

GAO

Report to the Chairman, Committee on  
Armed Services, House of  
Representatives

February 1990

OVERSEAS  
ALLOWANCES

Improvements Needed  
in Administration





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

**National Security and  
International Affairs Division**

B-236021

February 12, 1990

The Honorable Les Aspin  
Chairman, Committee on  
Armed Services  
House of Representatives

Dear Mr. Chairman:

This report is in response to a requirement in the House Report supporting the Defense Authorization Act for fiscal year 1989 that we review the adequacy and timeliness of the overseas housing allowance and cost of living allowance programs.

We are sending copies of this report to the Director, Office of Management and Budget; the Chairman, Senate Committee on Armed Services; the Secretaries of Defense, the Army, Navy, and Air Force; the Chairmen, House and Senate Committees on Appropriations; and other interested parties. We will make copies available to others upon request.

This report was prepared under the direction of Paul L. Jones, Director, Manpower Issues (202) 275-3990. Other major contributors are listed in appendix II.

Sincerely yours,

A handwritten signature in cursive script that reads 'Frank C. Conahan'.

Frank C. Conahan  
Assistant Comptroller General

The timeliness of currency exchange rate adjustments to the overseas allowances did not appear to be a major problem, but some improvements are needed. To reduce the 6-month time lag between performing surveys and making allowance adjustments will require some fundamental changes in the data collection processes and greater use of computers.

---

## GAO's Analysis

---

### Service Member Perceptions

The purpose to be served by the cost of living allowance program and the standard for measuring its adequacy lack specificity. Nevertheless, most of the service members GAO interviewed at 10 locations in 7 countries were generally satisfied with the living allowance they received. They did not fully understand its purpose or how it was computed. Similarly, most members GAO interviewed were satisfied with their overseas housing allowance but enlisted members were less satisfied than officers.

### Problems With DOD's Development of Cost of Living Allowance

GAO found that the Per Diem Committee used inaccurate, incomplete, and misrepresentative information in establishing allowance rates. These problems can be attributed, in large part, to a lack of internal management controls. For example:

- Surveys on shopping patterns were not representative of the military population receiving the allowance. For example, 62 percent of the surveys returned from one location came from officers even though they constituted only 20 percent of the members receiving cost of living allowances.
- Survey locations were not representative of the entire country. For example, GAO noted that \$2.9 million could have been saved if DOD had established separate indexes for two locations in Southern Italy.
- The Per Diem Committee is using incorrect and outdated U.S. prices that overestimated the cost of living in the United States. This reduces the price differential between U.S. cost and the higher overseas cost, thereby causing overseas cost of living allowances to be lower than intended.

GAO also noted that there is a time lag from the time cost of living and housing survey data are collected to when changes are implemented. Given the small staff and the large number of forms that must be analyzed, these time lags appear to be unavoidable, unless major changes are made to the procedures for collecting and analyzing data. GAO suggests two ways. First, the number of personnel required to complete living pattern surveys at locations could be reduced by using standard statistical sampling procedures. Second, using computers to perform required calculations could reduce the time required to compute an allowance for a location or country to a matter of minutes or hours as opposed to weeks and months.

---

## Recommendations

GAO makes a number of recommendations to the Secretary of Defense designed to strengthen management controls over data collection and analysis, provide automated support for decision-making, and bring more consistency to the allowance-setting process.

---

## Agency Comments

DOD generally concurs with most of GAO's findings and recommendations.

One of GAO's proposals in a draft of this report was that DOD study whether a rate-setting process should be established that assumes that available goods and services would be purchased on base. DOD performed such a study and found no significant cost difference between this approach and the current system. DOD stated that because of the potential adverse impact on morale of any such change in the system, it did not believe further study was warranted. Since DOD has performed the analyses recommended in our draft report and its methodology seemed reasonable, GAO has deleted the recommendation from the final report. However, GAO has not analyzed DOD's study.

---

<b>Appendixes</b>	Appendix I: Comments From the Department of Defense	44
	Appendix II: Major GAO Contributors to This Report	71

---

<b>Tables</b>	Table 2.1: Locations DOD Tested Overseas	17
	Table 2.2: Average U.S. Price for Selected Items	21
	Table 3.1: Responses of Interviewees on What OHA Information Was Provided to Them	27
	Table 3.2: Cost Versus Reimbursement for Moving in and Moving Out	30
	Table 3.3: OHA Survey Response Rate by Location	31

---

<b>Figures</b>	Figure 1.1: 10 Year Total Costs of OHA and COLA (Constant Fiscal Year 1990 Dollars)	11
	Figure 1.2: OHA and COLA for Typical Officer	12
	Figure 4.1: Excerpt From Living Pattern Survey	41

---

**Abbreviations**

COLA	Cost of Living Allowance
DOD	Department of Defense
GAO	General Accounting Office
OHA	Overseas Housing Allowance

agreement lose their entire OHA. All members receiving OHA are sent survey forms so the Committee can determine the non-rent portions for the allowance. However, failure to return the form does not affect whether an individual receives the allowance.

In fiscal year 1988, the rental element accounted for 80 percent of the total OHA. Utilities and recurring maintenance accounted for 15 percent, and moving-in and moving-out expenses accounted for 5 percent.

---

## Cost of Living Allowance

COLA is intended to enable service members to maintain purchasing power at the U.S. level in overseas areas where the cost of living is higher. In some countries, such as Korea, the cost of living is lower, so no COLA is paid.

COLA is currently computed by comparing the results of two surveys done at overseas locations with similar surveys performed in the United States. About every 4 years or when a change in purchasing options occurs, such as the opening or closing of a commissary or major local retail outlet, overseas commands conduct a living pattern survey by asking service members where they shop. The purpose of the survey is to obtain the names of local outlets used to purchase about 160 goods and services, and the percentage of time these items are purchased off base rather than at government facilities. Commands then use the living pattern survey to conduct a survey of the retail prices for these items. Committee staff then compare prices to U.S. retail prices paid by military families, as reported by the Bureau of Labor Statistics, and with U.S. commissary and exchange prices to determine the need for and amount of the COLA for locations overseas. If the price differential is small, COLA is small.

---

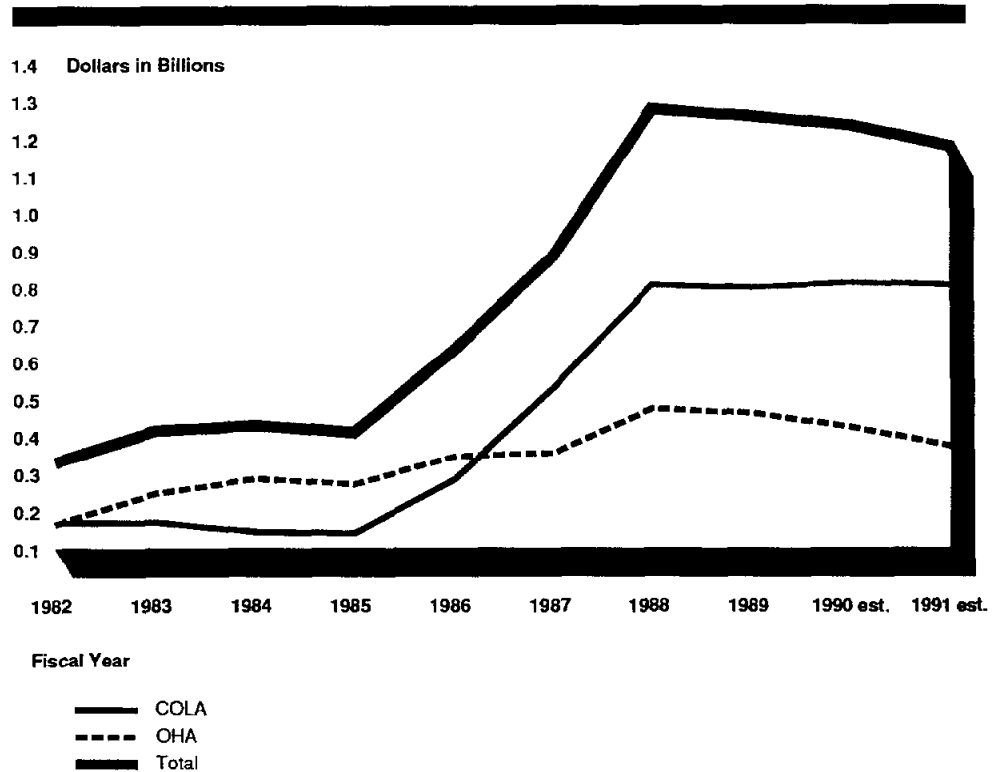
## Administration of Overseas Allowances

The Committee is chaired by the deputy assistant secretary of defense for military manpower and personnel policy, and has as members a deputy assistant secretary from each military department and representatives from other departments that have uniformed services.<sup>3</sup> The Economics and Statistics Branch of the Committee is responsible for recommending allowance levels. During fiscal year 1988, the Branch recommended 535 OHA and 405 COLA changes worth about \$1.2 billion,

---

<sup>3</sup>Other executive departments that have uniformed services are the Departments of Transportation (Coast Guard), Health and Human Services (Public Health Service), and Commerce (National Oceanic and Atmospheric Administration).

**Figure 1.1: 10 Year Total Costs of OHA and COLA** (Constant Fiscal Year 1990 Dollars)



were sometimes ignored. This situation still exists. DOD's 1988 Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512) annual report<sup>6</sup> identified the Committee's lack of automation as a significant weakness that adversely affects housing and cost of living allowances. One of the Committee's efforts to correct the weakness was a contractor study of OHA, which was completed on June 21, 1988. The study identified several of the problems we noted during our review. According to DOD, automation does not remain a significant weakness. Since 1983, it has constantly emphasized automation and has taken strides to automate parts of the housing allowance system. It still needs to automate the cost of living and non-rent portions of the system to enable it to react to economic changes.

## Objectives, Scope, and Methodology

Our objectives were to evaluate (1) the adequacy and timeliness of increases in OHA and COLA and (2) whether all appropriate items are included and properly weighted when calculating COLA. To accomplish

<sup>6</sup>The act requires heads of agencies to make an annual examination of their internal controls and issue annual reports on their systems and plans to correct identified weaknesses.

cost, and to examine internal management controls over the allowance-setting procedures.

We used a structured format to interview 200 randomly selected service members about COLA and OHA—a sample of 20 at each overseas location. The sample consisted of five first-time OHA recipients, two members sharing the same housing, five members with dependents and three without dependents, one homeowner, and four service members in the grades of E-8, E-9, O-5, or O-6. Even though we selected these categories and the 10 locations to cover a variety of situations in which OHA can be received, our results cannot be projected because of the small sample sizes.

The information obtained in Hawaii was limited because most service members there are now under the variable housing allowance program. The OHA program was phased out in Hawaii in November 1989. Information gathered in Korea was unique because service members there do not receive a COLA. Rather than gathering information about the adequacy of COLA, we focused on whether members needed COLA and whether procedures were in place to identify if and when it would be needed.

We performed our work from August 1988 to June 1989 in accordance with generally accepted government auditing standards.



## Most Service Members Believe COLA Was Adequate, but Few Knew Its Purpose

About 66 percent of the 180 service members we interviewed in countries other than Korea<sup>2</sup> said that COLA “kept up” with the cost of living to a moderate extent, and 13 percent said to a great extent. However, the remaining 21 percent said that COLA helped little in “keeping up” with living costs. Enlisted personnel were less likely than officers to say that COLA was adequate, and service members in certain locations—Yokosuka, Okinawa, Naples, and Oahu—were less satisfied with their COLAs than their counterparts in other locations.

Most service members we interviewed misunderstood the purpose of COLA. Approximately 70 percent thought COLA was supposed to allow them to purchase the same goods overseas as in the United States; 72 percent said COLA should rise whenever the exchange rate decreased; and 42 percent thought COLA was supposed to help pay for their rent and utilities. None of these perceptions accurately represent the purpose of COLA as expressed by DOD. American goods cannot be purchased at all locations overseas, so the ability to purchase similar goods is actually DOD’s goal for the program. COLA may not go up every time the value of the dollar declines because U.S. prices may also be affected at the same rate, or because spending patterns may change. Finally, the OHA program is designed to cover housing expenses at the overseas location, not COLA. DOD agrees service members should understand the purpose of COLA, and plans to publish information on the program in fiscal year 1990.

## Alternative Approaches for Implementing a COLA System

DOD’s current approach is based on collecting data in the United States and at overseas locations on (1) what goods and services military personnel buy, (2) where they buy them, and (3) how much they pay for them. The Per Diem Committee uses several sources to obtain these data, but the principal sources are (1) the living pattern surveys performed overseas, which ask service members where they shop and what proportion of their shopping is done at those outlets, and (2) retail price surveys for approximately 160 “market basket” items performed at these retail outlets.

These data are then used to calculate a COLA index for a particular overseas location. An index number, such as “110,” for example, means the overseas location is about 10 percent more expensive than the United

<sup>2</sup>Korea does not have a COLA; therefore, this portion of our analysis did not include the 20 random interviews we conducted there.

reason indexes decreased in Japan (see table 2.1) was that members purchased a significant amount of their fruits, vegetables, and other food items at higher cost from local merchants because these products are frequently not available in commissaries. Based on past visits, quality, availability, and convenience were major factors influencing local purchase decisions. Table 2.1 shows the areas tested and the results.

**Table 2.1: Locations DOD Tested Overseas**

Area	COLA index			Percent of total COLA recipients
	Actual	Test	Difference	
Germany <sup>a</sup>	112	112	0	52.0
Italy <sup>a</sup>	108	108	0	2.8
United Kingdom <sup>a</sup>	112	112	0	5.4
Oahu	108	108	0	12.1
Okinawa, Japan	132	124	-8	5.7
Yokosuka, Yokota, Camp Zama, Japan	136	126	-10	3.5
<b>Sample</b>				<b>81.5</b>

<sup>a</sup>All localities within 1 hour of a commissary/exchange.

For this and other reasons, DOD opposes changing the current basis used to determine COLA.

Since DOD has performed the analysis recommended in our draft report, we have deleted this recommendation from the final report. Although DOD's methodology seemed reasonable, we did not review DOD's study.

## Data Collection and Analysis Concerns

In addition to evaluating DOD's overall rationale supporting its COLA approach and methodology, we also evaluated the processes used by the Per Diem Committee to set COLA rates. We found a variety of problems with both data collection and analysis.

### Survey Responses Were Not Representative

Since reported shopping patterns affect all COLA recipients at a location, survey respondents should be representative of the members at the location. We found several instances where the living pattern surveys did not represent the military population receiving COLA. For example, survey officials in Naples selected a sample based on a Department of State sample stratification, which overrepresented officers. Consequently, 62 percent of the surveys returned came from officers, even though they constituted only 20 percent of the members receiving COLA. Officers

been established for southern Italy,<sup>4</sup> approximately \$2.8 million would have been saved at those two locations in 1988, but DOD disagreed with this estimate. Our estimate was based on DOD's data, which should have been tested previously to determine whether a separate allowance or a combined one would have been appropriate.

Per Diem Committee staff did not ensure that the locations they used represented other locations. Until early this year, the Committee had not collected data on the populations receiving COLAs at overseas locations. The Committee also did not select survey locations using statistically valid methods, but used locations that were most cooperative in returning data. Finally, the Committee had not appropriately tested the pricing data it received to determine if the data from different locations should have been combined to calculate an overall COLA rate or whether separate COLA rates would have been more appropriate.

In its response to our draft report, DOD partially concurred with our findings. DOD agreed that selecting locations using statistical techniques could produce more representative analyses. It will include this as an issue for additional study. It does not believe that its existing practices are inappropriate, and that separate indexes are necessary for Italy, despite our analyses. Nevertheless, it has requested a living pattern survey for 1990 for Sigonella Air Station, with an emphasis on restaurant prices, to help determine if separate indexes are needed for different areas in Italy.

