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GAO

BY THE U.S. GENERAL ACCOUNTING OFFICE 124872

# Report To The Secretary Of Transportation

## Reductions In Coast Guard Leased Housing Can Achieve Savings

The Coast Guard leases about 4,000 housing units nationwide for its servicemembers. Costs were estimated to be about \$6 million a year more than the cost of allowances its members would have been entitled to in fiscal year 1982 if they had obtained their own housing.

The Coast Guard's primary justification for leasing is that government quarters are not available and obtaining adequate private housing near Coast Guard installations would create an undue financial hardship on its servicemembers.

GAO found that the Coast Guard's internal surveys used to determine private housing costs overstated these costs and thereby the need for leasing.

GAO is recommending that the Coast Guard rely more on the housing allowances authorized by Congress and phase out leased housing except in areas with limited housing.



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

GENERAL GOVERNMENT  
DIVISION

B-215674

The Honorable Elizabeth H. Dole  
The Secretary of Transportation

Dear Madam Secretary:

We have reviewed the Coast Guard's policies, procedures, and practices for leasing housing for its servicemembers and their dependents at 3 of the 12 Coast Guard districts--the fifth (Portsmouth, VA), the seventh (Miami, FL) and the eighth (New Orleans, LA). We were primarily interested in whether the Coast Guard needs to continue leasing in view of the Variable Housing Allowance (VHA) authorized by the Congress. Where government housing is not available, servicemembers are paid a Basic Allowance for Quarters (BAQ) and the VHA. The VHA supplements the BAQ so that members of the uniformed services can obtain adequate housing in different areas in the United States. We also wanted to find out whether the Coast Guard was effectively managing its leased housing.

The Coast Guard leases about 4,000 units nationwide at an annual cost of about \$26 million. It estimated that leasing costs were about \$6 million more than the \$20 million of allowances its members would have been entitled to in fiscal year 1982 if they had obtained their own housing. In addition to the \$6 million, other costs not identified separately in Coast Guard records are associated with administering the leasing program.

We believe the Coast Guard should discontinue leasing the majority of the leased units and pay its members BAQ and VHA allowances. The introduction of the VHA should have eliminated leasing in those instances where the Coast Guard's justification was based on the high cost of private housing. We found that the Coast Guard's internal surveys used to determine the cost of private housing overstated actual local costs.

The Coast Guard also needs to improve its use of leased housing. We found instances where closer monitoring of housing occupancy could have prevented long periods of vacancy and avoided costs.

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NEED FOR LEASED HOUSING

The primary justification for leasing is that government quarters are not available and obtaining adequate private housing near Coast Guard installations would create an undue financial hardship on servicemembers. The Congress, however, in 1980 provided a supplemental housing allowance, the VHA, which applies to areas where the BAQ is not sufficient to pay average housing costs. Indeed, the VHA is defined as the difference between the local area's average housing costs and 115 percent of BAQ.<sup>1</sup>

The VHA should have obviated the need for any leasing justified solely on the high cost of private housing. This was the case for the Department of Defense (DOD); because of the VHA, DOD has sharply reduced its leased housing from about 5,300 in 1979 to about 200 in 1983. Moreover, DOD expects to have virtually no leases in the continental United States by the end of 1985. The VHA has not had the same impact on Coast Guard leased housing, even though many of its installations are located in the same communities as DOD installations and the Coast Guard participates in the joint services surveys.

To support its contention that private housing costs in an area would exceed the allowances paid its members, the Coast Guard makes its own housing surveys in each area where it proposes to lease. Having estimated the average housing costs based on its surveys, the Coast Guard then compares its estimate to a member's "qualification factor" (115 percent of BAQ plus the VHA) to determine the member's eligibility for rental housing.

At the three districts visited, we found that these local surveys are limited in scope, are not statistically valid, and do not provide credible information on area housing costs. As a result, the estimated average housing costs are set too high, thereby overstating the need for leasing. The actual average costs experienced by the Coast Guard are almost always less than the estimates determined by its surveys.

