



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

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FEDERAL PERSONNEL AND
COMPENSATION DIVISION

B-205580

FEBRUARY 8, 1982

The Honorable Donald J. Devine
Director, Office of Personnel
Management



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Dear Dr. Devine:

Subject: Computation of Cost-of-Living Allowances
for Federal Employees in Nonforeign Areas
Could Be More Accurate (FPCD-82-25)

We have completed our review of the methodology used to compute cost-of-living allowances (COLAs) for Federal personnel. We made this review because Federal personnel have raised concerns about the appropriateness of that methodology. This report summarizes our findings and recommends improvements which would make COLA payments under the Office of Personnel Management's (OPM's) administration more accurate. We found that OPM did not insure that the data it used accurately reflected the living patterns and housing costs of Federal personnel and that OPM did not use sale prices in its COLA computation.

OPM administers a COLA program for Federal civilian employees stationed in nonforeign areas outside the continental United States. The Department of State administers a COLA program for Federal civilian employees in foreign areas, and the Department of Defense (DOD) administers a COLA program for uniformed personnel in foreign and nonforeign areas.

COLAs computed by OPM, State, and DOD are based on prices of a market basket of more than 160 goods and services in the foreign or nonforeign area compared with prices of a similar market basket in the base area (Washington, D.C., for the OPM and State COLAs and the continental United States

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for the DOD COLA). Housing costs are included in the market basket for the OPM COLA but not for the State or DOD COLAs because State and DOD administer separate housing allowances. The administering agencies average the prices and divide the foreign or nonforeign average prices by the base area average prices to obtain a ratio. These item price ratios are weighted by the relative importance of the expenditures they represent. The weights used are derived from the consumer expenditure survey made by the Bureau of Labor Statistics, Department of Labor. Price surveys are made at least annually in the COLA areas, and the administering agencies revise the COLA rates after receiving the annual survey data.

The agencies make living pattern surveys in foreign and nonforeign areas to identify retail outlets Federal personnel most frequently use and the relative importance of each source of supply. OPM also makes housing cost surveys because housing costs are included in its market basket.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to analyze and identify inconsistencies in administering the COLAs and to find ways of improving methodologies used to compute COLAs. We did not examine the makeup of the market basket, nor did we verify the prices collected. We made our review during calendar year 1981.

In Washington, D.C., where policies are set and OPM's COLAs are computed, we interviewed responsible officials and reviewed and analyzed OPM's policies, procedures, and methodologies used to set the COLA rates. We also visited field locations in Alaska and Hawaii. We selected these areas because (1) they contained a large number of personnel who receive COLA (a total of about 20,000 civilian employees) and (2) we could observe in these locales a representative cross section of COLA data collection procedures used by OPM. In Alaska and Hawaii, we interviewed the responsible officials to determine how surveys are made, how price data are obtained and analyzed, and how the price and living pattern data are reported to OPM. We also received technical advice from personnel at the Bureau of Labor Statistics.

Our work was performed in accordance with our Office's current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

SURVEY PROCEDURES DID NOT INSURE
THAT LIVING PATTERN AND HOUSING COST
SURVEYS ACCURATELY REFLECTED
PURCHASING PATTERNS OR HOUSING COSTS

OPM did not insure that the data it collected accurately reflected the purchasing patterns or housing costs of Federal employees. This data may be inaccurate because agencies used nonscientific survey procedures.

The intent of the living pattern surveys is to identify the retail outlets most frequently used and the relative importance of various sources of supply--retail or Government facilities. Data collectors obtain prices for the market basket of goods and services from the outlets frequently used by Federal employees. Certain weights for the index calculations are derived from the living pattern surveys, and the surveys also provide data on food consumption patterns and use of local transportation. In addition to making the living pattern survey, OPM makes a housing cost survey in each allowance area and in Washington, D.C.

