

GAO

Report to the Chairman, Legislation
and National Security Subcommittee,
Committee on Government Operations,
House of Representatives

December 1989

**STATE
DEPARTMENT**

**Proposed Overseas
Housing Standards
Not Justified**



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National Security and
International Affairs Division

B-234557

December 18, 1989

The Honorable John Conyers
Chairman, Legislation and National
Security Subcommittee
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

In response to your request, we have reviewed the State Department's proposed revision to the housing space standards for U.S. employees assigned overseas. Our review included assessments of the soundness of the methodology and data used to develop the proposed revision and the financial impact of the proposal.

Results in Brief

The methodology State used in developing the proposed standards was flawed because it did not include an appropriate means to support a key new element in the revision, namely using an employee's grade as a significant factor in the authorized size of housing. Moreover, the data State used was old, incomplete, and inappropriate for the analysis.

The U.S. government may have to pay millions of dollars more each year to house personnel abroad under the proposed standards than if the current standards were appropriately applied. For State Department employees alone, the proposed standards would authorize an additional 1.3 million square feet over the existing housing standards and would cost about \$10.9 million more. If other agencies have similar increases in authorized space for their overseas employees, the added costs will be greater. The U.S. government is already incurring much of this cost because many employees have been allowed to live in housing that exceeds the current standards.

We conclude that State should not implement the proposed revision because it has not been adequately supported. Rather, we believe that State should enforce the current standards until State can justify revising them.

Background

The U.S. government provides housing free of charge to U.S. employees and their dependents stationed overseas. In 1979 the State Department, with the concurrence of other involved agencies, set the standards on

the maximum size of such housing. State's procedures call for review and approval on a case-by-case basis of proposals to provide housing that exceeds the standards to ensure that unusual proposals are fully justified and judged on their merits. If an employee wants to live in larger housing than can legitimately be authorized, he/she can obtain a living quarters allowance in lieu of free housing.

The basic objective of the overseas housing policy is to provide employees housing that is comparable to housing they would use in the Washington, D.C., metropolitan area. According to the policy, the housing should be adequate to suit employees' personal and professional needs at the most advantageous cost to the U.S. government. For fiscal year 1988, the U.S. government spent about \$146.8 million to lease about 17.5 million square feet of residential housing space for its employees overseas.

Our April 1989 report on State's management of real property¹ and studies by State's Inspector General and Office of Management Policy have highlighted several problems: insufficient compliance with existing standards, inadequate oversight capability, and inconsistent application of the standards. In particular, these studies showed that representational housing² for officials below the deputy chiefs of mission was no longer justified because most of these officials from State and other agencies held few, if any, representational functions in their homes. This prompted State to review the existing housing standards and to develop a proposal to revise them.

Under the proposed revision, housing standards would no longer be based solely on family size adjusted for overseas localities. Employee rank—junior, middle, or senior³—would also be an important factor.

¹State Department: *Management of Overseas Real Property Needs Improvement* (GAO/NSIAD-89-116, Apr. 13, 1989).

²Representational housing is used to provide a suitable environment for entertaining foreign guests at employees' residences as part of their official duties. The size of housing authorized for individuals with representational duties tends to be larger and more expensive than nonrepresentational housing.

³The proposed standard would authorize living space to individuals varying by their grades, which are contained within the rank designations "Senior," "Middle," and "Junior." Senior rank includes all grades within the Senior Foreign Service, middle rank contains grades FS-1 through FS-3, and junior rank includes grades FS-4 through FS-9.

Proposed Revision Would Increase Housing Size and Cost

State officials acknowledged that many employees of State and other agencies overseas have been living in representational housing without justification. The proposed standards would eliminate representational housing for all personnel below the rank of deputy chief of mission but generally authorize increased space standards for nonrepresentational housing. Under the proposal, the current standards for nonrepresentational housing would in essence become the standard for junior staff. Middle and senior level personnel would be authorized correspondingly larger housing units. In fact, all employees in the senior ranks would have an allowable living space greater than they are allowed under the current representational standards. Some employees in the middle ranks (e.g., FS-1 with three or more dependents) would also be authorized housing larger than existing representational housing standards.

