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STATE DEPARTMENT

Options for Reducing
Overseas Housing and
Furniture Costs



**National Security and
International Affairs Division**

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Congressional Committees:

The Department of State and other U.S. government agencies operating overseas spend over \$200 million annually to provide leased housing and furniture for their employees and their families. In light of the continuing need to control the costs of overseas operations, we undertook a review to determine if any practices of the private sector and other foreign governments offer the potential to reduce costs and provide quality services for State and other agencies. This work supports State's efforts to reengineer and improve its operations, and to develop innovative approaches to reducing costs and providing quality services overseas.

Background

State is authorized to provide leased housing to its employees and those of other agencies overseas. Several thousand State and other U.S. agency employees are assigned to new duty stations at more than 250 diplomatic posts each year. The process is complicated. The majority of employee housing overseas is provided by State through short-term lease arrangements with local landlords. Other employees either receive housing allowances and enter into private lease arrangements or occupy government-owned housing. Most of State's overseas posts are "furnished posts," meaning that government-owned residential furniture is provided for State employees and those of other agencies participating in posts' furniture programs. Furniture is typically procured in the United States and shipped to overseas posts. However, at about 25 posts, employees' household effects are shipped to meet most furniture requirements. Employees are also authorized limited shipments of their household effects to furnished posts.

The residential leased housing and furniture process is also costly. For example, State's direct costs include about \$120 million annually for residential leases and about \$36 million annually to ship employees' household effects. In addition, State and other agencies spent about \$12 million in fiscal year 1996 to purchase government residential furniture and according to 1997 data, spent more than \$10 million annually to rent warehouses used to store residential furniture and other government property. The support costs associated with the process are more difficult to quantify, but according to State documents they total well over \$30 million annually for a variety of overseas support and administrative functions. In addition, State and other agencies maintain

more than 300 overseas warehouses to store furniture and other items, and the value of State's furniture inventory alone has been estimated to exceed \$100 million. While State is reengineering its logistics process to reduce costs and eliminate inefficiencies, it has not initiated actions to streamline its employee relocation process. However, State and other agencies operating overseas are now implementing the new International Cooperative Administrative Support Services (ICASS) system, which offers for the first time the opportunity for agencies to document the total costs of their current support processes and develop less costly and innovative alternatives.

Many U.S. companies also have substantial investments in overseas operations and spend considerable sums to support their overseas expatriate employees. According to a study by a private consulting firm, corporations have about 250,000 U.S.-based expatriate employees overseas. Similar to State, these companies each share a common goal of providing employees and their families with safe and suitable housing at a reasonable price. To improve the efficiency of their operations and reduce costs, U.S. corporations are focusing on core business processes and increasingly contracting with outside service providers to help employees find a residence and typically use one instead of many commercial forwarders to ship employees' household effects.

Results in Brief

Our examination of practices in the private sector suggests that several options may exist to reduce State's overseas residential housing and furniture costs. The adoption of one or more of these practices at a number of State's overseas posts could potentially save millions of dollars. Specific practices that we found prevalent and that State should consider adopting or expanding include

- using relocation companies and similar service providers to search for housing and negotiate leases to reduce in-house support costs, and shift some property preparation and related maintenance expenses to landlords;
- providing employees with housing allowances to select their own homes rather than managing and maintaining a housing pool of government leases and preassigning residences; and
- shipping employees' household effects and/or acquiring furniture overseas as an alternative to operating an extensive government-buying and inventory program.

Our analysis of State's processes shows that State has not based its current approach to providing overseas residential housing and furniture on a comparative cost analysis. Based on our analysis of selected posts, State could potentially reduce its costs by adopting some or all of these practices. For example, our analysis of practices in Brussels and London showed that State's internal housing support costs are several hundred thousand dollars greater than the costs that would be incurred if homefinding services were outsourced to a relocation company. Such practices are potentially applicable for a large number of the annual relocations that State and other agencies conduct. Over one-half of the total U.S. direct hires living overseas are located in 24 posts serviced by at least one relocation company. Expanding housing allowance programs consistent with practices of the private sector could also result in recurring savings, primarily by minimizing in-house support requirements. Employees would also be given a greater choice in selecting their residences.

Private sector practices indicate that two options should be considered for reducing costs associated with residential furniture. First, State could ship employees' household effects as its primary means of furnishing residences. Actual shipping data shows that State often ships nearly the same amount of employees' household effects to posts offering government furniture as it does to its unfurnished posts. Thus, an expansion in the number of unfurnished posts could occur with relatively minor increases in shipping costs for household effects and avoid the often significant procurement, storage, and handling costs associated with the government-furniture program. The second option is to give overseas posts the alternative of acquiring furniture on the local market. State officials at several posts, including New Delhi, San Jose, Panama City, and Bogota, believed that cost savings could be realized through local purchases of furniture without sacrificing quality. Cost savings would potentially result from lower furniture prices and reduced shipping, inland transportation, and inventory costs.

