Assistant Secretary of Defense for Health Affairs, who reports to the Under Secretary of Defense for Personnel and Readiness, provides procedures and standards required to implement both the Health Professions Scholarship Program and the Financial Assistance Program, the individual service departments⁴ are responsible for managing, funding, and administering their portions of these programs. Under the Health Professions Scholarship Program, qualified students receive full medical school tuition and reimbursement for books and various equipment and fees, as well as a stipend, a fixed amount of money given to the participants on a monthly basis. In return, after graduation, program participants incur an 8-year contractual service obligation. The contractual service obligation consists of two elements: the active duty obligation and the reserve service obligation. The active duty obligation is calculated as a 2-year minimum plus an additional 6 months for every 6-month semester of educational benefits received. The reserve service obligation is the portion of the 8-year contractual service obligation remaining after the participant serves the active duty obligation portion. The Financial Assistance Program targets health care professionals in specialty training by offering them an annual grant, monthly stipend, and reimbursement for books, various equipment, and fees. In return, they, too, incur a contractual service obligation.

All persons who enroll in either the Health Professions Scholarship Program or the Financial Assistance Program sign an agreement with their respective service. While agreements differ by service, they generally contain a provision requiring the program participant to agree to reimburse the U. S. government for all costs it incurred, plus interest, or any portion thereof, as determined by the respective service secretary in the event that the participant voluntarily or because of misconduct or other reasons fails to complete the active duty or alternative service obligations set out in the agreement. While most of the programs' participants enter active duty at the O-3 pay grade (that is, as captains in the Army or Air Force and as lieutenants in the Navy) upon graduation from the program and begin their first year of graduate medical education in military medical facilities, some participants do not graduate from the program, and some graduate but decline to fulfill their active duty obligation for various reasons. If the participants' resignation is approved and it is determined that they must repay all or part of their medical education expenses, the services initiate

²Pub. L. No. 92-426, §2121 (1972), codified at 10 U.S.C. §§2120-2127.

³The scholarship program also sponsors students of dentistry, optometry, and nursing, for example.

⁴The Navy's medical department supports both the Navy and the Marine Corps.

the debt recoupment paperwork and DFAS records and manages any delinquent debts assigned to it from the services.

DOD guidance⁵ limits the total number of participants in the Health Professions Scholarship Program and Financial Assistance Program to 5,000 per year—a participant pool that was equally divided among the services until the beginning of fiscal year 2006. Since that date, a larger share has been allocated to the Army because of its increased projected needs. During fiscal years 2003 through 2007, the Army had a cumulative total of 7,229 program participants, the Navy had 6,248 participants, and the Air Force had 6,444 participants. Table 1 shows the breakdown of the cumulative program costs for the 5 most recent fiscal years.

Table 1: Total Health Professions Scholarship Program and Financial Assistance Program Costs Expended by the Army, Navy, and Air Force for Fiscal Years 2003-2007

(rounded to the nearest thousand)

Expense item	Army	Navy	Air Force
Tuition	\$223,906,000	\$215,249,000	\$164,971,000
Stipends	88,700,000	80,637,000	108,060,000
Other expenses	14,298,000	14,633,000	32,350,000
Totals	\$326,904,000	\$310,519,000	\$305,381,000

Source: Army, Navy, and Air Force data.

Number of Participants Who Fail to Graduate or Serve Their Obligation Is Low

We found that for fiscal years 2003 through 2007, fewer than 1 percent of a total of 19,921 participants across each of the military services' Health Professions Scholarship Program and Financial Assistance Program failed to graduate or to serve their active duty obligation. Participants' reasons for quitting the program or not serving ranged from personal reasons to academic or medical disqualifications.

We analyzed both service and DFAS data for the number of individuals who failed to graduate or who did not serve their active duty obligation, along with the reasons for their withdrawal. Our analyses showed that, for fiscal years 2003 through 2007, a total of 171 individuals—51 from the Army, 48 from the Navy, and 72 from the Air Force—either did not complete their education or failed to serve their obligation. Each of these totals comprises about 1 percent of its respective service's total participants for the same time frame. These individuals failed to complete the programs for a variety of reasons. Table 2 shows the reasons given for separation for these 171 individuals.