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<sup>1</sup>Average housing costs and VHA rates for local communities throughout the continental United States are determined by a joint services committee (DOD, Coast Guard, and others) using surveys and statistical sampling.

### UTILIZATION OF LEASED HOUSING

We also found that the Coast Guard needs to improve its utilization of leased housing. Coast Guard housing officers are not required to maintain a specific occupancy rate for leased housing, but a 98-percent occupancy rate is required for owned housing. The Coast Guard's method of recordkeeping prevented us from computing specific occupancy rates for leased housing; however, at the three districts we visited we identified vacancies that had cost the Coast Guard an estimated \$118,000. Leased family units were vacant on an average of 2 months.

Although we did not ascertain reasons for all the vacant units, we found that Coast Guard management did not emphasize or closely monitor leased unit utilization. Lease cancellation notices were not coordinated with members' departures from leased housing, and vacancies were not promptly reported to district housing managers. Improved coordination and monitoring could ensure that leased units are better utilized.

### CONCLUSIONS AND RECOMMENDATIONS

We believe the Coast Guard leased housing program could be reduced without creating undue hardship on its members. Although some leases may still be needed in remote locations where housing is extremely limited, most leases seem unwarranted, particularly those in major metropolitan areas.

We believe the Coast Guard should use the joint services housing surveys. This has resulted in a sharp reduction in leasing in DOD and a greater reliance on the VHA, but the VHA has not had the same impact on Coast Guard leasing. A consistent leasing policy should be applied to all uniformed services whose members are entitled to the same pay and allowances. Major reductions in the number of Coast Guard leases should diminish the utilization problems noted, but some action may still be necessary to ensure that leased units retained by the Coast Guard are used effectively.

Details on our review are discussed in the appendix.

We recommend that you require the Commandant of the Coast Guard to

- rely more on allowances and phase out leased housing, except in areas with limited housing.
- develop procedures in the three districts reviewed for the prompt identification of vacant leased units so that they can be reassigned or the leases cancelled. If warranted, these procedures should be applied in the other nine districts.

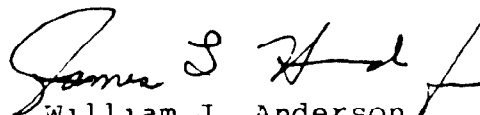
AGENCY COMMENTS

A draft of this report was sent to the Department of Transportation on May 15, 1984, for advance review and comment. The Department informed us by letter dated June 22, 1984, that it was deferring formal comment until the final report is issued.

As you know, 31 U.S.C. §720 requires the head of a federal agency to submit a written statement of actions taken on our recommendations to the House Committee on Government Operations and to the Senate Committee on Governmental Affairs not later than 60 days after the 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 would appreciate receiving copies of these statements.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Defense; and appropriate Senate and House Committees.

Sincerely yours,

  
William J. Anderson  
Director

REDUCTIONS IN COAST GUARD LEASED  
HOUSING CAN ACHIEVE SAVINGS

BACKGROUND

In locations where government-owned housing is not available, members of the uniformed services receive an allowance so that they can obtain their own housing in the private community. In the past, however, this allowance has not been considered sufficient to acquire adequate housing in many geographical areas. The Department of Defense (DOD) and the Coast Guard have, in such situations, leased housing for their personnel under the authority of the United States Code, Title 10, section 2828, and Title 14, section 475.

Before 1977 the Coast Guard leased relatively few housing units, mostly in very remote locations. Coast Guard officials said that during this period the service was having severe difficulty retaining sufficient personnel, due in part to the servicemembers' inability to afford housing. To alleviate the housing problem and improve its personnel retention, the Coast Guard expanded its leasing program, and by 1980 it was renting about 4,300 units.

During the 1970s DOD also came to rely extensively on leasing to provide adequate housing for its members. In 1979 DOD's services annually leased about 5,300 units as public quarters for military families. The leasing was justified by the lack of government-owned quarters in areas where the cost of private housing was too high for military members.

