United States Government Accountability Office

Report to the Committee on Oversight and Government Reform, House of Representatives

November 2017

OVERSEAS ALLOWANCES

State Spends Almost $480 Million Annually to Compensate Employees for Costs and Hardships of Foreign Assignments

GAO-18-87

Highlights of GAO-18-87, a report to the Committee on Oversight and Government Reform, House of Representatives

November 2017

OVERSEAS ALLOWANCES

State Spends Almost $480 Million Annually to Compensate Employees for Costs and Hardships of Foreign Assignments

Why GAO Did This Study

State spends millions of dollars annually on allowances to compensate its employees for costs and hardships related to foreign assignments. Many of these assignments are critical to U.S. foreign policy objectives. In accordance with U.S. law, State employees working abroad may be reimbursed for costs related to working overseas, including the cost of living in expensive locations, dependent education costs, and the costs of maintaining family members away from post. They also may be eligible for such allowances in locations where they encounter harsh or dangerous living conditions. These allowances cover over 13,000 employees across more than 275 posts.

GAO was asked to review State's administration of allowances for its employees. GAO's September 2017 report focused on State hardship and danger pay allowances (GAO-17-715), while this report (1) describes all of the allowances that State offers its employees serving overseas and (2) examines the amount State spent annually on these allowances in fiscal years 2011 through 2016. GAO analyzed State data and documents and communicated with State officials in Washington, D.C., and Charleston, South Carolina, the location of State's Bureau of the Comptroller and Global Financial Services.

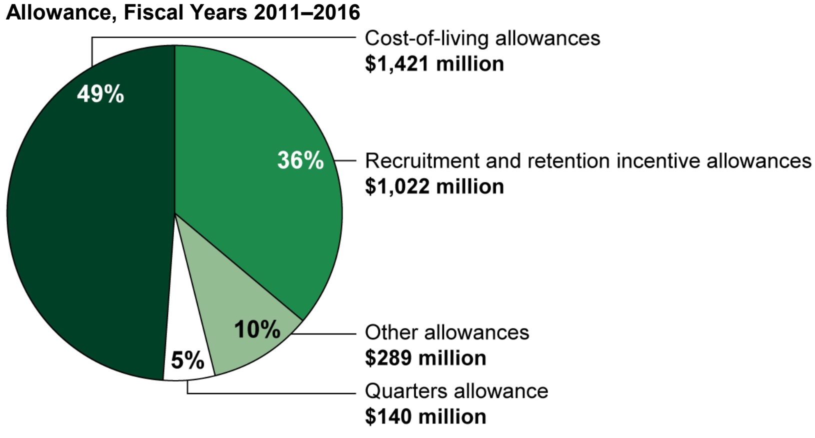
View GAO-18-87. For more information, contact Michael J. Courts at (202) 512-8980 or courtsm@gao.gov

What GAO Found

The Department of State (State) offers 14 different allowances to compensate State employees serving at overseas posts for costs and hardships related to foreign assignments across four categories.

- **Cost-of-living allowances** consist of six types of allowances that reimburse employees for certain costs incurred from employment overseas, such as the cost for dependent education that would normally be free in the United States.
- **Recruitment and retention incentive allowances** consist of three types of allowances that compensate employees for service at posts where conditions may be difficult or dangerous. For example, hardship pay compensates employees for service where conditions differ substantially from those in the United States.
- **Quarters allowances** consist of three types of allowances that reimburse employees for substantially all housing costs at posts where government housing is not provided. For example, the temporary quarters subsistence allowance pays for temporary housing when government-provided housing is not available.
- **Other allowances** consist of two types of allowances that reimburse employees, such as ambassadors, who must maintain an official residence in-country or employees who incur expenses representing the U.S. government in an official capacity to a foreign government.

Department of State's Spending on Allowances for Employees Serving Overseas by Allowance, Fiscal Years 2011–2016



Source: GAO analysis of Department of State data. | GAO-18-87

State spent almost $480 million per year on its 14 allowances for employees serving overseas, totaling almost $2.9 billion in fiscal years 2011 through 2016. Most of this amount went toward cost-of-living and recruitment and retention allowances. During this period, the three largest individual allowances accounted for about 70 percent of the total spending on all allowances. These were the education allowance, about $853.0 million; hardship pay, about $732.3 million; and post allowance, used to offset the higher cost of living at certain posts, about $417.3 million.

Contents

Abbreviations

CGFS	Bureau of the Comptroller and Global Financial Services
SMA	separate maintenance allowance
State	Department of State

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
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November 2, 2017

The Honorable Trey Gowdy
Chairman
The Honorable Elijah E. Cummings
Ranking Member
Committee on Oversight and Government Reform
House of Representatives

The Department of State (State) provides a range of allowances to compensate its employees for costs and hardships related to assignments at overseas posts, many of which are critical to advancing U.S. foreign policy objectives.[1] State employees working abroad may be eligible for such allowances in locations where they encounter harsh or dangerous living conditions.[2] They also may be reimbursed for costs related to working overseas, including the cost of living in locations more expensive than Washington, D.C., dependent education costs, and the costs of relocating to a new post or maintaining family members away from employees' assigned posts.

As part of a broader request, you asked us to review State's administration of allowances for its employees.[3] This report (1) describes the allowances State offers its employees serving overseas and (2) examines the amount State spent annually on these allowances from fiscal years 2011 through 2016.[4]

[1]For the purposes of this report, we will use the term *overseas posts* to refer to U.S. embassies, consulates, and other types of diplomatic and consular posts, such as multilateral missions or American presence posts.

[2]"State employees" refers to both foreign service and civil service employees, unless otherwise noted.

[3]In September 2017, we published a report that examined the hardship and danger pay allowances in more depth. See GAO, *Overseas Allowances: State Should Assess the Cost-Effectiveness of Its Hardship Pay Policies*, GAO-17-715 (Washington, D.C.: Sept. 13, 2017).

[4]Employees from other foreign affairs agencies, such as the U.S. Agency for International Development and the Department of Commerce's Foreign Commercial Service, may also be eligible for allowances when assigned to overseas posts. We did not include these agencies in the scope of this review.

To describe the different allowances that State offers to its employees serving overseas, we reviewed the *Foreign Affairs Manual* (FAM), the *Foreign Affairs Handbooks*, the *Department of State Standardized Regulations,* and State documents. To examine State's spending at overseas posts on these allowances from fiscal years 2011 through 2016, we analyzed payroll and financial management data from State's Bureau of the Comptroller and Global Financial Services (CGFS) after determining the data sufficiently reliable for the purposes of our reporting objectives. We also interviewed CGFS and State's Office of Allowances officials. See appendix I for additional information about our objectives, scope, and methodology.

We conducted this performance audit from May 2017 through November 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

State is the lead agency responsible for implementing American foreign policy and representing the United States abroad. It operates over 275 embassies, consulates, and other posts worldwide, staffed by over 13,000 Foreign Service officers.[5] State has the authority to grant allowances to employees serving overseas to offset the cost of living and working overseas as well as to recruit and retain employees who serve in difficult and dangerous locations.[6]

Two key offices within State are involved in administering and processing allowances for overseas employees.

- State's Office of Allowances in the Bureau of Administration develops and coordinates policies, regulations, standards, and procedures to administer allowances under the *Department of State Standardized Regulations*. The office compiles statistics on overseas living costs

[5]State also employs over 10,000 civil service employees and almost 49,000 locally employed staff.

[6]5 U.S.C. § 5921 et seq. For additional detail on Foreign Service officers' pay, see GAO, *Department of State Overseas Comparability Pay*, GAO-11-772R (Washington, D.C.: June 30, 2011).

and conditions and computes the established allowances to compensate U.S. government civilian employees for costs and hardships related to assignments abroad.

- State's Bureau of the Comptroller and Global Financial Services (CGFS) processes allowances for State employees through the Consolidated American Payroll Processing System, State's payroll system, and captures information on payments for all allowances through the Global Financial Management System, State's accounting system. State uses the Consolidated American Payroll Processing System to process American employees' pay, including allowances paid directly to employees. This system generally captures information on the location where an employee is assigned. According to State officials, the Global Financial Management System captures information on all State payments, including those paid through vouchers, such as for rent paid directly to the landlord.

State Offers 14 Allowances to Compensate Its Employees for Costs and Hardships Related to Foreign Assignments

State provides 14 allowances to employees serving overseas to compensate them for the costs and hardships related to foreign assignments across four broad categories—cost-of-living, recruitment and retention incentives, quarters, and other allowances.[7] Table 1 includes a brief summary of these allowances.

[7]We excluded from this report any incentives or allowances State may offer its employees that are not identified in 3 FAM Exhibit 3210. Advance of pay is included as an allowance in 3 FAM Exhibit 3210, but we excluded it from this report because it does not represent a net outlay for the U.S. government.