⁵DOD Directive 6000.12, *Health Services Operations and Readiness* (Apr. 29, 1996).

Table 2: Reasons for Individuals' Withdrawals from the Health Professions Scholarship Program and the Financial Assistance Program—Fiscal Years 2003-2007

Reason	Number of occurrences
Voluntary withdrawal	44
Medical disqualification	29
Academic failure	20
Declaration of homosexual orientation	15
Noncompliance/misconduct	15
Personal/hardship	12
Declaration of conscientious objector status	8
Gender identity disorder	1
Security clearance denial	1
Unknown	26
Total	171

Source: DOD case files.

Note: We were not able to confirm reasons for withdrawals in all cases because detailed files were not available at the time of our review.

When participants resign from the program, they must give the reason for their separation, and a decision is made as to whether to accept their resignation and whether or not they will be obligated to repay their medical educational expenses. When recoupment of medical education expenses is determined to be necessary, the services initiate their debt recoupment paperwork.

DOD Has Procedures in Place to Recoup Expenses, but Procedural Weaknesses Are Hindering Implementation

DOD has established procedures to recoup medical education expenditures from participants who fail to complete their education or to serve their active duty service obligation; however, our analyses revealed weaknesses in the collection, management, and monitoring of these debts, such as significant delays in the collection of some accounts. Specifically, confusion exists with regard to the roles and responsibilities for the initiation of debt recoupment actions, and we found that DFAS had not been fully adhering to established debt collection procedures. Further, once DFAS accepts and records debt recoupment packages, little communication occurs between DFAS and the services concerning the status of the recoupment efforts. DFAS is currently pursuing about \$6 million in medical education debt that resulted from participants leaving the program or choosing not to fulfill their service obligation for the years we reviewed.

While the services transferred many complete and properly constructed debt recoupment packages to DFAS in a timely manner, several years passed in other cases before DFAS initiated any recovery. The Under Secretary of Defense (Comptroller) is responsible for establishing uniform DOD financial management policies, principles, and procedures and has issued a financial management regulation that addresses these matters. Even though DOD's regulation⁶ clearly states what items the services are to include in debt packages that are transferred to DFAS, we found several examples of debt packages that were returned from DFAS to the services multiple times because they were incomplete or improperly constructed,

⁶DOD 7000.14-R, Volume 5, Chapter 29, August 2003.

which resulted in significant delays in the process. For example, the Army prepared the debt recoupment paperwork for one case in July 2003, but did not send a complete and properly constructed debt package to DFAS until February 2008. Thus, no collections occurred for a 5-year period on a \$17,000 debt. Additionally, the Army began the paperwork on a \$221,000 debt beginning in January 2005, but the Army still had not sent DFAS a complete and proper debt package at the time of our review. According to DFAS officials, it is not uncommon for large time gaps to elapse while DFAS waits for the services to complete required documentation or properly prepare the packages after DFAS has rejected them as incomplete. Such rejections and returns can occur multiple times on a single case. For example, DFAS initially rejected a Navy case in November 2005 because the debt amount was missing from the documentation, and so DFAS sent it back to the Navy. DFAS rejected the package a second time in May 2006 because the package did not include an appropriation code or breakdown of the debt and again sent it back to the Navy. DFAS subsequently rejected the package a third time in May 2007 for the same reasons and a fourth time in February 2008, stating in the latter case that it could not recoup stipend amounts that the Navy had included in the package. Army and Navy officials confirmed that they were unaware of instructions for preparing debt recoupment paperwork and were unsure of the content and format that DFAS expects in the debt packages.