In 1980 the Congress increased the ability of the uniformed servicemembers to afford private housing by authorizing the Variable Housing Allowance, or VHA. Public Law 96-343, commonly referred to as the Nunn-Warner Act, provided the VHA as a supplemental allowance to members not occupying government quarters. The Act defines the amount of the VHA supplement for fiscal years 1982 and thereafter as

". . . the difference between (i) the average monthly cost of housing in that area for members . . . serving in the same pay grade as that member . . ., and (ii) 115 percent of the amount of the basic allowance for quarters to which that member is entitled."

A VHA committee comprising representatives from each of the uniformed services, including the Coast Guard, determines the actual VHA amounts to be paid in each area. This committee annually surveys a statistical sample of uniformed servicemembers (including those of the Coast Guard) to determine how much it costs them to obtain housing and pay utilities. From these data the committee calculates the VHA to be paid in specific geographical areas throughout the continental United States.

With the advent of the VHA, DOD decided that the cost of private rental housing would no longer justify leasing family housing in the United States.<sup>1</sup> Instead, where government housing was not available, the servicemember would be paid a BAQ plus the VHA so that a member could obtain housing in the community. (To avoid disrupting personnel and unnecessary moving expenses, DOD allowed those military members occupying leased housing to remain until the end of their tour of duty.) DOD has reduced its family housing leases from about 5,300 in 1979 to about 200 in September 1983 and expects to have no family housing leases by 1985.

Unlike DOD, the Coast Guard has not taken advantage of the VHA and reduced its leasing. It still leases about 4,000 units annually, continuing to justify them on the assertion that its members cannot afford private housing in those areas.

#### OBJECTIVES, SCOPE, AND METHODOLOGY

Because of the significance of the Coast Guard's leasing program and the apparent disparity between DOD and Coast Guard leasing policies and practices, we made this review to

- examine the Coast Guard's justification for continued leasing, and
- evaluate the effectiveness of leased housing management.

Upon learning that DOD was phasing out its leased housing, we limited our work in DOD to verifying that leases were being discontinued, reviewing regulations and guidelines, and identifying procedures used to obtain leases.

The remainder of our work was concentrated on the Coast Guard's leasing program. Of the 12 Coast Guard districts, we selected the Fifth (Portsmouth, Virginia), the Seventh

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<sup>1</sup>DOD is also considering a phase-out of leases for unaccompanied members, but it has not yet decided whether to promulgate that policy to the individual services.



(Miami, Florida), and the Eighth (New Orleans, Louisiana) for our review.

These districts were selected primarily because of the number of leases they managed and because they included major metropolitan areas. The 1,493 leases in these districts comprised about 35 percent of Coast Guard leases in the continental United States and cost about \$8.4 million of the estimated \$26 million expended annually by the program.

To achieve our objectives, we analyzed the leasing records for the three districts and reviewed legislation, regulations, and instructions concerning leased housing. We also examined leasing proposals, including all surveys, and discussed with appropriate personnel at the headquarters and district levels their management of and rationale for the leasing program.

Our review was performed from January through September 1983 and was conducted in accordance with generally accepted government auditing standards. Some data used in this report were provided by the Coast Guard in the form of computerized data records. Because of the dynamic nature of these records, and the dispersion of source documents, it was not feasible to verify all the data elements used in developing some of the statistics cited in the report. However, we believe that the data used were the best available and adequate for the purposes of our review.

#### COAST GUARD LEASING IS MORE EXTENSIVE THAN NECESSARY

The Coast Guard's leased housing program is more extensive than it needs to be. Since the VHA provides servicemembers with allowances equal to the differences between the average housing costs in their area and 115 percent of their BAQ, it should enable them to obtain adequate housing in the local community. But the Coast Guard, unlike DOD, has not recognized the VHA as an adequate supplement to the BAQ--even though its members are entitled to the same pay and allowances as DOD members--and continues to lease extensively throughout the continental United States.