Table 1: Summary of Department of State (State) Allowances for Employees Serving Overseas

Allowance	Description
Cost-of-living allowances	*Designed to reimburse employees for certain excess costs, exclusive of any quarters costs, which they incur as a result of their employment overseas.*
Post allowance	Granted to an employee officially stationed at a post in a foreign area where the cost of living, exclusive of quarters costs, is substantially higher than in Washington, D.C.
Foreign transfer	Defrays an employee's extraordinary, necessary, and reasonable costs when he transfers to a post in a foreign area.
Home service transfer	Defrays an employee's extraordinary, necessary, and reasonable costs when she transfers from an overseas post to a post in the United States.
Separate maintenance allowance	Defrays the additional expense of maintaining family members at another location due to (1) dangerous, notably unhealthful, or excessively adverse living conditions at the overseas post of assignment; (2) convenience of the U.S. government; or (3) special needs or hardship involving the employee or a family member.
Education allowance	Defrays those extraordinary and necessary costs not otherwise compensated for to obtain adequate elementary and secondary education for dependent children at an overseas post that would normally be free of charge in the United States.
Educational travel	Covers the cost of travel expenses between the school and the employee's post once each way annually for secondary or postsecondary education.
Recruitment and retention incentive allowances	*Designed to recruit employees to posts where living conditions may be difficult or dangerous.*
Hardship pay[a]	Compensates employees for serving at places where conditions of environment differ substantially from those in the United States.
Danger pay	Compensates employees for serving at places where conditions of civil insurrection, civil war, terrorism, or wartime conditions threaten physical harm or imminent danger to the health or well-being of the employee.
Difficult-to-staff incentive differential	Paid to an employee assigned to certain hardship posts when especially adverse conditions of environment warrant additional pay as a recruitment and retention incentive to fill the employee's position at that post.
Quarters allowances	*Intended to reimburse employees for substantially all housing costs, either temporary or permanent, at overseas posts where government housing is not provided.*
Living quarters	Defrays the annual cost of suitable, adequate living quarters at an overseas post where government-leased or owned housing is not provided.
Temporary quarters subsistence	Assists with the reasonable cost of temporary lodging, meals, and laundry in a foreign area where permanent quarters are not available.
Extraordinary quarters	Granted to employees and eligible family members at an overseas post when they are required to vacate partially or completely their permanent quarters because of renovations / repairs or unhealthy or dangerous conditions.
Other allowances	
Official residence expense	Reimburses a principal representative (e.g., an ambassador) at an overseas post for expenses related to operating and maintaining a suitable official residence in-country.
Representation	Reimburses employees and adult family members acting with or on behalf of employees, for expenses incurred in establishing and maintaining relationships of value to the United States in foreign countries.

Source: State. | GAO-18-87

Note: We excluded from this report any incentives or allowances State may offer its employees that were not identified in 3 *Foreign Affairs Manual (*FAM) Exhibit 3210. Advance of pay is included as an allowance in 3 FAM Exhibit 3210. We exclude it from this table because it does not represent a net outlay for the U.S. government.

[a]State formally refers to this allowance as a hardship differential. We use the term hardship pay throughout this report in reference to the same allowance.

Cost-of-Living Allowances

Cost-of-living allowances reimburse employees for certain excess costs, exclusive of any quarters costs, incurred from employment overseas.[8] The following six allowances fall into this category:

- The *post allowance* is granted to employees officially stationed at posts or foreign areas where the cost of living, exclusive of the cost of quarters, is substantially higher than in Washington, D.C. It is designed to permit employees to spend the same portion of their salaries for standard living expenses as they would if they were living in Washington, D.C. The Office of Allowances updates the post allowance at least every other year based, in part, on a survey filled out by posts. As part of this process, posts must collect and compile prices for a sample basket of goods from stores that U.S. government employees serving at that post frequent (see fig. 1). For example, as of September 3, 2017, Embassy Port-au-Prince had a post allowance rate of 20 percent and was expected to submit its next required survey in June 2018.

[8]In August 2017, State's Office of Inspector General reported on its audit to determine whether State had established appropriate rates for three of the cost-of-living allowances—the post allowance, education allowance, and SMA rates for American employees stationed overseas—and whether State had appropriately paid employees for education allowances. It recommended that State improve its rate determination methodologies, internal controls, and processes for these allowances. Department of State, Office of Inspector General, *Audit of Select Cost-of-Living Allowances for American Employees Stationed in Foreign Areas*, AUD-FM-17-51 (Arlington, VA.: August 2017).

Figure 1: Example of a Basket of Goods That a Post Might Price Out to Help Determine the Department of State's Post Allowance for Employees Serving Overseas Where the Cost of Living Is Substantially Higher than in Washington, D.C.

Source: GAO. | GAO-18-87

- The *foreign transfer allowance* defrays an employee's extraordinary, necessary, and reasonable costs when he transfers to a post in a foreign area. This allowance includes four expense types—predeparture subsistence, wardrobe, lease penalty, and miscellaneous.
  - The *predeparture subsistence* expense portion assists employees with the cost of temporary lodging, meals, laundry, and dry cleaning for up to 10 days when they vacate their permanent residence in the United States before traveling to their overseas post. This allowance may be granted before the employees' final departure from the United States, beginning not more than 30 days after they vacate their residence. The reimbursement rate is based on the per diem rate of their U.S. post.
  - Employees are eligible for the *wardrobe expense* portion when they transfer across two climate zones for a new foreign

assignment.[9] For example, if an employee were to transfer from Saint Petersburg, Russia (zone 1), to Doha, Qatar (zone 3), then the employee would receive a wardrobe allowance. This allowance is a flat rate of $600 for individuals, $1,000 for employee and one family member, or $1,300 for employees and multiple family members.

  - The *lease penalty expense* portion offsets a residential lease penalty unavoidably incurred by employees when they transfer.
  - The *miscellaneous expense* portion covers employees' expenses incurred from moving, such as pet transportation, vehicle registration, and driver's license fees. These expenses are capped at the lesser of either 1 week's salary or $650 for an individual, or 2 weeks' salary or $1,300 for a family.

- The *home service transfer* allowance defrays an employee's extraordinary, necessary, and reasonable costs when she transfers from an overseas post to a post in the United States. To qualify for this allowance, the employee must agree to work for the U.S. government for at least 12 months after her transfer.[10] Similar to the foreign transfer allowance, the home service transfer allowance includes four expense types—subsistence, wardrobe, lease penalty, and miscellaneous.
  - The *subsistence expense* portion covers the same types of expenses as the predeparture subsistence expense portion. However, employees are also eligible to receive reimbursements upon return to the United States based on the per diem rate for the first 30 days and then a prorated rate thereafter.
  - The *wardrobe, lease penalty,* and *miscellaneous* expense types are the same for the home service transfer as for the foreign service transfer.
- The *separate maintenance allowance* (SMA) defrays the additional expense of maintaining family members at another location (1) because of dangerous, notably unhealthful, or excessively adverse

[9]The *Department of State Standardized Regulations* split posts into three climate zones. Because the continental United States is in zone 2, employees transferring from the continental United States do not receive the wardrobe expense portion.

[10]Family members of an employee who dies while assigned to an overseas post may also receive the home transfer allowance to relocate to the United States if they had been residing with the employee at that overseas post or at another overseas location designated by State for which they were receiving SMA.

living conditions at the overseas post of assignment, (2) for the convenience of the U.S. government, or (3) because of special needs or hardships involving the employee or a family member. There are three types—involuntary, voluntary, and transitional.

- *Involuntary SMA* is provided when State determines that there is an adverse, dangerous, or notably unhealthful condition that should exclude family members from accompanying employees at a post. The annual rate is based on family size ranging from $6,800 for one child only to $23,000 for an adult and four or more family members.
- *Voluntary SMA* can be authorized based on an employee's request for special needs or hardship at posts for reasons including, but not limited to, career, health, educational, or family considerations. The annual rate is based on family size, ranging from $5,300 for one child only to $18,000 for an adult and four or more family members.
- *Transitional SMA* is granted for a limited time after a post's evacuation status changes or in connection with the beginning or end of an unaccompanied posting.[11] It is paid at a daily rate based on the number of eligible family members, the standard continental U.S. per diem rate, and the amount of time the employee receives the allowance.

- The *education allowance* defrays extraordinary and necessary costs, not otherwise compensated for, to obtain adequate elementary and secondary education for dependent children at overseas posts that would normally be free of charge in the United States. State's Office of Overseas Schools determines the adequacy of schools at posts. State determines the approved rate based on allowable education expenses for (1) a school at the post, (2) a school away from the post,[12] (3) home schooling / private instruction, or (4) special-needs education. For example, employees assigned to New Delhi can send

[11] Evacuation status refers to posts' responses to various threats, such as terrorism, civil unrest, and natural disasters. Posts may undergo an authorized departure, in which certain staff and family members may voluntarily choose to leave the post; an ordered departure, in which certain staff and family members are ordered to leave the post; or suspended operations, in which all overseas staff and families are ordered to leave the post. An unaccompanied posting is an assignment in which eligible family members are not allowed to reside at post.