Roles and responsibilities between DFAS and the military services for initiating debt recoupment actions are not clear. According to DFAS officials, the services are supposed not only to issue the initial bill, invoice, notice, or demand for payment letter, but also to attempt collecting on the debt and to take appropriate follow-up action before transferring the debt. However, responsible officials from the Army, Navy, and Air Force all told us that they do not attempt any initial collection of funds because they have neither (1) the debt collection authorities that DFAS has, nor (2) the resources to dedicate to this task, even if they had the authority to do so. As a result, the military services have been preparing the initial debt recoupment packages, and DFAS has been collecting the debts.

Additionally, we found an example where DFAS had not been adhering to established debt recoupment procedures. The DOD Financial Management Regulation requires the military services to prepare and submit a debt transmittal letter to DFAS to process the delinquent debts. Use of the transmittal letter helps to control the transmission of debt cases and to identify all attached debt case files by name, social security number, and monetary amount. Once DFAS accepts the debt and records it in its Defense Debt Management System, a copy of the transmittal letter is returned to the service with an effective date of transfer listed on it. DFAS officials said that this transmittal letter is an important part of the package and that without it, packages would be rejected. However, they noted that since the Air Force debt packages come from an office co-located with DFAS in the same building, DFAS officials often accepted hand-carried Air Force debt packages without transmittal letters. The informality of this practice increases the potential for errors in transferring and tracking these debt packages between DFAS and the Air Force.

In addition, both DFAS and service officials explained that little communication occurs between them concerning the status of the recoupment effort after DFAS accepts and records a debt package in its Defense Debt Management System.

Officials from each of the military services said that they would like to know more about the status of the debts sent to DFAS. However, DFAS officials stated that they send signed and dated transmittal letters, when they exist, back to the services and contended that this action fulfilled their purpose. Nevertheless, service officials indicated that they could benefit from more frequent and clearer communication.

To correlate the amount of debt established and sought by the services and DFAS, we compared the services' data regarding individuals who did not complete the program or failed to serve their active duty obligation for fiscal years 2003 through 2007 against the data DFAS extracted from its Defense Debt Management System. Table 3 shows the differences between the service and DFAS data.

Table 3: Number of Individuals and Debts Owed, as Reported by the Military Services and DFAS

(rounded to the nearest thousand)

Service	Services' data	DFAS' data
Army	\$3,696,000 (48 individuals)	\$2,161,000 (41 individuals)
Navy	\$2,263,000 (39 individuals)	\$407,000 (10 individuals)
Air Force	\$2,594,000 (57 individuals)	\$3,252,000 (57 individuals)
Totals	\$8,553,000 (144 individuals)	\$5,820,000 (108 individuals)

Source: Army, Navy, Air Force, and DFAS data.

As table 3 shows, the data provided by the services indicate that there is about \$8.5 million in debts, while the DFAS data indicate that there is approximately \$6 million of delinquent medical education debt recorded in its system for accounts initiated during fiscal years 2003 through 2007. Similarly, the data provided by the services identified 144 individuals who owed debts, while the data maintained by DFAS identified only 108 individuals. Our efforts to reconcile the data revealed multiple reasons why differences existed between the two data sets, but in actuality, the differences for almost all of the cases could be explained. Many of the differences can be explained by the following three reasons and are consistent with issues we have previously discussed. First, we found that the service data contained a number of debts that had been paid in full and had therefore been purged from the DFAS database. Second, we found cases that the services had initiated and that DFAS had rejected and sent back to the services, most often because the recoupment package was either incomplete or improperly prepared, and therefore they had not yet been recorded in the DFAS system. Third, we found cases for which the services had prepared debt recoupment packages they had only recently sent to DFAS, where the packages had not yet been reviewed and accepted and were therefore not yet recorded in the DFAS system. This was especially true for the Navy, from which 17 individuals' debt packages had just arrived at DFAS at the time of our review. Additionally, the Navy list included 11 more individuals who had separated from the program as far back as 2004, but whose debt packages had just been completed and had not yet been sent to DFAS for review. Complicating our review of the DFAS records was the fact that some of its files had inadvertently been sent to the Federal Center for storage in preparation for DFAS' upcoming move to Indianapolis. Taking these and other factors into account, we developed a reconciled list that, we believe,

reflects a more realistic snapshot of the status of recoupment for the time frame we examined. Our reconciled list indicates that there were actually 51 Army, 48 Navy, and 72 Air Force individuals, for a total of 171 individuals, who account for approximately \$10 million of medical education debt either already collected or currently in the process of recoupment, as shown in table 4.