---

### Living Pattern Surveys Were Untimely

DOD's current methodology calls for conducting living pattern surveys before retail price surveys so that data collectors know which off-base outlets members most frequently used. However, at two locations in Europe, living pattern surveys were done during or after the retail price surveys. Of the eight locations in Japan conducting surveys in 1988, three performed living pattern surveys after the price surveys, and three did not submit any living pattern data at all. Only two of the eight locations reported doing the surveys in a timely manner. The quality and timeliness of the 1988 living pattern data from Japan was so poor that the Per Diem Committee requested another survey in 1989. DOD agrees that living pattern surveys should be conducted before retail

---

<sup>4</sup>Establishing separate indexes for southern Italy would have resulted in a COLA of 102 for Comiso and 106 for Naples. With a COLA of 110 for the other full support locations, there would have been three indexes for these locations in 1988, as opposed to the single index that did not adequately represent the locations in the south.

the Committee's weighted average U.S. prices shows differences in commonly purchased items (see table 2.2).

Table 2.2: Average U.S. Price for Selected Items

Item	BLS <sup>a</sup> average U.S. price (October 1988)	Per Diem Committee average U.S. price (October 1988)
Gasoline (gal.)	\$0.98	\$1.09
Eggs (doz.)	\$0.90	\$1.05
Fresh milk (qt.)	\$0.59	\$0.48
Chicken (lb.)	\$0.93	\$1.00

<sup>a</sup>Bureau of Labor Statistics, CPI Detailed Report, October 1988, Average Price tables P1 to P4.

This comparison illustrates that the Committee may be overestimating the U.S. cost of living, which would reduce price differentials, thereby causing overseas COLAs to be lower than intended. According to a Committee staff member, the Committee is considering using the Bureau's prices, although they include only a small number of the market basket items. In its response to our draft report, DOD agreed that the adjustment factors it uses need to be reviewed. This issue will be included in its planned study of the cost of living program.

## Lack of Statistical Analyses

The Per Diem Committee's process for calculating COLAs and manipulating data is outdated and lacks analytic rigor. The actual COLA analysis is largely done with desktop calculators and handwritten spreadsheets. Nearly all of the averaging of data (prices and on-base/off-base percentages) is based on simple arithmetic means. There are standard statistical tests to determine whether any set of data, including data from several locations, ought to be combined, but these statistical tests were not being used. Committee price analysts also at times excluded high and low price because they believed the prices were unrepresentative.

According to DOD, price analysts based their decisions on procedures (such as excluding designer clothing), reason, experience, comparison to past reports, and direct consultation with country representatives. Many of the problems that threaten the uniformity and objectivity of the system could be eliminated by modernizing and automating the data analysis process and utilizing standard statistical packages to aid in decision-making.

---

## Lack of Management Controls Affect COLA

Problems with the representativeness, accuracy, and completeness of the COLA surveys can be attributed, in large part, to a lack of internal management controls. As a result, the Committee based the allowance rates on inaccurate, incomplete, and nonrepresentative data. Therefore, allowance levels may have been inappropriate. In its response to our draft report, DOD acknowledged that these types of problems exist, and plans corrective actions for fiscal year 1990. DOD further stated that progress in addressing these problems will be monitored by the responsible deputy assistant secretary of defense. We believe this addresses the substance of our concerns and have reworded the text accordingly.

---

## Authority and Supervision Are Lacking

According to Committee officials, it does not have authority to task specific individuals or organizations to conduct the living pattern and retail price surveys overseas. According to the Joint Federal Travel Regulation, the senior commander in each country has overall responsibility for the surveys. The senior commander then delegates these responsibilities each year to an individual within the command, as needed. Different organizations have been involved in the survey process, and individuals have not been aware of their responsibility to conduct the surveys. Consequently, accountability for the surveys was lacking and the quality and completeness of survey data varied from country to country.

Confusion existed at some locations as to who was responsible for conducting surveys and who had conducted prior surveys. Country points of contact, responsible for overall coordination of the COLA surveys, could not identify individuals responsible for conducting the surveys because new officials were selected each year. At one location, two different organizations were, at the same time, planning to conduct the living pattern survey during the upcoming year. Neither organization was aware of the other's plans.

---

## Training and Guidance Are Minimal

The Committee staff has provided minimal training and guidance to survey coordinators on standard statistical principles of data collection and analysis. According to most country points of contact and survey coordinators we interviewed, they had not received any training on the survey objectives or methodology. Although they did have written instructions, these instructions were inconsistent at different locations and did not conform with standard statistical principles. Some survey coordinators said they were frustrated at having survey responsibilities but inadequate guidance and training.

- 
- modernize and automate the COLA analysis process to include standard statistical testing and documenting criteria used in decision-making; and
  - test its market basket assumptions to determine whether the basket adequately reflects high cost items unique to overseas locations.

---

## Agency Comments

In commenting on a draft of this report, DOD concurred with the recommendations stated above. However, DOD did not fully concur with recommendations dealing with alternative approaches for implementing a COLA system contained in the draft report. In finalizing our report, we have incorporated their comments in the body of the report, and have modified the text where appropriate. DOD also did not concur with our recommendation that the described data collection and analysis problems are significant management weaknesses and should be included in the DOD Federal Managers' Financial Integrity Act armed reports. Instead, DOD proposed correcting the problems and assigning responsibility for progress to the assistant deputy secretary of defense (military manpower and personnel policy). We believe this action will address our concerns, and we have deleted the recommendation from our final report.

was marginally adequate or better. However, the grades of recipients and their duty stations were major factors in their perceptions. A majority of enlisted personnel (59 to 63 percent) thought their OHA was marginally adequate or inadequate, whereas a majority of officers (56 percent) believed their OHA was adequate or better. Personnel at the three locations in Germany we visited were more likely to report the allowance was adequate or more than adequate (56 to 90 percent, with the highest in Frankfurt) than personnel assigned to the other locations visited. For example, compared to personnel in Germany, only 20 and 28 percent of the personnel in Yokosuka and Okinawa, Japan, respectively, believed the housing allowance was adequate.

Although 79 percent of the interviewees said they were told what their monthly rental ceiling would be, 71 percent said they were not told that their housing allowance could be lowered by factors beyond their control, such as newly assigned personnel moving into lower cost housing. In addition, 62 percent were not told what items they could claim under moving-in and moving-out expenses, and 45 percent were not told how the utilities portion of their allowance would be calculated. Table 3.1 summarizes these overall responses.

**Table 3.1: Responses of Interviewees on What OHA Information Was Provided to Them**

Information	Interviewee response		
	Told	Not told	Did not recall
What the maximum monthly housing allowance was for their grade level	79	16	5
How the rental allowance would be determined	45	39	16
How the utilities allowance would be determined	44	45	11
What the moving-in and moving-out allowance would cover	24	62	14
The possibility of the housing allowance being lowered	22	71	7

The following example illustrates how lack of understanding can contribute to inappropriately low allowance levels. The 1987 Frankfurt survey showed that reported moving-in and moving-out costs ranged from \$0 to \$3,600, with 65 percent reporting less than \$50. The Per Diem Committee's point of contact for Germany stated that these reported costs were obviously too low because service members must buy several transformers at \$50 each and pay \$35 for telephone installation. The

separate averages was not the result of standard, rigorous statistical procedures and consequently resulted in some incorrect decisions.

For six locations, we performed standard statistical tests on the significance of the differences between average utility costs for officer and enlisted personnel. Our tests showed the Committee took the correct action for four locations and incorrect actions for Torrejon, Spain, and Yokota, Japan. The Committee incorrectly judged that officer and enlisted utility costs were about the same at Torrejon and Yokota and established single rates for each location. As a result, officer personnel were undercompensated for their utility expenses, while enlisted personnel were overcompensated. At Yokota, for example, officers with dependents were undercompensated \$32 a month, while enlisted personnel with dependents were overcompensated \$27 a month. Separate rates would have eliminated this discrepancy and saved about \$166,000 annually in allowances paid to 670 personnel at this one location.

---

### Records Not Maintained on Excluded Data

The Per Diem Committee edited utility costs reported by service members at overseas locations. First, it computed the monthly average utility cost for each individual survey form, then it computed a combined average for all forms from a location. Committee compared individual utility averages with the combined average and excluded data deemed too extreme. Finally, it computed a new combined average.

According to a Committee analyst, high and low figures were excluded to avoid capturing data from members who have part of their utilities covered in rent and have excessive utility expenditures. Editing the utility averages simply involves reviewing an accounting tape and checking off those that are deemed too high or too low. Memoranda were not kept on which figures were excluded, and the criteria for making those decisions was based on what was excluded the previous year.

Automating the edit would allow the use of statistical guidelines and the maintenance of a clearer record of the editing decisions. The lack of such records, and the absence of adequate statistical guidelines in decision-making, casts doubt on the adequacy and fairness of the data used to compute this portion of the OHA.

In commenting on our draft report, DOD acknowledged it does not maintain formal file memoranda. However, DOD said it keeps records of excluded data points. We reviewed the data and found information



In its comments on our draft report, DOD agreed that this is a problem. DOD plans to correct the problem by collecting more accurate data on average time spent in privately leased housing for each major location within a country.

## Weak Management Controls

Internal management controls over the OHA survey methods are extremely weak. As a result, data gathered from these surveys are often incomplete, inaccurate, and nonrepresentative, and allowance levels are inappropriate. This raises serious questions about whether the Committee should use data resulting from its current survey methods as a basis for computing the non-rent portion of the allowance. Low response rates at one location caused the Committee to not adjust allowances, whereas unrealistically high response rates at two other locations indicated analysts were using survey forms that should have been excluded. The patterns of responses at several other locations indicated some bias in who returns the survey forms.

## Response Rate Deficiencies

Unless all OHA survey forms are returned from a particular location, the possibility exists that an inappropriately high or low allowance could be computed. According to the Committee analyst responsible for the OHA survey, he used a return rate of either 50 percent or 100 forms as a guideline. The 1988 response rates for locations in our review ranged from 8 percent to 110 percent, as shown in table 3.3.

**Table 3.3: OHA Survey Response Rate by Location**

Location	Universe	Returns	Percent
Frankfurt	1,504	1,659	110
Ramstein	2,987	1,644	55
Lakenheath <sup>a</sup>	1,537	121	8
Naples	807	569	71
Rota	631	555	88
Yokosuka	974	266	27
Okinawa	2,585	1,082	42
Seoul	277	295	106

<sup>a</sup>The survey officer could not explain the low return rate. Because of the low rate, the Committee did not adjust the allowances.

Neither the Committee nor in-country survey coordinators determined whether survey results were representative (i.e., whether systemic differences existed between those who returned OHA forms and those who did not). Statistical sampling allows survey results to be projected to the

expenses to service members.<sup>3</sup> The proposal made no mention of the reimbursement methodology being contemplated by DOD. If enacted, the proposal would permit reimbursing for allowable expenditures in three separate categories. The first category is rent-related costs, which are fixed, nonrefundable charges, such as an agent fee, levied by the landlord, the landlord's agent, or the local government. The second is reasonable security-related costs for the purchase and installation of extraordinary security devices, such as window and door bars and alarm systems, where service members are at risk. The third category is other costs up to \$1,000 that are required to make privately leased quarters habitable, such as kitchen cabinets, stoves, and refrigerators. The rent and security-related costs would be fully reimbursed for reasonable expenditures; however, reasonable expenditures were not defined in the DOD proposal.

---

## Uniform Policy and Information Needed on Rental Ceiling

If the rental portion of OHA, which is established based on actual rents paid by recipients, is to operate as intended,<sup>4</sup> it must be allowed to react to market conditions without interference. Policy directives at some locations kept the system from working as intended and information provided to service members at arrival briefings was misleading.

---

## Misleading Information

Misleading information can result in an upward or downward pressure on allowances that would not have naturally occurred had members received the proper information. For example, at Yokosuka, Japan, members were encouraged to rent above their ceiling to prevent a decrease in the allowance when the ceiling was subsequently recalculated. If all service members followed this advise, they would initially incur some out-of-pocket expenses, but over time, this would create an upward pressure on the ceiling.

---

<sup>3</sup>DOD requested that the proposal be included in the legislative contingency package for fiscal year 1990. According to a Per Diem Committee official, the Office of Management and Budget declined to include the proposal in the package because insufficient funds were available to cover the first year cost of the proposal, estimated to be about \$20 million. The fiscal years 1990 and 1991 DOD authorization bill included authority to implement a modified version at DOD's proposal.

<sup>4</sup>In theory, the 80-percent ceiling on the rent portion of OHA will move up with inflation in the local housing market because new arrivals, who want to have the same quality of housing as those already at the location, will be willing to pay more than the ceiling for the short time before the ceiling is raised.

---

## Conclusions

Misperceptions by service members often occur because they receive incomplete and sometimes misleading information. This can result in depressed allowance levels. Depressed allowances can also occur because responsible officials at overseas locations do not follow a uniform policy or receive sufficient guidance. The enforcement of policy directives in some locations has also caused the system to fail and imposed a hardship on some recipients.

Receiving adequate reimbursement for moving-in expenses and for utilities and recurring maintenance expenses were the most troublesome areas we observed. These types of expenses account for about 20 percent of OHA. The methodology used to obtain information necessary to calculate these portions of the allowance has resulted in less than adequate allowances. In addition, differing interpretations on utility reimbursements in Germany, which raise equity issues because a significant number of military personnel are being treated differently and are not being reimbursed adequately for utility expenses, could exist at other locations overseas.

We support DOD's efforts to provide direct up-front reimbursement for moving-in expenses. If successful, these efforts would treat service members more equitably and should solve one of the problems we observed with OHA.

---

## Recommendations

We recommend that the Secretary of Defense direct the Per Diem Committee to submit a report prior to establishing a reimbursement methodology for moving-in expenses that would address the resale value of items included in the allowance, and the definition of what constitutes a reasonable expense.

We also recommend that the Secretary of Defense direct the Per Diem Committee to

- develop and document uniform policies and guidance, based on standard statistical methods, to ensure that surveys are accurate, complete, and representative; and
- ensure that local command policy directives or information provided with respect to housing do not serve to undermine the intent of the OHA program.

# Timeliness of Allowance Programs

The timeliness of adjustments to the overseas allowances—COLA and OHA—directly affects the amounts received by service members overseas. We found the timeliness of adjustments was not a major problem, but some improvements are needed. The currency exchange rate adjustment process could be more responsive. Except for Navy personnel who are not on direct deposit, the service finance centers report being able to reflect currency adjustments within 2 weeks of notification. Also, there is a time lag from when COLA and OHA survey data are collected to when changes are implemented. This lag could be reduced by modifying the data collection procedure and automating the analysis process.

## Currency Adjustment Process

The currency exchange rate adjustment process is a factor for both the COLA and OHA programs. The two allowances are paid in dollars, with the level being determined by the prevailing rate of exchange between foreign and U.S. currencies. The intent is for local economy purchasing power to remain fixed as long as the same COLA and OHA levels prevail. To accomplish this, exchange rate movements must result in a comparable adjustment in the allowances, moving up or down as necessary.

The Committee's goal in adjusting OHA and COLA is to avoid continually changing the allowances while minimizing the exchange rate discrepancies. Committee staff collect daily exchange rate quotes for each country. The rates are averaged weekly, and the weekly average is compared with the prevailing exchange rate established by the Committee for a country. The percentage differences are accumulated over time. Committee staff monitor the accumulated percentage differences. According to published procedures, when the accumulated difference exceeds 10 percent of the prevailing exchange rate, the allowance is to be adjusted.

In practice, these procedures were not always followed because the Committee had substantial discretion in how it administered the currency adjustment process. For example, the 1988 currency rates in West Germany had an accumulated difference of over 10 percent during several periods without any change to the allowances. This contributed to a 7-week period where the difference always exceeded 20 percent. Consequently, members were overcompensated or undercompensated twice as much as they would have been had published procedures been followed. In addition, when the allowance rate was changed, the amount of the change sometimes differed from what was indicated by the Committee's formula.

## Time Lags From Survey to Implementation of Changes

One factor affecting the timeliness of the overseas allowances is the lag from when survey data are collected to when changes are made to the allowance rates. The surveys used to establish allowance rates require considerable time for processing. Since new allowance rates are not retroactive, any increase or decrease as a result of new data is lost during that time lag. In addition, the longer the delay in setting the allowances, the older the survey data gets, raising questions about how accurately it reflects current conditions.