OPM requires living pattern surveys every 5 years and requires housing cost surveys annually in the allowance areas, and every 5 years in Washington, D.C. (Housing prices for Washington are adjusted annually between surveys through use of the housing component of the consumer price index.) In making these surveys, OPM requires field officials to send the housing cost questionnaires to all Federal civilian employees in the nonforeign areas, with the exception of Oahu, Hawaii, where, because of the high concentration of Federal employees, OPM believes it can gather sufficient information from a sample of 50 percent of the Federal employees. Every fifth year, OPM requires the living pattern questionnaire to be sent along with the housing cost survey.

For the 1980 surveys in Hawaii, OPM instructed the local Federal agencies to randomly sample 50 percent of eligible employees in Oahu for the housing cost survey and the remaining 50 percent for the living pattern survey and to send both questionnaires to all eligible employees on the neighboring islands. Agencies used various methods to select employee samples, but not all of these methods provide random selection. For example, one agency selected survey participants on the basis of those employees who were on duty the day the questionnaires were distributed.

Another selected a sample by choosing every third name on a list of employees. Still another selected a sample from the first employees sighted, and another selected employees according to their seating location in the office.

OPM DID NOT USE
SALE PRICES

OPM could improve its COLA computation by weighting prices of items and services on sale. In the nonforeign areas, OPM requested data collectors to collect only those prices normally paid, not sale prices. When sale prices were reported for the Washington, D.C., price survey, OPM excluded those prices from its COLA computation.

Clothing, household furnishings, and automobile maintenance items and services are frequently on sale in the Washington area. Furthermore, Federal employees in the Washington area or in COLA areas where sales can be found may purchase a large proportion of some items and services--such as televisions, washing machines, suits, tires, and engine tuneups--on sale and purchase relatively few of them at regular prices. Thus, for some purchases, the price normally paid may be the sale price. These sale prices could be weighted to reflect the proportion of purchases made at the reduced prices. This would require the collection and processing of additional data to derive the weights, possibly through adding a data element to the living pattern questionnaire.

ADJUSTMENTS FOR PRICE
SURVEY TIMELAGS

We noted that the Bureau of Labor Statistics makes price surveys for the COLA program in January, May, and September, and the price data is used by OPM, State, and DOD in computing base area prices. OPM schedules each of its nonforeign area price surveys to correspond with one of those made in January, May, and September in the base area, but 57 percent of the State and DOD price surveys are scheduled at other times. Thus, a timelag of 1 to 2 months exists for many State and DOD COLA areas.

In separate reports to the Secretaries of State and Defense, we are recommending that they take action to

minimize the timelag. We suggest this could be accomplished in either of two ways:

- As OPM does now, State and DOD could instruct field installations to collect price data in January, May, or September to correspond to price collection in Washington, D.C.
- State and DOD could coordinate with OPM to ask the Bureau of Labor Statistics to increase its pricing schedule in the base area from three times a year to four times a year. Thus, no matter when field activities collected price data, there would never be more than a difference of 1 month between base area and COLA area prices.

We are mentioning these items in this report because your data collection efforts would be affected if the agencies involved choose the second alternative.

CONCLUSIONS

OPM and local Federal agencies are using nonscientific survey procedures to collect information on where Federal employees shop and what they pay for housing. Therefore, the accuracy of the data used in the COLA computations is questionable. In addition, OPM's COLA computation would be improved if sale prices were weighted to reflect the proportion of purchases made at sale and regular prices.

RECOMMENDATIONS

We recommend that the Director, OPM:

- Require agencies to use a scientific sampling system to make living pattern and housing cost surveys.
- Weight sale prices to reflect the proportion of purchases made at sale and regular prices.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations. This written statement must be sent to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the

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date of the report. A written statement must also be sent to the House and Senate Committees on Appropriations with an agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget, and to the Chairmen, House and Senate Committees on Appropriations, Senate Committee on Governmental Affairs, and House Committees on Government Operations and on Post Office and Civil Service.

Sincerely yours,



Clifford I. Gould
Director