State officials have stated that the net overall increase in space would be about 2 percent. However, this increase does not reflect the fact that many employees overseas are already residing inappropriately in representational or over-standard housing units. We found that the new standards would result in significant increases in the authorized size of housing.

According to State officials, the justification for proposing the revised standards is that the existing standards are no longer comparable because the average residential unit in the Washington area has increased in size. However, our review showed the following:

- State's methodology did not include the development of any information about the typical size of housing that federal employees have in the Washington area or information to demonstrate the variations in the average size home occupied by employees at the different grade levels or ranks.
- The general data that State used to justify the revision did not reflect the current Washington, D.C., market because national statistics were used instead of Washington area data and information from 1981 was used to reflect current trends.
- State's data on low to moderate housing available in the Washington area was obtained from only one of many area builders of new homes.

-
- The proposed housing standards exceed State's own construction standards for new housing units overseas.⁴ These construction standards were developed in 1983 by architects, based on adequate space comparable to the Washington area. In developing the proposed revision to the housing standards, State did not consult with Washington area architects or consider the construction standards.

State officials said that they anticipate no adverse budgetary implications in adopting the new housing policy. However, they did not take into consideration that many employees are already residing in representational and over-standard housing units.

Internal State documents show that the proposed standards would represent a 22-percent increase (or 1.3 million square feet) in total authorized living space over the current nonrepresentational standards for just State's overseas personnel, assuming that representational housing for all State personnel below the rank of deputy chief of mission is eliminated. We estimate that this additional overseas housing space for State personnel alone could cost about \$10.9 million a year (1.3 million square feet of added space multiplied by State's average cost of \$8.35 per square foot of overseas short-term leased housing). If other agencies experienced a comparable increase, the proposed standards could result in a projected combined expenditure of about \$26.8 million more a year to house personnel from State and other agencies overseas than if the current standards were enforced.

Since a number of employees are already residing in over-standard housing, the U.S. government is already paying for a large portion of the difference in cost between the current and proposed standards. Moreover, the amount of annual cost for overseas housing depends on such factors as the number of personnel assigned overseas, the size of their families, and the availability of appropriate housing at the various locations.

Recent Agency Actions

In August 1989, State Department officials notified us that they were planning a survey of State personnel residing in the Washington metropolitan area to assess the comparability of the proposed standards. They told us that the survey would be done on a random-sample basis

⁴Since fiscal year 1982, State has constructed about 500 residential units overseas and is currently building about 75 more. State's construction standards are generally comparable to the existing nonrepresentational housing standards.

and stratified by rank and family size. As of mid-November 1989, a State official indicated that a housing questionnaire had been developed but had not yet been sent out to the selected sample of State employees in the Washington area. State expects that its survey will be completed in April 1990.

State officials told us that the current standards will remain in effect until new standards are adopted. However, it is unclear whether State intends to continue to provide unjustified representational and over-standard housing or better enforce the existing standards during this period.

Conclusions and Recommendation

Numerous personnel from State and other agencies are occupying housing that exceeds the existing standards. To combat the criticism about the leasing of excessively large and costly housing, State proposed changing the standards. However, State did not use an adequate methodology or current data on the housing employees have in the Washington area to ensure that the proposed increases are appropriate. Moreover, by comparing existing housing, some of which exceeds the current standards, to the proposed standards, State has underestimated the potential impact of the proposed revision.

In summary, State's proposed revision is not supported by sufficient evidence to justify authorizing large increases in the size of overseas housing standards. We do not believe it should be implemented.

If the overseas housing standards are to be based on an employee's grade or rank, we recommend that the Secretary of State have a survey done to determine the average size housing that federal employees of different grade levels and family size have in the metropolitan Washington area and that any proposed revision in the overseas standards be derived from this information.

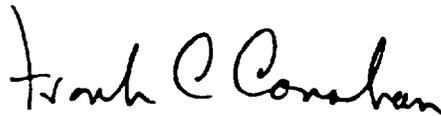
Until State can adequately justify a revision in the housing standards, we recommend that the Secretary of State direct the responsible officials to enforce the current standards. This means that when assigning new quarters, those employees who are not entitled to representational or over-standard housing should no longer be granted these residences. The existing standards have sufficient flexibility to accommodate unusual situations on a case-by-case basis.