State's Processes Are Cumbersome and Inefficient

State's leased housing and furniture processes are very cumbersome and inefficient and result in unnecessarily high costs due to a combination of factors. State performs most housing support functions in-house involving several layers of management and oversight to monitor and enforce compliance with housing standards and numerous regulations. The system for furnishing housing is equally complicated and costly because of its

long-cycle times, several handoffs, substantial inventories, and large numbers of in-house support staff requirements. State and other agencies operate different housing and furniture program configurations, further adding to the complexity of the process. These configurations include over 150 posts largely operating government short-term residential leasing and furniture programs, about 28 posts having one or more State employees under private leased arrangements, and about 25 unfurnished posts. In addition, significant variations occur at the same post. For example, some agencies elect not to provide government-owned furniture.

Residential Leasing Requires Substantial In-House Support

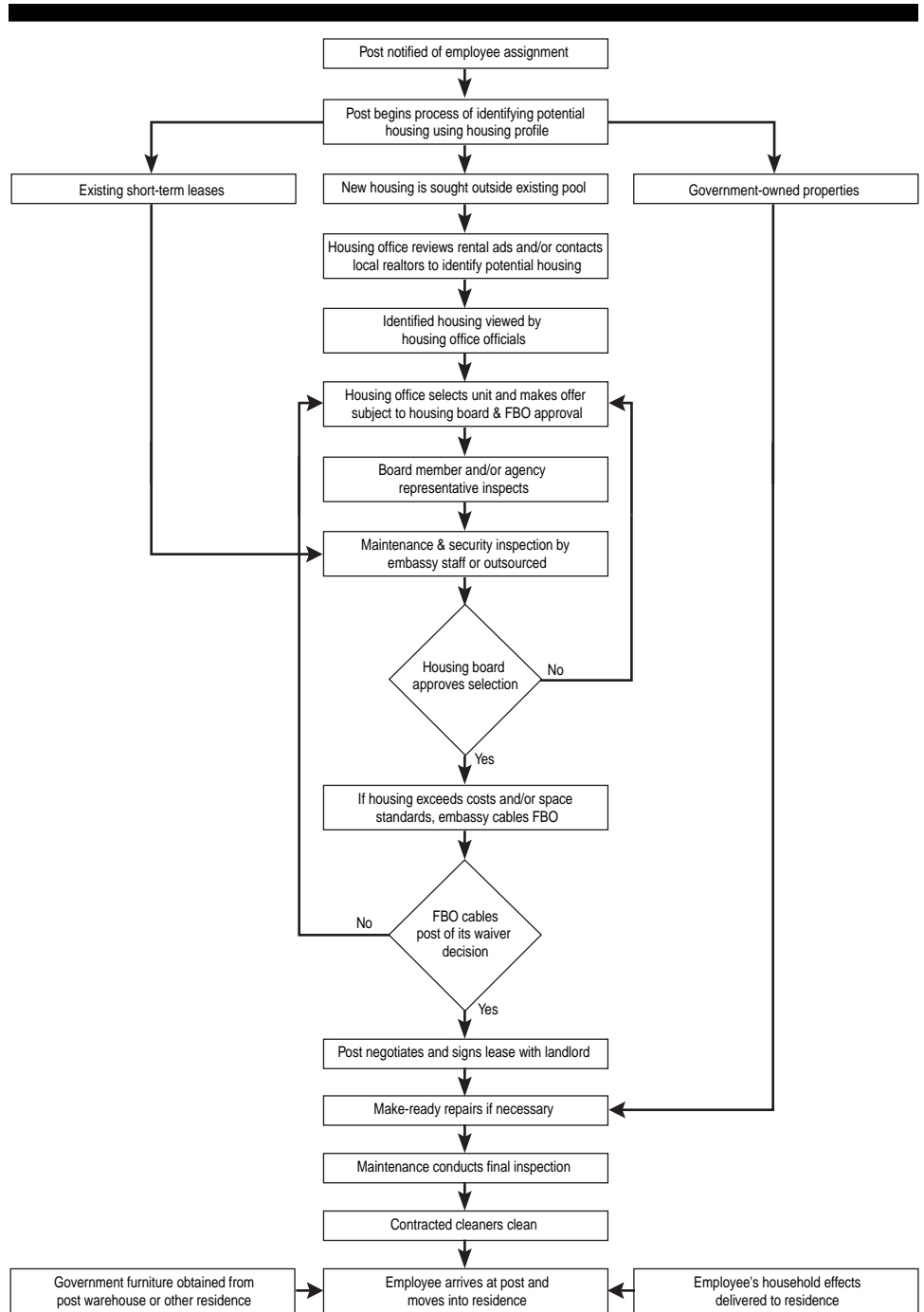
The key objective of State's program for leasing overseas residences is to provide safe and secure housing adequate to meet the personal and professional needs of employees at a cost most advantageous to the U.S. government. State's approach to providing residential housing focuses on performing nearly all management and support functions in-house and minimizes the degree of responsibility placed on relocating employees for finding a residence. It is costly, staff and time intensive, and we found that employees are sometimes not satisfied with their residences.