Table 4: Reconciled Medical Education Debts for Fiscal Years 2003-2007 and Average Debt Amount per Individual
(rounded to the nearest thousand)

	Army (51 individuals)	Navy (48 individuals)	Air Force (72 individuals)	Total (171 individuals)
Reconciled debt amounts	\$ 3,840,000	\$2,595,000	\$3,684,000	\$10,119,000
Average debt	\$75,000	\$54,000	\$51,000	\$59,000

Source: GAO analysis of DFAS, Army, Navy, and Air Force data.

Totals may include stipend amounts.

Until DOD takes steps to clarify roles and responsibilities, follow existing regulations, and develop better communication procedures, its collection of medical education debts will be hindered by confusion and inconsistency.

Unresolved Questions Exist as to DOD’s Authority to Recoup Stipends

DFAS and the military services are not in agreement as to whether stipends paid under the Health Professions Scholarship Program or the Financial Assistance Program can be recouped from those who fail to complete either the program or their active duty service obligation. The practice of recouping stipends has undergone changes over the years, and the Health Professions Scholarship Program and Financial Assistance Program service agreements that individuals sign upon accepting DOD’s financial assistance do not consistently state whether stipends are to be recouped.

DFAS officials told us that until mid-2007, they were collecting stipend amounts as part of debt recoupment accounts. They said that at about that time, however, they were advised that the issue of stipend recoupment had been reviewed by the DFAS General Counsel, Army attorneys, and an Office of the Secretary of Defense attorney, all of whom had concluded that stipends could not be recouped, based on section 2005 of Title 10 of the U.S. Code⁷, which addresses active duty agreement and reimbursement requirements for people receiving advanced education assistance. Since these attorneys decided that stipends were not recoupable, DFAS started rejecting debt packages sent from the services if the packages included stipend amounts, sending with the rejections a standard cover sheet explaining this position. Officials we spoke with from each of the services confirmed that the issue of stipend

⁷This law allows service secretaries to require a person to enter into a written agreement, as a condition to receiving assistance, in which the person agrees to, among other things, be subject to the repayment provisions of 37 U.S.C. 303a (e) in the event that the person does not fulfill the obligations specified in the agreement. Prior to an amendment in the National Defense Authorization Act for Fiscal Year 2006, 10 U.S.C. §2005 did not make reference to 37 U.S.C. 303a (e) but required the person to agree to repay a portion of the total “cost of advanced education.” Section 2005 contains a provision that exempts stipends under the Health Professions Scholarship Program from the definition of “cost of advanced education” for purposes of that section.

recoupment has been confusing, that there seems to have been a change in the practice of recouping stipends within the past year, and that the change has caused many recoupment packages to be rejected by DFAS.

We discussed the confusion over the current legal status of the stipend recoupment issue with an Air Force legal official during the course of our review. He confirmed that differing interpretations of the laws existed and mentioned that a number of revisions and amendments had been made to the laws over the past 25 years. He explained that Air Force officials had again reviewed the statutes and determined that the amendments in the 2006 National Defense Authorization Act had made stipends recoupable. The Air Force currently holds that stipends are recoupable, based on section 303a (e) of Title 37 of the U.S. Code, which addresses repayment of bonuses and other benefits.⁸

Additionally, we reviewed a number of Army, Navy, and Air Force service agreements and discussed them with officials to determine whether they specifically mentioned stipends as part of the medical education costs that could be recouped. We determined that, in all but one agreement we examined, stipends were not explicitly addressed. They generally contain a provision that follows a standard format requiring a program participant to agree to repay the government for all costs incurred, plus interest, or any portion thereof, as determined by the respective service secretary, in the event that the participant voluntarily or because of misconduct or other reasons fails to complete the active duty or alternative service obligations set forth in the agreement. In most of the agreements we reviewed, no specific references were made to stipends. The Air Force official informed us that the fiscal year 2008 Air Force Health Professions Scholarship Program and Financial Assistance Program service agreements will contain language reflecting the 2006 change to the law that, in their opinion, allows stipends to be considered a recoupable medical education cost.

