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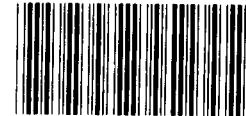
BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Secretary Of State

Overseas Allowances And Benefits: System Problems Remain

The overseas allowances and benefits system affects some 50,000 U.S. Federal civilian employees stationed in foreign areas and costs at least \$500 million annually. Prior GAO reviews identified problems with the system that resulted in civilian employees not receiving equitable treatment. Although some work over the last 7 years has been directed at improving the system, most of the earlier GAO recommendations to make the system more equitable and efficient have not been adequately addressed.

The Inter-Agency Committee on Overseas Allowances and Benefits was unsuccessful in resolving system problems. The system continues to lack a common body of rules and no attempt has been made to identify the type of allowance or benefit required to satisfy a specific overseas location need at the lowest cost. Additionally, a comprehensive and readily available data base does not exist to facilitate decisionmaking and a need remains to explain to employees why some allowance and benefit differences are justified. Solution of these problems would increase overseas allowances and benefits uniformity, while making the system more equitable and efficient.



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

INTERNATIONAL DIVISION

B-168161

The Honorable Alexander M. Haig, Jr.
The Secretary of State

Dear Mr. Secretary:

As you know, the overseas allowances and benefits system has grown dramatically since World War II, reflecting an increased U.S. presence overseas. Civilian employees are authorized benefits and allowances either to reimburse them for extraordinary living costs abroad and/or to recruit and retain them for service overseas. In 1974 and 1975 we reported that different statutory and regulatory authorities have created a fragmented system resulting in inequities, inefficiencies, and low employee morale.

This report evaluates actions taken on our prior recommendations to make the overseas allowances and benefits system more uniform and equitable. In addition, we report on actions taken to make the system more efficient and economical. We are sending this report to you because the State Department chairs the Inter-Agency Committee on Overseas Allowances and Benefits for U.S. Employees.

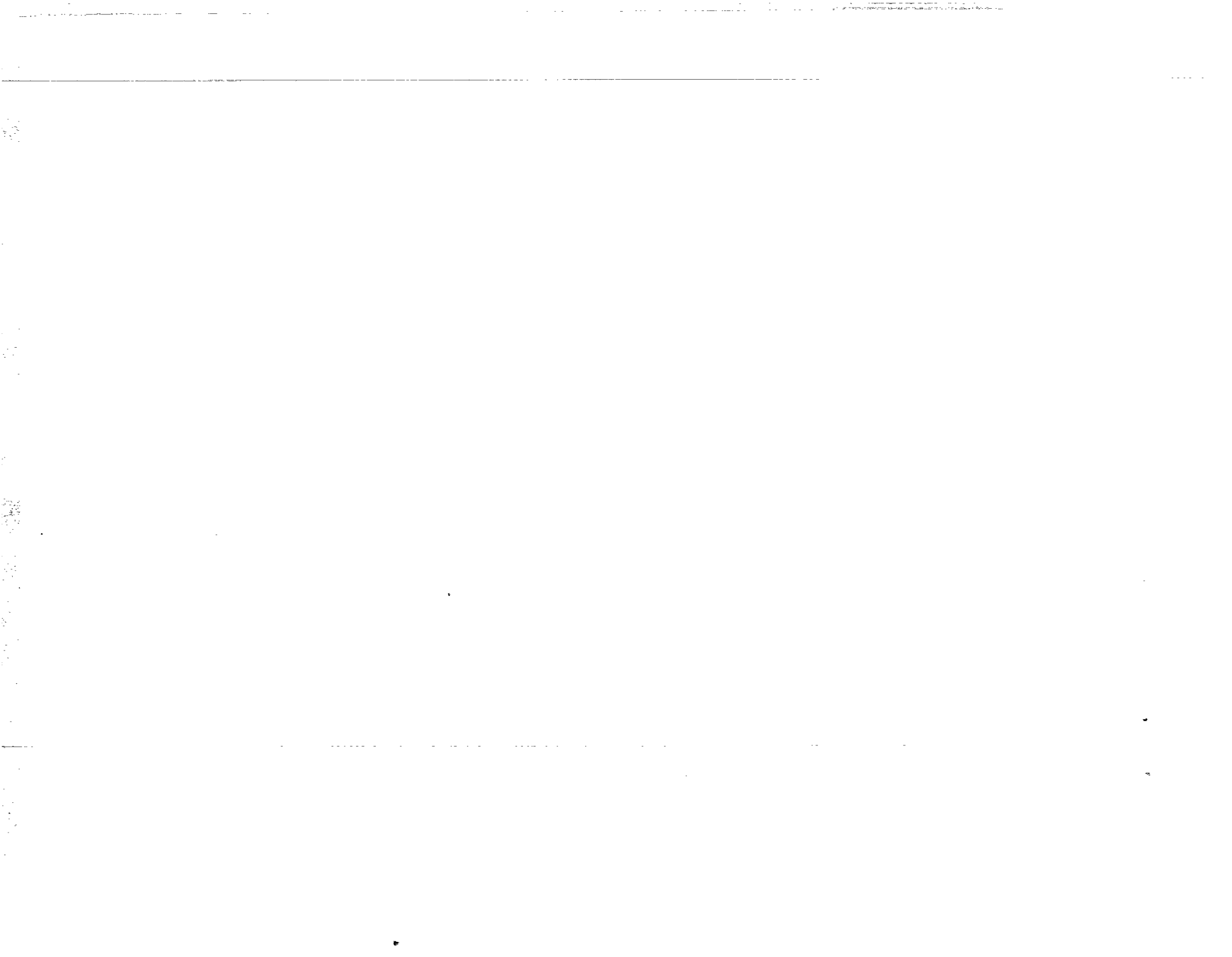
We obtained information from agencies involved in and affected by the overseas allowances and benefits system. Primarily, we interviewed officials from the Department of State, Office of Management and Budget, and Office of Personnel Management. We also analyzed reports issued by the Inter-Agency Committee which was created in response to our criticisms. Although detailed overseas fieldwork was not necessary, information from overseas locations was obtained on employee statistics, system cost data, and holiday observance practices. Department of State, Office of Personnel Management, and Office of Management and Budget program officials' views were also considered in finalizing this report.

Copies of this report are being provided to Office of Management and Budget, Office of Personnel Management, Committees and Members of Congress and those agencies represented on the Inter-Agency Committee. Copies will be available to other interested parties upon request.

Sincerely yours,

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

Frank C. Conahan
Director



D I G E S T

Overseas allowances and benefits are authorized to U.S. Federal civilian employees stationed in foreign areas. Although the terms are used interchangeably, allowances and benefits serve two purposes--reimbursement for extraordinary living costs overseas and/or recruitment and retention incentives. Approximately 50,000 civilian employees representing some 25 different agencies at over 600 overseas locations are eligible to receive benefits and allowances. The system presently consists of over 50 allowances and benefits which has grown to cost at least \$500 million annually. Responsibility for administering major portions of this system rests with the Department of State. (See p. 1.)