Residential leasing is a multi-step process. Typically, in-house staff search the rental market; negotiate and sign leases; and arrange for and provide inspections, property preparation and maintenance, and minor repairs. Each residence must meet State's worldwide space standards, which are based on the employee's position and family size, and on location. Most overseas posts also have an inter-agency housing board, comprised of representatives from the different agencies at post. Housing boards are chartered to control rental costs and ensure fair and equitable treatment of employees in applying housing standards and in assigning housing to employees. We found that boards meet regularly throughout the year to assign housing, inspect and approve residential units, and address appeals from dissatisfied employees. In addition, according to State Department procedures, each post must receive the Office of Foreign Buildings Operation's (FBO) approval to lease any property that exceeds applicable space standards or any property costing more than \$25,000 annually in rent, with few exceptions.¹ In fiscal year 1996, FBO processed more than 900 requests for cost waivers, approving most of them. The system typically requires a separate telegram from the post for each waiver request, a review of each request by FBO, and a telegram from FBO notifying

¹State Department requirements are more restrictive than the law, 22 U.S.C. section 301, which requires high-level approval of leases in excess of \$50,000 annually.

the post of its decision. Figure 1 illustrates State's government leasing process at a typical overseas post.

Figure 1: Typical Steps in State's Government Leasing Process



Note: Embassy London is used as an example.

We estimate that hundreds of staff and related resources are dedicated to this program both overseas and at State headquarters. At a substantial portion of State's posts, personnel spend varying amounts of their workday managing and supporting the short-term lease program. These personnel can include the embassy's administrative officer, general services officer,² assistant general services officer, housing specialists, maintenance and work order personnel, procurement staff, and financial management staff. In addition, most posts maintain housing boards with as many as 13 voting members and other nonvoting members who often spend several hours each month addressing housing issues. In posts that provide government furniture for leased housing, additional support costs for warehousing and inventory management services are incurred.

The support costs associated with this type of program can be very significant at certain posts. For example, at the mission in Brussels and the embassy in London, we obtained information on the number of people who spent all or part of their time on residential short-term lease activities. We multiplied the time each person spent by their compensation level to arrive at the salary cost allocated to short-term lease activities. Post reports in Brussels showed that 42 staff (10 housing and 32 maintenance) spent a portion of their time managing or supporting 250 short-term leases in fiscal year 1996. Salary expenses that were allocated for short-term lease activities were estimated to be about \$1.4 million, which averaged about \$5,400 per lease. In London, at least 13 staff (4 housing and 9 maintenance) spent varying amounts of time on the embassy's short-term lease program; their salary expenses for these activities were \$375,000, or about \$3,150 per lease for 119 units.³ FBO's review and approval of proposed leases exceeding cost ceilings and/or space standards has resulted in additional indirect costs to the government. These costs result from the staff requirements in FBO to review and approve waiver requests and costs associated with cabling posts on waiver decisions. In addition, the indirect costs of interagency housing boards were also significant, amounting to more than \$90,000 annually in Brussels, \$70,000 in London, and at least several thousand dollars in Caracas. In addition to being costly, a recent audit report by State's

²For example, the General Services Officer in Caracas estimated that as much as 60 percent of his time was spent supporting/managing the short-term lease program.

³The total support costs can be much greater if other cost elements are considered. For example, State's new ICASS system identifies several additional costs that should be included in determining the leasing and building expense support costs that should be shared by agencies at overseas posts. In addition to salaries and compensation, such ICASS cost elements include motor vehicle charges, electricity, and miscellaneous supplies. If all ICASS and property preparation costs are included, the annual support budget for the short-term residential leasing program in London totals over \$700,000 for fiscal year 1998.

Inspector General found that interagency housing boards typically have not been effective in controlling property rental costs. Housing boards did not use comparative cost as a factor in selecting residences, as called for in housing policy.

The interagency housing boards have also been criticized for frequently not selecting housing that meets employees' expectations. A cornerstone of State's program is its policy of preassignment, which states that to the maximum extent possible, interagency housing boards should assign all new employees to appropriate housing prior to their arrival at post. This is intended to avoid temporary housing costs and employee morale problems that foreign service officers often attribute to the inconvenience and difficulties associated with finding suitable residences in foreign countries. Despite State's substantial investment in resources to locate suitable housing, we identified instances in which the employees were not satisfied with the housing selected for them. For example, at the post in Brussels, employees have frequently been dissatisfied with the residences selected for them by the interagency housing board. The board processed appeals for almost one-fourth (54) of the new residences for employees from January 1994 through December 1996. The reasons for the appeals varied but most were approved. In some cases, where employees were dissatisfied with their apartments, the housing board placed the employees in other available housing units but continued to pay rent for the unoccupied units. FBO officials believed that such actions represented poor post management and did not necessarily reflect a weakness in the short-term lease program. We note, however, that other posts have encountered related difficulties, suggesting a broader-based problem in the process. For example, the preassignment component of the process has been linked to problems at other posts, including several Latin American and Caribbean countries. A 1996 State document notes that some posts in that region have allowed employees to search for housing themselves and repeatedly appeal housing board decisions.