An example of the negative affect from a substantial time lag appeared in the Yokosuka moving-in and moving-out analysis. Members in Yokosuka were surveyed in March 1988, at a time when the moving-in and moving-out allowance monthly payment was \$51. By August 16, 1988, as a result of currency fluctuations, the rate had dropped to \$49. On September 1, 5 months after the survey, the allowance for Yokosuka was increased to \$137, an \$88-increase. This change means that in March the allowance should have been about \$88 higher, and members lost that amount each month until the rate was adjusted (approximately \$440 for the 5-month period).

Time lags also exist on the COLA side of the allowance-setting procedures. Again in Japan, a 5-month lag occurred between the time prices were collected and changes were made to the COLA rates in 1988. A good part of this delay was because the Committee had trouble getting living pattern survey data from the overseas commands. Of eight locations being surveyed in Japan, only two had performed living pattern surveys prior to the retail price surveys, and three apparently did not perform living pattern surveys. In this case, the 6-month delay worked to a service member's advantage and to the government's disadvantage, since the recommended change based on this analysis was a drop in COLA for most of Japan.

Many factors contribute to these lags, such as delays at the overseas commands and the need for follow-up, but a principal factor appears to be the labor-intensive nature of the data collection and analysis of the living pattern surveys and retail price surveys. The information requested on these surveys is not the type that can be provided quickly. Figure 4.1 shows one of six pages of the living pattern survey.

Committee analysts had to calculate over 1,000 averages by hand to set the COLA for Italy. Given the small staff and large number of forms that

Chapter 4  
Timeliness of Allowance Programs

Figure 4.1: Excerpt From Living Pattern Survey

7. Please estimate how much you or members of your household used each of these sources to buy the items listed during the past year. Base your estimates on volume, not cost. Show only percentage of use, not outlet's name. Indicate items not purchased at all by writing N/A in Column A. Mail order or catalog purchases should be reported in Column E. Report items purchased locally in Column A regardless of the item's country of origin. The total entries for items A thru E must equal 100%.

Item	A	B	C	D	E		Total
	Local Market	Post Comm.	Military Comm/PX	Supply Brought To Post	U.S.	Other	
Beef and Veal	_____	_____	_____	_____	_____	_____	=100%
Pork	_____	_____	_____	_____	_____	_____	=100%
Lamb and Other	_____	_____	_____	_____	_____	_____	=100%
Fish	_____	_____	_____	_____	_____	_____	=100%
Poultry	_____	_____	_____	_____	_____	_____	=100%
Canned Meat/Fish	_____	_____	_____	_____	_____	_____	=100%
Eggs	_____	_____	_____	_____	_____	_____	=100%
Fats and Oils	_____	_____	_____	_____	_____	_____	=100%
Milk, Fresh/Sub.	_____	_____	_____	_____	_____	_____	=100%
Cheese	_____	_____	_____	_____	_____	_____	=100%
Milk, Dried	_____	_____	_____	_____	_____	_____	=100%
Bread	_____	_____	_____	_____	_____	_____	=100%
Flour/Mixes	_____	_____	_____	_____	_____	_____	=100%
Cereals	_____	_____	_____	_____	_____	_____	=100%
Rice	_____	_____	_____	_____	_____	_____	=100%
Coffee/Tea	_____	_____	_____	_____	_____	_____	=100%
Soft Drinks	_____	_____	_____	_____	_____	_____	=100%
Sugar	_____	_____	_____	_____	_____	_____	=100%
Baby Food	_____	_____	_____	_____	_____	_____	=100%
Fresh Fruit	_____	_____	_____	_____	_____	_____	=100%
Canned Fruit	_____	_____	_____	_____	_____	_____	=100%
Fresh Vegetables	_____	_____	_____	_____	_____	_____	=100%
Canned Vegetables	_____	_____	_____	_____	_____	_____	=100%
Frozen Veg/Fruit	_____	_____	_____	_____	_____	_____	=100%
Detergent/Soap	_____	_____	_____	_____	_____	_____	=100%
Toiletries	_____	_____	_____	_____	_____	_____	=100%
Paper Products	_____	_____	_____	_____	_____	_____	=100%
Home Furnishings	_____	_____	_____	_____	_____	_____	=100%
Home Appliances	_____	_____	_____	_____	_____	_____	=100%
Men's Clothing	_____	_____	_____	_____	_____	_____	=100%
Women's Clothing	_____	_____	_____	_____	_____	_____	=100%
Child's Clothing	_____	_____	_____	_____	_____	_____	=100%
Medicine	_____	_____	_____	_____	_____	_____	=100%
Photo Supplies	_____	_____	_____	_____	_____	_____	=100%
Reading Material	_____	_____	_____	_____	_____	_____	=100%

8. For items shown in Column E as "imports," please list the most important suppliers:

_____	_____
_____	_____
_____	_____



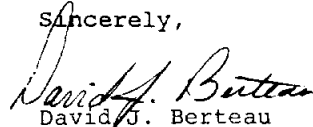
Appendix I  
Comments From the Department of Defense

Along with these studies, which will be conducted over the next few years, immediate attention will be given to improved instructions and training for survey points of contact and better accountability in the field through use of letters of appointment. Also, the DoD plans to expand the dissemination of brochures to educate Service members about the basics of the Cost-of-Living and Overseas Housing Allowance programs. Finally, processing techniques which are not dependent on automation will be explored. These interim improvements are now under consideration. Implementation will begin in the next few months.

It is the DoD position that data collection and analysis problems in the Cost-of-Living Allowance program or survey problems in the Overseas Housing Allowance program do not warrant designation as material weaknesses reportable to the President and the Congress under the Federal Manager's Financial Integrity Act. The DoD does, however, plan to take action to improve performance in both areas. The specific actions planned are described in the enclosure which responds to all findings and recommendations. The DoD intention is to work conscientiously toward instituting long-term improvements which integrate additional statistical controls and automation into management of the overseas allowance programs. The DoD is also taking immediate action to improve management controls and operating efficiency in the present.

The DoD appreciates the opportunity to comment on the draft report.

Sincerely,



David J. Berteau  
Deputy Assistant Secretary of Defense  
(Resource Management and Support)

Enclosure  
As stated



Appendix I  
Comments From the Department of Defense

in other locations. The GAO also noted that most Service members misunderstood the purpose of the cost-of-living allowance. The GAO concluded that the misunderstanding was not surprising because the program's purpose and objectives lack specificity. The GAO also reported that the program may not be achieving its broad objective of maintaining purchasing power parity between the United States and overseas locations at the lowest cost to the Government. The GAO concluded that an alternative methodology of developing cost differentials, based on the expectation that Service members would utilize Government-furnished on-base shopping facilities to the extent possible, would be more cost-effective. The GAO further concluded that, at a time of shrinking Defense budgets, it may be difficult to justify the expenditure of several hundred million dollars simply to enable Service members to spend more money on the local economies in foreign countries. (pp. 26-27/GAO Draft Report)

**DoD RESPONSE:** Partially concur. The DoD agrees that members need to have a better understanding of the cost-of-living allowance program and its objectives. To accomplish this goal, the Department projects having the DoD-approved information brochure explaining the program in formal distribution channels during FY 1990.

As the GAO observed, 79 percent of Service members were greatly (13 percent) or moderately (66 percent) satisfied with cost-of-living allowances. The DoD, therefore, concurs that perceptually the cost-of-living allowance is achieving its objective. Whether it is doing so in the most cost-effective manner is addressed in detail in the DoD response to RECOMMENDATION 1. Indications are that members are, in fact, already making cost-effective purchase decisions, and that it is unfair to expect them always to use commissary and exchange facilities for their purchases. Therefore, the DoD does not agree that current cost-of-living allowance expenditures are unjustified.

- o **FINDING C: Selected Survey Responses Were Not Representative.** The GAO reported that it found a number of problems with the data collection and analysis used by the Per Diem, Travel, and Transportation Allowance Committee to set cost-of-living allowance rates, including several instances where the living pattern surveys did not represent the military population actually receiving the cost-of-living allowance. The GAO reported, for example, that survey officials in Naples, Italy, selected a sample based on a Department of State stratification, which overrepresented officers--while at two other locations some civilian personnel were erroneously sampled. The GAO also reported that, at several locations, a large number of members were surveyed and who, in turn, responded--but local command officials forwarded only a small proportion of the survey responses to the Per Diem, Travel, and Transportation Allowance Committee. The GAO noted, for example, that at Ramstein Air Base, Germany, of a total of 600 responses to a survey directed to 1,200 members, only 120 were actually sent to the Per Diem, Travel, and Transportation Allowance

Appendix I  
Comments From the Department of Defense

**DoD RESPONSE:** Partially concur. The DoD agrees that selecting locations via statistical techniques may produce more representative analyses. Accordingly, the DoD will include the issue of how to statistically select representative locations in the comprehensive study of the cost-of-living program. In the interim, however, the DoD is not convinced that its current tests to determine if locations are representative are inappropriate. Periodically, the DoD computes individual indexes for each of the areas to determine if they appropriately belong in the grouping. A recent example is the analysis performed in the Netherlands, where a detailed review of reports for eight locations produced new grouping arrangements.

As an immediate measure to determine if separate indexes should be prescribed for Southern Italy, the DoD has requested a March 1990 living pattern survey and retail price report from Sigonella Naval Air Station, which is near Comiso but not as isolated. Reports will also be required for Comiso and Naples with emphasis on accurate restaurant prices. A determination should be made and implemented by June 1990.

The DoD does not agree with the cost savings estimate GAO cited for Naples and Comiso. The savings in these areas are primarily attributed to lower or missing restaurant prices. If the DoD emphasis had been to publish separate indexes for these areas, then it would have pursued obtaining missing data and would have questioned low prices. However, as an index was being produced based on a collection of five reports, the Per Diem, Travel, and Transportation Allowance Committee decided that sufficient/representative restaurant data was available from the other areas.

- o **FINDING E: Selected Living Pattern Surveys Were Completed Out of Sequence.** The GAO reported that current DoD methodology calls for living pattern surveys before retail price surveys, so that data collectors know which off-base outlets members identify as most frequently used. The GAO found, however, that at two locations in Europe, living pattern surveys were done during or after the retail price surveys. The GAO also found that, in 1988 in Japan, three locations conducted living pattern surveys after price surveys--and three locations did not submit any living pattern data at all. The GAO noted that the quality and timeliness of the 1988 living pattern data from Japan was so poor that the Per Diem, Travel, and Transportation Allowance Committee requested another survey in 1989. (p. 34/GAO Draft Report)

**DoD RESPONSE:** Concur. The DoD agrees that living pattern surveys must be completed prior to retail price surveys and that new surveys will be required if a survey is not completed properly. Additional guidance will be issued to data collectors by the end of 1989 to ensure that current DoD policy is being carried out. As previously mentioned, the DoD

Appendix I  
Comments From the Department of Defense

Now on pp. 20-21.

retail price surveys. The GAO noted that the adjustment factors were last published in 1981, with some updating to the late 1970s. The GAO further reported that the Per Diem Committee may be overestimating the U.S. cost of living, thereby reducing price differentials and causing overseas cost of living to be lower than intended. The GAO noted that, according to a Per Diem, Travel, and Transportation Allowance Committee staff member, the Committee is considering using the Bureau's prices--even though they include only a small number of the market basket items. (pp. 35-36/GAO Draft Report)

**DoD RESPONSE:** Concur. The DoD agrees that adjustment factors used to update U.S. quarterly retail prices, with the exception of gasoline and some food items, need to be reviewed. To date, however, efforts to find a method to update them, even after pursuing the problem with other statistical agencies, have been unsuccessful.

The factors presently being used are based on data from the "Urban Family Budgets and Comparative Indexes for Selected Urban Areas" report published by the Bureau of Labor Statistics. For budget reasons, the Bureau cancelled this report in 1981.

The DoD will include this issue in its comprehensive study of the cost-of-living program.

- o **FINDING H: Lack of Statistical Analyses Results in Arbitrary Decision-making.** The GAO reported that the Per Diem, Travel, and Transportation Allowance Committee process for calculating cost-of-living allowances and data manipulation is antiquated and lacks analytical rigor. The GAO found that (1) the cost-of-living allowance analysis is largely done with desktop calculators and handwritten spreadsheets, (2) averaging is done using simple arithmetic means, (3) standard statistical tests are not being used, and (4) at times the price analyses excludes high and low prices based on "intuition" that they are unrepresentative. The GAO further found that the Per Diem Committee did not apply statistical tests to the cost-of-living allowance data to determine if its decisions were appropriate. The GAO concluded that many of these problems could be eliminated by modernizing and automating the data analysis process and utilizing standard statistical packages to aid in decision-making. The GAO also learned that the Per Diem, Travel, and Transportation Allowance Committee occasionally did not receive all the data it requested from the overseas commands during the cost-of-living allowance-setting process. (pp. 37-38/GAO Draft Report).

Now on pp. 20-21.

**DoD RESPONSE:** Partially concur. The DoD agrees that cost-of-living allowance activities should be automated. The DoD also supports examination of current procedures and ultimate adoption of valid statistical tests. These issues, as previously noted, will be included in the planned study and subsequent automation of the cost-of-living allowance program.

Appendix I  
Comments From the Department of Defense

according to a Per Diem, Travel, and Transportation Allowance Committee official, it did not have the authority to task specific individuals or organizations to conduct surveys overseas, which has led to a lack of accountability for the surveys and to variances in the quality and completeness of survey data from country to country. The GAO also found that confusion existed at some locations as to who was responsible for conducting surveys and who had conducted prior surveys.

The GAO also reported that the Per Diem, Travel, and Transportation Allowance Committee staff has provided minimal training and guidance to survey coordinators on standard statistical principles of data collection and analysis. The GAO noted that most country points of contact and survey coordinators had not received any training on the survey objectives or methodology. In addition, the GAO reported that, at the different locations, written instructions were inconsistent and did not conform with standard statistical principles.

The GAO also observed that the Per Diem, Travel, and Transportation Allowance Committee did not document decision criteria for such things as excluding prices or combining averages. The GAO found that the Per Diem, Travel, and Transportation Allowance Committee did not retain previous surveys and summary documentation was retained for only a few years. According to the GAO. As a result of this lack of documentation, there was not an audit trail and trend analysis could, therefore, not be performed. The GAO concluded that many of the data collection and analysis problems can be attributed to poor management controls over the rate-setting process. (pp. 39-43/GAO Draft Report)

**DoD RESPONSE:** Partially concur. As long as surveys are conducted by field personnel, and because there are very few individuals who have had formal survey/statistical training, it is important to permit the overseas commander to pick the individual/office most capable to conduct surveys, in accordance with Appendix M of the Joint Federal Travel Regulation. Therefore, the DoD does not agree that survey coordinators should be selected by Washington personnel. The DoD does, however, plan several enhancements that will be accomplished during the first half of FY 1990, as follows.

- Amend Appendix M to recommend that survey duties be included in performance plans and addressed in performance ratings.
- Amend Appendix M to require that:
  - commanders assign competent individuals capable of leading survey projects;
  - assigned individuals have survey duties included in performance plans

Appendix I  
Comments From the Department of Defense

that the allowance was adequate or more than adequate (56 to 90 percent), while only 20 to 28 percent of the personnel in Yokosuka and Okinawa, Japan, respectively, believed the housing allowance was adequate. The GAO also found that 62 percent of the interviewees had not been told what items they could claim under moving-in and moving-out expenses--and 45 percent were not told how the utilities portion of their allowance would be calculated. The GAO concluded that such a lack of understanding of the moving-in and moving-out expenses by Service members completing the survey could (1) cause an understatement of costs and (2) result in the overall allowance being inappropriately low. (pp. 47-49/GAO Draft Report)

Now on pp. 26-28.

**DoD RESPONSE:** Partially concur. While the GAO noted some dissatisfaction with the Overseas Housing Allowance, this may be attributed to factors other than the allowance.