PRIOR ATTEMPTS TO BRING ABOUT
SYSTEM IMPROVEMENTS

In 1974 and 1975 GAO reviewed the overseas benefits and allowances system because there were indications that Federal employees stationed in foreign areas were not receiving equitable treatment. Some agencies' employees were not eligible for benefits and allowances granted to other agencies' employees at the same location, or they were not receiving the same benefit or allowance level.

GAO had found that the system was not (1) based on common legislative authority, (2) serving its intended purpose and (3) generating the necessary data to facilitate decisionmaking. GAO concluded that system policymaking responsibility should be vested in an independent body which could best address identified system problems. (See ch. 2.)

INADEQUATE RESPONSE TO PROBLEMS
HAS PERPETUATED INEQUITABLE
TREATMENT

No independent body was created to resolve identified system problems or to establish uniform overseas benefits and allowances policies. The Office of Management and Budget's (OMB's) attempt to create such a body was not successful. In response to

system criticisms, the State Department created the Inter-Agency Committee on Overseas Allowances and Benefits for U.S. Employees (IAC). The membership consisted of representatives from 20 agencies although all agencies with civilian employees stationed overseas were invited to participate. GAO believes that the IAC could not objectively address identified problems because of the State Department's vested interest. (See pp. 8 and 9.)

GAO also found that insufficient attention has been given to creating a purpose-oriented overseas benefits and allowances system. Operating under the premise that existing benefits and allowances were justified, the IAC focused on identifying actions needed to extend or increase these benefits and allowances to achieve uniformity. GAO believes that the IAC's system assumptions were questionable, because little attempt was made to identify the type of benefit or allowance necessary to satisfy a specific overseas location need at the lowest cost. (See pp. 9 to 11.)

Attempts by the IAC to bring about employee equity through uniform legislative authority were unsuccessful. OMB disagreed with the IAC's recommendations to establish uniform legislative authority because the cost was not adequately justified. Although the recommendations would have greatly benefited the concept of uniformity and equity, GAO believes that OMB's position was warranted because the IAC did not consider specific need as the justification for granting individual benefits and allowances. (See pp. 11 and 12.)

GAO found that identified ways to achieve system cost savings have not been implemented. For example, an IAC task force recommended consolidating certain benefits and allowances into a more cost effective comprehensive allowance. The IAC report did not contain this recommendation because it contended that once granted, specific benefits or allowances should not be taken away. GAO disagrees with this argument because (1) such measures have been taken in the past, when warranted; (2) a comprehensive allowance more realistically considers both the positive and negative aspects of serving in a foreign location; and (3) such actions would help minimize any unintended financial gains or losses realized by the employee. (See p. 13.)

In 1975 GAO also reported that \$22 million in employee productivity could be realized by establishing a ceiling on the combined number of U.S. and local holidays observed overseas. Although the IAC reviewed overseas holiday observance practices, no attempt was made to establish a ceiling. As a result, most agencies' employees overseas continue to observe between 9 to 23 holidays per year, compared to 9 holidays observed by their domestic counterparts. (See pp. 13, 14 and app. V.)

Other system problems GAO previously reported have not been resolved or addressed. For example, the system is not yet structured to provide readily available cost data to facilitate decisionmaking. Although the State Department has developed a data base model, GAO questions its usefulness because it will provide information on only 11 allowances and benefits. Additionally, the IAC has taken no action to educate employees as to why differences exist among employees. GAO believes that until these problems are resolved, unnecessary instances of inequity and low employee morale will persist. (See p. 14.)

CONCLUSIONS

GAO's review shows that system problems identified by GAO in 1974 and 1975 still exist. As a result, the system continues to be inefficient and does not promote equitable treatment for overseas civilian employees. The Foreign Service Act of 1980 created new benefits and allowances exclusively for Foreign Service employees. Further, congressional actions now under consideration may create new distinctions for employees within the Foreign Service. In view of these recent events, the principle of equity remains uncertain. (See pp. 14 to 16.)

GAO is making this report to aid the Inter-Agency Committee and the affected agencies in their efforts to resolve system problems.

Although GAO discussed factual information contained in a draft of this report with State, Office of Personnel Management, and OMB program officials and considered their comments in finalizing our report, official agency comments were not obtained.

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ABBREVIATIONS

GAO	General Accounting Office
IAC	Inter-Agency Committee on Overseas Allowances and Benefits for U.S. Employees
OMB	Office of Management and Budget
OPM	Office of Personnel Management

CHAPTER 1

INTRODUCTION

Overseas allowances and benefits are authorized for U.S. Federal civilian employees stationed in foreign areas. The two purposes for granting allowances and benefits are as reimbursement for extraordinary living costs overseas, and/or recruitment and retention incentives. With the passage of time, the terms, benefits and allowances, are often used interchangeably. This type of compensation was officially introduced in 1778, when Benjamin Franklin, our Minister to Paris, was granted an allowance as reimbursement for his representational expenses. A significant growth occurred after World War II reflecting an increased U.S. presence overseas of not only Foreign Service but also Civil Service employees.

The system currently consists of over 50 allowances and benefits which fall into 5 categories: relocation costs, hardship incentives, extraordinary living costs, community services, and housing (see app. I). Approximately 50,000 civilian employees representing some 25 different agencies (see app. II) at over 600 overseas locations, are eligible and although aggregate cost data is not available, we estimate total system costs to be at least \$500 million annually. 1/

The Department of State administers the major portions of this system through the Standardized Regulations which implement the allowances and benefits provisions of Title 5 of the U.S. Code for all Civil Service employees stationed overseas. In addition, those benefits and allowances, and any others created exclusively for Foreign Affairs agencies are further defined in State's Foreign Affairs Manual (Title 22 U.S. Code). These regulations serve only to establish ceilings--the individual agencies are responsible for granting benefits and allowances to their employees. Statutory authority is derived from the following major legislation which applies to Foreign and/or Civil Service employees:

- Administrative Expenses Act of 1946.
- Overseas Differentials and Allowances Act of 1960.
- Foreign Service Act of 1980.

1/The estimated aggregate cost figure is a projection based on fiscal year 1972 cost data for all agencies represented overseas and fiscal year 1979 cost data for the Department of State.

PAST PROBLEMS AFFECTING
OVERSEAS BENEFITS AND ALLOWANCES

In 1974 and 1975 we addressed the need for overseas benefits and allowances uniformity. ^{1/} The 1974 report focused on all benefits and allowances while the 1975 report addressed only holiday observance practices. Both reports identified a lack of system uniformity resulting in inequitable treatment of U.S. Federal employees overseas. We recommended common legislation and an independent policymaking body to increase system efficiency and effectiveness while achieving uniform benefits and allowances.