[12] In addition to paying for school, State may fund room and board for children studying at a school away from post.

their school-aged children to the American Embassy School, which State has determined is the least-expensive adequate school at post (see fig. 2). Tuition for this school costs State between about $18,000 and $30,000 per child per year, depending on the child's grade level.

Figure 2: Example of an Adequate School in New Delhi, India, for the Department of State's Education Allowance

Source: American Embassy School, New Delhi. | GAO-18-87

Note: The education allowance defrays costs of educating dependent children of employees serving at overseas posts that would normally be free of charge in the United States.

- The *educational travel allowance* annually covers the travel expenses of one round trip for each dependent between a school attended and the overseas post of assignment. This benefit is primarily intended to reunite a full-time, postsecondary student attending college (including the postbaccalaureate level), or technical or vocational school with the employee / parent serving the U.S. government in the foreign area. Educational travel cannot be paid at the same time as the education allowance.

Recruitment and Retention Incentive Allowances

Recruitment and retention incentive allowances compensate employees for service at posts where conditions may be difficult or dangerous.[13] State uses the following three allowances to recruit and retain staff at posts:

[13]For more information on two of these recruitment and retention incentive allowances, hardship and danger pay, see GAO-17-715.

- *Hardship pay* compensates employees for service in foreign areas where conditions of environment differ substantially from conditions of environment in the continental United States in that the living conditions are extraordinarily difficult, involve excessive physical hardship, or are notably unhealthy.[14] Employees assigned to designated posts can earn hardship pay at rates ranging from 5 to 35 percent above basic compensation in 5 percent increments, based on the severity of the hardship as determined by State.
- *Danger pay* compensates employees for service in foreign areas where conditions of civil insurrection, civil war, terrorism, or wartime conditions threaten physical harm or imminent danger to the health or well-being of the employee. Employees in designated danger pay locations are granted between 15 and 35 percent above basic compensation, in 10 percent increments, based on whether family members are allowed at overseas posts.
- *The difficult-to-staff incentive differential* is paid to employees assigned to a 15 percent or higher hardship pay post after State has determined that especially adverse conditions of environment warrant additional pay as an incentive to fill the employee's position at that post.[15] State must establish a history of difficulty in filling positions at a post prior to posts being eligible for this incentive. For example, employees posted in Lagos, Nigeria, were eligible for this allowance following the 2016 bidding cycle.[16] Employees filling these positions can earn 15 percent above their basic compensation. However, the difficult-to-staff incentive and danger pay allowance combined cannot exceed 35 percent of basic pay. Employees must agree to a 3-year assignment to receive the difficult-to-staff incentive.[17]

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[14]State formally refers to this allowance as a hardship differential. We use the term *hardship pay* throughout this report in reference to the same allowance.

[15]Should hardship pay at a post of assignment be reduced below 15 percent, an employee assigned to a position determined to be difficult to staff will continue to receive the difficult-to-staff incentive differential until the conclusion of the assignment or permanent departure from the post of assignment.

[16]State assigns Foreign Service officers to positions overseas through an assignment system that considers employees' preferences through a bidding process. Employees bid on posts from June through October the year before they are transferred to their post of assignment.

[17]According to State officials, employees who do not complete their 3-year assignment may be required to reimburse State their difficult-to-staff incentive.

Quarters Allowances

Quarters allowances reimburse employees for substantially all costs for either temporary or residence quarters at posts where government housing is not provided. According to State officials, while most overseas posts provide government-leased or owned housing for employees and their families at no cost to the employee, employees can receive the following three allowances to assist with housing costs:

- The *living quarters allowance* defrays the annual cost of suitable, adequate living quarters for the employee and his or her family at an overseas post where government-leased or government-owned housing is not provided. Rates vary by post and are designed to substantially cover the average employee's costs for rent, utilities, required taxes levied by the local government, and other allowable expenses. According to State officials, while most posts provide government housing, employees assigned to posts in Canada and Bern, Switzerland, for example, primarily rely on the rental market.
- The *temporary quarters subsistence allowance* assists with the reasonable cost of temporary lodging, meals, and laundry in a foreign area when an employee first arrives at a new post and permanent quarters are not yet available, or when an employee is getting ready to depart the overseas post permanently and must vacate residential quarters. The rate is based on the per diem at post, the size of an employee's family, and the amount of time the employee receives the allowance. Employees cannot receive this allowance while receiving the post allowance.
- The *extraordinary quarters allowance* is typically granted for up to 90 days to employees and eligible family members at an overseas post when they are required to partially or completely vacate their permanent quarters because of renovations, repairs, or unhealthy or dangerous conditions in their permanent quarters. The rate is based on the per diem at post, post allowance, and family size. In contrast to the temporary quarters subsistence allowance, employees can continue to receive the post allowance when they receive the extraordinary quarters allowance.

Other Allowances

State offers two additional allowances designed to reimburse employees who must maintain an official residence or employees who incur expenses representing the U.S. government in an official capacity to a foreign government.

- The *official residence expense* reimburses a principal representative, such as an ambassador, at an overseas post for expenses related to operating and maintaining a suitable official residence in-country when those expenses exceed the usual expenses incurred if he were serving at the post in any other official capacity. The allowance is intended to offset the cost of representing the United States abroad when a principal representative extends official hospitality to foreign dignitaries and important visitors and by hosting appropriate ceremonies (for an example, see fig. 3). Generally, principal representatives are expected to direct at least 3.5 percent of their salary toward maintaining their residences, and State may reimburse expenses above that.

Figure 3: Thanksgiving Dinner for Fulbright Scholars Hosted by a U.S. Ambassador at an Overseas Post as Part of a Responsibility to Extend Official Hospitality on Behalf of the United States

Source: GAO. | GAO-18-87

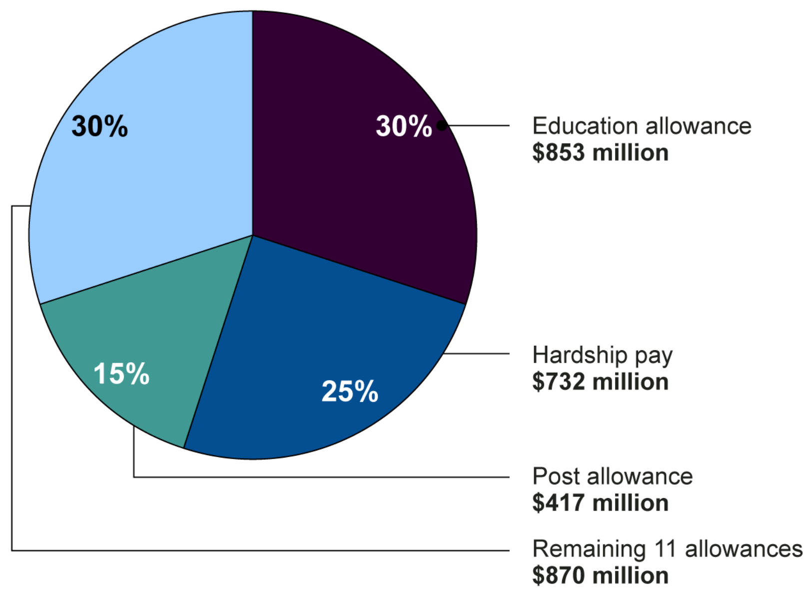
- The *representation allowance* reimburses employees, including foreign national employees, and adult family members acting with or on behalf of employees, for expenses incurred in establishing and maintaining relationships of value to the United States in foreign countries. Reimbursement may include costs for entertainment and customary gifts or gratuities; for entertainment expenses, it must be clearly demonstrated that the purpose is to directly promote U.S. foreign policy interests, that the expenditure is not for personal recreation, and that it is not otherwise prohibited by regulation.

State Spent Almost $480 Million Annually on Allowances for Its Employees Serving Overseas, Totaling Almost $2.9 Billion in Fiscal Years 2011–2016

State Spent about 70 Percent of Its Total Spending on Allowances from Fiscal Years 2011 through 2016 on the Education Allowance, Hardship Pay, and Post Allowance

State spent $2.9 billion on 14 allowances from fiscal years 2011 through 2016, 70 percent of which went to the three most expensive allowances—the education allowance, hardship pay, and post allowance. The education allowance accounted for 30 percent of the total ($853.0 million), hardship pay accounted for 25 percent ($732.3 million), and the post allowance accounted for 15 percent ($417.3 million). The other 11 allowances accounted for the remaining 30 percent of the total ($870.0 million) in fiscal years 2011 through 2016 (see fig. 4). Each of these 11 allowances accounted for less than 10 percent of total spending, ranging from danger pay ($266.5 million) to the educational travel allowance ($11.4 million). For additional information on State spending across all 14 allowances by fiscal year, see appendix II.