The Overseas Housing Allowance program is composed of three components: rental, utility/recurring maintenance, and initial/terminal occupancy allowances. The rental allowance accounts for approximately 80 percent of the Overseas Housing Allowance, the utility/recurring maintenance allowance accounts for 15 percent, and the initial/terminal occupancy allowance for 5 percent. The rental portion is designed such that 80 percent of the rents fall at or below the prescribed rental ceiling. Review of program statistics indicates that over 95 percent of all rental costs are covered by the rental allowance. Very few complaints are received regarding this component. The other two components are averages -- approximately 50 percent of the members will have all of their incurred costs fully reimbursed and approximately 50 percent will be out-of-pocket some amount. Obviously, not all individuals will be satisfied with an average allowance. Perhaps a significant amount of dissatisfaction is related to reimbursement of up-front expenses on a per diem rather than on a when incurred basis. In this regard, the DoD has a proposal before the Services to replace the initial/terminal occupancy allowance with a Moving-In Housing Allowance, which will provide up-front funds.

The DoD agrees that, if members are not apprised of how their initial/terminal occupancy allowances are computed, costs may be underreported to the Per Diem, Travel, and Transportation Allowance Committee. The DoD notes that detailed information concerning overseas housing allowances is contained in both Chapter 9 and Appendix K of the Joint Federal Travel Regulations. Three months in advance of due date for submission of housing cost data, a survey "kickoff" letter is sent to each country point of contact, which includes instructions for reporting costs and a handout for members detailing which expenses should be reported for initial/terminal allowance purposes. Appendix K contains four computation examples of the Overseas Housing Allowance along with a Briefing Sheet which local commands are encouraged to disseminate to incoming personnel. In addition, the DoD has designed an Overseas Housing Allowance brochure for dissemina-

Page 10

rigorous statistical procedures--resulting in incorrect decisions in two of six locations it tested. The GAO concluded that the nonstandard procedures also resulted in officers being under compensated for utility expenses, while enlisted personnel were overcompensated. (pp. 51-52/GAO Draft Report)

**DoD RESPONSE:** Concur. The DoD supports the use of standard, rigorous statistical procedures in prescribing these allowances. As stated above, the DoD will pursue either utilizing resources from within DoD, where available, or hiring an independent contractor to help the Per Diem Committee automate its analysis and rate-setting procedures. In the interim, the DoD will apply appropriate statistical procedures wherever possible.

- o **FINDING Q: Arbitrary Exclusion of Data.** The GAO reported that the Per Diem, Travel, and Transportation Allowance Committee edited utility costs reported by Service members at overseas locations and excluded data deemed extreme. The GAO found that memoranda were not kept on which figures were excluded--and the criteria for judging what should be excluded was the previous year's exclusions. The GAO concluded that (1) the lack of automated record keeping and (2) the absence of adequate statistical guidelines in decision-making--casts doubt on the adequacy and fairness of the data used to compute this portion of overseas housing allowance. (pp. 52-53/GAO Draft Report)

**DoD RESPONSE:** Partially concur. The DoD agrees that formal file memoranda were not kept on excluded data. However, records of excluded data points are maintained. Under its proposed study and subsequent automation of the overseas housing allowance, the DoD will address GAO concerns. This should be accomplished during FY 1991.

- o **FINDING P: Underpayment of Moving-In and Moving-Out Expenses.** The GAO reported that procedures for calculating the moving-in and moving-out allowance were not always followed--which resulted in some members not being fully reimbursed for allowable expenses. The GAO found that the moving-in/moving-out expenses in Germany, Italy, Spain, and the United Kingdom were based on the average amount of time Service members spent in country, rather than the average time spent in private housing--resulting in Service members actually receiving less money than they should have. The GAO also reported that, because none of the points of contact reported the average length of time in private housing in 1987 and 1988, the Per Diem, Travel, and Transportation Allowance Committee used 34 months to compute the monthly allowance. The GAO found that the average time spent in private housing actually ranged from 18 to 24 months--resulting in Service members not receiving an adequate allowance for moving-in and moving-out costs. (pp. 53-54/GAO Draft Report)

**DoD RESPONSE:** Concur. To resolve the underpayment of moving expenses, by the end of October, the DoD will dispatch a

Appendix I  
Comments From the Department of Defense

**DoD RESPONSE:** Partially concur. The DoD does not agree that survey points of contact need guidance on sampling techniques because a census rather than a sample survey is conducted for nonrent cost data.

In regard to methods for collecting and analyzing nonrent data and prescribing appropriate allowances, see the DoD responses to FINDINGS L and S, which address these issues.

- o **FINDING S: Quality Variance.** The GAO reported that no standards have been established for review of survey forms for completeness, accuracy and/or clarity--resulting in the quality and completeness of survey data varying from country to country. The GAO noted that the degree of involvement of coordinators in Yokosuka, Japan, appears to have produced a significant adjustment in the 1988 allowances in that city. The GAO noted, however, that few other locations took similar measures. (pp. 57-58/GAO Draft Report)

**DoD RESPONSE:** Partially concur. The DoD does not agree that standards are lacking. While there are areas that can be improved, both Appendix M of the Joint Federal Travel Regulation--Reporting Procedures and Command Responsibilities for Travel and Station Per Diem Allowances for Members on Duty Outside the Continental United States--and the Memorandum for Housing Report Project Officer which is sent to each point of contact 3 months prior to their housing cost report due date, provide information regarding review of forms for completeness, accuracy, and clarity. While the DoD strongly recommends that the procedures outlined in these documents be closely followed, the DoD recognizes that some local Commands may ignore this guidance. Instructions in Appendix M will be strengthened to emphasize the importance of Command support in reporting cost data. The DoD will also revise its instruction letter to points of contact emphasizing survey problems cited by the GAO. Each of these sources will indicate that commanders are responsible for supplying reports and that noncompliance will result in no adjustment to allowance levels. This will be accomplished during FY 1990. As previously indicated, in order to improve both the cost-of-living and overseas housing allowance programs in response to GAO suggestions, to include more face-to-face training of survey coordinators, the DoD plans to study the possibility of hiring an additional person to structure, coordinate, and monitor the training and competency of those administering surveys. A decision will be made by March 1990.

As indicated in the DoD responses to other findings, the DoD will also study other methods for collecting and analyzing nonrent data. We believe that alternatives which do not so heavily depend on country point of contact involvement may provide more statistically defensible results.

- o **FINDING T: The 50 Percent Recovery Value Rule.** The GAO reported that a DoD legislative proposal to allow up-front reimbursement of moving-in expenses includes up to \$1,000 for

rent quarters at or below their allowance ceiling--resulting in (1) enlisted members residing in substandard housing and (2) rental survey updates showing that the ceiling needed to be reduced. The GAO also found that, 1 year after the Per Diem Committee conducted a special study of the rental allowance ceiling at Torrejon, the ceiling was lowered because many new arrivals were not moving into better housing. The GAO reported that, while the adjustment appeared to be appropriate, 1 year may have been insufficient time to note any change in housing--because the commander's directive on renting at or below ceiling was still in effect for the first half of that year. (pp. 60-62/GAO Draft Report)

**DoD RESPONSE:** Concur. The DoD agrees with the GAO that local command policy, when inconsistent with overall overseas housing allowance policy, can have a negative effect on the rental portion of the system. As previously stated, language will be added to the Joint Federal Travel Regulation to address proper rental procedures.

- o **FINDING W: Currency Adjustment Process.** The GAO reported that the currency rate adjustment process is a factor for both the cost-of-living allowance and overseas housing allowance programs--and the Per Diem, Travel, and Transportation Allowance Committee's goal is to avoid continually changing the allowances, while at the same time minimizing the exchange rate discrepancies that do arise. The GAO found that, because the Committee had substantial discretion in administering the process, the Committee exchange rate adjustment procedures were not always followed. The GAO also found that, when the allowance rate was changed, the amount of change sometimes differed from what was indicated by the Committee formula. In evaluating the effects of the discretionary adjustments, the GAO found that, had the procedures been followed, the Service member would have been just about as well off. According to the GAO, however, there would not have been any periods with an accumulated difference larger than about 17 percent compared with an actual difference that always exceeded 20 percent--as a result of the discretionary adjustments. (pp. 65-67/GAO Draft Report)

**DoD RESPONSE:** Partially concur. The DoD agrees that there are many instances when the DoD should not intervene with the system. The Per Diem, Travel, and Transportation Allowance Committee staff has implemented a more "hands-off" approach to the system. The DoD does not, however, agree that all interventions are inappropriate. There are cases where intervention is useful to preclude making unnecessary, insignificant changes.

- o **FINDING X: Time Lags from Survey to Implementation of Changes.** The GAO reported that one factor affecting the timeliness of the overseas allowances and cost-of-living adjustments is the lag from when the survey data are collected to when the changes are actually made to the rates. The GAO concluded that, since allowance and adjustment rates are not retroactive, any increase or decrease as a result of new data

Now on p. 34.

Now on pp. 37-38.



Appendix I  
Comments From the Department of Defense

(2) whether a rate-setting process should be established with the explicit assumption that goods and services available on base at lower cost would be purchased at those facilities. (pp. 43-44/GAO Draft Report)

**DoD RESPONSE:** Partially concur. The DoD agreed with the appropriateness of considering the GAO proposal, but determined that use of proposed alternate cost basing should not be implemented. Based on the findings, however, the DoD and other Executive Branch Agencies composing the Per Diem Committee support continuation of cost-of-living allowance being based on where members shop. While one can state that commissaries, exchanges, and other Government facilities could be used, to force members to do so exclusively is impractical and inappropriate.

As in the United States, overseas members make purchase choices based on multiple criteria, such as price, quality, availability, location and convenience. The question that must be asked is whether it is appropriate to concentrate on just one of these factors--location. Implementation of such a program would also introduce significant difficulties. For example, how far should members be forced to travel to use Government facilities? Do we have special rules for perishable items such as food? The answers to just these two questions point out the fact that an already challenging system will become even more cumbersome and complex should members be forced to buy only at commissaries/exchanges.

To determine if significant savings would occur under this proposal, the DoD conducted a test at locations that account for over 80 percent of Service members receiving a cost-of-living allowance. The test assumed that members purchased solely in the commissary or exchange, if the market basket good/service was available in those facilities in both the United States and overseas. In essence, there was little difference encountered in the prices for these goods/services.

Because a significant portion of the market basket is composed of services not always available at Government installations (restaurant meals, telephone service, domestic service, auto insurance, transportation services and recreational events, etc., must be purchased on the local market), a cost-of-living allowance is still warranted for all test locations. The primary factor related to cost-of-living allowances in the foreign areas tested was the weakness of the dollar, which drives up the cost of services/goods on the local market. This same major factor will continue to drive living costs even if forced commissary and exchange usage were implemented.

In all areas tested, except Japan, the DoD found that members already were maximizing their use of commissaries and exchanges because there was no difference between actual and test location indexes. In other words, the present system already considers availability and, therefore, is a truer measure of compensation needed to cover additional overseas costs. The primary reason indexes decreased in Japan (see

Page 18

See comment 1.

Appendix I  
Comments From the Department of Defense

management controls over the current data collection and analysis processes by requiring the Per Diem, Travel, and Transportation Allowance Committee to:

- develop guidelines on the minimum training survey coordinators and points of contact at the overseas commands should have on the cost-of-living allowance methodology;
- communicate clear delegations of authority and responsibility so that overseas commands can be held accountable for the quality of their surveys;
- utilize prices from the Bureau of Labor Statistics for the applicable items in the market basket rather than adjusting the prices from the quarterly Washington, D.C., retail price survey--and where these prices are not available, develop new measures for average U.S. data that would make the prices more accurate and timely;
- modernize and automate the cost-of-living allowance analysis process--to include standard statistical testing and the documentation of criteria used in decision making; and
- test the market basket assumptions to determine whether the basket adequately reflects high-cost items unique to overseas locations. (pp. 44-45/GAO Draft Report)

**DoD RESPONSE:** Partially concur.

- The DoD agrees that training guidelines can be improved. The Per Diem, Travel, and Transportation Allowance Committee will request assistance from DoD-level training offices to develop a list of guidelines related to understanding cost-of-living methodology and conducting surveys. The DoD will send instruction letters to the Points of Contact instructing them to read Appendix M (reporting procedures) before beginning the survey process. The instruction letter will also cite the living pattern survey problems the GAO encountered and will emphasize that copies of the survey summaries should not be discarded and that individual questionnaires should be forwarded with the survey summaries. The letter will be prepared before the end of 1989.

Appendix M of the Joint Federal Travel Regulations will be expanded to provide more instructions for conducting Living Pattern and Retail Price Surveys. Also, to avoid having all institutional knowledge lost each time a new point of contact is assigned, instructions in Appendix M also will indicate that formal files/manuals should be maintained by the country point of contact which indicate the offices/individuals who are charged with conducting surveys. Files should refer replacements to instructions in the Joint Federal Travel Regulations and should also note the areas/facilities to be surveyed each year.

Appendix I  
Comments From the Department of Defense

weaknesses reportable to the President and the Congress. The actions planned to correct the problems identified in this report will, nevertheless, be tracked and monitored by the Deputy Assistant Secretary of Defense (Military Manpower & Personnel Policy) who serves as Chairman of the Per Diem, Travel, and Transportation Allowance Committee and also has responsibility for implementing the proposals. Status reporting will begin in the first quarter of FY 1990.

- o **RECOMMENDATION 5:** The GAO recommended that the Secretary of Defense direct the Per Diem, Travel, and Transportation Allowance Committee to submit a report to accompany the DoD legislative proposal on the reimbursement of moving-in expenses, that would address the resale value of items included in the allowance; the definition of what constitutes a reasonable expense; and the appropriateness of a worldwide \$1,000 ceiling on items purchased to make leased housing habitable. (p. 63/GAO Draft Report)

Now on p. 35.

**DoD RESPONSE:** Nonconcur. The legislation in question was submitted before the draft GAO report was prepared. Additionally, language in the FY 1990 House Armed Services Committee authorization bill does not include the specific implementation details that the GAO projected would be elements of legislation. It indicates only that up-front, lump-sum payments are permissible. The DoD will formulate implementation details after enactment of the legislation.

See comment 4.

- o **RECOMMENDATION 6:** The GAO recommended that the Secretary of Defense identify the Overseas Housing Allowance survey methods as significant weaknesses in the DoD Federal Managers' Financial Integrity Act annual reports. (p. 63/GAO Draft Report)

See comment 3.

**DoD RESPONSE:** Nonconcur. The DoD agrees that the identified overseas housing allowance survey problems exist. The DoD does not, however, agree that they warrant designation as material weaknesses reportable to the President and the Congress. The actions planned to correct the problems identified in this report will, nevertheless, be tracked and monitored by the Deputy Assistant Secretary of Defense (Military Manpower & Personnel Policy) who serves as Chairman of the Per Diem, Travel, and Transportation Allowance Committee and also has responsibility for implementing the proposals. Status reporting will begin in the first quarter of FY 1990.

- o **RECOMMENDATION 7:** The GAO recommended that the Secretary of Defense direct the Per Diem, Travel, and Transportation Allowance Committee to:
  - develop and document uniform policies and guidance, based on standard statistical methods--to ensure that surveys are accurate, complete, and representative;
  - clarify the guidance for fully reimbursing utility expenses so that Service members at the same locations

See comment 2.

Appendix I  
Comments From the Department of Defense

realistically be implemented by the survey coordinators or, instead, the Department can employ professional survey takers, as discussed in the DoD response to FINDING C. In the interim, the DoD will strengthen language in the Joint Federal Travel Regulation to provide more instructions about conducting living pattern surveys and will emphasize the reporting problems cited by the GAO in the survey "kickoff" letters, as noted in the DoD response to FINDING C.

- The DoD agrees that automation of these processes should be evaluated. This will be accomplished after the cost-of-living allowance study is concluded, which is expected to be completed by the end of FY 1991.

# Major Contributors to This Report

---

**National Security and  
International Affairs  
Division,  
Washington, D.C.**

John K. Harper, Assistant Director  
Anthony E. Collinsworth, Evaluator-in-Charge  
Gary L. Petrovich, Evaluator  
Tetsuo Miyabara, Social Science Analyst  
Thomas Melito, Economist  
Carolyn S. Blocker, Writer-Editor

---

**Far East Office**

Katherine M. Iritani, Site Senior

---

**European Office**

Michael J. Kennedy, Site Senior

Requests for copies of GAO reports should be sent to:

U.S. General Accounting Office  
Post Office Box 6015  
Gaithersburg, Maryland 20877

Telephone 202-275-6241

The first five copies of each report are free. Additional copies are \$2.00 each.