The results of our review are discussed in appendix I. The objectives, scope, and methodology of our review are set forth in appendix II.

As requested, we did not obtain written agency comments on a draft of the report. However, we discussed the contents of our report with the appropriate State Department officials. Unless you publicly announce its content earlier, we plan no further distribution of this report until 30 days from the date of issuance. At that time, we will send copies to appropriate congressional committees; the Secretary of State; the Director, Office of Management and Budget; and other interested parties.

This report was prepared under the direction of Joseph E. Kelley, Director, Security and International Relations Issues. He can be reached on (202) 275-4128 if you or your staff have any questions. Other major contributors are listed in appendix III.

Sincerely yours,



Frank C. Conahan
Assistant Comptroller General

Contents

Letter		1
Appendix I		10
Evaluation of	Recent Studies on Overseas Housing	11
Proposed Revisions in	Proposed Revision Would Increase Housing Size	12
Overseas Housing	State's Methodology and Data to Justify Revision Are	13
Standards	Flawed	
	State's Estimates on the Potential Financial Impact of Its	16
	Proposal Are Incomplete	
Appendix II		18
Objectives, Scope, and		
Methodology		
Appendix III		19
Major Contributors to		
This Report		
Tables		
	Table I.1: Comparison of Square Footage Authorized	13
	Under Current and Proposed Overseas Housing	
	Standards	
	Table I.2: State Construction Standards for a Two-	15
	Bedroom Residential Unit	
	Table I.3: Funding for Short-Term Lease Facilities (Fiscal	16
	Year 1988)	

Abbreviations

FAM	Foreign Affairs Manual
FBO	Office of Foreign Buildings Operations

Evaluation of Proposed Revisions in Overseas Housing Standards

As set forth in the Foreign Affairs Manual (6 FAM 712), a U.S. government employee who is an American citizen permanently stationed in a foreign country may be furnished cost-free living quarters, including utilities, in a building owned or rented by the government. The basic objective is to provide housing comparable to housing that is adequate to suit the personal and professional needs of employees in the Washington, D.C., area at the most advantageous cost to the U.S. government.

Although some overseas housing units are owned or held by the U.S. government under long-term leases (10 years or longer), most of the residential housing provided to overseas personnel is leased on a short-term basis. The housing units are assigned according to space standards set by the State Department's Office of Foreign Buildings Operations (FBO) in cooperation with other agencies with personnel overseas.

State's current standards were established in 1979 using data from a Washington Metropolitan Council of Governments report. According to State documents, the standards were based on adequate housing comparable to dwellings in the metropolitan Washington area,¹ as determined by family size and configuration. The space standards are adjusted for overseas localities and representational use.

According to State documents, the housing standards represent maximums and cannot be considered as a housing entitlement for employees. In other words, State can provide housing up to a certain size as set forth in the housing standards, but State is not required to provide the employee with a housing unit of that size (square footage). State regulations establish procedures that require FBO Washington approval of all leases that exceed \$25,000 a year or exceed authorized square footage by more than 10 percent. These controls were established as a mechanism to ensure that unusual circumstances are fully justified and judged on their merits.

The authorized square footage varies at different posts based on opportunities for cultural and recreational life outside the home. Generally, the less cultural and recreational facilities available outside the home, the greater the allowable housing space. A main determinant for the housing standards is the amount of time personnel and their dependents

¹The Washington, D.C., metropolitan area is defined as the District of Columbia; the city of Alexandria and the counties of Arlington, Fairfax, Loudoun, and Prince William in Virginia; and Montgomery and Prince Georges counties in Maryland.

can be expected to spend in their residences due to either security considerations or the availability of activities outside the home. The current standards also provide for increased authorization of representational housing for employees whose positions require frequent at-home entertainment.

Recent Studies on Overseas Housing

Our April 1989 report on State's management of overseas real property and studies by the State's Inspector General and Office of Management Policy highlighted several problems with the management of overseas housing: (1) insufficient compliance with existing standards, (2) inadequate oversight capability, and (3) inconsistent application of the current standards.