Figure 4: Department of State Spending of About $2.9 Billion on Allowances for Employees Serving at Overseas Posts, by Allowance, Fiscal Years 2011 through 2016



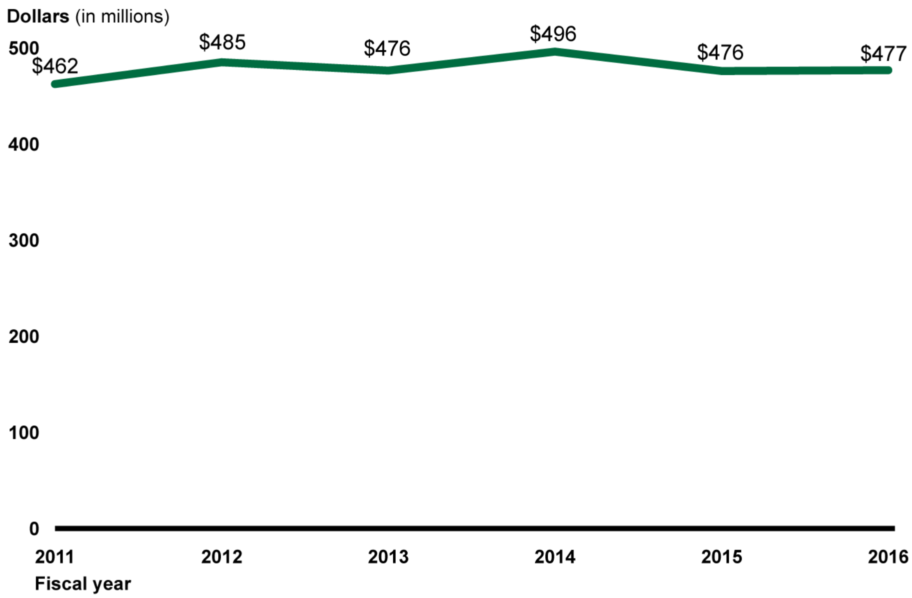
Source: GAO analysis of Department of State data. | GAO-18-87

State Spent Almost $480 Million Annually in Fiscal Years 2011–2016, with Individual Allowances Varying

State spent almost $480 million annually on the 14 allowances from fiscal years 2011 through 2016, with varying amounts for individual allowances. The lowest annual spending on such allowances during this period was $462.3 million in fiscal year 2011 and the highest was $496.1 million, in fiscal year 2014 (see fig. 5).[18]

[18]The values in figures 5–9 are presented in nominal dollars. We also analyzed trends across the 14 allowances over this period using data that had been adjusted for inflation, using the gross domestic product price index. We determined that trends in all of the allowances expressed in terms of constant (inflation-adjusted) dollars did not deviate appreciably from the trends reported in figures 5–9.

Figure 5: Department of State Spending for Its 14 Allowances for Employees Serving at Overseas Posts, Fiscal Years 2011–2016



Source: GAO analysis of Department of State data. | GAO-18-87

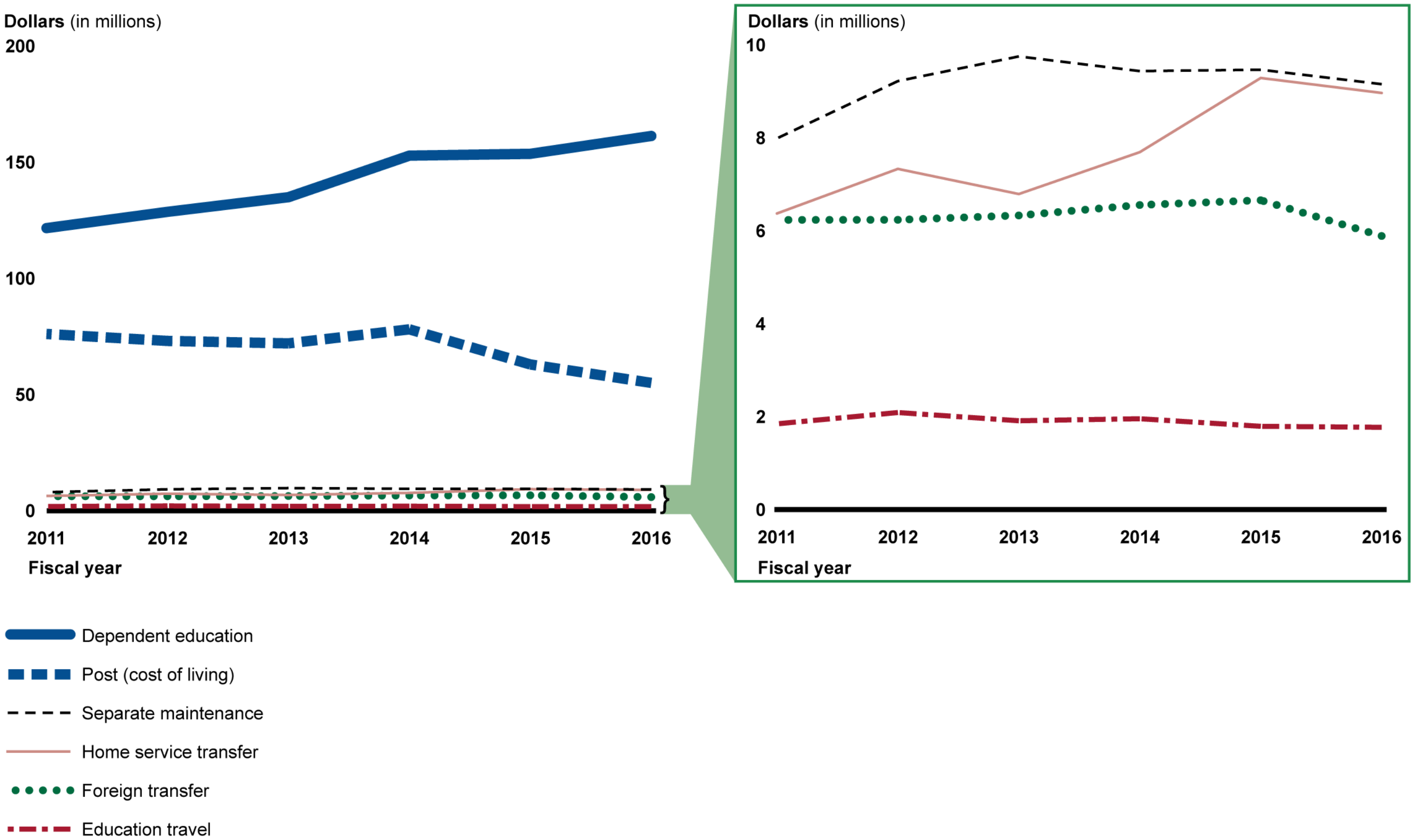
Note: Spending data are presented in nominal dollars. We also analyzed trends in spending on allowances over this period using data that had been adjusted for inflation, using the gross domestic product price index. We determined that allowance spending trends expressed in terms of constant (inflation-adjusted) dollars did not deviate appreciably from the trends reported in this figure.

Trends in spending for individual allowances varied from fiscal years 2011 through 2016, with the largest variation in spending from the cost-of-living allowances. The largest increase in absolute spending across all allowances during this period, as well as the largest single allowance expenditure, was for the education allowance ($39.7 million). While the overall spending for dependent education increased each year, State officials noted that the spending on this allowance varied by post and year based on the number of dependent children of overseas employees and increasing education costs at some posts. The largest decrease in absolute spending across all allowances during this period was for the post allowance ($21.1 million). According to State officials, this variation was caused, at least in part, by fluctuation in the strength of the dollar against major global currencies. The other cost-of-living allowances—SMA, home service transfer, foreign transfer, and educational travel—had relatively smaller fluctuations in dollar spending across fiscal years. For example, State explained that the region's increased volatility from the "Arab Spring" may have contributed to the change in SMA spending from fiscal years 2011 to 2012 (see fig. 6).[19] According to State officials, this unrest likely caused more volatile security situations at many State posts, resulting in fewer family members of overseas employees living at the assigned post of their parent or spouse, and, therefore, an increase in SMA support.[20]

[19]The Arab Spring refers to the economic and political transitions that began in December 2010 in Tunisia and soon spread across other Middle Eastern and North African countries, including Bahrain, Egypt, Jordan, Morocco, Syria, and Yemen. By January 2012, the social unrest had led to the ousting of government leaders in Tunisia, Egypt, and Yemen.

[20]During the period of October 2012 to September 2016, State evacuated overseas post staff and family members from 23 overseas posts in response to various threats. For more information about embassy evacuations see GAO, *Embassy Evacuations: State Should Take Steps to Improve Emergency Preparedness*, GAO-17-714 (Washington, D.C.: July 17, 2017).