There is a 25% discount on orders for 100 or more copies mailed to a single address.

Orders must be prepaid by cash or by check or money order made payable to the Superintendent of Documents.







---

The following are GAO's comments on the Department of Defense's letter dated November 2, 1989.

---

## GAO Comments

1. We have modified our text accordingly and have deleted this recommendation.
2. We have deleted this recommendation from our report.
3. We have deleted this recommendation because DOD's proposed actions address our concerns.
4. The final proposal presented to the Congress differed from an earlier draft, and we have changed our report to reflect this.

Appendix I  
Comments From the Department of Defense

are treated equitably regardless of the Military Service to which they belong; and

- assure that local command policy directives or information provided with respect to housing do not serve to undermine the intent of the Overseas Housing Allowance program which is to permit Service members to obtain adequate housing overseas. (pp. 63-64/GAO Final Report)

Now on p. 35.

DoD RESPONSE: Concur.

- Either utilizing Department resources, where available, or a contractor, the DoD will develop and document uniform policies and guidance, based on standard statistical methods, to ensure that surveys are accurate, complete, and representative. This will be accomplished by FY 1991.
- Guidance for fully reimbursing utility expenses has been provided to the relevant Services and language to this effect will appear in the Joint Federal Travel Regulation, effective October 1, 1989.
- Language in the Joint Federal Travel Regulations will be strengthened to preclude commanders from advising members to rent either above or below the prescribed rental ceilings, as this results in a distortion of the overseas housing allowance ceiling-setting process. Language will be implemented by the second quarter of FY 1990.

- o RECOMMENDATION 8: The GAO recommended that the Secretary of Defense direct the Chairman of the Per Diem, Travel, and Transportation Allowance Committee to:

See comment 2.

- eliminate the discretionary element in the currency adjustment process;
- develop statistical sampling procedures for collecting living pattern information; and
- evaluate the cost-effectiveness of automating the system for collecting and analyzing living patterns and retail prices, and to automate the system if appropriate. (pp. 73-74/GAO Draft Report)

Now on p. 42.

DoD RESPONSE: Partially concur.

- The DoD partially agrees with eliminating the discretionary element in the currency adjustment process. There are some instances where intervention is useful to preclude insignificant changes as noted in the DoD response to FINDING W.
- The DoD agrees with the development of statistical sampling procedures for collecting living pattern information, as long as the study of the cost-of-living allowance program produces a method that can

Page 23

Appendix I  
Comments From the Department of Defense

Files should also contain copies of at least 2 prior year surveys for reference purposes as well as instruction letters and feedback information from the Per Diem Committee. Appendix M will be rewritten during the first half of FY 1990.

- The DoD agrees that communication concerning the delegation of authority and responsibility at overseas commands can be improved. Currently, Appendix M assigns responsibility for reporting to the "Senior Officer of the Uniformed Services in each country or locality, or the designated representative." This senior officer assigns a Point of Contact for allowance matters. Appendix M will be revised to require a letter of appointment designating responsible official(s).

Appendix M will be strengthened by stating that commanders should assign an individual who is competent at leading survey projects, to include selecting a random sample for living pattern surveys. To improve accountability, we will also recommend that survey duties be included in performance plans and addressed in performance ratings.

- The DoD agrees and is already using current Bureau of Labor Statistics data for gasoline and food items. Since prices for most U.S. market basket items are no longer provided by Bureau of Labor Statistics for any areas, except Washington, D.C., the DoD plans to have a contractor explore the current procedures and suggest a proxy for average U.S. retail prices.
- The DoD agrees that the cost-of-living allowance system should be modernized and automated. As indicated in the DoD response to FINDING C, the DoD will conduct a comprehensive study of how cost-of-living data are collected, analyzed, and processed. The study will utilize resources within the Department, if available, or an outside contractor. The study should conclude not later than FY 1991. Automation will be included and will cover the use of statistical testing and documentation of criteria used in decision-making.
- While the DoD does not agree that the current methodology is incorrect, it does agree to examine the issue in the above-mentioned cost-of-living program study, which should be concluded by the end of FY 1991.

- o **RECOMMENDATION 4:** The GAO recommended that the Secretary of Defense identify the described data collection and analysis problems as significant weaknesses that adversely affect cost-of-living allowances in the DoD Federal Managers' Financial Integrity Act annual reports. (p. 45/GAO Draft Report)

**DoD RESPONSE:** Nonconcur. The DoD agrees that the identified cost-of-living allowance problems exist. The DoD does not, however, agree that they warrant designation as material

See comment 3.

Appendix I  
 Comments From the Department of Defense

table below) was that members purchased a significant amount of their fruits, vegetables, and other food items (at higher cost) from local merchants because these products are frequently not available in commissaries. Based on past visits, quality, availability and convenience were major factors influencing local purchase decisions. The areas tested and the results developed were as follows:

Area	COLA Index			Percent of Total COLA Recipients
	Actual	Test	Diff	
Germany *	112	112	0	52.0
Italy *	108	108	0	2.8
United Kingdom *	112	112	0	5.4
Oahu	108	108	0	12.1
Okinawa, Japan	132	124	- 8	5.7
Yokosuka, Yokota, Camp Zama, Japan	136	126	-10	<u>3.5</u>
Sample				81.5

\* All localities within 1 hour of commissary/exchange

The GAO noted that the DoD should weigh any savings resulting from forced commissary/exchange shopping against its policy of encouraging Service members to participate in local communities. Because savings would occur only in Japan, a country where the GAO noted a lower-than-normal allowance satisfaction level (see FINDING B), implementing such a system could cause Service members in that area to feel even less satisfied with the cost-of-living allowance.

Although immediate savings possibilities are presently limited to Japan, a likely negative impact to morale and welfare is likely across all current cost-of-living allowance recipients. Any decrease in morale can have the potential for adversely impacting retention. Lowering allowances in Japan is a particularly sensitive morale/welfare issue since approximately 75 percent of projected reductions for most areas in Japan involve the availability of fresh vegetables, fruits, and other food items.

- o **RECOMMENDATION 2:** The GAO recommended that the Secretary of Defense direct the Per Diem, Travel, and Transportation Allowance Committee to develop cost-of-living allowance rates at a test location, using the alternative approach--as a means of determining how rates set using the alternative approach would differ from rates set using the current methodology. (p. 44/GAO Draft Report)

**DoD RESPONSE:** Partially concur. Test completed. Refer to DoD response to Recommendation 1.

- o **RECOMMENDATION 3:** The GAO recommended that, until the issue of how cost-of-living allowance rates should be set is resolved, the Secretary of Defense should strengthen the

See comment 2.

Appendix I  
Comments From the Department of Defense

is lost during the time lag. The GAO reported that, while many factors contribute to the lags, a principal factor appears to be the labor-intensive nature of the data collection and analysis of the living pattern surveys and retail price surveys. The GAO concluded that the following two changes to the data collection process should be made:

- the number of people required to complete living pattern survey forms should be reduced by using standard statistical sampling procedures; and
- putting both of the cost-of-living allowance surveys into a format that could be screened by computer and increasing automated support so the analyses necessary to compute cost-of-living allowances for a location or country could be done in a matter of minutes or hours, as opposed to weeks or months.

The GAO concluded that timeliness does not appear to be a major problem in administering the overseas allowance programs, but it can nevertheless be improved (pp. 68-73/GAO Draft Report)

**DoD RESPONSE:** Concur. The DoD agrees that timeliness can be improved.

The DoD also agrees that increasing automated support for the cost-of-living program (and also the overseas housing allowance program) is an essential upgrade requirement. The plan is to first study how the cost-of-living allowance index-setting process can be improved, then automate that plan. The study will also address optically screening reports by computer to determine if feasible. Efforts should be completed during FY 1991.

In addition, the DoD agrees that the number of living pattern surveys can be reduced, especially if it employs professional survey takers. The DoD will also indicate in Appendix M that if local capability permits development of scientific random sample survey, which would require less than the 150 reports presently required, then it should be accomplished. If not, the 150 sample will be required. This change will be issued by the end of 1989.

\* \* \* \* \*

RECOMMENDATIONS

- o **RECOMMENDATION 1:** The GAO recommended that the Secretary of Defense, in consultation with other Executive Branch Agencies that are members of the Per Diem, Travel, and Transportation Allowance Committee, resolve the issue of (1) whether cost-of-living allowance rates should be set based on a survey that asks Service members where they shop overseas or

Page 17

Now on pp. 39-40.

Appendix I  
Comments From the Department of Defense

Now on pp. 32-33.

costs for items like kitchen cabinets, stoves, and refrigerators required to make privately leased quarters habitable. The GAO noted that the \$1,000 limit was calculated by using a 50 percent recovery value for items that could be resold. The GAO found, however, that (1) the 50 percent recovery rule was an arbitrary determination not based on any objective analysis, (2) reasonable expenditures were not defined, and (3) no analysis was performed to determine whether country-specific ceilings may be more equitable than a single, worldwide ceiling. (pp. 58-59/GAO Draft Report)

**DoD RESPONSE:** Partially concur. The legislative proposal for a new move-in allowance did not mention the reimbursement methodology being contemplated by the DoD. Nevertheless, the DoD agrees that the 50 percent recovery rule for selected items is not supported by current statistical evidence. This rule has been in effect since the early 1960s. The Department has begun a canvass of locations with significant military populations to determine what the recovery rule should be. To date, all but two of the responses have been received. When all are received, the rule will be revised as appropriate. The DoD also agrees that "reasonable" should also be defined in the final proposal, or that an alternative should be developed for the make-ready component of the proposed allowance. Finally, the DoD does not concur that no analysis was performed to determine a ceiling. The DoD intention was to make the system as administratively simple as possible and still cover all expenses for at least 80 percent of Service members. This flat-rate system is similar to that available to civilian employees (transfer allowance), but includes a recovery value rule.

- o **FINDING U: Misleading Information.** The GAO reported that Service members at Yokosuka were encouraged to rent above their ceiling to prevent a decrease in the allowance when the ceiling was subsequently recalculated--while members at Kadena Air Base in Okinawa were encouraged to rent below ceiling to provide a cushion against changes in the allowance rates. The GAO concluded that this misleading information can result in an unnatural upward or downward pressure on allowances. (pp. 59-60/GAO Draft Report)

Now on pp. 33-34.

**DoD RESPONSE:** Concur. The DoD does not encourage local commands to tell members to rent either above or below the prescribed rental ceilings, because this results in a distortion of the overseas housing allowance ceiling-setting process. The DoD will strengthen language in the Joint Federal Travel Regulation to provide local commands the necessary guidance for proper rental procedure during the second quarter of FY 1990.

- o **FINDING V: Local Command Policies Can Cause The System To Fail.** The GAO reported that local command policy directives, which are inconsistent with overall overseas housing allowance policy, can have a negative effect on the rental portion of the system. The GAO found that, in the early 1980s, the base commander at Torrejon, Spain, directed all enlisted members to

message requesting average times in privately leased housing for each major location within each country. Thereafter, the DoD will request annual updates to this list.

Once the DoD is able to implement an allowance that provides up-front funds to address moving-in costs, this will cease being a problem.

- o **FINDING Q: Weak Management Controls.** The GAO reported that internal controls over the overseas housing allowance survey methods need improvement. As a result, data gathered from surveys can be incomplete, inaccurate, and nonrepresentative-- and allowance levels can be inappropriate. The GAO found (1) low response rates at one location that led to no allowance adjustment, (2) unusually high response rates at two locations, because survey forms were used that should have been excluded, and (3) response patterns at several locations indicating bias in who returns the forms. The GAO concluded that this raises serious questions about whether the Per Diem Committee should use survey data for computing the nonrent portion of the allowance. (p. 55/GAO Draft Report)

**DoD RESPONSE:** Partially concur. The DoD supports the adoption of rigorous, standard statistical procedures in prescribing Overseas Housing Allowances. The DoD recognizes that controls should be improved, but disagrees that controls are nonexistent, and that allowance levels are inappropriate. As stated above, the DoD will pursue utilizing available DoD resources or hiring an independent contractor to help the Per Diem Committee determine appropriate methods for collecting data (including sampling and other alternatives to current data collection from members process), analyzing it, and prescribing appropriate rates. Automation will be emphasized and alternatives to involving country points of contact will be sought.

With regard to low response rates, see the DoD response to FINDING J, which addresses ways to make overseas commanders and survey coordinators more responsive, and the DoD response to FINDING S, which addresses quality variance solutions.

- o **FINDING R: Response Rate Deficiencies.** The GAO reported that the response rate for locations in its review ranged from 8 percent to 110 percent. The GAO found that neither the Per Diem Committee nor the in-country coordinators determined whether systemic differences existed between those who returned overseas housing allowance forms and those who did not. The GAO also found that data collectors were not given adequate training or guidance on the use of standard statistical methods of data collection and analysis. The GAO concluded that a tendency for higher rates of response at the senior enlisted grades resulted in the nonrent portion of the housing allowance being higher than it should have been at the locations reviewed. The GAO further concluded that the response rates above 100 percent indicate a lack of control of the survey process and raise questions about its legitimacy. (pp. 55-56/GAO Draft Report)

Now on p. 31.

Now on pp. 31-32.

Appendix I  
Comments From the Department of Defense

tion to incoming members. General field dissemination is anticipated during FY 1990. Language is also being prepared for inclusion in the Joint Federal Travel Regulation, by the end of 1989, which will alert members to the fact that rental ceilings may decrease based on a number of factors.

- o FINDING L: Uniform Policy and Procedures Lacking For Non-Rent Portion of Overseas Housing Allowance. The GAO reported that criteria for reporting utility costs varied by Service and, as a result, Service members were treated differently--depending on their Service. The GAO also reported that the procedures used to set utility/recurring maintenance allowances (1) were not automated, (2) relied heavily on staff judgement, and (3) sometimes resulted in decisions being made arbitrarily. (p. 50/GAO Draft Report)

DoD RESPONSE: Partially concur. The issue of the varying utility reporting procedures used by the Services in Germany was resolved by a modification (Change 35) to Chapter 9 of the Joint Federal Travel Regulations. A message to all activities addressing this change was released during September.

The DoD agrees that procedures used to set utility/recurring maintenance allowances can be improved. The DoD does not, however, agree that decisions are being made in an arbitrary manner. Currently decisions are made based on reason, staff experience, and adopted procedures. While the rental component of the overseas housing allowance is automated, the other two components are not presently automated. The DoD supports the use of accepted statistical techniques in computing and prescribing the utility/recurring maintenance and initial/terminal occupancy allowance components of the overseas housing allowance. The DoD will study alternatives for collecting this data and processing it in an automated environment. As noted previously, this study should be completed during FY 1991.

- o FINDING M: Service Personnel Treated Differently in Germany. The GAO reported that some personnel were fully reimbursed for their utility expenses, while others received about \$58 per month less than full reimbursement for their utilities. The GAO noted that the Per Diem, Travel, and Transportation Allowance Committee plans to clarify the utility expense rules in a revision to the Joint Federal Travel Regulation thereby ensuring proper payment. (p. 50/GAO Draft Report)

DoD RESPONSE: Concur. See DoD response to FINDING L.

- o FINDING N: Inconsistent Treatment of Officers and Enlisted Personnel. The GAO reported that a number of countries and locations have two utility and recurring maintenance allowance rates: one for officers and one for enlisted personnel. The GAO noted that the Per Diem, Travel, and Transportation Allowance Committee staff separately averaged utility costs for officers and enlisted men and, when the difference was large enough, separate allowances were set. The GAO found, however, that the comparisons did not employ standard,

Now on p. 28.

Now on p. 28.



Appendix I  
Comments From the Department of Defense

- individuals assigned to perform the survey work be capable of selecting random samples (for living pattern surveys);
- records be maintained by the primary country point of contact that include assignments of duties and responsibilities and schedules of areas and facilities to be surveyed each year;
- prior year surveys be retained for 2 years for reference and trend comparison; and
- Per Diem, Travel, and Transportation Allowance Committee instructions and guidance be retained.