As a result of these inconsistencies regarding the eligibility of the stipend for recoupment, DOD is not in a position to ensure that it is collecting all of the money to which it is authorized or collecting reimbursements consistently across the services. Furthermore, program participants do not have full and accurate information about DOD recoupment policies.

⁸The Air Force believes stipends are recoupable under 37 U.S.C. §303a(e), as recently amended by section 687 of the National Defense Authorization Act for Fiscal Year 2006, which states that a member of the uniformed services who receives a “bonus or similar benefit” that is subject to the condition that the member continue to satisfy certain eligibility requirements shall repay to the United States an amount equal to the unearned portion of the bonus or similar benefit if the member fails to satisfy the requirements, except in certain circumstances authorized by the Secretary concerned. It further states that the term “bonus or similar benefit” means a bonus, incentive pay, special pay, or similar payment, or *an educational benefit or stipend*, paid to a member of the uniformed services under a provision of law that refers to the repayment requirements of this subsection.

Conclusions

Although nearly all participants in the Armed Forces Health Professions Scholarship Program and Financial Assistance Program complete their medical education and serve their required active duty service, there are a number of cases where this does not happen. Because of the time required to educate and train medical personnel and the financial investment that DOD makes in these individuals, their loss further exacerbates the challenges DOD faces in its ability to fill critically needed medical positions. Even though DOD can seek recoupment of the money spent on these students, its ability to actually collect that money is complicated by noncompliance with internal regulations, the lack of a system to routinely monitor and follow up on these debts, and legal questions. Until DOD takes steps to clarify roles and responsibilities, follow established debt recoupment procedures, develop better communication procedures, determine the legality of stipend recoupment, and clarify that determination to the military services and program participants, its collection of medical education debts will be hindered by confusion and inconsistency.

Recommendations for Executive Action

To help strengthen debt collection procedures, we recommend that the Secretary of Defense direct:

- the Under Secretary of Defense, Comptroller, and the service secretaries to clarify the roles and responsibilities of DFAS and the services for initiating the debt recoupment collection process and revise the DOD Financial Management Regulation as necessary;
- the Director, Defense Finance and Accounting Service, to follow the established regulation requiring transmittal letters as part of debt recoupment packages transferred from the military services; and,
- the Director, Defense Finance and Accounting Service, to establish a procedure to periodically communicate with the services the status of debt recoupment packages that DFAS has officially accepted and established within its Defense Debt Management System so that any discrepancies among the services' records can be reconciled in a timely manner.

To provide greater assurance that the correct legal sums of money are recouped from program participants who do not fulfill their active duty service obligations and to fully disclose debt collection expectations, we recommend that the Secretary of Defense direct:

- the Under Secretary of Defense for Personnel and Readiness, in coordination with the Under Secretary of Defense, Comptroller, the Assistant Secretary of Defense for Health Affairs, and DOD General Counsel, to review and determine whether stipends are legally eligible for recoupment and clearly communicate this determination to the services and DFAS; and,

- the Assistant Secretary of Defense for Health Affairs and the service secretaries to determine whether specific language needs to be included in program participants' service agreements in order to accurately reflect the policy regarding recoupable expenses, once that determination is made, and include specific language in the agreements if found to be necessary.

Agency Comments and Our Evaluation

In commenting on a draft of our report, DOD concurred with each of our recommendations and included estimated completion dates for taking corrective actions. The department's comments are reprinted in their entirety in enclosure II.

We are sending copies of this report to the Secretary of Defense; the Secretaries of the Army, Navy, and Air Force; and the Director of the Defense Finance and Accounting Service. We will also make copies available to others on request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

Should you or your staff have any questions on the matters discussed in this report, please contact me at (202) 512-3604 or farrellb@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this letter. GAO staff who made key contributions to this report are listed in enclosure III.