Figure 6: Department of State Spending for Cost-of-Living Allowances for Employees Serving at Overseas Posts, Fiscal Years 2011–2016



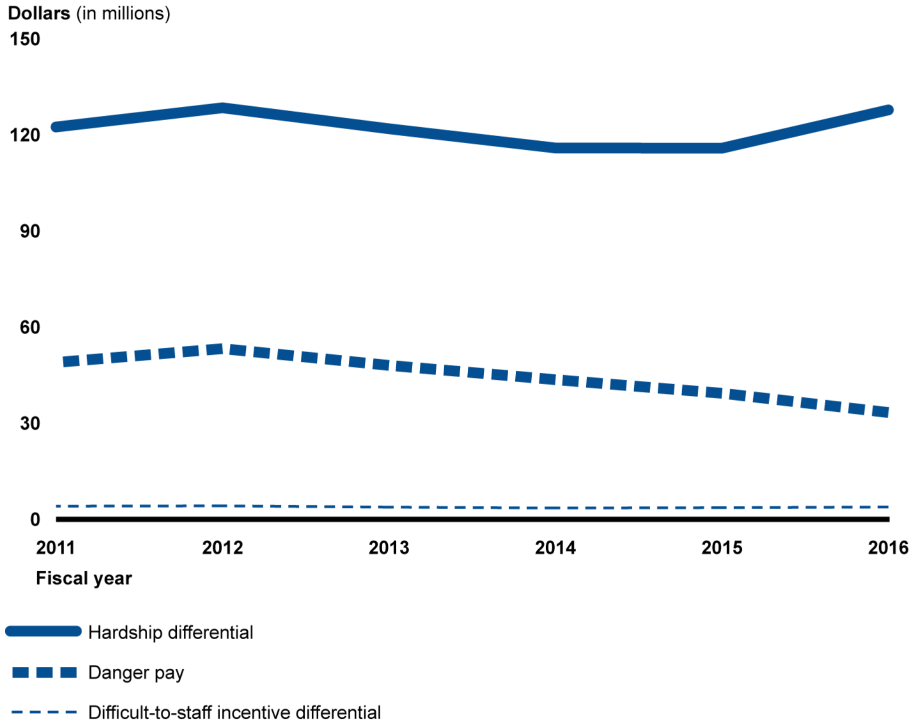
Source: GAO analysis of Department of State data. | GAO-18-87

Notes: Spending data for post (cost of living) and separate maintenance allowances are from the Consolidated American Payroll Processing System. Spending data for the dependent education, home service transfer, foreign transfer, and educational travel allowances are from the Global Financial Management System. Spending data are presented in nominal dollars. We also analyzed trends in spending on cost-of-living allowances over this period using data that had been adjusted for inflation, using the gross domestic product price index. We determined that cost-of-living allowance spending trends expressed in terms of constant (inflation-adjusted) dollars did not deviate appreciably from the trends reported in this figure.

Recruitment and retention incentive allowances had the largest net decrease in allowance spending from fiscal years 2011 through 2016, about $10.6 million. Hardship pay increased by $5.3 million, with its largest single year change between fiscal years 2015 and 2016 following State’s 2015 revisions to its process for determining hardship pay rates. In conjunction with an increase in hardship pay, danger pay decreased by

$15.6 million during this period.[21] The difficult-to-staff incentive differential remained relatively constant, decreasing by about $264,000 (see fig. 7).

Figure 7: Department of State Spending for Recruiting and Retention Incentive Allowances for Employees Serving at Overseas Posts, Fiscal Years 2011–2016



Source: GAO analysis of Department of State data. | GAO-18-87

Notes: Spending data for the hardship pay and danger pay allowances are from the Consolidated American Payroll Processing System. Spending data for the difficult-to-staff incentive differential are from the Global Financial Management System. Spending data are presented in nominal dollars. We also analyzed trends in spending on recruitment and retention incentive allowances over this period

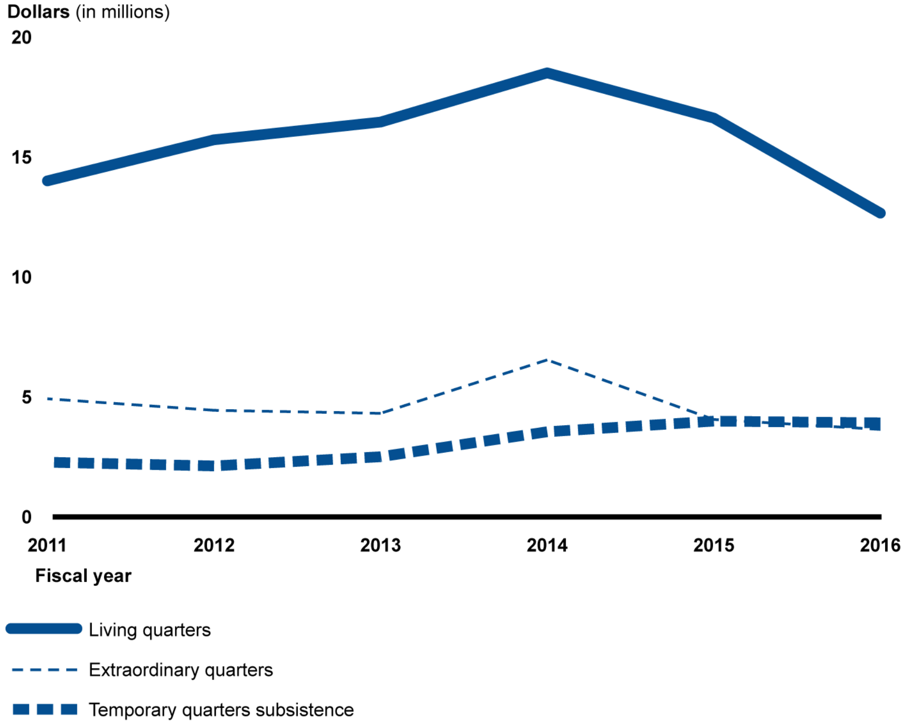
[21] In 2015, State adjusted its standards and system for determining hardship and danger pay rates. State determined the eligibility of a post to receive danger pay based on the threat ratings for political violence and terrorism. It determined the rate of danger pay based on whether eligible family members are allowed at posts. Prior to these changes, some posts received danger pay for high crime rates. Many of these posts lost their danger pay, and State adjusted their hardship rates to incorporate crime. State also made adjustments to better reflect hardships associated with modern life overseas. For example, State's Office of Allowances eliminated or deemphasized factors such as library access and landline phone availability and increased credit for factors such as crime, health and safety, lack of spousal employment opportunities, and poor Internet access, among other things. For further information on hardship and danger pay, see GAO-17-715.

using data that had been adjusted for inflation, using the gross domestic product price index. We determined that recruitment and retention incentive allowance spending trends expressed in terms of constant (inflation-adjusted) dollars did not deviate appreciably from the trends reported in this figure.

State's spending on quarters allowances decreased from fiscal years 2011 through 2016 by almost $1 million. According to State officials, over this period State shifted employees from the living quarters allowance into U.S. government owned and leased facilities. They explained that, as of August 22, 2017, a limited number of posts in Canada and Switzerland relied primarily on the living quarters allowance, as opposed to U.S. government-provided housing.[22] For the extraordinary quarters allowance, State officials explained that short-term, unexpected facilities issues that render a house uninhabitable—such as water damage, mold remediation, or fire—cause variations in spending. These costs can vary significantly by year and by post. Spending on the temporary quarters subsistence allowance increased by $1.6 million from fiscal years 2011 through 2016 (see fig. 8).

[22]Specifically, posts that currently rely solely on the living quarters allowance include: Calgary, Halifax, Montreal, Ottawa, Quebec, Toronto, Vancouver, and Winnipeg in Canada and Bern in Switzerland, according to State officials.

Figure 8: Department of State Spending for Quarters Allowances for Employees Serving at Overseas Posts, Fiscal Years 2011–2016

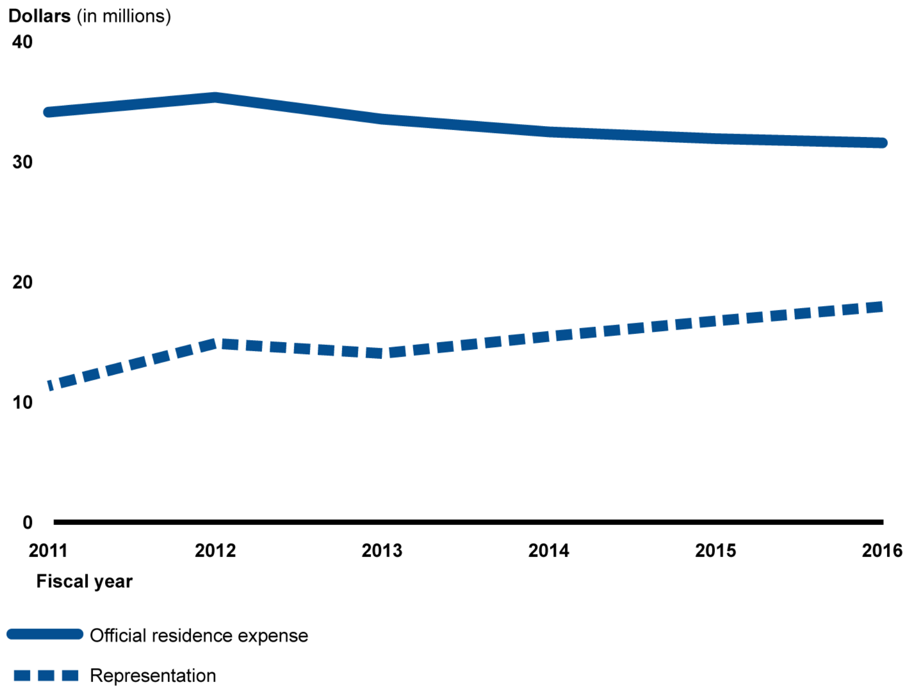


Source: GAO analysis of Department of State data. | GAO-18-87

Note: Spending data are presented in nominal dollars. We also analyzed trends in spending on quarters allowances over this period using data that had been adjusted for inflation, using the gross domestic product price index. We determined that quarters allowance spending trends, expressed in terms of constant (inflation-adjusted) dollars did not deviate appreciably from the trends reported in this figure.