The DoD will look for additional ways to make overseas commanders and survey coordinators more responsive to survey requirements. As part of that effort, the DoD will solicit their input, as well as that of Service headquarters activities, during the first half of FY 1990.

In order to improve the cost-of-living allowance program in response to GAO suggestions, including more training of survey coordinators as noted in this finding, the DoD plans to study the possibility of hiring an additional person to structure, coordinate and monitor the training and competency of those administering surveys. A decision will be made by March 1990.

In its proposed study of the program, the DoD will also explore the feasibility of collecting both living pattern and price survey data through a private party having expertise in survey techniques. The contractor approach may produce a better survey and eliminate the need for constant retraining.

Regarding the retention of survey data, keeping the actual reports for 2 years is appropriate. Currently this provides the ability to do trend analysis for 3 survey years (current plus the two on file). This parallels the practice employed by other statistical agencies. Memoranda documenting the results of cost-of-living analyses are retained for at least 5 years.

Finally, the DoD agrees that a notation system is necessary for documenting decision criteria and maintaining an audit trail. This has been implemented into the current environment and will be further addressed in the future automated environment.

- o **FINDING K: Perceptions of Recipients.** The GAO reported that the majority of recipients it interviewed (68 percent) believed the housing allowance was marginally adequate or better. The GAO noted, however, that a majority of enlisted personnel thought the overseas housing allowance was marginally adequate or inadequate--while at the same time a majority of officers (56 percent) believed that their overseas housing allowance was adequate or better. The GAO also reported that personnel in Germany were more likely to report

Appendix I  
Comments From the Department of Defense

The DoD does not agree, however, that its analysts make editing decisions based on "intuition." Rather, decisions are based on (1) staff procedures (e.g., do not permit designer clothing); (2) reason and experience (e.g., \$700 dresses are not typically purchased by moderate income families); (3) comparison to past reports; and (4) direct consultation with representatives from the reporting country.

- o **FINDING I: Reported Survey Data Not Always Used.** The GAO reported that, in one instance, the Per Diem, Travel, and Transportation Allowance Committee completely disregarded summary data submitted by the survey coordinators in Okinawa because the data indicated much greater use of commissary and exchange facilities than other localities in Japan. The GAO found that the Per Diem, Travel, and Transportation Allowance Committee did not request supporting data for the figures-- but, instead, compared them with State Department data and decided, without any objective evidence, that the Department of State data was more credible. The GAO noted that the Okinawa survey coordinators disagreed with these actions and protested the fact that the Per Diem, Travel, and Transportation Allowance Committee did not request any additional supporting data. (pp. 38-39/GAO Draft Report)

**DoD RESPONSE:** Concur. The DoD agrees that reported survey data is not always used. The Okinawa Survey is an example. The DoD analysts decided not to use the summary living pattern data for Okinawa for three valid reasons: (1) requests to obtain individual living pattern surveys through our point of contact at Yokota AB were unsuccessful; (2) the Okinawa summary data indicated that virtually no local economy purchases were being made; and (3) the survey of civilian employees at Okinawa compared very closely to the military surveys outside Okinawa. Because there is seldom any difference between military and civilian purchasing patterns overseas, the civilian survey was used as a proxy for the military. The DoD then ordered a new survey for Okinawa for the next reporting year.

The following year survey proved that DoD analysts were correct in their decision. Summary living pattern data for Okinawa compared very closely with other locations in Japan. If the DoD had used the prior year survey, eight additional cost-of-living allowance index points would have been taken away from members in Okinawa only to be restored the following year.

The DoD recognizes that surveys will not always be perfect and, indeed, some will have to be rejected/reworked. As previously noted, the DoD will issue additional guidance on this subject by the end of 1989.

- o **FINDING J: Lack of Management Controls Affect Cost-of-Living Allowance.** The GAO reported that problems with the representativeness, accuracy, and completeness of the cost-of-living allowance surveys can be attributed, in large part, to a lack of internal management controls. The GAO found that,

Appendix I  
Comments From the Department of Defense

also plans to study alternatives to the current approach and make recommendations. That study should be completed by the end of FY 1991.

- o **FINDING F: Market Basket Items Did Not Capture Unique Costs Overseas.** The GAO reported that the cost-of-living allowance methodology is not designed to collect data on living costs that are unique to overseas locations. The GAO noted that, as a result, significant unique costs are not considered--like high road taxes and tolls in the United Kingdom and Japan. The GAO concluded that the Per Diem, Travel, and Transportation Allowance Committee had no evidence to support its assumption that the market basket items adequately approximate differences between U.S. and foreign road taxes and tolls. (pp. 34-35/GAO Draft Report)

**DoD RESPONSE:** Partially concur. The DoD agrees that the market basket does not specifically measure all costs, some of which may be uniquely high or low. The DoD does not, however, concur that the market basket fails to produce an allowance which adequately reflects overall living costs.

The DoD market basket survey--which is the same system used by the State Department, other Government Agencies, the National Foreign Trade Council, and other organizations and companies--contains a fixed number (160) of goods and services. Because it is impractical to collect prices for all goods and services, each item included in the market basket becomes an "indicator" representing a collection of related items (e.g., canned corn might represent all canned vegetables). The market basket contains indicators for all classes of goods and services covered by the cost-of-living program, such as food, clothing, recreation, transportation, home furnishings, and personal services.

A successful cost-of-living allowance program requires that the goods and services in the market basket be fixed. This enables the DoD to make consistent, systematic allowance determinations in all countries. If a variable system were utilized, the result would be to substitute only high-cost items, thus producing higher rather than consistent/unbiased indexes.

A final point is that each of these countries has significant cost-of-living indexes to address high costs. In Japan they range from 130-212 (or a 30 to 112 percent supplement) and in the United Kingdom from 116-142 (as of September 1, 1989).

Even though the DoD is confident that the current system is valid, this issue will be covered in the planned study of the cost-of-living program.

- o **FINDING G: Incorrect and Outdated U.S. Prices Were Used.** The GAO reported that the Per Diem, Travel, and Transportation Allowance Committee has been using outdated and, in some cases, no longer representative adjustment factors to make regional adjustments to Bureau of Labor Statistics quarterly

Appendix I  
Comments From the Department of Defense

Now on pp. 17-18.

Committee (not 600)--because the written instructions called for a "minimum response of 120." The GAO also noted that neither the local command nor Per Diem, Travel, and Transportation Allowance Committee officials knew (1) whether the 120 respondents were representative of the military population or (2) whether they were selectively chosen to assure a desired outcome. (pp. 31-32/GAO Draft Report)

**DoD RESPONSE:** Concur. While existing regulations, if followed, would have precluded survey errors, the following actions will be taken to strengthen controls:

- A survey "kickoff" instruction letter will be prepared and sent to our Points of Contact instructing them to read Appendix M (Reporting Procedures) of the Joint Federal Travel Regulations before beginning any survey process. It will cite the living pattern survey problems the GAO encountered, emphasizing that surveys should not be discarded. This will be accomplished during 1989.
- Appendix M will be expanded to provide more instructions about conducting Living Pattern and Retail Price Surveys. This will be accomplished during the first half of FY 1990.
- The DoD will also explore ways to make overseas commanders and survey coordinators more responsive to survey requirements. The DoD will solicit their input as well as that of Service headquarters activities during the first half of FY 1990.

Like many of the issues related to the cost-of-living allowance program, the DoD plans to have the Living Pattern Survey issue included in a comprehensive study of how cost-of-living data are collected, analyzed and processed. The study will include examining our current procedures and suggesting alternatives. The study will utilize resources within the Department, if available, or an outside contractor. The study should conclude not later than FY 1991.

- o **FINDING D: Survey Locations Were Not Always Representative.** The GAO reported that survey locations were not always representative of the entire country. The GAO found that, in Italy, five out of the nine locations that were selected and averaged to establish a single cost-of-living allowance, for all locations in Italy, were not representative. The GAO reported that, if separate cost-of-living allowances had been established for southern Italy in 1988, approximately \$2.8 million would have been saved at Comiso and Naples. The GAO also found that the Committee did not select survey locations using statistically valid methods--but, instead, used locations that were most cooperative in returning data. The GAO also reported that the Committee had not appropriately tested pricing data to determine if a combined cost-of-living allowance or separate cost-of-living allowances for different locations would have been more appropriate. (pp. 32-34/GAO Draft Report)

Now on pp. 18-19.

GAO DRAFT REPORT - DATED AUGUST 25, 1989  
(GAO CODE 391099) OSD CASE 8109

"OVERSEAS ALLOWANCES: IMPROVEMENTS NEEDED IN ADMINISTRATION"

FINDINGS AND RECOMMENDATIONS TO BE ADDRESSED IN THE  
DOD RESPONSE TO THE GAO DRAFT REPORT

\* \* \* \* \*

FINDINGS

- o **FINDING A: Problems Identified in Previous Reports.** The GAO reported that, during the past several years, a number of reports have identified problems with setting overseas allowances--and many of those problems remain unresolved. The GAO noted that a prior GAO report (GAO/FPCD-82-8, "Computation of Cost-of-Living for Uniformed Personnel Could Be More Accurate," dated February 25, 1982 (OSD Case 5871)) found that living pattern survey results did not always accurately represent purchasing patterns--and survey results were sometimes ignored. The GAO noted that this situation still exists. The GAO also reported that, after the 1988 Federal Managers' Financial Integrity Act annual report identified the Per Diem, Travel, and Transportation Allowance Committee's lack of automation as a significant weakness, the Committee had a contractor study the Overseas Housing Allowance to correct this weakness. (pp. 20-21/GAO Draft Report)

**DoD RESPONSE:** Partially concur. While the DoD agrees that not all living pattern surveys accurately represent purchasing patterns, it does not agree that automation remains a significant weakness.

Since 1983, the Committee has continually emphasized automation. Although it is true that the cost-of-living program and the nonrent portion of the overseas housing allowance program are not yet automated, the DoD has made automation strides in the rental ceiling portion of the overseas housing allowance program, the foreign exchange rate monitoring system, and an electronic data base system, which presently provides automated allowance rate updates to the Service finance centers.

- o **FINDING B: Service Members Believe Cost-of-Living Allowance Adequate, but Few Knew Its Purpose.** The GAO reported that 66 percent of the Service members it interviewed in countries other than Korea believed that the cost-of-living allowance kept up with the cost of living to a moderate extent; while approximately 21 percent believed that it helped little with living costs. The GAO also reported that enlisted personnel were less likely than officers to say that the cost-of-living allowance was adequate. In addition, the GAO noted that Service members in certain locations--i.e., Yokosuka, Okinawa, Naples, and Oahu--were less satisfied than their counterparts

Page 1

Now on pp. 10-11.

# Comments From the Department of Defense

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



FORCE MANAGEMENT  
AND PERSONNEL

THE OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301-4000

NOV 2 1989

Mr. Frank C. Conahan  
Assistant Comptroller General  
National Security and International  
Affairs Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) Draft Report, "OVERSEAS ALLOWANCES: Improvements Needed in Administration," dated August 25, 1989 (GAO Code 391099, OSD Case 8109).

The Department generally concurs with most of the findings and recommendations contained in the draft report. Some of the report comments, however, appear to be unnecessarily harsh. While there is always room for improvement, it is the DoD position that the programs are essentially sound and that the level of approval among overseas Service members is reasonably high (as noted in the GAO perception surveys).

The most troublesome point raised is the suggestion that the Department's Cost-of-Living Allowance philosophy be changed from considering where members actually shop to a system which assumes that all shopping for items contained in the market basket takes place in commissaries or exchanges. While commissaries and exchanges are valued shopping resources, it was never assumed they would meet all of the varied shopping needs of Service members, especially those with families. In many instances it is impractical for members to exclusively use these facilities, particularly those who reside off post. Testing has shown that any savings would be extremely limited, while the potential for negatively impacting morale and welfare would exist across the spectrum of allowance recipients. Any decrease in morale can have the potential for adversely impacting retention.

The DoD is committed to taking corrective actions to address many of the points noted in the report. Independent studies are planned for both the Cost-of-Living Allowance and the nonrent parts of the Overseas Housing Allowance programs to bring about long-term improvements. Alternate data collection, statistical sampling, and statistical editing techniques will be emphasized and vigorously sought. Once the best alternatives are selected, they will be automated where practical.

---

## Recommendations

We recommend that the Secretary of Defense direct the Chairman of the Per Diem Committee to

- develop statistical sampling procedures for collecting living pattern information and
- evaluate the cost-effectiveness of automating the system for collecting and analyzing living patterns and retail prices and to automate the system if appropriate.

---

## Agency Comments

DOD concurs with the recommendations stated above. In our draft report, we recommended that DOD eliminate the discretionary element in the currency adjustment process. DOD did not fully concur, stating that intervention is useful at times to preclude insignificant changes. DOD agreed, though, that there are many instances when it should not intervene. In light of DOD's comments, we have deleted the recommendation from our final report.

must be analyzed,<sup>1</sup> these time lags appear to be unavoidable, unless fundamental changes are made to procedures for collecting and analyzing data.

Based on our review, we believe that changes to data collection and analysis should be made in two areas. First, the number of personnel required to complete living pattern surveys at a location could be reduced by using standard statistical sampling procedures. For example, 408 of 2,794 members in Vicenza, Italy, were sent survey forms in 1988. However, based on standard statistical sampling procedures, the point of contact only needed to survey as few as 68 randomly selected members if the Committee wanted to have a 95-percent confidence rate that would be within 10 percentage points of what the population would have responded had they been surveyed.

Second, by putting both of the COLA surveys into a format that could be screened by computer and increasing automated support, Committee staff believe that the analyses necessary to compute COLAs for a location or country could be done in a matter of minutes or hours as opposed to weeks or months.

In commenting on our draft report, DOD agreed that improvements in timeliness can be achieved. DOD also agreed that increased automation is an essential requirement, and the numbers of surveys could be reduced.

---

## Conclusions

Although timeliness does not appear to be a major problem in administering the overseas allowance programs, we did find areas that could be improved. The currency adjustment process could become more responsive by eliminating the discretionary element and allowing the system to operate as intended.

We realize that changing allowances immediately after collecting the data is an unrealistic goal, but the Committee can improve the timeliness of these procedures. These improvements would include using statistical sampling procedures and automating the data collection and analysis process.

---

<sup>1</sup>In 1988, over 2,400 forms were used from Japan for setting the moving-in and moving-out allowance. The total number of forms from West Germany approached 12,000.



To evaluate the effects of discretionary adjustments, we developed models based on the Committee's published procedures to compare hypothetical changes that should have been made based on these procedures with actual changes over a 10-month period. The results show that at the end of 10 months the service member would have been about as well off, in terms of total allowances received, with automatic application of the Committee's published procedures as they were with the actual changes. However, automatic application of the procedures would have resulted in no periods with an accumulated difference larger than about 17 percent, compared to the 7-week period where the difference always exceed 20 percent as a result of discretionary adjustments.

In its comments on our draft report, DOD noted that the Committee staff has a "hands-off" approach to the currency adjustment system. Despite this, intervention is sometimes necessary to preclude making unnecessary and significant changes.

---

## Navy Members' Perceptions of the Currency Adjustment Process

Navy personnel who believe that allowance decreases are implemented more rapidly than allowance increases are correct if they are paid directly rather than if they have direct deposit. The Navy Finance Center reported that if a member does not have direct deposit it takes 1 month to reflect an increase, although a decrease is reflected immediately the next pay period. For members who have direct deposit, an increase or decrease is reflected the next pay period.

The Navy's payment policy is to override the system, when nondirect deposit decreases are required, to keep the member from being overpaid and having to take the decrease in a lump sum when the system catches up. Since the nondirect deposit is less automated and requires a change to the leave and earning statement, the old higher rate would continue to be paid unless the system was overridden. Unless overridden, excess payments would be made for three pay periods before the system caught up, at which time a large lump sum deduction would be made. This is not necessary for increases since the members benefit. This procedure is not necessary for direct deposit since that system is fully automated and can make the change without a new leave and earning statement.