Brenda S. Farrell
Director, Defense Capabilities and Management

Enclosures – 3

List of Congressional Committees

The Honorable Carl Levin
Chairman
The Honorable John McCain
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Daniel K. Inouye
Chairman
The Honorable Ted Stevens
Ranking Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable Ike Skelton
Chairman
The Honorable Duncan L. Hunter
Ranking Member
Committee on Armed Services
United States House of Representatives

The Honorable John P. Murtha
Chairman
The Honorable C.W. Bill Young
Ranking Member
Subcommittee on Defense
Committee on Appropriations
United States House of Representatives

Scope and Methodology

To address our objectives, we obtained and reviewed available documents, laws, regulations, and other information related to the Armed Forces Health Professions Scholarship Program and Financial Assistance Program.

We interviewed officials within the TRICARE Management Activity, the Defense Finance and Accounting Service, the Offices of the Surgeons General of the Army and Air Force, the Office of the Secretary of the Air Force for Manpower and Reserve Affairs, the Air Reserve Personnel Center, and the Navy's Bureau of Medicine and Surgery.

To determine the extent to which the participants of the Health Professions Scholarship Program and Financial Assistance Program fail to enter active duty service as obligated, we obtained both accession and attrition information from the military services along with reasons for disenrollment.

Initially, we discussed the programs with a TRICARE Management Activity official since this office manages the execution of policy issued by the Assistant Secretary of Defense for Health Affairs in the administration of all DOD medical and dental programs. From this office, we obtained various statutory authority documentation, DOD guidance, directives, and policy memorandum citations, overall program participant goals and actual fill rates for fiscal years 2003 through 2007 and by corps (medical, dental, nurse, or allied health).

Each of the military services provided data of the participants who, for fiscal years 2003 through 2007, had failed to complete their medical education or did not fulfill their active duty service obligation after their graduation and now had a medical education related debt to DOD. Additionally, they also provided specific reasons why these participants separated from the program or failed to fulfill their active duty service obligations. From this information we compiled a summary of the most common reasons for separation.

To determine the extent to which DOD has procedures in place to recoup expenditures paid to Health Professions Scholarship Program or Financial Assistance Program participants who fail to fulfill the active duty obligation, we obtained statutes and legal opinions along with DOD, the Defense Finance and Accounting Service, and each service's regulations or instructions on recoupment procedures.

We also used GAO's *Internal Control Management and Evaluation Tool* (GAO-01-1008G), to identify important communication procedures. Adherence to these standards, while not required, provides a systematic, organized, and structured approach to assessing an agency's internal control structure. Additionally, we obtained data from the Defense Finance and Accounting Service's Defense Debt Management System of all participants for fiscal years 2003 through 2007 for whom it had a medical education related debt established in the automated system. Using this information and the data that the military services had provided earlier, we used a case-by-case analysis to reconcile the data and explain the differences between the

Enclosure I

two sets of data in order to identify weaknesses in the internal control procedures for reporting and managing the collection of delinquent medical education debts. We assessed the reliability of the Defense Finance and Accounting Service's data from the Defense Debt Management System by obtaining information on the management of the system and any data reliability procedures in place. We determined that the Defense Finance and Accounting Services' Debt Management System's data were sufficiently reliable for the purposes of this report.

To determine the extent to which the DOD has, specifically, sought and received reimbursement for stipends, we obtained legal documentation from DOD and the military services and discussed their interpretations of how the collection of stipends has changed over the years. Further, we analyzed changes to the statutes concerning DOD's authority to recoup stipends. Additionally, we obtained and reviewed the service agreements that program participants sign and their disclosure of recoupable expenses.

We conducted this performance audit from February 2008 through March 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit.