Living Quarters Allowance

In a limited number of locations, State operates a Living Quarters Allowance (LQA) program that allows employees to choose their residence.⁴ It provides an allowance to employees based on rank and family size, and employees typically work with real estate agents to locate and select a residence. The employee is also responsible for signing the lease. As a result, posts having LQA programs often incur relatively minor support

⁴LQA programs often need only one person for in-house support requirements—for example, the U.S. mission in Geneva, Switzerland, which has about 70 employees under LQA, needs only one foreign national employee to support the program.

costs for short-term residential leasing. For example, three posts currently under LQA (Geneva, Guatemala City, and Quito) have a combined ICASS budget of about \$150,000 for leasing and short-term residential leasing building operation expense support in fiscal year 1998, compared to the over \$1.5 million allocated for the post in Brussels.

State has substantially reduced its participation in the LQA program over the years even though its own internal analysis has on occasion indicated that allowance programs could have substantial benefits, including being less costly than government leasing programs.⁵ The reduction has occurred due to several factors, including complaints from employees about the adequacy of allowance rates and the inconveniences associated with homefinding and temporary lodging in foreign countries. According to 1996 data, State had one or more employees under LQA at 28 posts; employees of other agencies, principally the Department of Defense, were under LQA arrangements at a significantly larger number of posts.

Process for Providing Residential Furniture Is Cumbersome and Costly

State's process for meeting residential furniture requirements is cumbersome and costly because of its numerous handoffs and long-cycle times. State meets most of its requirements by buying furniture in the United States under a central contract and shipping and storing it overseas until needed. Furniture for some posts is first shipped to a State facility in Antwerp, Belgium, where it is distributed to the receiving posts. The value of State's inventory has been estimated to exceed \$100 million. State and other agencies also spend about \$10 million annually to lease over 200 warehouses worldwide to store furniture and other property. In Brussels alone, warehouse lease, utilities, and personnel costs for fiscal year 1996 totaled about \$628,000, or \$2,500 per furnished unit. In addition, State and other agencies own 95 warehouses worldwide and have spent over \$35 million to purchase or build these warehouses. State also ships up to 7,200 pounds of employees' household effects to supplement the furniture provided by the government, or allows employees to ship up to 18,000 pounds to unfurnished posts.