In 1975, the Secretary of State formed the Inter-Agency Committee on Overseas Allowances and Benefits for U.S. Employees (IAC). The IAC was composed of representatives from 20 agencies with employees overseas and focused on reviewing the objectives and operations of the benefits and allowances system.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our current review evaluated actions taken on recommendations contained in our 1974 and 1975 reports. To do this, we obtained information from agencies involved in and affected by the overseas benefits and allowances system:

- The State Department, which administers the major portion of the system for civilian employees in foreign areas and implements it for Foreign Service employees. State also chaired the IAC.
- The Office of Management and Budget (OMB), which was responsible for acting on our recommendations.
- The Office of Personnel Management (OPM), which is responsible for Federal civilian employee domestic compensation and the agency we had envisioned as chairing an independent policymaking body on overseas benefits and allowances.

In addition, we evaluated the IAC's effectiveness as an independent policymaking body and reviewed their proposed actions as they related to our prior recommendations. For this review, detailed overseas fieldwork was not necessary because required information was available at agency headquarters. However, information was obtained from selected overseas posts on available employee statistics, system cost data, and holidays observed.

^{1/}"Fundamental Changes Needed To Achieve a Uniform Government-Wide Overseas Benefits and Allowances System for U.S. Employees" (B-180403, Sept. 9, 1974); and "Holiday Administration Overseas: Improvement Needed To Achieve More Equitable Treatment of Employees" (ID-75-42, Mar. 17, 1975).

To supplement agency data, we researched legislation affecting overseas benefits and allowances and obtained internal audit reports from the State Department's Inspector General, Defense Audit Service, and Air Force Audit agency. Further, we discussed factual information with program officials of State, OPM, and OMB and considered their comments in finalizing this report.

This report concentrates on overseas benefits and allowances available to U.S. Federal civilian employees stationed in foreign areas.

CHAPTER 2

ACTIONS IDENTIFIED IN 1974 AND 1975 WOULD ENSURE EQUITABLE TREATMENT OF U.S. CIVILIAN EMPLOYEES OVERSEAS

Overseas benefits and allowances have increased since World War II to satisfy the needs of an expanding U.S. presence in foreign areas. In 1974 and 1975 we reviewed the overseas benefits and allowances system because there were indications that civilian employees at many overseas locations were not receiving equitable treatment. We found that the system was not (1) based on common rules and objective standards, (2) serving its intended purpose, and (3) generating the necessary system data to facilitate decisionmaking. We recommended that an independent policy-making body be created to improve system efficiency and effectiveness, and ensure that civilian employees stationed in foreign areas receive equitable treatment.

COMMON RULES AND CONTROL OVER AGENCY DISCRETION WOULD PROMOTE EQUITABLE TREATMENT

In our earlier reviews we found many instances where different agencies' employees of equal rank and in similar circumstances were receiving different benefits and allowances, even at the same overseas location. These inequities were caused by differences in legislative authority and agency regulations and discretion. As a result, employee morale problems existed.

Various legislative acts authorize overseas benefits and allowances for Foreign and Civil Service employees. For instance, the Overseas Differentials and Allowances Act of 1960 extended to Civil Service employees many benefits and allowances which had previously been granted only to Foreign Service employees. However, important differences continued to exist between agencies. Two differences were in travel for rest and recuperation and payment for medical treatment expenses. Of 22 agencies with employees assigned to selected hardship posts, only 7 were authorized to pay for rest and recuperation travel. Moreover, only 11 of 24 agencies with civilian employees in foreign areas were authorized to pay for employees' hospital care and out-patient treatment.

The permissive nature of legislation was reflected in agency regulations which allowed a great deal of discretion in granting benefits and allowances. As a result, employees at the same overseas locations frequently did not receive the same benefit or allowance level. For example, we found that Foreign Service employees at non-hardship posts were accumulating 15 days home leave per year while Civil Service employees at the same location earned only 5. As another example, agency heads at overseas locations authorized, in addition to U.S. National holidays, observance of host country holidays to foster U.S. and host country relations.

In 1973 we visited 16 countries and found that employees observed between 9 and 24 paid holidays annually, depending upon their agency, the specific post, and their personnel classification.

Prior recommendations and agency comments

Our earlier reports contained recommendations directed at making the system more uniform and equitable. We recommended that the OMB (1) require that authorizing legislation be sought when needed and (2) establish common policies and standards to govern the overseas benefits and allowances system and to monitor its implementation. The State Department disagreed with our report for two reasons--first, they felt the actions we recommended would result in a new program not based upon the intent of existing legislation; second, our recommendations did not consider differing circumstances and conditions of service in establishing allowance levels. In response, we emphasized that we sought not to create a new program but to ensure that existing objectives were efficiently and effectively fulfilled, while promoting the principle of equity.

PURPOSE-ORIENTED BENEFITS AND ALLOWANCES WOULD INCREASE SYSTEM EFFICIENCY AND EFFECTIVENESS

In our prior reviews we reported that overseas benefits and allowances did not always serve their original purpose and at times provided employees with unintended financial gains or losses. Because purposes were not clearly defined, some benefits and allowances served not only as reimbursement for higher costs overseas but also as recruitment and retention incentives.

For example, in 1974 we reported that the housing allowance was created to compensate for higher overseas housing costs and to meet recruitment and retention needs. We had found that this reimbursement for higher costs was not always justified because approximately 43 percent of overseas housing costs were equal to or lower than those in the United States. We also found evidence indicating that agencies had no difficulty recruiting and retaining employees at most overseas posts.

The post differential (hardship incentive) was also identified as an example of a benefit which was not always directly related to recruitment and retention needs. We found that although living conditions overseas had generally improved since World War II, about half of the locations in 1974 still qualified for the benefit. In addition, we found that the post differential was based solely on adverse conditions and did not consider the positive factors associated with living and working at an overseas location.

Our 1975 report found that the number of holidays observed overseas was excessive. Federal civilian employees in the United States observed 9 holidays per year, compared to a range of 9

to 24 holidays observed by their counterparts at 16 overseas locations we had visited. For all overseas locations, we estimated that these excesses totaled \$22 million annually in lost employee productivity.

Prior recommendations and agency comments

In order to create an equitable and efficient purpose-oriented system, our 1974 report recommended that OMB require that each benefit and allowance be clarified, and that evaluation standards to measure system effectiveness be developed. Furthermore, we recommended that a flexible system for paying overseas benefits and allowances be adopted that would be responsive to recruitment and retention needs, without providing unintended financial gains or losses to the employees. OMB officials stated that although it would be difficult to do, they favored a thorough review by an independent policymaking body.

Recommendations in our 1975 overseas holiday administration report supported the need for an equitable and efficient system. Specifically, we recommended that OMB establish a ceiling on the combined total number of U.S. and host country holidays observed at overseas posts. Additionally, we stated that OMB should seek legislative changes so that employees would be exempt from the premium pay provision if they worked on a U.S. paid holiday in order to observe a host country holiday. Although both OMB and State officials generally concurred with our recommendations, State claimed it should retain responsibility for establishing policy and OMB expressed concern that a ceiling would increase rather than decrease the average number of holidays observed overseas.