The Coast Guard has established its own criteria and conducts internal housing surveys to justify leasing. In those areas where its surveys compute local housing costs to be greater than the housing allowances paid its members, it

justifies the leasing of private housing. However, the Coast Guard's surveys (1) do not provide assurance that housing costs are not excessive and (2) have resulted in a program more extensive than seems necessary. While circumstances in remote locations may dictate some leasing, the extensive leasing in metropolitan areas is not justified.

#### Coast Guard criteria for leasing

To justify leasing the Coast Guard has established its own criteria and procedures. Where average housing costs in an area exceed a member's qualification factor,<sup>2</sup> leasing is authorized for that individual. The average housing costs in an area are subjectively determined by local Coast Guard personnel, in lieu of using the statistically developed DOD figures. This practice has resulted in the authorization of leases in all Coast Guard districts, including major metropolitan areas where DOD personnel are required to obtain housing on their own.

The justification for leasing in a specific area is based on an annual leasing proposal prepared by a local Coast Guard housing representative. The proposal includes a survey of lessors to obtain the cost of leases and estimated utilities, the addition of a specified inflation factor, and the projection of average housing costs for each size unit in the next fiscal year. The average costs, when approved by Coast Guard headquarters, become the approved general costs for that area. All servicemembers without government housing whose qualification factors are less than the approved costs for the size unit they need are eligible for leased housing, regardless of the actual cost of the lease.

#### Coast Guard surveys overstate need for leasing

We found that the local Coast Guard surveys overstate housing costs, thus qualifying more people and overstating the need for leasing. These surveys are limited in scope and do not provide a credible basis for authorizing leasing in a specific area. In each leasing area a Coast Guard housing representative contacts lessors, real estate companies, or housing complex managers and obtains their rental charges. Since the surveys are not a statistical sample, they may or may not include complexes where the Coast Guard customarily leases. Moreover,

<sup>2</sup>A member's qualification factor equals 115 percent of BAQ plus VHA. For example, an E-5 with dependents is entitled to \$278.70 for BAQ. In Portsmouth, Virginia, the member would receive a VHA of \$80.82 and the following qualification factor:  $1.15(\$278.70) + \$80.82 = \$401.32$ .

the surveys generally include very few lessors in relation to the number available. For example, the 1983 surveys for the New Orleans, Miami, and Portsmouth areas included only 29, 11, and 11 lessors.

A comparison of the leasing costs actually borne by the Coast Guard with the approved general costs confirms the faultiness of the internal surveys. Although the approved costs ostensibly reflect the average monthly costs of housing during a fiscal year, the average leases paid by the Coast Guard were frequently less than the approved costs, often by substantial amounts. For example, in the Opa Locka, Florida, area the approved cost for a three-bedroom unit during fiscal year 1982 was \$725, while the average lease paid by the Coast Guard for such units in that area and during that period was \$611--a difference of \$114. Nevertheless, the Coast Guard increased the approved cost for that size unit by another \$60 for fiscal year 1983.

We reviewed leasing proposals for fiscal years 1982 and 1983 in our three study districts and compared the approved costs with actual average costs for family units in each leasing area. Each size unit (categorized by number of bedrooms) in each leasing area was considered a separate case. In 102 of 130 cases (78 percent), the actual average cost was less than the approved cost by as much as \$335. This condition continued in fiscal year 1983, as 86 percent of the actual average cost figures fell below the approved costs by as much as \$190.

As further indication that the survey results are unreliable, we found that, even using Coast Guard criteria, many members could afford the units leased for them. As mentioned previously, assignment to leased housing is based on a comparison of an individual's qualification factor to the approved cost in a leasing area, not to the actual cost of the lease. Since the approved cost is frequently higher than the lease, many members' qualification factors exceed the cost of the leases. In the three study districts, 222 family housing units (18 percent of the total) were leased for members whose qualification factors were greater than the cost of their leases. Of these, 91 members were entitled to housing allowances actually greater than the lease costs. For example, a unit costing \$375 per month was leased for an E-6 in New Orleans, even though his qualification factor was \$491 and the BAQ and VHA to which he was entitled totalled \$446.