In 1987, the Inspector General reported that, in general, posts were spending more than was necessary on representational housing and concluded that the provision of representational housing for officials below deputy chief of mission was no longer justified because most of these officials held few, if any, functions in their homes. The representational activities of officials from State and other agencies were considered in the Inspector General's report. The report concluded that officials who did not use their representational housing for intended purposes should be moved to less expensive housing units.

In its January 1989 study, State's Office of Management Policy reaffirmed that many of State's and other agencies' personnel receiving representational housing had held few, if any, representational functions and that most representational functions were being held outside the home. The study concluded that representational housing was not being used effectively.

Our recent report indicated substantial use of over-standard housing resulting in excess cost to the U.S. government. Overall, 253 out of 804 (or about one out of every three) housing units provided to U.S. employees of State or other agencies were over-standard in the seven countries we visited. Each overseas post had either ignored or misinterpreted the space standards to some extent. In addition, our review corroborated State's findings that costly representational housing was often provided to both personnel of State and other agencies, even though few or no representational functions were being carried out in these residences.

In light of these studies, State Department officials decided to draft new housing standards. State officials believed that they had to address the

issues raised in these reports or risk the loss or diminution of this important employee benefit.

According to FBO, more than 800 State employees below the rank of deputy chief of mission were occupying representational housing units, suggesting to FBO abuse of the representational designation. Moreover, FBO acknowledged that housing officials at the overseas posts ignored the square footage standards or used “creativity” in measuring the size of units. FBO developed a proposal to revise the standards that would make the employee’s rank a major factor in determining the size of authorized housing.

Proposed Revision Would Increase Housing Size

FBO’s proposed revision would eliminate representational housing for personnel below the rank of deputy chief of mission. At the same time, however, State would increase the authorized living space standards for nonrepresentational housing for many overseas personnel. Under this proposal, the current standards for nonrepresentational housing would in essence become the standard for junior staff, with middle and senior level personnel receiving correspondingly larger housing.

State’s proposal predicts that total housing square footage will increase only 2 percent over the current total. As table I.1 shows, however, the proposed standards would result in increases in the authorized size of housing significantly higher than 2 percent for most personnel. Some individuals currently occupying representational housing would be authorized even larger living quarters.

**Appendix I
Evaluation of Proposed Revisions in Overseas
Housing Standards**

Table I.1: Comparison of Square Footage Authorized Under Current and Proposed Overseas Housing Standards

Number of Occupants	1 Bedroom 1	2 Bedrooms 2	3 Bedrooms 3-4	4 Bedrooms 5-6	5 Bedrooms 7+
Current					
Representational	^a	1,750	2,000	2,500	2,750
Nonrepresentational	820	1,250	1,500	2,000	2,250
Proposed (by rank)					
Senior	^a	1,800 to 2,000	2,273 to 2,525	2,610 to 2,900	2,745 to 3,050
Middle	1,000	1,373 to 1,525	1,980 to 2,200	2,318 to 2,575	2,453 to 2,725
Junior	900	1,238 to 1,375	1,800 to 2,000	2,093 to 2,325	2,228 to 2,475
Increase over current nonrepresentational standard (percent)					
	10–22	0–60	20–68	5–45	0–36

^aNot applicable.

The table shows the range of percentage increases in the authorized square footage for employees of varying family sizes. Under the proposed standards, the increase varies between 0 percent² and 68 percent. Such increases are for overseas locations considered comparable to Washington; the proposed standards for less desirable locations provide for larger units.

Under the proposed revision, an increase of greater than 68 percent would be authorized for senior personnel living alone. The proposed standards grant them a minimum of two bedrooms. Therefore, a single senior employee could be allowed up to 2,000 square feet. This represents 144 percent more space than the current 820 square feet authorized for single personnel in a one-bedroom (nonrepresentational) residential unit.

**State's Methodology
and Data to Justify
Revision Are Flawed**

According to the State Department, the existing housing standards need to be changed primarily because they are no longer comparable in size to the average residential unit in the Washington area. However, as shown below, State's methodology and data for determining comparability to Washington area housing are not sound.