DATA AVAILABILITY WOULD FACILITATE DECISIONMAKING AND THE EDUCATION PROCESS

While gathering information for our earlier reviews, we discovered that system cost data and employee statistics were not readily available. As a result, no adequate reporting system existed to assist the Congress and the agencies responsible for administering and implementing overseas benefits and allowances. OMB reinforced our findings when it stated:

"In general, budget and statistical information pertaining to overseas allowances is so inadequate and haphazard that it cannot provide a basis for accurate, equitable compensation policy decisions."

We also found that employees stationed overseas were not aware of the principles governing the system and experienced morale problems because they did not understand the different levels of benefits and allowances received.

We recommended that OMB require aggregate annual reporting on the cost and effectiveness of the program to the Congress. At that time, OMB agreed that pertinent cost data should be gathered on each benefit and allowance. To improve understanding of the system, we also recommended that OMB develop an education program for agencies and their overseas employees.

AN INDEPENDENT POLICYMAKING BODY
SHOULD BE RESPONSIBLE FOR SYSTEM
DEVELOPMENT AND REVIEW

In 1974 we reported that several separate systems govern overseas benefits and allowances for U.S. civilian employees in foreign areas. Collectively these systems accounted for many of the differences, inequities, misunderstandings, and employee morale problems.

The State Department's regulations covered most of the major benefits and allowances granted to civilian employees overseas. Separate regulations existed to provide other benefits to employees not covered by State's regulations. For example, the Federal Travel Regulations control the amounts some Civil Service employees receive for home leave travel, privately owned vehicle shipment, and storage and shipment of household goods. In addition, the Department of Defense prescribed benefits and allowances to its civilian employees based upon State's regulations, with certain limitations. We also noted further system fragmentation because employees were provided benefits and allowances by individual agencies and cross agreements between agencies.

Prior recommendations and
agency comments

We recommended in our earlier reports that centralized responsibility would minimize the problems associated with system fragmentation and promote system equity and efficiency. We presented options for accomplishing these objectives. OMB and OPM officials agreed that an independent policymaking body was needed to ensure a detached, equitable assessment of overseas benefits and allowances. The State Department sought to maintain system administration because they viewed this responsibility as a key factor in maintaining an effective U.S. presence overseas.

CHAPTER 3

INADEQUATE RESPONSE TO IDENTIFIED PROBLEMS HAS PERPETUATED SYSTEM INEQUITY AND INEFFICIENCY

In our prior reports, we identified several alternative actions that were needed to improve the overseas benefits and allowances system. Central among these actions was the creation of an independent policymaking body to address questions of system equity and excessive cost.

Our current review found that the State Department sponsored and chaired the Inter-Agency Committee on Overseas Allowances and Benefits for U.S. Employees to respond to our criticisms. Although the IAC's work objectives and priorities paralleled our 1974 and 1975 recommendations, time constraints and questionable system assumptions limited the depth of their review. As a result, the IAC's actual work concentrated on system uniformity, and did not give adequate attention to system efficiency. In addition, the IAC has neither developed a comprehensive data base to facilitate decisionmaking nor addressed the need for an employee education program. New legislation has recently been passed that reaffirms a two-tiered benefits and allowances system which provides additional compensation solely to Foreign Service employees. These conditions reinforce our earlier stated belief that a more systematic approach to the benefits and allowances system is needed.

THE IAC'S INDEPENDENT NATURE IS QUESTIONABLE

In 1974 OMB drafted an Executive order to transfer system responsibility from State to OPM, but it was not approved by the administration. Instead, the State Department sponsored and chaired the IAC which consisted of representatives from 20 agencies, although all agencies with civilian employees overseas were invited to participate. (See app. III.) The IAC began its work reviewing the objectives and operations of the benefits and allowances system in January 1975.

We question the IAC's independence because of State's vested interest. Benefits and allowances available for all civilian employees overseas have generally evolved from those initially granted to Foreign Service employees. According to State and OMB officials, State's primary concern has been to establish benefits and allowances for their own employees to minimize morale problems. However, the State Department also encourages extending some Foreign Service-specific benefits and allowances to the Civil Service to satisfy employee complaints about system differences. In our opinion, this reflects State's interest in developing a constituency which will support State's attempts to increase existing and/or create new benefits and allowances. We believe this constituency has effectively hampered an independent, objective review

of the overseas benefits and allowances system and that such an independent review is unlikely while the State Department chairs the IAC.

THE IAC'S WORK EMPHASIZED
UNIFORMITY NOT SYSTEM EFFICIENCY

The IAC's objectives reflected our prior recommendations to create an equitable and efficient overseas benefits and allowances system. However, the depth of the IAC's review was hindered by time constraints and questionable assumptions. The IAC's recommendations were aimed at achieving system uniformity by increasing the levels of and/or extending existing benefits and allowances to all overseas civilian employees. This thrust minimized the IAC's success in achieving its other objectives to make the system more equitable and efficient.

Work objectives paralleled
our prior recommendations

The IAC's stated objectives were to

- evaluate the need for and the effectiveness of each existing benefit and allowance;
- determine whether the current system meets today's needs; and,
- create a uniform, efficient and effective system at the least cost.

To achieve these objectives, the IAC's work priorities were to (1) achieve statutory and regulatory uniformity, (2) review the purpose and effectiveness of each benefit and allowance, (3) develop a data base consisting of employee and cost data, and (4) develop an education program for overseas employees. Its work was guided by the principle that employees of the same rank and in similar circumstances should be equitably compensated. Although the IAC was not the policymaking body we envisioned, it successfully incorporated our prior system concerns into its work objectives and priorities.

The IAC formed individual working groups and task forces to address specific issue areas. The working groups were responsible for specific benefits and allowances while the task forces focused on system concepts. The following subjects were addressed:

Working Groups

Relocation costs
Extraordinary living costs
Housing
Hardship incentives
Community services

Task Forces

Comprehensive allowance
Health and medical benefits
Cost impact of changes
Overseas holiday administration
Dependency status for children of divorced parents

The recommendations from each of the IAC groups were screened by the IAC Steering Committee ^{1/} before inclusion in their final report. While the working group approach did not provide total coverage, it did address the majority of overseas benefits and allowances.

Time constraints and basic assumptions limited the IAC's work

The IAC intended to publish its findings within 1 year. A sense of urgency drove their work because the State Department was concerned they might lose administrative control over the system unless the IAC produced timely results.

The IAC did not publish its final report on overseas benefits and allowances until June 1977--2-1/2 years after its creation. However, they did issue an interim report in January 1976 on the status of the working groups and task forces and the IAC's work on the tax exempt status of U.S. Federal civilian employees overseas. The IAC devoted a great deal of the first 12 to 18 months developing its position on this tax issue because the Congress was then considering a tax reform bill which would abolish section 912 of the Internal Revenue Code exempting U.S. Federal civilian employees overseas from paying taxes on the benefits and allowances they receive. Attention to this issue indicated concern with protecting employees overseas by preventing the repeal of the tax exemption clause.

The IAC's work was based upon assumptions about the system which excluded many aspects of the IAC's stated objectives. The major assumptions were:

1. The lack of statutory uniformity was a major flaw and a source of system inequity.
2. The existing benefits and allowances were necessary to perform overseas missions.