The other allowances category consists of the official residence expense and representation allowances. The official residence expense spending at posts decreased by $2.6 million from fiscal years 2011 through 2016. The representation allowance increased by $6.6 million during the same period (see fig. 9).

Figure 9: Department of State Spending for Other Allowances for Employees Serving at Overseas Posts, Fiscal Years 2011–2016



Source: GAO analysis of Department of State data. | GAO-18-87

Note: Spending data are presented in nominal dollars. We also analyzed trends in spending on official residence expense and representation allowances over this period using data that had been adjusted for inflation, using the gross domestic product price index. We determined that official residence expense and representation allowance spending trends expressed in terms of constant (inflation-adjusted) dollars did not deviate appreciably from the trends reported in figure 9.

State's Spending on the Post Allowance, Separate Maintenance Allowance, Hardship Pay, and Danger Pay Varied Substantially by Country in Fiscal Years 2011–2016

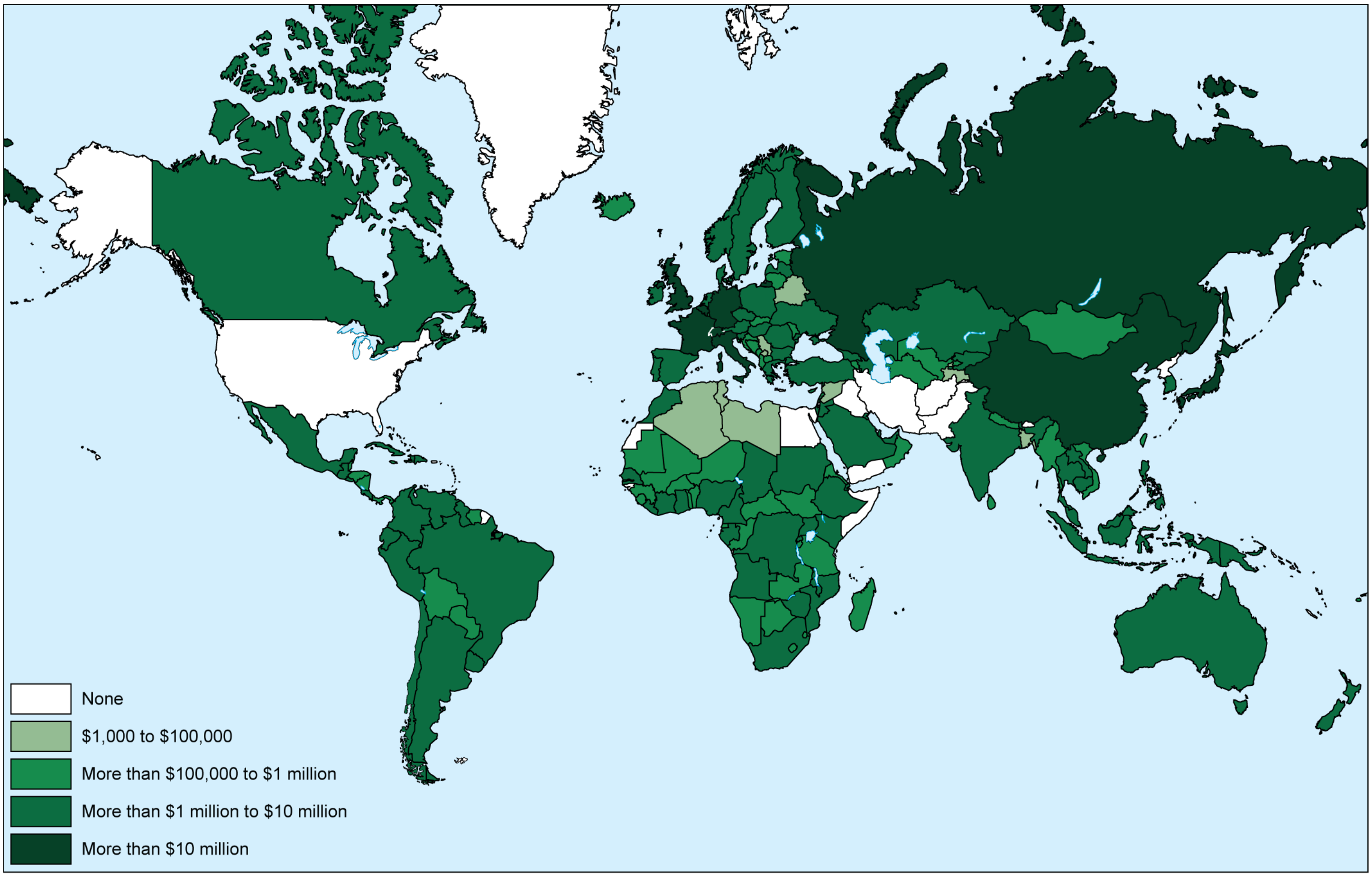
State's spending on the post allowance, SMA, hardship pay, and danger pay varies substantially by country because these expenditures are determined by factors specific to each post and allowance.[23] For the post allowance, spending by country reflects allowance rates, the number of State employees, and the size of State employees' families at each of the country's posts.[24] Spending for SMA, by country, depends upon the number of State employees maintaining their families away from post. Spending for hardship pay and danger pay, by country, reflects the allowance rate and number of State employees permanently assigned to posts in each country. For example, in fiscal year 2016 State spent about the same amount on hardship pay in Dhaka, Bangladesh (a post eligible for 35 percent hardship pay), as it did in Bangkok, Thailand (a post eligible for 10 percent hardship pay) because State had more than twice as many personnel assigned to Thailand as to Bangladesh.

Figure 10 shows a map of State's post allowance spending by country for fiscal years 2011 through 2016. State provided this allowance in about 170 countries worldwide in that period.

[23]We include post allowance, SMA, hardship pay, and danger pay in this analysis because State captures information on the location where an employee is assigned for these allowances.

[24]Some countries include multiple State posts. For example, State's presence in Mexico includes one embassy and nine consulates.

Figure 10: Map of Department of State Spending on Post Allowance for Employees Serving at Overseas Posts by Country, Fiscal Years 2011–2016