---

## Agency Comments

In our draft report, we recommended that DOD submit a report along with its proposed legislation that would address the resale value of items included in the moving-in expenses, the definition of what constitutes reasonable expenses, and the appropriateness of a worldwide ceiling on items purchased to make leased housing habitable. Since the final legislation did not contain the specific implementation details that had been contained in the draft proposal, we have modified our recommendation.

In our draft we had also recommended that the Secretary of Defense identify the overseas housing allowance survey methods as a significant weakness in the Federal Managers' Financial Integrity Act annual report. DOD did not agree and stated that the assistant secretary of defense (military manpower and personnel policy) will track and monitor DOD's efforts to correct the problem we identified. We have deleted this recommendation from our final report in light of DOD's actions.

DOD concurs with the two remaining recommendations dealing with developing uniform policies and guidance, and ensuring that local directives did not undermine the intent of the OHA program.

In contrast, at Kadena Air Base in Okinawa service members were encouraged to rent below the ceiling, which they were told would provide a cushion against any changes in the allowance rates. According to the Committee staff, if all members follow this advice, the rental ceilings will move downward, depressing the rental allowance.

---

### Local Command Policies Can Cause the System to Fail

Local command policy directives that are inconsistent with overall OHA policy can have a negative effect on the rental portion of the system. This occurred at least twice in the last several years, requiring the Per Diem Committee to implement special adjustments to the allowance.

According to the Committee point of contact for Spain, in the early 1980s, the base commander at Torrejon directed that all enlisted members rent quarters at or below their allowance ceiling. Over time, this directive resulted in enlisted members residing in substandard housing. The in-country point of contact informed the Committee about the problem, described the living conditions of enlisted personnel, and indicated rental allowances were regularly going up all over Spain, except at that location.

The Committee conducted a special study to determine if higher rental allowance ceilings were warranted. Committee staff visited off-base housing and found that members were living in poor facilities because of the base commander's directive. This local command policy caused a breakdown in the methodology because each rental update showed that the ceilings needed to be reduced. As a result of the staff visit, the Committee adjusted the rental ceilings upward. The increases varied, but the highest for any grade was an additional \$100.

At the end of 1 year, the Committee staff reviewed the rents of new arrivals and found that many were not moving into better housing. The Committee then lowered the ceiling. The adjustment appears to be appropriate, but limiting it to 1 year may have been insufficient because the base commander's directive was still in effect for the first half of the year. Also, members who had previously entered into long-term lease agreements could not take advantage of the opportunity to upgrade their housing, and a few members who did upgrade their housing may have suffered unexpected out-of-pocket costs when the ceiling was lowered.

entire population, whereas using a census does not. Also, data collectors did not have adequate training or guidance on the use of standard statistical methods of data collection and analysis. In its comments on our draft report, DOD stated that such training or guidance is unnecessary since DOD conducts a census rather than a statistical survey.

Professional survey and polling organizations usually try to identify a “nonresponse bias” to determine any possible effects. We used response rates by pay grade to test for such biases at three locations. These tests showed a tendency for higher rates of response at the senior enlisted grades, but a more mixed tendency at the officer grades. Because responses were averaged, everyone at these locations benefited from the nonresponse bias because senior enlisted grades spent more on housing than did junior graded personnel. Consequently, the non-rent portion of the housing allowance was higher than it should have been.

At the other end of the range, rates above 100 percent indicate a lack of control of the survey process and raise questions about its legitimacy. The 106-percent response from Seoul results from inappropriately surveying members with noncommand-sponsored dependents. According to the Committee analyst, the effect of including this group would be to lower the allowances because this group is more likely to economize than personnel with command-sponsored dependents.

---

## Quality Variance

Each survey form is supposed to be reviewed for completeness, accuracy, and clarity by the local commands’ reporting officers. However, the extent of the in-country coordinators’ involvement in the survey process varied by location. As a result, the quality and completeness of survey data varied from country to country. For example, at Yokosuka, Japan, the survey coordinator provided service members with a housing allowance worksheet to assist them in maintaining records of their housing expenditures for use in completing the OHA survey. It appears that this involvement resulted in a significant increase in allowances at Yokosuka in 1988. The monthly moving-in and moving-out allowance increased from \$49 to \$137, and the utilities and recurring maintenance allowance increased from \$160 to \$173. The Committee staff attributed the increases to command emphasis on reporting all costs. Few other locations took such measures.

---

## Proposed Legislation

DOD recently submitted a legislative proposal to the Office of Management and Budget that would allow up-front reimbursement of moving-in

maintained to be inadequate for determining why the data were excluded.

## Underpayment of Moving-In and Moving-Out Expenses

The monthly moving-in and moving-out allowance is supposed to be computed by averaging all expenses reported by service members in an area, then dividing this average by the number of months members typically reside in private housing. We found that these procedures were not always followed when computing the allowance, and, as a result, some members were not being fully reimbursed for allowable expenses.

The moving-in and moving-out allowance in Germany, Italy, Spain, and the United Kingdom was based on the average amount of time service members spent in the country rather than the average time members actually spent in private housing. Since service members spent more time in a country than in private housing, moving-in and moving-out allowances were understated. Therefore, service members actually received less money than they should have.

The points of contact should have reported the average length of time in private housing to the Committee, but none of them did so in 1987 and 1988. Lacking this information, the Committee used 34 months<sup>2</sup> to compute the monthly allowance. We found the average time spent in private housing actually ranged from 18 to 24 months at these locations. Therefore, service members did not receive an adequate allowance for moving-in and moving-out costs. We found the amount not recouped by a service member varied by location, as shown in table 3.2.

**Table 3.2: Cost Versus Reimbursement for Moving in and Moving Out**

Dollars in thousands				
Location	Average cost	Average reimbursement	Loss to member	Total loss by location
Ramstein	\$544	\$288	\$256	\$1,342
Lakenheath	850	525	325	1,162
Frankfurt	544	352	192	557
Wuerzburg	544	336	208	296
Naples	1,020	720	300	443
Rota	408	252	156	286
<b>Total</b>				<b>\$4,086</b>

<sup>2</sup>The 34-month figure was derived using a 36-month tour length and subtracting 1 month for the temporary lodging allowance at the beginning and end of an overseas tour.

official also noted that leases in Germany require tenants to pay a month's rent for renovating their apartment when they leave. Understating the moving-in and moving-out costs used to compute this portion of the allowance would result in the overall allowance being inappropriately low.

In commenting on our draft report, DOD noted that detailed information about housing allowances is already contained in the Joint Federal Travel Regulations. In addition, it has designed an OHA brochure that will be distributed to the field during fiscal year 1990.

---

## Uniform Policy and Procedures Lacking for Non-Rent Portion of OHA

Criteria for reporting utility costs varied by service, and as a result, service members were treated differently depending upon whether they are Army or Air Force members. In addition, procedures used to set the utility and recurring maintenance allowance were not automated and the process relied heavily on Committee staff judgment. This sometimes resulted in decisions being made that were not based on established and documented criteria.

---

## Service Personnel Treated Differently in Germany

Some personnel in Germany were fully reimbursed for their utility expenses as is intended by regulation, but 33,000 personnel received about \$58 per month less than full reimbursement for their utilities. For a 1-year period, these personnel received about \$22.8 million less than their counterparts. The difference resulted from the services' different interpretations of the Per Diem Committee's guidance on certifying eligibility for full reimbursement. The Committee staff, as a result of our findings, has clarified the utility expense rules in a revision to the Joint Federal Travel Regulations.

---

## Inconsistent Treatment of Officers and Enlisted Personnel

A number of countries and locations have two utility and recurring maintenance allowance rates: one for officers and one for enlisted personnel. This situation exists in Germany and Italy, but not in Japan, Korea, Spain, or the United Kingdom. Local command officials did not know why separate rates were established in some locations but not in others.

To calculate rates, the Per Diem Committee staff separately averaged utility costs for officers and enlisted personnel. If the difference between the two averages was large enough in the staff's judgment, the Committee set two separate allowances. However, the comparison of the

# Methods for Setting OHA Can Be Improved

OHA is designed to reimburse military personnel for housing costs in excess of their basic allowance for quarters. Together these two allowances help pay for rent, utilities, recurring maintenance expenses, and moving-in and moving-out expenses. For the rental portion of the allowance, the service member is fully reimbursed up to a ceiling.<sup>1</sup> If the rent is higher than the ceiling, the member pays the difference. The non-rent portion of OHA is the average of such expenses for a housing area as reported on annual surveys. Overseas commands provide the Per Diem Committee with data needed to establish allowance levels for the different housing areas.

Service members were generally satisfied with their housing allowances; however, differences did exist. Enlisted personnel were less satisfied than officers. Personnel in Germany were much more satisfied than members in other locations. However, we found that (1) a lack of understanding about how the allowance is computed could have resulted in the allowance being lower than it should have been and (2) the majority of those interviewed incorrectly believed certain moving-in and moving-out expenses were not considered in determining the allowance and did not report such expenses.

The problems we observed related to OHA were in the non-rent portions of the allowance designed to reimburse utilities, recurring maintenance, and moving-in and moving-out expenses. Inconsistencies existed in how these portions were computed, and management controls over the collection of data used to compute the non-rent portions of the allowance were nonexistent. The Per Diem Committee recently proposed legislation that would make it easier for service members to be reimbursed for moving-in expenses.

The methodology used to compute the rental portion of OHA is adequate because it is based on the actual rent paid by recipients. However, local command policies and information provided at the overseas locations occasionally kept the system from working as intended.

---

## Perceptions of Recipients

The 200 OHA recipients we interviewed were generally satisfied with their housing allowances, but most had not been informed about certain key features of OHA that could affect the allowance. The majority of recipients we interviewed (68 percent) believed the housing allowance

---

<sup>1</sup>Rent ceilings are set at the 80th percentile of rents paid at each grade level and each major housing area overseas.

---

## Inadequate Documentation at the Per Diem Committee

The Per Diem Committee did not document its decision criteria for such matters as excluding prices or combining averages. Also, living pattern surveys were retained only until new ones were performed and summary documentation was retained for only a few years. Consequently, there was not an adequate audit trail, anomalies in trends could not be identified, and the ability to track certain data, such as changes in the on-base and off-base shopping patterns, was lost.

---

## Conclusions

Although the majority of service members we interviewed believed that COLA had kept pace with the cost of living at their overseas location, they generally did not understand its purpose or how COLA rates were set. This is not surprising, however, because the program's purpose and objectives lack specificity.

We identified a number of data collection and analysis problems with DOD's current COLA-setting methodology that should be corrected. Because of these problems, COLA rates are often inappropriately high or low. Survey responses were not representative of the population receiving COLA at overseas locations; survey locations were not representative of the area covered by a COLA index rate; surveys were not performed in a timely manner; and incorrect and outdated U.S. price data were used. Also, the process lacked statistical and analytic rigor. Many of these problems can be attributed to poor management controls over the rate-setting process, and should be considered for reporting under the requirements of the Federal Managers' Financial Integrity Act.

---

## Recommendations

To strengthen controls over the current data collection and analysis processes, we recommend that the Secretary of Defense require the Per Diem Committee to

- develop guidelines on the minimum training survey coordinators and points of contact at the overseas commands should have on the COLA methodology;
- communicate clear delegations of authority and responsibility so that overseas commands can be held accountable for the quality of their surveys;
- utilize prices from the Bureau of Labor Statistics for applicable items in the market basket rather than adjusting the prices from the quarterly Washington, D.C., retail price survey, and where these prices are not available, develop new measures for average U.S. data that would make the prices more accurate and timely;



---

The Committee occasionally did not receive all the data it requested from the overseas commands during the annual COLA-setting process. Committee staff followed up when living pattern or pricing data were late or incomplete, but in some situations the needed information never reached the Committee.

---

**Reported Survey Data Not Always Used**

The Committee did not always base COLAs on data reported in the surveys. For example, it disregarded summary data from the living pattern survey data submitted by the survey coordinators in Okinawa. According to Per Diem Committee staff, the coordinators did not provide the raw data to support the survey summary, and they disregarded the data because the data indicated much greater use of commissary and exchange facilities than other localities in Japan.

The Committee did not request further support for the reported figures from the survey coordinators, but compared the Okinawa summary data to data gathered by the Department of State.<sup>6</sup> The Committee decided without any objective evidence that the Department of State data reflected more credible changes in the percentages of local market shopping than the overseas command survey data.<sup>7</sup> The Committee then used historical trends and State data to develop a COLA level for Okinawa.

The Okinawa survey coordinators disagreed with these actions. Survey coordinators stated that the summary submitted to the Committee was accurate and that the raw data, which they had been instructed to keep, supported the summary. The coordinators said the Committee did not ask for any additional supporting data.

In commenting on our draft report, DOD agreed that survey data are not always used and cited the Okinawa survey as an example. DOD also said the reasons they had for not using the survey data were valid and the survey performed confirmed that their decision was correct.

---

<sup>6</sup>In some instances, State is responsible for gathering retail prices used in setting civilian COLAs at a location, while DOD is responsible for setting military COLAs at the same location.

<sup>7</sup>The State official conducting this survey indicated he did not take a random sample of the civilian population, but surveyed only DOD Dependents Schools civilians and did not monitor the response rate.

price surveys, and plans to issue guidance by the end of 1989. It also plans to study alternatives to the current approach.

---

### Market Basket Items Did Not Capture Unique Costs Overseas

The COLA methodology is designed to capture prices for items available both at overseas locations and in the United States. The methodology is not designed to collect data on living costs that are unique to overseas locations. In certain instances service members experience unique and significant expenses at overseas locations. For example, road taxes and tolls are high in the United Kingdom and Japan. Road taxes in the United Kingdom were about \$190 per car in 1988. Under the Committee's current methodology, this cost is not considered a part of the member's transportation cost overseas.

Road taxes and tolls are not included in the market basket because the Committee assumes the 12 transportation items it includes<sup>5</sup> adequately approximate any differences between U.S. and foreign road taxes and tolls. The Committee had no evidence to support its assumption, which seems questionable given that personnel in Japan who pay tolls said they typically pay \$30 to \$80 per month.

In its response to our draft report, DOD noted that it uses the same system for its market basket survey as does the Department of State and other government agencies. It agrees this system does not measure all costs—some which may be uniquely high or low. However, DOD believes the current market basket adequately considers such unique items as tolls. Even though DOD believes the existing system is valid, it plans to include this issue in its planned study of the cost of living program.

---

### Incorrect and Outdated U.S. Prices Were Used

The Bureau of Labor Statistics conducts a quarterly retail price survey in the Washington, D.C., area that the Per Diem Committee adjusts for regional differences to determine average U.S. prices. The adjustment factors, however, were last published in 1981, with some dating to the late 1970s, and are no longer representative in some cases. So far, DOD has not found an adequate means to update these prices.

The Bureau currently publishes average U.S. prices for a few items, primarily gasoline and food. A comparison of the Bureau's average with

---

<sup>5</sup>These are gas, oil change, tune-up, labor costs (repairs), tires, taxi fare, bus fare, subway fare, air fare (within country), liability insurance, collision insurance, and comprehensive insurance.

were overrepresented at another location in Italy, and at two other locations some civilian personnel were erroneously sampled.

At several locations, a large number of members responded, but local command officials forwarded only a small proportion of the responses to the Committee. For example, at Ramstein Air Base approximately 1,200 survey forms were sent out and about 600 members responded, but only 120 responses were sent to the Per Diem Committee because written instructions called for a minimum response of 120. Neither local command officials nor Committee officials knew whether the 120 survey respondents were representative of the military population in the area or whether the responses were selectively chosen to ensure a desired outcome.

In its response to our draft report, DOD agreed that survey responses were not representative, and further stated that if existing regulations had been followed, the survey errors would have been precluded. The agency plans to strengthen internal controls, and study its current procedures for collecting and analyzing data.

---

## Survey Locations Were Not Representative

We found that survey locations were not always representative of the entire country. According to the Committee's survey methodology, living pattern surveys and retail price surveys were performed at only a few locations within a country. The Committee then combined surveys from these few locations to set COLAs for the entire country. For example, it averaged data from five full support locations<sup>3</sup> in Italy to set a single COLA of 110 for all nine locations where U.S. military personnel serve. This method is appropriate only if the locations chosen are representative of the other locations, which they were not for Italy.