^{1/}The IAC's Steering Committee was comprised of chairpersons from each work group.

3. Terminating or reducing benefits and allowances would adversely affect system objectives and employee morale.
4. The administration of benefits and allowances was basically sound.
5. The majority of benefits and allowances costs were job-related.

Each of these assumptions--with the exception of the lack of statutory uniformity--were contrary to findings presented in our prior reports. As a result, the IAC narrowed its focus to extending or increasing existing benefits and allowances rather than satisfying specific needs at the lowest cost.

Mixed results from efforts to establish a unified body of rules

The IAC's final report contained 74 recommendations directed at achieving system uniformity. Of these, 31 required statutory revision while the remainder required either administrative actions or no change because the IAC viewed the related overseas benefit or allowance as equitable (see app. IV).

The working groups identified the existing benefits and allowances and the various levels authorized for each. With few exceptions, the working groups' methodology consisted of taking the highest level and using it as the benchmark for assessing uniformity and equity. For example, the weight limitation allowance established how many pounds of household goods can be shipped or stored when employees are transferred or newly assigned overseas. The limitation varied between Civil and Foreign Service employees as follows:

	<u>Federal Travel Regulations</u>	<u>Foreign Affairs Manual a/</u>	<u>Final IAC Recom- mendations</u>
	----(pounds of household goods)----		
Employee with family	11,000	5,000 to 12,000	12,000
Employee without family	7,500	3,000 to 7,200	7,500

a/Excludes Ambassadors--they have higher weight allowances.

As the chart indicates, the IAC took the highest level for each category of employees and recommended them as the new levels for all employees. Another example is the family visitation travel benefit which paid the employee for two round trips per year if the family was prevented from accompanying the employee to the duty location. Only Foreign Service employees were eligible to receive this benefit, so the IAC recommended extending this

benefit to all Civil Service employees. Concurrently, the IAC considered reducing the number of authorized trips from two to one, however, they rejected this proposal.

One example of the exception to the IAC's methodology was the cost-of-living allowance. Acting on a prior identified GAO concern, the IAC recommended eliminating the housing factor from the computation. The State Department concurred and subsequently reduced the amount of the allowance.

Thirty-one of the IAC recommendations necessitated legislative revisions to achieve uniformity. Some of the benefits and allowances requiring legislative changes were household goods weight limitations, educational travel, medical benefits, rest and recuperation travel, and travel for emergency and family visitations. In December 1978 the IAC submitted a draft legislative package to the Director of OMB. According to OMB officials, the package was not forwarded to the Congress because its increased costs were not adequately justified. The IAC estimated the total cost of this package to be \$9.9 million; however, they did not provide any specific cost data, nor did we find any supporting cost data available from the IAC or the individual working groups. Although these legislative changes would have greatly benefited the concept of uniformity and equity, we believe OMB's position was warranted because the IAC did not adequately justify the need.

Other IAC recommendations required administrative changes or no changes at all. An example of a recommendation requiring administrative change was permitting lower graded employees with seniority to qualify for a higher class of housing. Previously, eligibility for certain classes of housing was based solely on marital status, family size and grade level. The cost-of-living allowance is a good example of an allowance which required no uniformity revisions because all overseas civilian employees were eligible to receive this compensation.

THE IAC'S INABILITY TO SATISFY ITS
OWN WORK OBJECTIVES HAS RESULTED IN
CONTINUED SYSTEM PROBLEMS

The IAC's primary emphasis was on achieving system uniformity rather than conducting a comprehensive review of the benefits and allowances system. Their work did not focus on identifying the specific need for each benefit and allowance at the least cost, nor did they adequately address other previously identified problems.

The IAC's work did not result in a purpose-oriented system because there was no linkage between each benefit or allowance and its specific need. Their review identified the purpose for each benefit and allowance without evaluating whether the need still existed. An example is the housing allowance, created in 1926 to solve recruitment and retention problems. Today, it also

compensates for higher housing costs and is generally viewed by employees as a condition of employment. In 1974 we reported that these compensation and incentive justifications were no longer valid at many overseas posts, but the IAC did not analyze this allowance based upon these findings. Another example of the IAC's failure to sufficiently analyze the need for overseas benefits and allowances is the post differential (hardship incentive). We found that there are both negative and positive aspects associated with living overseas, yet, the IAC did not recommend factoring these positive aspects into the post differential computation. In addition, the IAC did not determine whether some of the negative factors were being addressed by other existing benefits.

The IAC also did not focus on adjusting or eliminating any benefit or allowance in order to reflect equitable compensation between Federal foreign and domestic civilian employees. For example, most employees overseas are compensated for medical evacuation expenses to ensure access to competent medical care. However, domestic employees in remote locations experiencing similar access problems are not reimbursed for their expenses.

System economy not adequately considered

A few of the IAC's recommendations, such as removing the housing factor from the cost-of-living allowance computation, were aimed at reducing system costs. However, the IAC did not look for opportunities to structure benefits and allowances to represent the least cost in meeting the specified need.

Our 1974 report recommended using a comprehensive allowance as a cost-effective means of satisfying recruitment and retention needs. An IAC task force assessed our concern and recommended that post differentials, housing, and cost-of-living allowances be consolidated into a single allowance that considered both the positive and negative aspects of the overseas locations. However, the IAC did not include this recommendation in its final report. They viewed a single allowance as adversely affecting the system and working against meeting recruitment and retention needs. We found no support for their contentions, other than the belief that once a benefit or allowance is granted it should not be taken away. This position is questionable because it has been done in the past, for example, post differential elimination and cost-of-living allowance reductions at certain overseas locations.

Another missed opportunity to increase system cost effectiveness involved overseas holiday observance practices. Our 1975 report recommended establishing a maximum ceiling on the combined number of U.S. and local holidays observed at overseas locations, which would have resulted in significant cost savings and increased uniformity. An IAC task force studied overseas holiday practices and recommended making the senior official at each post responsible for establishing uniformity among agencies rather than establishing a ceiling. Our current review found that between

1973 and 1980, holiday practices in 12 of the 16 countries we previously visited did not significantly change. Three countries showed a significant reduction in the number of holidays observed, while one country showed a significant increase. As a result, most agencies' employees continue to observe between 9 to 23 holidays per year as compared to 9 holidays observed by their domestic counterparts (see app. V).

Other known system problems
were not adequately addressed

Our 1974 report also identified two other system problems--no comprehensive and readily available cost data and no employee education program--which the IAC either has yet to complete work on or did not address. An IAC task force is still developing a data base; however, the proposed data model will provide estimated costs on only 11 benefits and allowances. As a result, system decisionmaking is hampered because of this lack of readily available data. A system problem not addressed by the IAC was the need to provide information to employees on why some benefit or allowance differences are justified. We asked 11 agencies to provide data on six selected major benefits and allowances and to characterize their purpose. The agencies' responses varied considerably regarding their purpose. We believe this uncertainty illustrates agencies' confusion about the system. As a result, employees may not understand why their colleagues receive certain benefits and allowances which they do not, even though this situation may be justified.