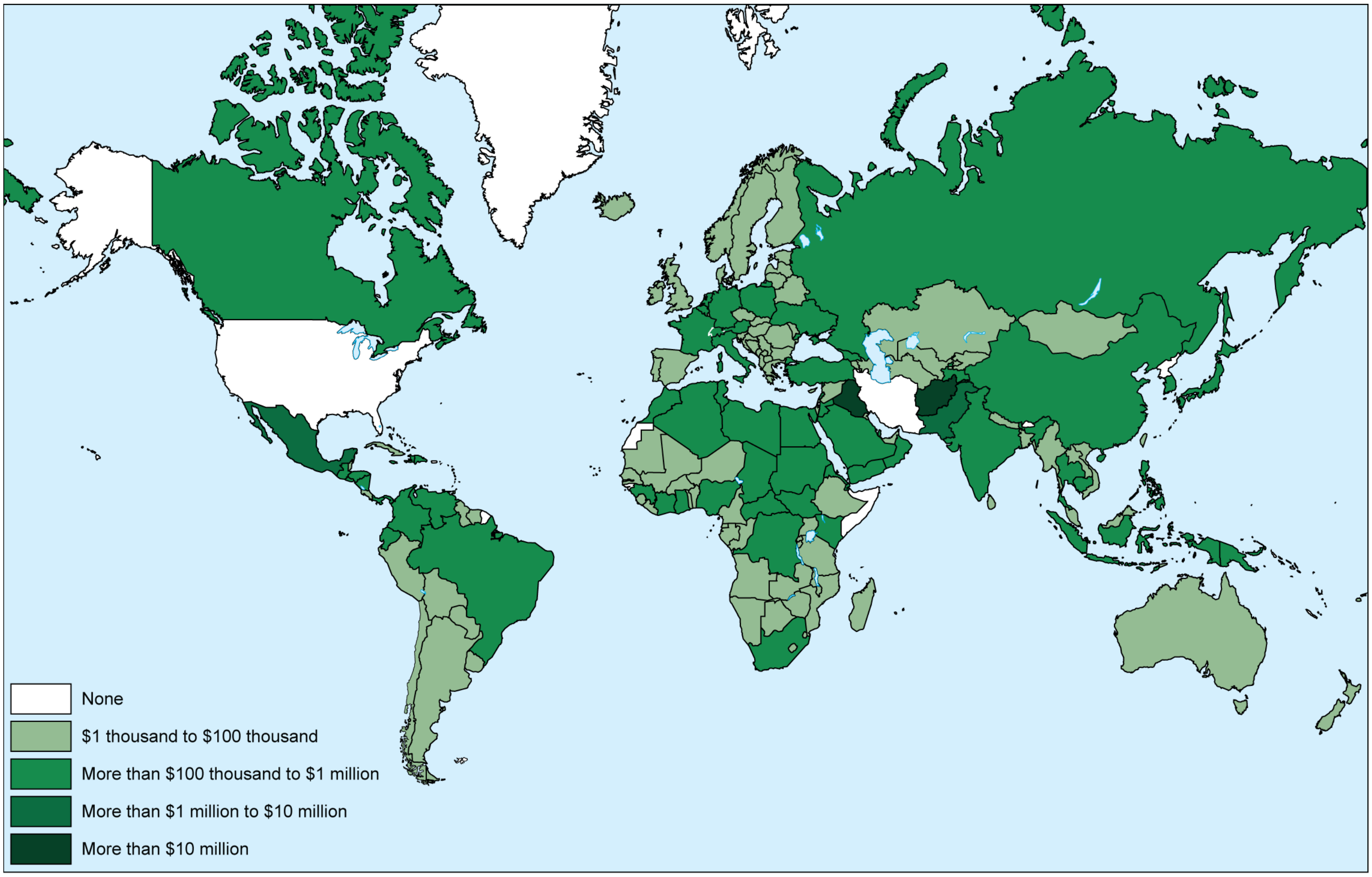


Sources: GAO analysis of Department of State (State) payroll data; Map Resource (map). | GAO-18-87

Notes: Post allowance is granted to employees officially stationed at posts or foreign areas where the cost of living, exclusive of the cost of quarters, is substantially higher than in Washington, D.C. This figure does not include about $10.7 million of the $417.3 million in post allowance spending in fiscal years 2011–2016 that State recorded as an "adjustment" and is not linked to a specific post in State's payroll system. According to officials from State's Bureau of the Comptroller and Global Financial Services, adjustments generally represent payments that were paid retroactively.

Figure 11 shows State's spending on SMA. Employees received an SMA across about 170 countries from fiscal year 2011 through 2016.

Figure 11: Map of Department of State Spending on Separate Maintenance Allowance for Employees Serving at Overseas Posts by Country, Fiscal Years 2011–2016

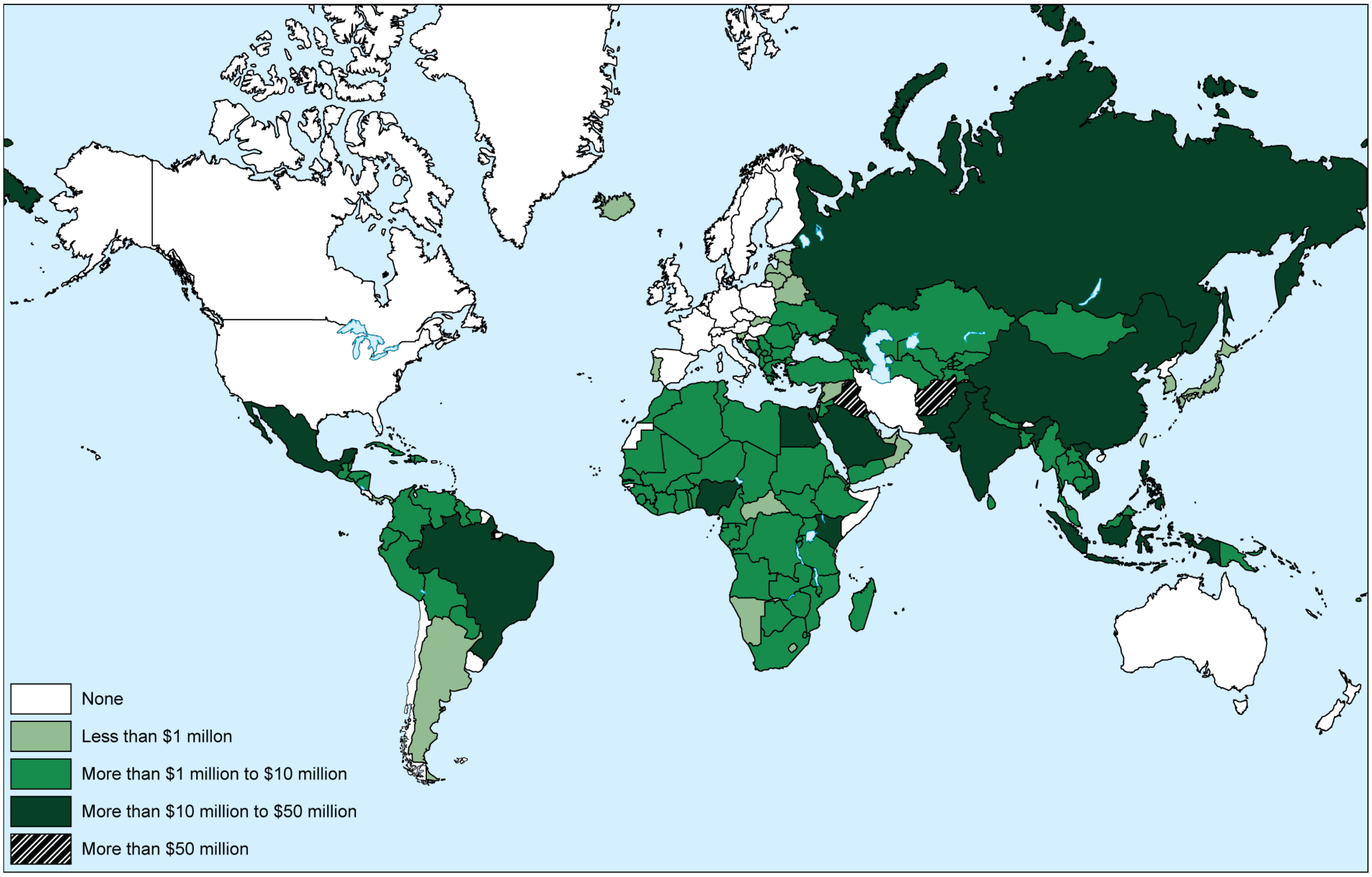


Sources: GAO analysis of Department of State (State) payroll data; Map Resource (map). | GAO-18-87

Notes: The separate maintenance allowance is meant to defray the additional expense of maintaining family members at another location than an overseas employee's post due to (1) dangerous, notably unhealthful, or excessively adverse living conditions at the overseas post of assignment; (2) convenience of the U.S. government; or (3) special needs or hardship involving the employee or a family member. This figure does not include about $3.5 million of the $55.0 million in separate maintenance allowance spending in fiscal years 2011–2016 that State recorded as an "adjustment" and is not linked to a specific post in State's payroll system. According to officials from State's Bureau of the Comptroller and Global Financial Services, adjustments generally represent payments that were paid retroactively.

Figure 12 shows State's spending on hardship pay. About 140 countries had posts eligible for hardship pay from fiscal years 2011 through 2016.

Figure 12: Map of Department of State Spending on Hardship Pay for Employees Serving at Overseas Posts by Country, Fiscal Years 2011–2016