²For example, under the proposed standard, the lowest ranked junior employee (grade FS-9) entitled to a two-bedroom dwelling would be allowed 12 square feet less under the proposed revision (1,238 square feet) compared to the current nonrepresentational standard (1,250 square feet). This constitutes a loss of less than 1 percent, and is therefore shown as no change.

- State's methodology did not include the development of any information about the typical size of housing that federal employees have in the Washington area or information to demonstrate the variations in the average size home occupied by employees at the different grade levels or ranks.
- State used incomplete, outdated, or unrelated data in its attempt to demonstrate a need for larger living space.
- State is currently building residential units overseas using construction standards devised by professional architects in 1983, based on adequate living space comparable to the Washington area. The construction standards are similar to State's existing housing standards. In revising the housing standards, State did not consult with Washington area architects or consider the construction standards.

State cited as support for its proposed revision three housing reports: (1) a Census Bureau survey of new housing characteristics from 1976 to 1987 that showed a national net increase of 12 percent (9.86 percent in metropolitan areas) in average square footage for new housing, (2) an updated version of the 1979 Council of Governments report on the Washington area that showed an approximate 11-percent increase in the average size of new housing between 1976 and 1981, and (3) a survey of the properties of one Washington area builder.

We found State's support questionable for the following reasons:

- The Census Bureau study does not specifically address the Washington area.
- The updated Council of Governments study addresses new housing trends in the Washington area between 1976 and 1981. This report provides only 2 additional years of data compared to the 1979 study on which the existing standards are based. It does not show the average size of current housing in the Washington area.
- State's use of data from one local builder of new homes to indicate the kind of low to moderate income housing available in the Washington area may not be representative of the housing in the area. State did not obtain such data from other Washington area builders. Moreover, State did not demonstrate that homes being built by this one builder are representative of the homes local developers are constructing. Furthermore, this survey did not include new apartments and did not consider any existing housing.

Current regulations allow posts to authorize up to 10 percent more space than the standard allows without the need for FBO Washington

approval to compensate for cases of “architectural anomalies, such as large ‘unlivable’ foyers or stair landings...” and the lack of suitable housing in certain countries. Under the proposed standards, an additional space increase has been included to cover such problems as architectural anomalies in the hopes that employees will be less likely to exceed the new limits, thereby making requests for exceptions less likely as well. However, FBO officials indicated that they would still allow exceptions on a case-by-case basis.

**State’s Residential
Construction Standards
Are Similar to Current
Housing Standards**

FBO is currently constructing some residential units for personnel overseas using State’s residential construction standards, devised in 1983 to be comparable in average size to Washington area residences. These construction standards authorize less square footage than State’s proposed housing (leasing) standards. FBO constructs new overseas housing units (typically apartments or townhomes) using standards that are generally about the same as existing nonrepresentational housing standards. For example, State’s existing housing standard allows up to 1,250 square feet for a two-bedroom unit in a foreign city similar to Washington in terms of recreational and cultural activities. By comparison, State constructs similar housing for overseas personnel that allows about 1,120 square feet and includes the rooms, amenities, and dimensions as shown in table I.2.

**Table I.2: State Construction Standards
for a Two-Bedroom Residential Unit**

Features	Approximate dimensions (feet)	Square feet
Living room	15 x 16	240
Dining room	15 x 10	150
Master bedroom	15 x 15	225
Second bedroom	15 x 12	175
Master bath	8 x 8	65
Family bath	7 x 6	40
Kitchen	10 x 10	100
Food storage	6 x 5	30
Laundry	5 x 3	15
General storage	7 x 7	50
Entrance foyer	6 x 5	30
Total		1,120

By contrast, the proposed standards would authorize 1,238 to 1,375 square feet of living space in a two-bedroom unit for junior

officers, 1,373 to 1,525 square feet for middle-graded personnel, and 1,800 to 2,000 square feet for senior personnel. The 2,000 square feet of living space for a single senior employee's two-bedroom housing unit is about 78 percent larger than the standards FBO is currently using for construction purposes. State's proposed standards would allow considerably more housing space than deemed necessary by State's construction standards, which were developed by professional architects to allow ample living space comparable to units in the Washington metropolitan area.