RECENT EVENTS HIGHLIGHT
EQUITY ISSUE

Equity was the primary emphasis guiding our 1974 and 1975 recommendations to reform the benefits and allowances system. In responding to our reports, OMB agreed with this concept. However, OMB and the Congress currently support a separate and distinct treatment of Foreign Service employees. The rationale for this distinction stems from the special career commitment, dedication, and demands made by and upon Foreign Service employees who serve at least 60 percent of their careers overseas. In comparison, Civil Service employees usually serve only one limited assignment overseas and therefore may not be entitled to receive the same benefits and allowances.

The Foreign Service Act of 1980 created new Foreign Service benefits; and also extended or created certain benefits and allowances for both Foreign and Civil Service employees. Some examples of the newly created Foreign Service-specific benefits are:

- Continued health care for spouses for a limited period after divorce.

--Special differential for additional work performed in excess of normal requirements.

--Travel reimbursement for children visiting a separated or divorced parent.

The State Department estimated the cost of these three benefits at approximately \$700,000 annually. We believe creation of these new benefits and allowances highlights non-uniformity and inequity between Foreign and Civil Service employees.

In addition, congressional actions may affect the equity concept because various committees' work involves only selected agencies and their employees. For example, the education travel allowance provides reimbursement to the employee for periodic transportation associated with dependent travel between the overseas post and the school location. This allowance was not uniformly granted until the 1980 Act extended the Foreign Service level of one round trip per year to all agencies. Now, according to State Department officials, the Foreign Relations Committee has considered increasing the allowance to permit two trips per year for dependents attending college. This increase would apply to only three of five Foreign Service agencies, thus creating new differences in the allowance levels among Foreign Service employees (and between Foreign and Civil Service employees). Although we have no position on the validity of the need to increase this particular allowance, it will result in more differences and further demonstrates the equity issue.

CHAPTER 4

CONCLUSIONS

Our review of the overseas benefits and allowances system reveals that system problems identified by us in 1974 and 1975 still exist. As a result, the system continues to be inefficient and does not promote equitable treatment of civilian employees stationed overseas.

The IAC was not the independent policymaking body we envisioned to conduct an objective and thorough review of the benefits and allowances system. The IAC failed to adequately respond to system weaknesses because they stressed system uniformity at any cost. We believe uniformity is important, but the IAC's work should have also focused on the type of benefit or allowance required to meet specific overseas location needs at the lowest cost. As a result, system problems we identified in 1974 and 1975 still remain: legislative differences still exist; individual benefits and allowances are not specifically related to an identified purpose; and cost and program data are not available to facilitate decisionmaking or to explain system differences to employees. Moreover, a ceiling on overseas holidays has not been established as we had recommended in 1975.

We still believe that a more systematic approach is desirable for an equitable overseas benefits and allowances system. However, a systematic approach should not be interpreted as a "blank check" for actually granting a specific benefit or allowance to all overseas employees. This action should be the result of clearly justified reimbursement, or recruitment and retention needs of employees at overseas locations. However, in light of the shift away from uniformity as embodied in the recent Foreign Service Act of 1980, the principle of equity remains uncertain.

OVERSEAS ALLOWANCES AND BENEFITS
AUTHORIZED FOR U.S. FEDERAL CIVILIAN EMPLOYEES

COMPENSATION FOR EXTRAORDINARY
LIVING COSTS

Post Allowance
Separate Maintenance

HARDSHIP INCENTIVE

*Danger Pay Allowance
Post Differential
Rest and Recuperation
*Special Differential
*Special Incentive Differential
Unhealthful Post Credit

COMPENSATION FOR INADEQUATE
COMMUNITY SERVICES

*Child Travel to Accompany Medically
Evacuated Parent
Commissary/Post Exchange Privileges
Educational Allowance
*Educational Travel
Gasoline and Other Price Discounts
Health Care at Post
Hospitalization
Inoculation Before Overseas Tour
Inoculation After Overseas Tour
Loan of Household Goods
Local Foreign Holidays
Local Travel (to and from work)
Medical Emergency Travel
Medical Services for Dependents
after Death/Separation
Membership or use of Military Clubs
Physical Examinations
Providing Personal Transportation
Use of Mess and Recreational
Facilities

HOUSING

Living Quarters Allowance
Official Residence Expense
Representation Allowance
*Representation for Family
Use of Government Quarters

RELOCATION COSTS

*Advances of Pay
*Emergency Visitation Travel
Evacuation Payments
*Family Travel on extended
Temporary Duty
Family Visitation Travel
Foreign Transfer Allowance
Home Leave (Tour Renewed)
Home Leave (Tour not Renewed)
Home Leave Travel
*Home Service Transfer
Moving and Storage of
Household Effects
*Per Diem for Dependents
*Relocation Allowance Upon
Return to the U.S.
*Representation Travel
*Special Per Diem
Supplementary Post Allowance
Temporary Lodging
Transportation of Automobile
*Travel for Children of
Separated or Divorced Parents
Travel Per Diem (Flat Rate)
Travel Per Diem (Lodging Plus)

*Authorized by the Foreign Service Act of 1980.

AGENCIES EMPLOYING U.S. FEDERAL
CIVILIANS OVERSEAS

Agency for International Development	Department of Labor
American Battle Monuments Commission	Department of State
Department of Agriculture	Department of Transporta- tion
Food Safety and Quality Service	Office of the Secretary
Foreign Agricultural Service	Federal Aviation
Forest Service	Administration
Office of International Cooperation and Development	Federal Highway Administration
Department of Commerce	Department of Treasury
Bureau of the Census	Office of the Secretary
International Trade Association	Bureau of Government
--Foreign Commercial Service	Financial Operations
--Office of Export Promotion	Internal Revenue Service
--Import Administration	Secret Service
Maritime Administration	U.S. Customs Service
National Oceanic and Atmospheric Administration	Farm Credit Administration
U.S. Travel Service	General Accounting Office
Department of Defense	General Services Administra- tion
Department of Energy	Federal Supply Service
Department of Health and Human Services	Public Buildings Service
Center for Disease Control	Library of Congress
Food and Drug Administration	National Aeronautics and Space Administration
National Institute of Health	National Science Foundation
Department of Interior	Panama Canal Commission
Bureau of Land Management	Peace Corps
Bureau of Reclamation	Smithsonian Institution
National Park Service	Tennessee Valley Authority
U.S. Fish and Wildlife Service	U.S. International Communica- tion Agency
U.S. Geological Survey	Veterans Administration
Department of Justice	
Drug Enforcement Administration	
Federal Bureau of Investigation	
Immigration and Naturalization Service	

MEMBERS OF THE INTER-AGENCY COMMITTEE
ON OVERSEAS ALLOWANCES AND BENEFITS
FOR U.S. EMPLOYEES

AGENCYAGENCY

Action

Department of Energy

Agency for
International
DevelopmentDepartment of Health and
Human ServicesCentral
Intelligence
Agency

Department of Interior

Department of Justice

Department of
Agriculture

Department of the Navy

Department of State

Department of the
Air Force

Department of Transportation

Department of the Treasury

Department of the
Army

General Services Administration

Department of
Commerce

Office of Personnel Management

Department of
DefenseUnited States International
Communication Agency

Veterans Administration

SUMMARY OF ACTIONS REQUIRED BASED ON
INTER-AGENCY COMMITTEE RECOMMENDATIONS

	<u>Legislative revisions</u>	<u>Administrative revisions</u>	<u>No change needed</u>
Relocation allowances (note a)	17	29	3
Hardship allowances	2	3	0
Extraordinary living costs	0	4	3
Community services	12	0	4
Housing	<u>0</u>	<u>7</u>	<u>1</u>
Total	31	43	11

a/Some IAC recommendations required a combination of legislative and administrative revisions.