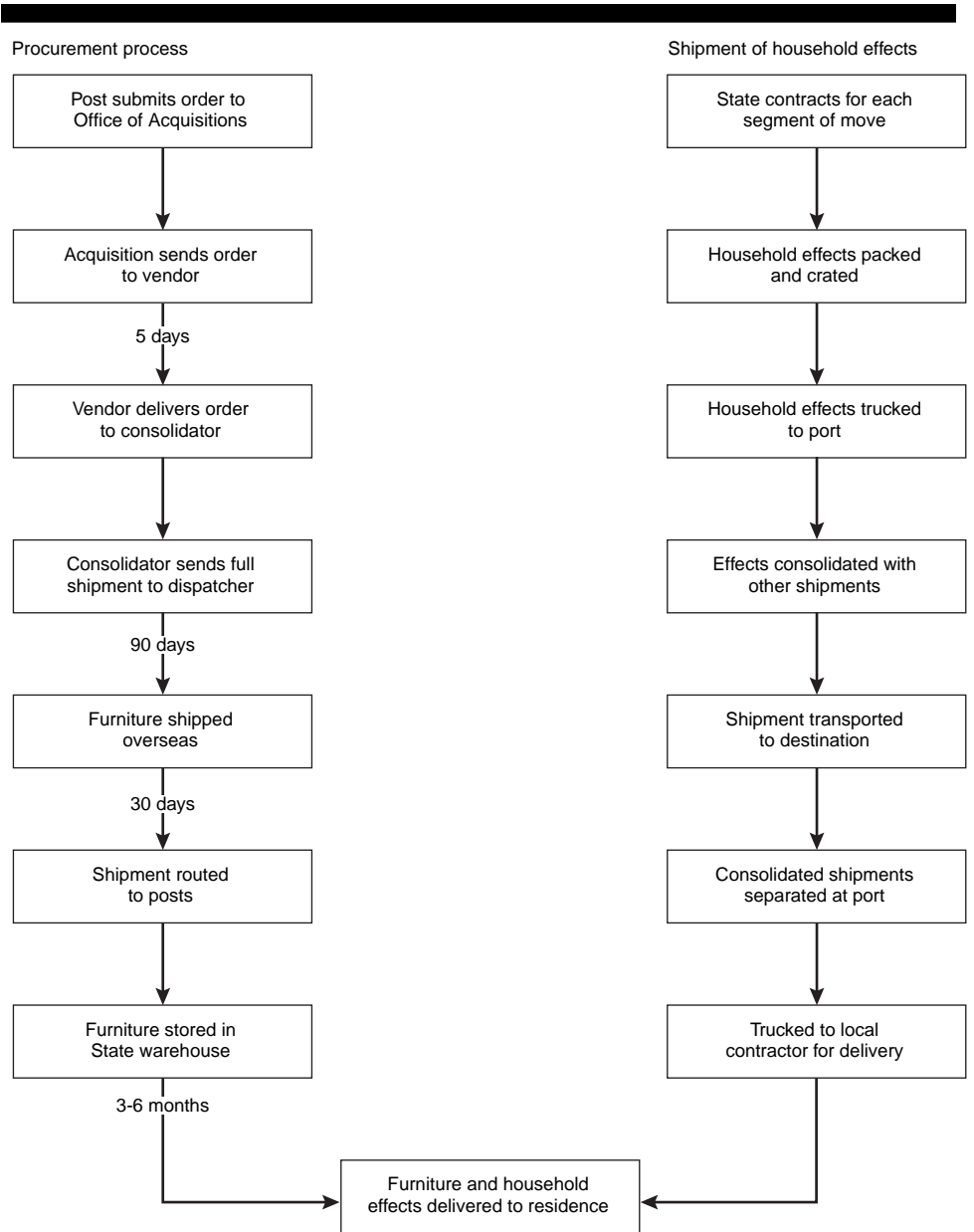
⁵For example, analysis by FBO in the late 1980s identified several pros and cons associated with government leasing and allowances. However, the analysis noted that one statement could be made with confidence—in terms of cost-effectiveness, LQA with minimal in-house support was demonstrably cheaper than full service government leasing. Analysis by the U.S. embassy in Singapore in 1994 concluded that LQA programs could save over \$3,000 annually per rental unit at that post. Cost reductions were projected to result primarily from reduced in-house staff requirements and maintenance costs. More recently, post officers participating in State's Bureau of Inter-American Affairs' 1997 Administrative Officers' Conference concluded that allowance programs could benefit the Department by giving employees a choice in their residence and reducing staff time and costs associated with maintenance.

Little attempt has been made to determine the total cost of the furniture process or the cost-effectiveness of providing a furnished or unfurnished post. In addition, furniture decisions at individual posts may not reflect all cost considerations because funding responsibilities for program segments are spread among various State bureaus.⁶ State documents indicate that decisions in the early 1990s concerning requests by certain posts to change their designation from partial to full-shipment posts were based largely on the availability of funds in one Bureau to fund shipping costs. Analysis by State was insufficient to determine if such changes would result in overall savings or additional costs for the Department.

Figure 2 illustrates State's process for meeting overseas furniture requirements.

⁶For example, according to a State budget official, State's regional bureaus allocate funds to the posts for property preparation, procurement and shipping of residential furniture, and inland transportation of furniture. On the other hand, funding of household effects shipments is the responsibility of the Bureau of Personnel.