State's Estimates on the Potential Financial Impact of Its Proposal Are Incomplete

According to State, the proposed revision would result in a 2-percent net increase in total housing space over what employees now have. State officials have also said that they anticipate no adverse budget implications. However, State's estimates have not taken into consideration that many employees are already residing in representational or over-standard housing units. FBO figures we obtained indicate that adoption of the proposed revision would result in a 22-percent increase over the current nonrepresentational standards for State employees.

By enforcing the existing nonrepresentational standards rather than adopting the revised standards, we estimate that housing expenditures of about \$10.9 million a year could be avoided for State Department personnel alone. If other agencies with personnel overseas experienced similar space increases, the difference in cost for them would be about \$15.9 million each year.

Table I.3 shows the short-term leased housing costs were about \$146.8 million in fiscal year 1988 for all government personnel assigned to missions overseas.

Table I.3: Funding for Short-Term Lease Facilities (Fiscal Year 1988)

Regional bureau	Total square feet	Average cost per square foot	Total cost
African	3,750,088	\$6.92	\$25,950,609
Near East, Asia	3,952,197	7.06	27,902,511
East Asia, Pacific	2,790,578	9.46	26,398,868
Europe	3,478,221	10.71	37,251,747
Inter-American	3,564,048	8.22	29,296,475
Total	17,535,132	\$8.38	\$146,800,210

According to FBO, the proposed standards would authorize 7.2 million square feet of living space for State's personnel alone. If State were to

use the current nonrepresentational standards for all State personnel below the rank of deputy chief of mission, approximately 5.9 million square feet would be authorized, according to FBO's calculations. Thus, the proposed revision represents an increase of about 1.3 million square feet (or about 22 percent) more than the current nonrepresentational standards. Using an average cost of \$8.38 per square foot, the additional 1.3 million square feet of living space for State's employees would cost about \$10.9 million a year.

Under the proposed revision, State has not developed the data to determine the housing authorizations for other agencies' personnel and their dependents, who currently occupy approximately 60 percent of the total residential square footage the U.S. government leases on a short-term basis overseas. However, assuming that the other agencies would also experience similar increases in total authorized square footage, as State would, adopting the proposed standards could cost them about \$15.9 million more each year than necessary to house their U.S. employees stationed overseas.³ Using this assumption, we project that the U.S. government could avoid the total expenditure of about \$26.8 million a year by not adopting the proposed revision and enforcing the existing standards.

Since a number of employees are already residing in over-standard housing, the U.S. government is already paying a large portion of the difference between the current and proposed standards. Moreover, housing costs, of course, will be determined by a number of factors, such as the number of personnel assigned overseas, the size of their families, the availability of housing within standards at posts worldwide, and the effectiveness of enforcement of the standards by State and post housing officials.

³By using the same ratio as reflected in State's data, the proposed revision would authorize an estimated 10.8 million square feet for other agencies compared to an estimated 8.9 million square feet if current nonrepresentational housing standards were used. The difference of 1.9 million square feet multiplied by \$8.38, the average cost per square foot, totals \$15.9 million in additional cost.

Objectives, Scope, and Methodology

Our evaluation of the Department of State's proposed housing standards for U.S. government personnel stationed overseas was undertaken at the request of the Chairman, Legislation and National Security Subcommittee, House Committee on Government Operations. The objectives of our review were to (1) evaluate the soundness of the methodology and data that the State Department used to develop the new space standards and (2) estimate the potential financial impact of implementing the proposed standards. Concurrent with our review, and at the Chairman's request, State's Office of the Inspector General has been evaluating the adequacy of the State Department's oversight and enforcement mechanisms for ensuring compliance with the revised standards.

Our review, which was conducted between June and September 1989, was performed in accordance with generally accepted government auditing standards. We interviewed and collected information from officials of the Department of State, particularly from FBO. To assess State's rationale for the proposed standards, we talked to FBO's Real Estate Management Division. We interviewed officials of FBO's Buildings Design and Engineering Division to determine residential housing construction standards overseas. We also reviewed reports concerning housing in the Washington metropolitan area provided by the Greater Washington Research Center, the Washington Metropolitan Council of Governments, Housing Data Reports, and the National Association of Realtors.

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