COMBINED U.S. AND LOCAL NATIONAL HOLIDAYS
OBSERVED BY U.S. EMPLOYEES AT OVERSEAS LOCATIONS

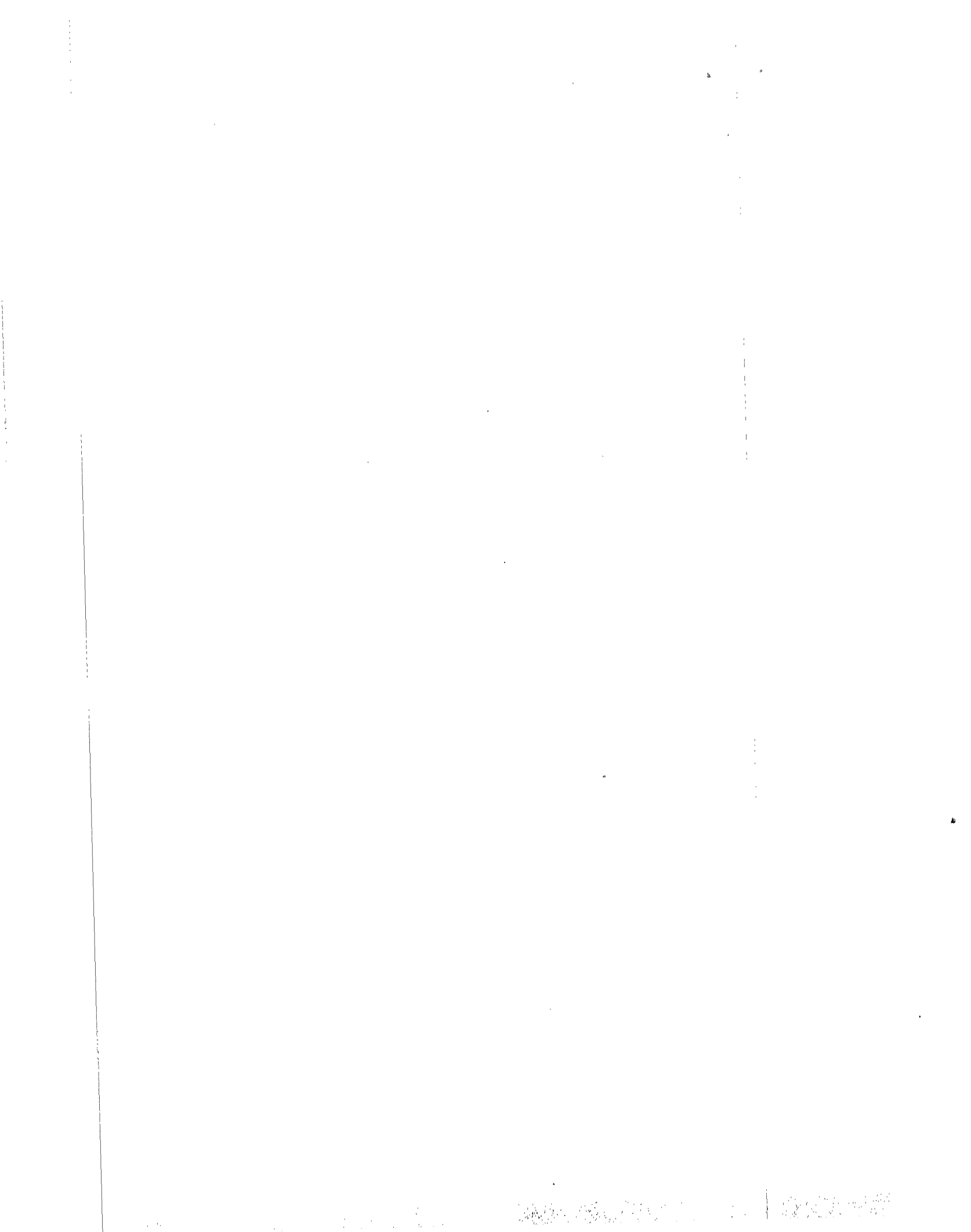
<u>COUNTRY AND AGENCY</u>	<u>TOTAL HOLIDAYS OBSERVED</u>	
	1973	1980
<u>BRAZIL</u>		
Department of State	19	18
Agency for International Development	19	18
International Communication Agency	19	18
Department of Agriculture	19	18
Department of the Treasury	19	18
Department of Justice	19	18
Department of Commerce	19	18
Department of Transportation	19	18
Library of Congress	19	18
Smithsonian Institution	19	18
Department of Defense	19	18
<u>ETHIOPIA</u>		
Department of State	19	18
Agency for International Development	19	18
International Communication Agency	19	18
Department of Defense	19	18
<u>GERMANY (BONN)</u>		
Department of State	18	19
International Communication Agency	18	19
Department of Justice	18	19
Department of the Treasury	18	19
Department of Agriculture	18	19
Department of Commerce:		
--Travel Service Frankfurt	11	18
Department of Defense	18	19
<u>HONG KONG</u>		
Department of State	18	17
Department of Justice	18	17
Department of the Treasury	18	17
Department of Agriculture	18	17
International Communication Agency	18	17
Department of Defense	18	17

