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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548



INTERNATIONAL DIVISION

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APR 27 1971

Dear Mr. Macomber:

As a part of our continuing review of the State Department operations, our office reviewed the activities governed by the Standardized Regulations issued by the Department which concern payment of allowances and differentials to civilian employees located at overseas posts. We also looked into the use of the regulations by several Government agencies. Our review was conducted in Washington, D. C., and at 13 overseas posts.

We believe that generally the policies and guidelines set forth in the Regulations provide an adequate framework for administration of allowances and differentials by all Government agencies.

Many of the specific matters disclosed by our review in the field were brought to the attention of appropriate officials at the post where they occurred and corrective action was taken. In addition, we have discussed these matters and some of our general observations with the Director of the Allowances Staff.

We understand that several management actions have already been taken to improve administration of the allowance program and that more will be forthcoming as a result of the Department's new program of management reform contained in the "Diplomacy for the 70's" report.

We trust that our observations, which primarily concern education and living quarters allowances; post differential; and providing Government leased quarters versus payment of living quarters allowances will provide a constructive contribution to attaining improved management.

EDUCATION ALLOWANCE

An education allowance is provided to assist an employee in meeting the extraordinary and necessary expenses, incurred by reason of his service overseas, for an adequate elementary and secondary education of his dependent children.

In meeting this responsibility, we believe that savings can be achieved by greater utilization of State Department sponsored schools and Department of Defense (DOD) operated schools at or away from post.

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In view of the DOD policy change in June 1969 providing that civilian agency employees would have equal and guaranteed use of DOD schools, we believe that "away from post" education allowance rates (grades 9 to 12) should be based primarily on the cost of attending DOD dormitory schools.

We believe that the Allowances Staff should consider appropriate changes in computing "away from post" education allowances giving more weight to use of costs of DOD schools and American sponsored schools in establishing education allowance rates. Freedom of choice of schools is still preserved but any additional costs which may be incurred by the civilian employee for his dependent child should be borne by him.

We found that overpayments of education allowances resulted from a lack of definitive guidelines concerning allowable education expenses. We noted a number of instances where employees were not absorbing the \$30 U.S. cost factor for miscellaneous supplies and other items when the total allowable educational expenses of dependents were less than the maximum education rate.

The Allowances Staff had adopted the position that certain items, in addition to those covered by the \$30 U.S. cost factor, were nonreimbursable education expenses such as gym clothes, activity fees, and personal items. We found, however, that this position was not made clear in the regulations or to all posts, and that a number of education allowance grants included some of the items which the Allowances Staff had determined to be nonreimbursable.

We found a lack of uniformity in providing transportation expenses for dependent children going away to school. The Allowances Staff in computing the "away from post" education allowance includes transportation cost for two round trips between post and school. However, an analysis of a number of education grants indicated that some employees were being reimbursed for more than two round trips when their actual expenses for sending their dependent children away to school were less than the "away from post" education allowance rate.

We believe that the Department should clarify its regulations regarding reimbursement of the costs of round trips between post and school.

#### LIVING QUARTERS ALLOWANCE

A living quarters allowance is granted to an employee for the annual cost of suitable, adequate living quarters for the employee and his family when government-furnished housing is not available. The allowance rates vary by costs at the post, by the salary of the employee and, by family status (single, married, and number of dependents) of the employee.

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The rates are established and revised primarily upon cost data furnished by the post employees receiving living quarters allowances.

In our review we noted certain conditions existing which would appear to be appropriate for consideration in establishing the living quarters allowances. The conditions included (1) employees residing in high cost areas for personal reasons rather than for official purposes, (2) employees leasing quarters in excess of adequate needs, and (3) employees reporting estimated expenses in excess of actual costs.

We believe that the extent of these conditions existing at different posts might be explored by the Allowances Staff and appropriate adjustments made, still maintaining a reasonable and fair living quarters allowance.

#### POST DIFFERENTIAL

The post differential, a computed percentage of an employee's basic salary, is provided to compensate him for extraordinarily difficult living conditions, excessive physical hardship, or notable unhealthy sanitary conditions as compared with living conditions in the United States.