Many units were also leased for unaccompanied roommates whose combined factors exceeded the cost of the leases. To determine eligibility, the Coast Guard compares the qualification factor of an unaccompanied member with the cost of a one-bedroom unit. However, Coast Guard instructions require that an unaccompanied member share a multi-bedroom unit with another unaccompanied member. When two such members are assigned a two-bedroom unit, their combined allowances frequently total more than the lease of that unit. In the three districts we reviewed, the combined qualification factors of unaccompanied members exceeded the leasing costs in almost half the units leased for them.

#### Coast Guard missing opportunity for savings

The fact that many members could afford the housing they occupy was reported to the Coast Guard in 1982 by Department of Transportation auditors.<sup>3</sup> That report concluded that the leasing program could be curtailed substantially with little adverse impact on servicemembers and with substantial cost savings.

The Coast Guard disagreed in general with the Transportation report and continued to lease. For fiscal year 1982 it reported leasing costs at about \$26.5 million, of which it estimated that all but about \$6 million had been offset by the housing allowances forfeited by members occupying leased housing.

These figures, however, do not include the costs of administering the leasing program, moving household goods locally, or paying for damages to leased property--costs that the Coast Guard would not have incurred if it had not leased housing. Since these costs are not identified by the Coast Guard, we could not determine specific amounts, but we believe them to be significant. The administrative costs alone, as estimated by the Transportation auditors for fiscal year 1982, totalled about \$800,000 in three Coast Guard districts.

#### COAST GUARD UTILIZATION OF LEASED HOUSING NEEDS IMPROVEMENT

Leasing policies and procedures, combined with a lack of management attention, have resulted in many leased units

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<sup>3</sup>Department of Transportation Inspector General Report, number AM-CG-2-007 (June 9, 1982).

remaining vacant or only partially occupied for considerable periods. Consequently, the Coast Guard, although it is paying a considerable amount for rent and utilities, is not achieving maximum use of these units. At the three districts we visited, we identified vacancies that had cost the Coast Guard an estimated \$118,000.

Coast Guard housing officers are not required to maintain a specific occupancy rate for leased housing. In contrast with the 98-percent occupancy rate required for owned housing, the only occupancy criterion applied to leased housing is that units generally should not remain vacant longer than 60 days. This standard is not strictly enforced; housing officers, at their discretion, are allowed to retain vacant units longer than 60 days.

The Coast Guard's only means of controlling utilization is to rely on district and local housing representatives' knowledge of leases in their area. However, local representatives do not promptly report vacancy dates to the district office; consequently, vacancy dates are often not entered on district records. As a result, managers are not aware of many vacancies, so leased units can--and do--remain vacant for long periods of time.

The Coast Guard's methods of recordkeeping did not permit us to compute occupancy rates, so at the three districts we visited we identified vacant units and determined how long they had been vacant. We found that 77 family units had been vacant for an average of 60 days, in some cases ranging up to 326 days. Portions of some units leased for unaccompanied members had been vacant for as long as 420 days, the average being 117 days. We estimate that these vacancies had cost the Coast Guard (up to the time of our review) \$69,000 for leased family units and \$49,000 for unaccompanied units.

We could not learn why every vacancy had occurred, but several practices and conditions contribute to the number and duration of vacancies:

- Lease cancellation notices were not always coordinated with the actual departure of the servicemember. Housing officers said that notices often are not sent to the lessor until the unit is vacated.
- Vacant units were held in inventory to await incoming personnel.

- Some unaccompanied personnel housing units were partially vacant because the housing officer had no other unaccompanied member who desired leased housing or who could be placed in the unit. For example, a single female occupied a two-bedroom unit for 225 days because no other females requested leased housing.
- Vacancies were not promptly reported to the district office, so the housing officer was not aware that the units had become vacant.



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