We computed separate indexes for each of the five locations and found that the indexes ranged from lows of 102 and 106 at two locations in southern Italy to highs near 110 in northern Italy. If separate COLAs had

---

<sup>3</sup>In many countries, locations for COLA purposes are divided into four categories: full support, partial support, no support, and unique. The support status depends on the availability of a commissary and exchange facility at the duty station, with the degree of support dependent on the distance to the facilities. A single COLA is established for each of the support categories, with full support areas typically having the lowest COLAs.

States. COLA would be set to equal 10 percent of service members' spendable income.

This methodology for computing COLA is essentially expense-driven; that is, the methodology depends upon receiving data on living expenses reported by COLA recipients. If service members buy a higher proportion of their market basket items at higher priced local businesses and if living pattern surveys are performed frequently, DOD's formula will result in COLA rates that enable service members to continue patronizing those local businesses.

Because this methodology is expense-driven, the reverse can also occur if living pattern surveys are not performed often enough when the value of the dollar is declining relative to the local currency. Service members we interviewed in Japan believe this occurred in that country, causing their COLA to drop as much as 21 percent in 1988. Local command officials had not conducted a living pattern survey for several years while the dollar was depreciating relative to the Japanese yen. When they conducted a survey in 1988, service members in several areas reported making more purchases at on-base commissaries, exchanges, and other facilities. In both mainland Japan and Okinawa, service members stated they were often compelled to shop at on-base facilities because the local markets and shops were too expensive.

An alternative approach is similar to the first, except that the living pattern survey would not be conducted. Instead, those market basket items available at commissaries, exchanges, and other government-provided on-base facilities would be priced at those facilities. Price data for market basket items not available on base would be collected at reasonably priced outlets in the local community. In our draft report, we recommended to DOD that it evaluate the merits of using this alternative approach.

In response to our draft report, DOD tested selected locations overseas and in the United States and assumed that market basket items available in on-base facilities were purchased there rather than in the local economy. In all areas tested, except Japan, DOD found that members already were maximizing their use of commissaries and exchanges because there was no difference between actual and test location indexes. In other words, DOD found that the present system already considers availability and, therefore, is a truer measure of compensation needed to cover additional overseas costs. DOD found that the primary

# Methods for Setting COLA Can Be Improved

COLA originated as part of the overseas station allowances first appropriated for the Department of the Army for fiscal year 1943. The Career Compensation Act of 1949 made this allowance permanent for all the services, and instructed the service secretaries to develop regulations for implementing it. Overseas COLA has received periodic congressional attention since that time, but as DOD stated:

“Authority to pay Overseas Station Allowance to military personnel was initially granted with a minimum of Congressional review and with a complete lack of Congressional expression as to the purpose to be served thereby.”<sup>1</sup>

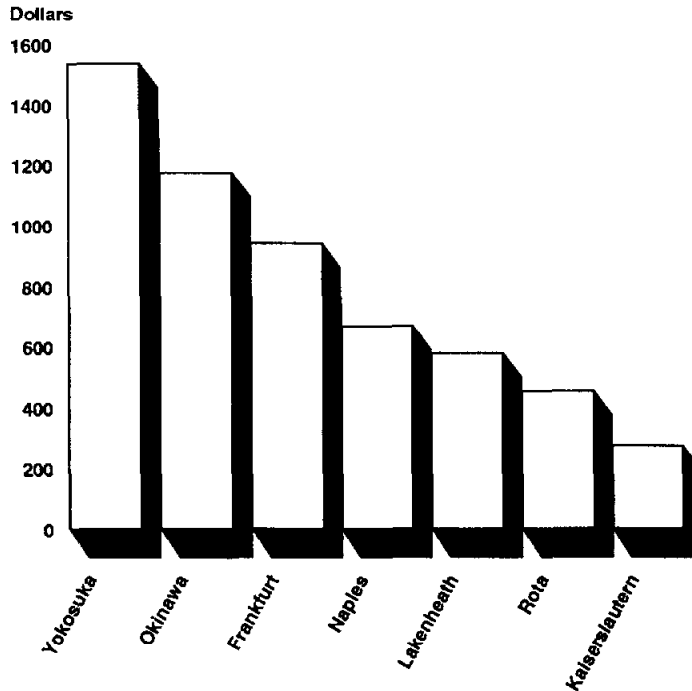
According to DOD, the general purpose of COLA is to help defray the additional cost of food and related living expenses incurred by military members and their dependents while being assigned to permanent duty outside the United States. It said this means that COLA rates should be set so that a service member’s purchasing power for nonhousing goods and services acquired overseas will be equivalent to peers stationed in the continental United States. Determining the adequacy of COLA required the Committee to exercise highly subjective judgments because the allowance purpose and a standard to measure its adequacy lacked specificity. Nevertheless, most service members we interviewed were generally satisfied with the amount of COLA they received, and believed that COLA had kept pace with the cost of living at their overseas location. However, they generally did not understand COLA’s purpose or how the Committee set rates.

We examined the approach and methodology currently used by DOD to set COLA rates, and identified a number of problems with the data collection and analysis processes. For example:

- Survey responses used to establish shopping patterns were not representative of COLA recipients.
- Survey locations selected within a country were not always representative of the entire country.
- Living pattern surveys were not always performed in a timely manner.
- Prices were improperly collected.
- Standard statistical procedures and tests were not employed and decisions on the use of reported data were unsupported.

<sup>1</sup>Military Compensation Background Papers, Department of Defense, Office of the Secretary of Defense, 3rd Edition, June 1987.

Figure 1.2: OHA and COLA for Typical Officer



these objectives, we performed work at Honolulu, Hawaii, and nine overseas locations: Frankfurt, Wuerzburg, and Kaiserslautern, West Germany; Yokosuka and Okinawa, Japan; Rota, Spain; Seoul, Korea; Naples, Italy; and Lakenheath/Mildenhall, United Kingdom. We also performed work in Washington, D.C., at DOD's Per Diem, Travel, and Transportation Allowance Committee; the Bureau of Labor Statistics; and the Department of State. In addition, we contacted the finance center for each service to obtain data on the timeliness of allowance adjustments.

To obtain the necessary data, we (1) interviewed agency officials on procedures, timeliness, calculation methods, and survey problems, (2) conducted structured interviews with randomly sampled allowance recipients to obtain information on unique cost items, actual living conditions, adequacy and timeliness problems, and their understanding of the programs' purposes, and (3) reviewed survey forms provided to the Per Diem Committee by overseas commands, and the working papers it prepared. We reviewed and tested the survey forms and working papers to determine how closely the Committee follows its own procedures, whether alternative procedures could improve the process and reduce

---

affecting about 125,000 OHA and 458,000 COLA recipients. DOD representatives overseas provide the data used to calculate both allowances. Generally, each country has a point of contact responsible for ensuring that local surveys are conducted and sent to the Branch.

The Branch also monitors the currency exchange rates between the United States and the various host countries so that adjustments to allowance levels based on currency fluctuations can be made when needed. Adjustments can be made as often as every pay period. They are based on an accumulated difference of 10 percent between the established rate and the actual exchange rate.

---

## Cost of the Allowances and Variance by Location

In fiscal year 1988, the costs of COLA and OHA were \$742 million and \$436 million, respectively. While the cost of OHA has increased to some extent in recent years, COLA increased sharply between fiscal years 1985 and 1988. The major contributing factors were (1) the declining value of the dollar relative to other major currencies and (2) the increase in the number of personnel receiving COLA from about 152,000 in fiscal year 1985 to about 458,000 in 1988. In Germany, for example, where DOD began paying COLA in 1986, goods and services bought by service members on the local economy cost 72 percent more in 1988, when the dollar bought 1.8 deutsche marks, than it did in 1985, when the dollar was worth 3.1 deutsche marks. Figure 1.1 shows the growth in these program costs.

The amount of OHA and COLA vary significantly by location. For example, figure 1.2 shows the allowance provided to a typical officer<sup>4</sup> at some of the locations we visited. In Yokosuka, Japan, a typical officer received over \$1,500 per month, whereas the same officer received about \$250 in Kaiserslautern, West Germany.

---

## Problems Identified in Previous Reports

During the past several years, a number of reports have identified problems with setting overseas allowances. Many of the problems remain unresolved. In 1982, we reported<sup>5</sup> that living pattern surveys did not always accurately represent purchasing patterns and survey results

---

<sup>4</sup>Based on the number receiving OHA at each officer pay grade, the typical officer is an O-3 (Navy lieutenant and Army, Air Force, and Marine Corps captain) with 6 years of service and one dependent.

<sup>5</sup>Computation of Cost-of-Living Allowances for Uniformed Personnel Could Be More Accurate (GAO/FPCD-82-8, Feb. 25, 1982)

# Introduction

At many overseas locations where military personnel are stationed it is more expensive to maintain a living standard comparable to their counterparts in the United States. A declining dollar relative to other currencies has exacerbated the problem for service members living at some overseas locations, and has dramatically driven up the allowances intended to help defray these higher costs. The two allowances intended to cover these higher costs are the overseas housing allowance (OHA) and the cost of living allowance (COLA). The Department of Defense's (DOD) Per Diem, Transportation, and Travel Allowance Committee administers these allowances.

## Overseas Housing Allowance

In 1981, DOD adopted the current OHA system for service members stationed overseas. This was partly in response to a GAO report<sup>1</sup> which concluded that the previous system improperly undercompensated junior personnel and overcompensated senior personnel. OHA was intended to remedy this inequity by reimbursing members whose off-base housing costs exceed their basic allowance for quarters.<sup>2</sup>

The Committee calculates OHA based on three cost elements. The first element compensates service members up to a ceiling for the actual rent they pay. Committee staff array the rent amounts for each grade and location from highest to lowest, and establish the ceiling at the 80th percentile. Under this system 80 percent of the members can expect to have all of their rent covered by this portion of the allowance.

The second element of OHA covers average utility and recurring maintenance expenses reported by personnel at a particular location. The third element covers moving-in and moving-out expenses that the service member incurs to make the quarters habitable, such as for installation of plumbing, heating, air conditioning, and appliances.

Committee staff obtained the data necessary to compute rent ceilings from local housing offices who annually certify or recertify rental agreements provided by service members. Members who do not provide an

<sup>1</sup>Military Overseas Housing Allowances Should be More Realistic (GAO/FPCD-80-33, Mar. 5, 1980).

<sup>2</sup>The basic allowance for quarters is paid to military personnel not provided with adequate government quarters to enable them to obtain civilian housing. Effective January 1, 1985, the Congress said that the allowance for each pay grade should be set at 65 percent of the median U.S. housing costs incurred by members at each grade. However, the funds appropriated that year covered less than 65 percent of the costs. Funds for fiscal year 1989 covered about 61 percent of median housing costs. The total fiscal year 1989 basic allowance for quarters cost is about \$4.7 billion.



# Contents

---

<b>Executive Summary</b>		2
<b>Chapter 1</b>		8
<b>Introduction</b>	Overseas Housing Allowance	8
	Cost of Living Allowance	9
	Administration of Overseas Allowances	9
	Cost of the Allowances and Variance by Location	10
	Problems Identified in Previous Reports	10
	Objectives, Scope, and Methodology	11
<b>Chapter 2</b>		14
<b>Methods for Setting COLA Can Be Improved</b>	Most Service Members Believe COLA Was Adequate, but Few Knew Its Purpose	15
	Alternative Approaches for Implementing a COLA System	15
	Data Collection and Analysis Concerns	17
	Lack of Management Controls Affect COLA	23
	Conclusions	24
	Recommendations	24
	Agency Comments	25
<b>Chapter 3</b>		26
<b>Methods for Setting OHA Can Be Improved</b>	Perceptions of Recipients	26
	Uniform Policy and Procedures Lacking for Non-Rent Portion of OHA	28
	Underpayment of Moving-In and Moving-Out Expenses	30
	Weak Management Controls	31
	Proposed Legislation	32
	Uniform Policy and Information Needed on Rental Ceiling	33
	Conclusions	35
	Recommendations	35
	Agency Comments	36
<b>Chapter 4</b>		37
<b>Timeliness of Allowance Programs</b>	Currency Adjustment Process	37
	Navy Members' Perceptions of the Currency Adjustment Process	38
	Time Lags From Survey to Implementation of Changes	39
	Conclusions	40
	Recommendations	42
	Agency Comments	42

---

## Overseas Housing Allowance Concerns

GAO found that the methodology used in setting the rental portion of the housing allowance, which accounts for 80 percent of the overseas housing allowance, is adequate because it is based on actual rent paid by the recipient. However, GAO identified a number of problems associated with the non-rent portion of the allowance covering reimbursement of utilities, recurring maintenance, and moving in and out. For example:

- Because of a misapplication of the regulation, 33,000 personnel in Germany received \$58 a month less than they were entitled to under regulations calling for full reimbursement of utility costs.
- GAO noted that the Per Diem Committee will approve separate rates for utility and maintenance allowances for officers and enlisted personnel if significant differences exist. However, GAO's statistical test for six locations showed the committee in four cases made the correct determination, but in two cases made incorrect determinations. In one of these cases, officers with dependents were undercompensated by \$32 a month, while enlisted personnel were overcompensated by \$27 a month.
- GAO also noted that the monthly moving-in and moving-out expense is supposed to be calculated by analyzing all expenses reported by service members in an area and then dividing the average by the number of months members typically reside in private housing. In making these calculations, GAO noted the Per Diem Committee assumed that the average time service members spent in rental housing was 34 months. However, GAO found that actual time spent in rental housing ranged from 18 months to 24 months. Using the lower estimate at each location results in a higher monthly recovery rate. For the six locations we examined, GAO estimates that service personnel were undercompensated by \$4 million.

---

## Timeliness of Adjustments

GAO analysis of adjustments based on fluctuations in currency exchange rates showed that the Per Diem Committee did not always follow its policy to adjust cost of living and housing allowances when the prevailing exchange rate established by the Committee increased or decreased by 10 percent. For example, the Committee exercised its discretion when it did not change the allowance for a location in Germany, even though the 10-percent difference had been reached. This inaction by the Committee resulted in a 7-week period where the difference between the old rate and a rate based on weekly averages of daily exchange rate quotes differed by over 20 percent. We analyzed the effect of the delays in making adjustments, and found that the delays did not affect the amount of allowance service members received over the long term.

---

# Executive Summary

---

## Purpose

The total amount spent on overseas housing allowances and cost of living allowances for military personnel has increased from about \$382 million in 1985 to approximately \$1.2 billion in 1988. Despite the significant increases, the allowances have not been adequate to cover some high cost expenses overseas like automobile registration, repair, and insurance.

Based on military members' concerns about the overseas housing allowance and cost of living allowance programs, the House Committee on Armed Services requested GAO to obtain service personnel views on the adequacy of these allowances and evaluate the methodology and the timeliness of adjustments to these allowances.

---

## Background

The overseas housing allowance and cost of living allowance are the principal overseas allowances for military personnel. Their general purpose is to help defray living expenses for military personnel stationed overseas. The Department of Defense's (DOD) Per Diem, Transportation, and Travel Allowance Committee administers these allowances.

The overseas housing allowance cost about \$436 million in fiscal year 1988, up from about \$230 million in fiscal year 1985. This allowance covers rent, costs associated with moving in and out of a residence, utilities, and recurring maintenance that exceed the basic allowance for quarters.

The cost of living allowance cost \$742 million in fiscal year 1988, up from about \$152 million in fiscal year 1985. The major contributing factors for increases in both these allowances were (1) the declining value of the dollar relative to other major currencies and (2) the increase in the number of personnel receiving cost of living allowances from about 152,000 in fiscal year 1985 to about 458,000 in 1988.

---

## Results in Brief

Most service members interviewed were generally satisfied with both the cost of living allowance and overseas housing allowance. However, GAO identified problems in the data collection process resulting in the use of inaccurate and incomplete data to develop cost of living allowance rates. GAO also found that non-rent portions of the housing allowance (utilities, maintenance, and moving-in and moving-out expenses) were not always computed correctly. Problems with calculating accurate and representative allowances can be attributed, in large part, to a lack of internal management controls.