The amount of post differential authorized for a particular post depends on the level of hardship (isolation, and lack of recreation, housing, sanitation, medical facilities, and other conditions) present as computed by the Allowances Staff. The rate is limited by law to a maximum of 25 percent of salary. The rates are determined on the basis of an evaluation of certain information supplied by the post concerning the hardship conditions at the post. The information is "scored" against a set of predetermined standards with points being awarded if a specific element meets the level of hardship.

We noted that the current standards and weights assigned to the hardship factors were established in 1951, and with very few changes have remained the same. We noted also that the weights assigned to the different factors need to be reexamined and may require some changes as a result of changes in values and living conditions to be found at the various posts.

In discussing this matter with the Allowances Staff, we were informed that a task force would be established to review the existing criteria and update the standards and weights, as appropriate.

#### GOVERNMENT LEASED QUARTERS

We believe that there is a need for more definitive guidelines and management controls concerning when leased quarters will be provided in lieu of a living quarters allowance.

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The Department of State, Agency for International Development, United States Information Agency, and several other Government agencies lease living quarters for personnel stationed overseas. This is in lieu of providing a living quarters allowance and is usually done when it is considered in the best interests of the Government or for reasons of hardships and circumstances beyond the control of individual employees.

Inadequate or unrealistic quarters allowance is not of itself reason for official leasing. We believe, however, that representational obligations are a major factor in leasing housing for personnel stationed overseas.

We noted, generally, that the leasing program at several posts had resulted in substantial costs in excess of the authorized living quarters allowance which would have been provided in lieu of leasing quarters. In some instances, the leased quarters appeared to be in excess of normal needs.

We did observe, however, that uniform housing standards governing costs and the general nature of leased quarters to be occupied were established at one post. A housing board had been established at the post to review new leases and inspect each housing unit before a lease was signed to ensure that the quarters were appropriate for representational purposes and not ostentatious or extravagant.

We think these or other similar management controls should be explored and adopted where conditions warrant. Along these lines, improved coordination on housing matters among Government agencies at posts would, in our opinion, help to hold down the escalating rental costs resulting from the competition between agencies' employees for adequate residential living quarters.

#### ON-SITE INSPECTION

We found that the Allowances Staff rarely made visits to overseas posts to evaluate the conditions reported. This was further emphasized in the "Diplomacy for the 70's" report. The Allowances Staff has relied on the audit and inspection staffs to perform any needed evaluations. However, we found that these evaluations generally related to the posts' administration of the allowances rather than evaluating the appropriateness of the allowances established for a particular post.

We understand that the Allowances Staff will perform more on-site inspections of the environmental and economic conditions at the overseas posts to ensure the accuracy and completeness of the data used to establish the allowances and differential.

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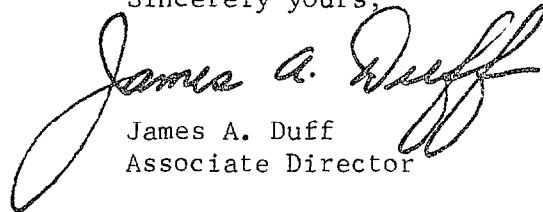
In addition, we believe that the audit and inspection staffs, as a part of their post examinations, should place more emphasis on reviewing the validity of factors and other data compiled in the field and used in the development of the allowances and differentials.

We do not plan to issue any additional reports on these matters at this time. However, we would be glad to discuss any of the details of our observations with your representatives.

The assistance and cooperation given to our staff by your representatives in conducting our review is appreciated. We would appreciate any comments you have or advice of action taken on the matters discussed above.

A copy of this letter is being sent to the Foreign Operations and Government Information Subcommittee, Committee on Government Operations, House of Representatives.

Sincerely yours,

A handwritten signature in cursive script that reads "James A. Duff". The signature is written in dark ink and is positioned above the typed name and title.

James A. Duff  
Associate Director

The Honorable William B. Macomber, Jr.  
Deputy Under Secretary for Administration  
Department of State

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