Figure 2: State's Process for Providing Residential Furniture at Posts



Practices of Other Organizations Could Save Money and Provide Quality Service

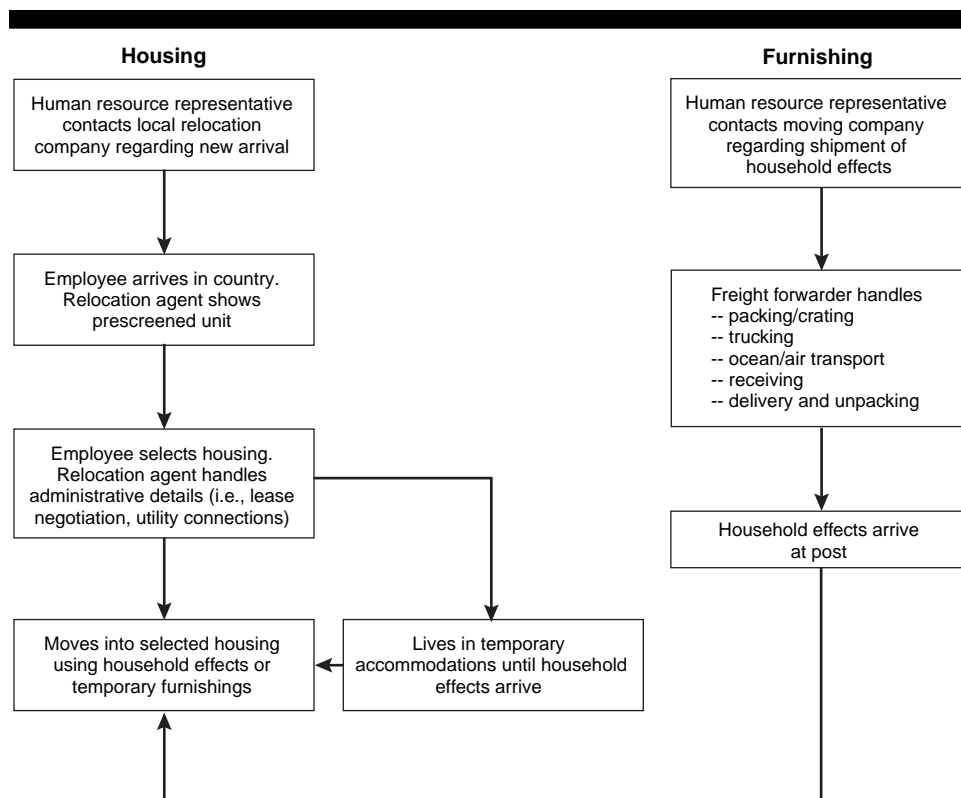
We studied the practices of six major U.S. companies and three other governments that have large international operations to learn how they provided housing for their overseas employees and met residential furniture requirements. We chose these organizations because they operate in many of the same locations as State, support large numbers of overseas employees, and have adopted various best practices to improve expatriate management. For example, Ford Motor Company is represented in 50 locations throughout Europe, Asia, the Middle East, Latin America, and Africa and supports about 2,500 expatriate employees. Citibank supports more than 1,000 expatriates, including 136 in London, its top overseas destination, and 101 employees in Singapore. The majority of the expatriates employed by most of these companies are professional, mid-level employees.

We found that the prevalent private sector process for providing housing and furniture includes contracting with a relocation company or other service provider to identify available housing from which the employees can make a choice, giving an allowance to the employee to pay for rent, and using a contractor to ship employees' household effects to furnish the residence.⁷ Another option the British government uses is acquiring furniture overseas. The primary benefits of these practices, if applied to State, include minimizing investments in support staff, reducing administrative and warehousing requirements, giving employees a choice in selecting their residence, and/or procuring furniture from sources offering the best price and quickest delivery time. The potential applicability of one or more of these practices to State is widespread and would not diminish State's ability to provide secure housing or high-quality furniture.

Figure 3 shows the housing and furnishing processes typically used by the private sector companies whose practices we reviewed.

⁷Outsourcing is a practice that private sector companies are using with greater frequency. A study of 30 corporations by a private consulting firm noted that companies are basing the decisions to outsource on a comparison of (1) the price of the outside service with the cost of developing the same level of expertise and administering the program internally, (2) the level of service that can be provided, and (3) the value that can be added by performing the service in-house versus through an outside source.

Figure 3: Typical Housing and Furnishing Processes Used by Private Sector Companies



Note: Some companies allow a homefinding visit prior to relocation. Private sector companies in London were used as examples.

Outsourcing Homefinding and Related Services

During our benchmarking exercise, we found that many leading U.S. companies and at least one other government embassy have outsourced homefinding and destination services to professional international relocation companies. Relocation companies assist the employee in finding suitable housing and handle all settling-in activities.⁸ Our benchmarking efforts indicate the private sector’s use of relocation companies has provided quality services that meet employees’ needs for secure, safe, suitable, and affordable housing. Our analysis at two posts indicates that using a relocation company could result in potential savings of several hundred thousand dollars annually. Further, the increasing

⁸Relocation companies’ approach to finding suitable housing for employees include prescreening and identifying viable units, escorting the employee to visit potential housing, negotiating/signing the lease, connecting utilities, and ensuring maintenance needs are met. The relocation company works directly with the employees to identify their specific housing needs and offers a number of choices within a specified cost range established by the company.

availability of relocation services throughout the world makes outsourcing homefinding services an option that State should consider.

Corporate officials cited two key benefits of outsourcing the homefinding function—increased employee satisfaction and reduced in-house support requirements. High levels of employee satisfaction were generally attributed to (1) working with a local relocation specialist that handles all aspects of finding and negotiating a lease and (2) being able to select a residence that meets their needs. According to relocation officials in Brussels and London, expatriate employees typically identify a suitable residence during a 2 or 3 day home search. In addition, outsourcing allows private sector firms to minimize the number of in-house personnel needed to support operations. For example, in Brussels, Citibank needed only one employee⁹ working part-time to support the expatriate program for approximately 80 employees, whereas State employed 42 staff to provide housing and maintenance support for about 250 employees. In London, 2 Texaco employees provided housing support for about 150 expatriate employees, whereas State required 13 staff to provide housing and maintenance support for about 119 employees. Also in London, the Australian High Commission used a relocation company to locate housing for its 55 foreign service employees, which reduced its in-house support requirements to one person, part-time. Furthermore, most property preparation and related maintenance expenses were typically handled by landlords for leases signed either by individuals or by the corporation.