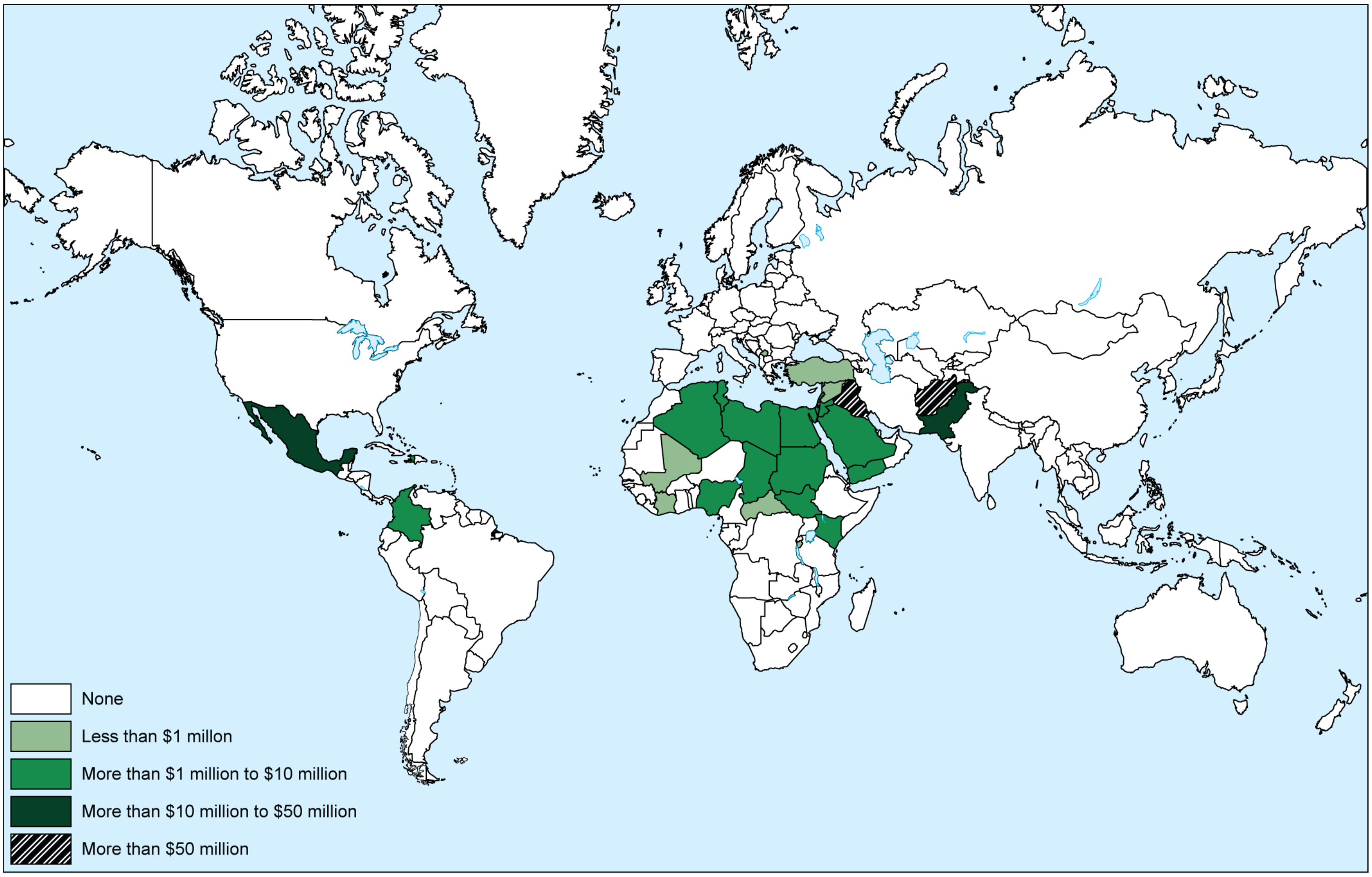


Sources: GAO analysis of Department of State (State) payroll data; Map Resource (map). | GAO-18-87

Notes: This figure does not include about $31 million of the $732 million in hardship pay spending in fiscal years 2011–2016 that State recorded as an "adjustment" and is not linked to a specific post in State's payroll system. According to officials from State's Bureau of the Comptroller and Global Financial Services, adjustments generally represent payments that were paid retroactively—for example, because of temporary duty at a hardship post. For more detailed information on State's hardship pay spending by country in fiscal years 2011–2016, see an interactive graphic that can be viewed at http://www.gao.gov/products/GAO-17-715.

As illustrated in figure 13, countries with danger pay spending in fiscal years 2011 through 2016 are largely concentrated in the Middle East and Africa. Employees from posts in about 30 countries received danger pay from fiscal years 2011 through 2016. Several countries with danger pay spending during this period—including Mexico, Colombia, and Saudi Arabia—were no longer eligible for danger pay as of February 5, 2017.

Figure 13: Map of Department of State Spending on Danger Pay for Employees Serving at Overseas Posts by Country, Fiscal Years 2011–2016



Sources: GAO analysis of Department of State (State) payroll data; Map Resource (map). | GAO-18-87

Note: This figure does not include about $22 million of the $266 million in danger pay spending in fiscal years 2011–2016 that State recorded as an "adjustment" and is not linked to a specific post in State's payroll system. According to officials from State's Bureau of the Comptroller and Global Financial Services, adjustments generally represent payments that were paid retroactively—for example, because of temporary duty at a danger pay post. For more detailed information on State's danger pay spending by country in fiscal years 2011–2016, see an interactive graphic that can be viewed at http://www.gao.gov/products/GAO-17-715.

Agency Comments

We provided a draft of this report to State for comment. State provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committees and the Secretary of State. In addition, the report will be available at no charge on the GAO website at http://www.gao.gov.

If you or your staff members have any questions about this report, please contact me at (202) 512-8980 or courtsm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made contributions to this report are listed in appendix II.

Michael J. Courts

Michael J. Courts
Director, International Affairs and Trade

Appendix I: Objectives, Scope, and Methodology

The objectives of this report were to (1) describe the allowances the Department of State (State) offers its employees serving overseas and (2) examine the amount State spent annually on these allowances from fiscal years 2011 through 2016.

To describe the different allowances offered by State to employees serving overseas, we reviewed the *Foreign Affairs Manual* (FAM), *Foreign Affairs Handbooks*, the *Department of State Standardized Regulations*, and other State information. We selected 14 allowances to include in our scope based on 3 FAM Exhibit 3210. From this list we excluded the advance-of-pay allowance because it is not an additional outlay from State's budget.

To examine State's spending at overseas posts for these allowances, we analyzed data in fiscal years 2011 through 2016 from State's Consolidated American Payroll Processing System and State's Global Financial Management System, which are administered by State's Bureau of the Comptroller and Global Financial Services (CGFS). We used the Global Financial Management System, State's accounting system, to analyze the foreign transfer, home service transfer, education allowance, educational travel, difficult-to-staff incentive, living quarters, temporary quarters subsistence, extraordinary living quarters, official residence expense, and representation allowances. We used the Consolidated American Payroll Processing System, State's payroll system, to analyze post allowance, separate maintenance allowance (SMA), hardship pay, and danger pay expenditures, including information on the outlays by country. Because CGFS processes these four allowances through payroll, it provided us with spending data for the 26 pay periods that best approximated each fiscal year from 2011 through 2016, and we used these data to summarize spending by fiscal year.

All spending in this report is presented in nominal dollars. We also used the gross domestic product price index to analyze trends in hardship and danger pay, expressed in terms of constant (inflation-adjusted) dollars. To assess the reliability of the data that State provided, we performed testing to identify missing data, outliers, and errors; and interviewed Office of Allowances officials in Washington, D.C., and CGFS officials in Charleston, South Carolina. We determined that the data we used were sufficiently reliable for the purposes of summarizing spending by country for the post allowance, SMA, hardship pay, and danger pay and by fiscal years 2011–2016 for all allowances. We also communicated with State officials from the Office of Allowances, CGFS, and the Bureau of

Overseas Building Operations about changes in allowance expenditures over time.

We conducted this performance audit from May 2017 through November 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our description and analysis based on our audit objectives.

Appendix II: Department of State Spending for Allowances for Employees Serving at Overseas Posts, Fiscal Years 2011–2016

Table 2: Department of State Spending for 14 Allowances for Employees Serving at Overseas Posts, Fiscal Years 2011–2016

Dollars in thousands

Allowance	2011	2012	2013	2014	2015	2016	Total	2011–2016 change
Cost-of-living allowances								
Post allowance	76,088	73,087	72,032	78,076	62,966	55,033	**417,283**	(21,055)
Foreign transfer	6,234	6,236	6,330	6,555	6,657	5,888	**37,900**	(347)
Home service transfer	6,372	7,332	6,791	7,692	9,288	8,966	**46,441**	2,595
Separate maintenance	7,988	9,221	9,752	9,436	9,466	9,155	**55,019**	1,167
Dependent education	121,640	128,644	134,948	152,831	153,613	161,295	**852,972**	39,655
Education travel	1,846	2,089	1,912	1,956	1,793	1,771	**11,367**	(76)
Recruiting and retention incentive allowances								
Hardship differential	122,444	128,437	121,889	115,896	115,827	127,773	**732,266**	5,329
Danger pay	48,945	53,256	48,032	43,572	39,330	33,322	**266,458**	(15,622)
Difficult-to-staff incentive differential	4,091	4,181	3,795	3,510	3,625	3,827	**23,029**	(264)
Quarters allowances								
Living quarters	14,007	15,720	16,459	18,510	16,624	12,662	**93,981**	(1,345)
Temporary quarters subsistence	2,277	2,123	2,506	3,547	3,990	3,919	**18,362**	1,642
Extraordinary quarters	4,923	4,442	4,316	6,543	4,059	3,645	**27,928**	(1,277)
Other allowances								
Official residence expense	34,113	35,351	33,533	32,473	31,909	31,558	**198,937**	(2,555)
Representation	11,328	14,872	14,035	15,455	16,742	17,940	**90,371**	6,612

Source: GAO analysis of Department of State data. | GAO-18-87

Note: Because of rounding, spending amounts may not sum precisely to totals. Spending data are presented in nominal dollars. Figures 5-9 visually display these data.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Michael J. Courts, (202) 512-8980 or courtsm@gao.gov

Staff Acknowledgments

In addition to the contact named above, Hynek Kalkus (Assistant Director), Alana Miller (Analyst-in-Charge), Ashley Alley, Timothy Carr, Debbie Chung, Gita Devaney, Neil Doherty, Jill Lacey, Drew Lindsey, and Eli Stiefel made key contributions to this report.

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