Comments from the Department of Defense



THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-1200

MAR 28 2008

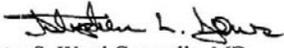
Ms. Brenda S. Farrell
Director, Defense Capabilities and Management
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Ms. Farrell:

This is the Department of Defense response to the Government Accountability Office (GAO) draft report, "Military Personnel: Better Debt Management Procedures and Resolution of Stipend Recoupment Issues Are Needed for Improved Collection of Medical Education Debts," dated March 24, 2008 (GAO Code 351130/GAO-08-612R). We concur with the recommendations of the report.

My points of contact on this audit are Mr. Richard Franco (functional) at (703) 681-4321 and Mr. Gunther Zimmerman (Audit Liaison) at (703) 681-4360.

Sincerely,


S. Ward Casscells, MD

Enclosure:
As stated

GAO DRAFT REPORT DATED MARCH 24, 2008
GAO-08-612R (GAO CODE 351130)

“MILITARY PERSONNEL: Better Debt Management Procedures and Resolution of Stipend and Stipend Recoupment Issues are Needed for Improved Collection of Medical Education Debts”

**DEPARTMENT OF DEFENSE COMMENTS
TO THE RECOMMENDATIONS**

RECOMMENDATION 1: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense, Comptroller, and the service Secretaries to clarify the roles and responsibilities of the Defense Finance and Accounting Service (DFAS) and the services for initiating the debt recoupment collection processes and revise the DOD Financial Management Regulation as necessary.

DOD RESPONSE: Concur. The Deputy chief Financial Officer (DCFO) will clarify the roles and responsibilities of the DFAS and the Services for initiating the debt recoupment collection process and revise the DOD Financial management Regulation, Volume 5, Chapter 29, “Collection of Out-of-Service Debts,” as necessary. Estimated completion date is June 30, 2008.

RECOMMENDATION 2: The GAO recommends that the Secretary of Defense direct the Director of DFAS to follow the established regulation requiring transmittal letters as part of debt recoupment packages transferred from the military services;

DOD RESPONSE: Concur. During the audit, it was discovered that transmittal letters were not required for debt packages that were hand carried from the Air Reserve Personnel Center (ARPC) to the DFAS technician. The DCFO will direct the Director, DFAS to issue policy memorandum advising ARPC that a transmittal letter must accompany all debt recoupment packages. Estimated completion date is April 4, 2008.

RECOMMENDATION 3: The GAO recommends that the Secretary of Defense direct the Director of DFAS to establish a procedure to periodically communicate with the services the status of debt recoupment packages that DFAS has officially accepted and established within its Debt Management System so that any discrepancies among the services’ records can be reconciled in a timely manner.

DOD RESPONSE: Concur. The DCFO will direct the Director, DFAS to periodically communicate with the Services the status of debt recoupment packages that DFAS has officially accepted and established within its Debt Management System so that any discrepancies among the Service’s records can be reconciled in a timely manner. Estimated completion date is April 4, 2008.

RECOMMENDATION 4: The GAO recommends that the Under Secretary of Defense for Personnel and Readiness, in coordination with the Under Secretary of Defense, Comptroller, the Assistant Secretary of Defense for Health Affairs, and DoD General Counsel, to review and determine whether stipends are legally eligible for recoupment and clearly communicate this determination to the services and DFAS

DOD RESPONSE: Concur. This issue will be referred to the appropriate legal counsel offices for review by 01 April 2008.

RECOMMENDATION 5: The GAO recommends that the Assistant Secretary of Defense for Health Affairs and the service secretaries to determine whether specific language needs to be included in program participants' service agreements in order to accurately reflect the policy regarding recoupable expenses, once that determination is made, and include specific language in the agreements if found to be necessary.

DOD RESPONSE: Concur, pending outcome of DOD response to Recommendation 4.

Enclosure III

GAO Contacts and Staff Acknowledgments

GAO Contact

Brenda S. Farrell, (202) 512-3604 or farrellb@gao.gov

Acknowledgments

In addition to the individual named above, David Moser (Assistant Director), Rebecca Beale, Janine Cantin, Nicole Harms, Terry Richardson, Cheryl Weissman, and Matthew Young made key contributions to this report.

(351130)

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