We conducted a cost analysis of the U.S. mission's housing office in Brussels and the embassy in London to determine if relocation company services could be a cost-attractive option for posts having large housing support components. Our analysis indicated that using a relocation company could potentially yield significant savings at those posts. For example, in fiscal year 1996, the mission in Brussels employed 10 staff, full or part-time, to provide short-term lease housing support for about 30 new or lease renewals annually.¹⁰ Based on cost data provided by the post, the annual salary expenses attributable to short-term leasing for these staff were estimated to total about \$700,000. If property preparation and other

⁹Neither of the two private sector companies we visited in Brussels or London provided property preparation staff but instead relied on the landlord to make minor repairs or contracted with local vendors for services as needed.

¹⁰State officials said the 250 government leases are awarded for 9 years in Brussels; thus, the housing office must negotiate or renew approximately 30 leases annually.

support costs¹¹ are included, the embassy's direct and indirect support costs for short-term residential leases exceed \$1.5 million annually. In contrast, a private sector company outsourcing its homefinding function would incur salary expenses and the relocation company's fees, which we estimate would total between \$207,000 and \$277,000 depending on the mix of new leases and renewals.¹² Thus, if all costs are weighed, outsourcing homefinding services could result in a substantial savings, particularly if outsourcing resulted in leased properties having lower rents and reduced property preparation and maintenance-related costs.

In London, the U.S. embassy identified four persons having full or part-time responsibility for the short-term residential leasing program. According to the post, their estimated salary costs for short-term leased duties totaled about \$200,000 annually, and if all ICASS support costs and property preparation costs are considered, the total costs for London's residential short-term lease support are a little over \$700,000 annually. The embassy is responsible for placing about 40 new employees in short-term residences each year. Using a relocation company to find new properties or assist employees to move into existing leases would cost between \$118,000 and \$151,000. If the embassy continued its current policy of preassigning employee housing selected from a pool of properties identified by a relocation company, data provided by the post indicated that the embassy could potentially save money, depending on the prices it negotiates and the services that would be included.

In weighing the pros and cons of using relocation companies, State noted that there are costs that probably would not be reduced by outsourcing. These include, for example, the costs of security surveys and security upgrades. Additional costs could also be generated by outsourcing, including temporary living costs for employees waiting to move into their residences. For example, post officials in London estimated that temporary living costs could increase by as much as \$264,000 annually, if employees were allowed to choose their residences instead of having them preassigned. Even if such costs were incurred, the outsourcing option could still be attractive because of the large indirect support and property preparation/maintenance costs incurred in the current embassy program. Further, several options exist to reduce temporary living costs, including the use of temporary apartments or homefinding visits prior to relocating.

¹¹State's new ICASS system includes property preparation and related maintenance costs in the costs of short-term residential leases.

¹²According to officials of one relocation company, their firm could provide several services for about \$2,250 per unit, including housing search, lease negotiation, and supervision of legal requirements.

We also note from our benchmarking that the relocation industry is growing and becoming more competitive, offering a wide range of services at increasingly competitive prices. Industry data shows that relocation companies have operations in most developed and many developing countries, especially throughout Europe. Some companies are affiliated with U.S.-based firms that are used domestically by U.S. government agencies including the General Services Administration, the Department of Defense, and the Federal Bureau of Investigation. One relocation company, together with its affiliates, operates in 250 cities worldwide. At least one relocation company is located in 24 of the 25 countries having the largest U.S. overseas presence—comprising over 50 percent of total overseas State and other agency assignments. Officials at most of the companies we visited overseas said that multiple relocation companies are available in their respective cities offering quality services at competitive prices.

Housing Allowances

Greater use of housing allowances is another private sector practice that could substantially reduce State's overseas in-house support requirements and maintenance costs, and give employees a choice in selecting their residences. Private sector employees are provided a housing allowance to cover rental costs based on local market conditions, family size, and position. Allowances permit companies to manage and control costs with minimal oversight. Other governments sometimes use allowances—for example, the Australian High Commission's employees received housing allowances in London. State also has the LQA program that provides participating employees a set amount based on rank and family size, lets employees choose their residence, and operates with minimal in-house support requirements. As previously mentioned, State has chosen to substantially reduce its participation in the LQA program over the years due to employees' complaints about the inconveniences of finding a residence in foreign countries and temporarily staying in hotels, and the difficulties encountered in finding suitable residences within LQA rates. State officials said that it is hard to put a price tag on the costs associated with the inconvenience factor but believed that it could be substantial.