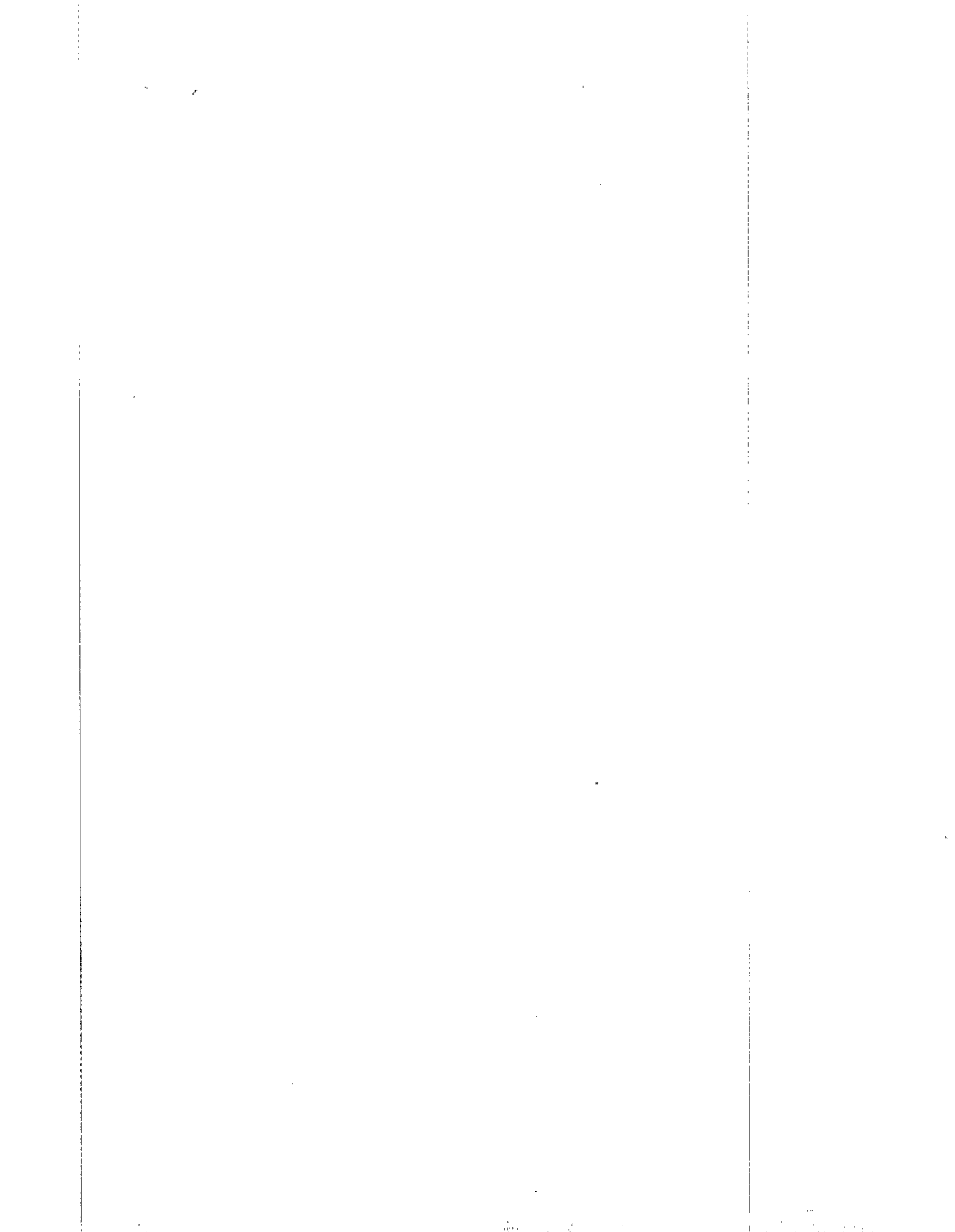
<u>COUNTRY AND AGENCY</u>	<u>TOTAL HOLIDAYS OBSERVED</u>	
	1973	1980
<u>INDIA</u>		
Department of State	17	18
International Communication Agency	17	18
Agency for International Development	17	18
Department of Agriculture	17	18
Library of Congress	17	18
Department of Justice	17	18
Department of Health and Human Services	17	18
Department of Defense	17	18
<u>INDONESIA</u>		
Department of State	15	15
International Communication Agency	15	15
Agency for International Development	15	15
Department of Agriculture	15	15
Library of Congress	15	15
Department of Defense	15	15
<u>ITALY</u>		
Department of State	19	13
International Communication Agency	19	13
Department of the Treasury	19	13
Department of Agriculture	19	13
Department of Justice	19	13
Department of Commerce	19	13
American Battle Monuments Commission:		
--Rome	19	13
--Florence	9	13
Department of Defense:		
--NATO Defense College	10	10
--U.S. Air Force Air Transport Command	19	13
--All Other	19	13
<u>JAPAN</u>		
Department of State	16	17
International Communication Agency	16	17
Department of Justice	16	17
Department of Agriculture	16	17

<u>COUNTRY AND AGENCY</u>	<u>TOTAL HOLIDAYS OBSERVED</u>	
	1973	1980
<u>JAPAN (continued)</u>		
Department of the Treasury	16	17
Department of Commerce	16	17
Department of Transportation:		
--Federal Aviation		
Administration	16	17
Library of Congress	16	17
Atomic Energy Commission	16	17
National Science Foundation	16	17
Department of Defense:		
--Defense Attache	16	17
<u>KOREA</u>		
Department of State	21	15
International Communication		
Agency	21	15
ACTION/Peace Corps	13	15
Agency for International		
Development	21	15
<u>LAOS</u>		
Department of State	24	14
<u>PERU</u>		
Department of State	15 1/2	15 1/2
International Communication		
Agency	15 1/2	15 1/2
Agency for International		
Development	15 1/2	15 1/2
Department of Agriculture	15 1/2	15 1/2
Department of Justice	15 1/2	15 1/2
ACTION/Peace Corps	15 1/2	15 1/2
Department of Transportation	15 1/2	15 1/2
Department of Defense	15 1/2	15 1/2
<u>PHILIPPINES</u>		
Department of State	20	20
International Communication		
Agency	20	20
Agency for International		
Development	20	20
Veterans Administration	20	20
Department of Justice	20	20

<u>COUNTRY AND AGENCY</u>	<u>TOTAL HOLIDAYS OBSERVED</u>	
	1973	1980
<u>PHILIPPINES (continued)</u>		
Department of the Treasury:		
--Internal Revenue Service	9	20
--Division of Disbursements	20	20
Department of Transportation	20	20
Department of Agriculture	20	20
ACTION/Peace Corps	20	20
American Battle Monuments Commission	20	20
Department of Defense:		
--Defense Attache	20	20
--U.S. Air Force	9	20
--Other	9	20
<u>SAUDI ARABIA</u>		
Department of State	18	18
International Communication Agency	18	18
U.S. Geological Survey	10	10
Department of Defense: --Defense Attache	18	18
<u>SPAIN</u>		
Department of State	23	23
International Communication Agency	23	23
Department of Agriculture	23	23
Department of Justice	23	23
National Aeronautics and Space Administration	9	9
Department of Defense: --Officer-in-Charge of Construction	9	9
--Other	23	23
<u>THAILAND</u>		
Department of State	17	16
International Communication Agency	17	16
Department of Justice	17	16
ACTION/Peace Corps	14	16
Foreign Broadcast Information Service	9	16
Department of Agriculture	17	16
Department of the Treasury	17	16

<u>COUNTRY AND AGENCY</u>	<u>TOTAL HOLIDAYS OBSERVED</u>	
	1973	1980
<u>THAILAND (continued)</u>		
Department of Defense:		
--Air Force and Navy	9	16
--Officer-in-Charge of Construction	11	16
<u>ZAIRE</u>		
Department of State	11	15
International Communication Agency	11	15
Agency for International Development	11	15
Department of Agriculture	11	15
Department of Defense	11	15





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