We believe that the private sector practices we identified could help mitigate some of the problems that employees of State and other government agencies have with the LQA program and encourage State to expand it as a cost-effective option to government leasing at certain posts. Specifically, using relocation companies (a process not used in the LQA program) to help employees find housing and negotiate leases could ease

the burden associated with negotiating leases in foreign countries and also offer employees a greater choice in selecting their residence. As already noted, use of relocation companies can be less costly to the government at posts having large in-house support structures. Also, providing rental or government-owned furniture until the employee's household effects arrive would allow employees to move directly into their residences upon arrival. We were told that the U.S. embassy in Madrid provides State's employees with furniture welcome kits enabling them to move quickly into their residences. In London, Texaco provided rental furniture enabling employees to move into their residences almost immediately upon arrival, which has resulted in improved employee morale, improved productivity, and has also reduced or eliminated expensive temporary living costs. According to a Texaco official, about one-third of incoming employees move directly into their residence shortly after their arrival. In cases where household effects have not arrived, rental furniture or company-owned "temporary packages" of basic furniture and accessories are provided. The official noted that the \$2,200 rental cost of furnishing a two-bedroom apartment for 1 month is still less expensive than temporary living expenses that could easily exceed \$9,000 for a month.

In addition, a furniture rental company in the United Kingdom with a client base of over 250 companies told us that temporary rentals have become more popular and that many U. S. companies are utilizing this service to reduce temporary living expenses. We also found that one of the major U.S. companies operating in Caracas provided employees the option of temporarily using company furniture in their residences until their household effects arrived. According to a company official, this furniture was procured locally in Caracas and stored/managed by the same local firm used to handle household effects shipments upon arrival in Caracas. In addition, this company also has two apartments that it uses for temporary employee housing.

It is difficult to determine the validity of concerns expressed by State's employees that its housing allowances are frequently insufficient to cover the costs of suitable housing at overseas posts. If allowances are insufficient to cover the costs of suitable housing, expansion of LQA programs based on any model could be problematic for State. We note State's documents indicate that LQA rates are insensitive to local market conditions and are intended to ensure that 80 percent of all employees in the program are fully covered for LQA expenses.¹³ Furthermore, State

¹³LQA rates are intended to substantially cover expenditures for rent, electricity, fuel, water, certain taxes levied by the local government, and agents' fees required by law to be paid to the landlord.

employees complain that they frequently must pay out-of-pocket for items under LQA because the system has a “lag problem”¹⁴ and that the system’s paperwork requirements are time-consuming and cumbersome. In comparison, State’s government leased housing program places little administrative burden on the employee and pays all rental costs. With these factors in mind, it seems obvious that posts would choose a system that pays 100 percent of housing costs (government leasing) instead of a system that pays only 80 percent (LQA).

State allowance office officials agreed that LQA’s limited coverage policy has encouraged posts to adopt government leasing programs even though State’s additional support costs are substantial. However, they believed that the Department of Defense, which has the largest number of overseas civilian employees under the LQA system, would not support 100 percent coverage of rental costs due to the additional costs that would be incurred by the Department of Defense. They acknowledged that State and the Department of Defense have not (1) examined all costs involved in overseas housing or attempted to determine if an increase in the coverage of LQA rates would be advantageous or disadvantageous to the government as a whole or (2) determined if State should ensure its government lease ceilings are consistent with LQA rates to control costs and ensure equity among all civilian government employees at overseas posts. FBO officials expressed concern about pegging government lease ceilings to current LQA rates, stating that the quality of overseas embassy housing could suffer. FBO officials were supportive of an allowance option that allowed rates to be set by a monthly survey or mechanism such as that used by the private sector.

According to the officials at some of the companies we used as benchmarks, they have often purchased their housing allowance rates from private sources¹⁵ that reflect local living conditions and rental costs. According to one of the commercial vendors providing these rates, data on housing costs is currently available quarterly for more than 150 countries, including State’s largest 25 posts, as well as, many remote African and East Asian countries. State may want to determine if using the rates available from these commercial sources would enable it to have rates more sensitive to local market conditions. The purchase of these rates could also possibly help State address some of the deficiencies it has identified

¹⁴According to FBO officials, State’s current allowances tend to lag behind real costs because of administrative delays in processing changes in allowance rates.

¹⁵Allowance rates are developed by human resource staff in country or procured from commercial sources.

in the current LQA system. According to State documents, these inefficiencies include labor intensive reconciliation requirements.

Use of Employees' Household Effects

Private sector companies typically expect their employees to furnish their overseas residences with their own household effects. Employees' furniture is typically shipped door-to-door¹⁶ by contractors directly from the United States to the overseas residence at the company's expense. The advantages of this process include minimal in-house support requirements and little or no investments in warehouses and furniture inventories. State maintains, however, that expanding the use of household effects to furnish residences would often result in unacceptable increases in its transportation and temporary living costs. Our analysis shows that shipping costs would not increase as much as State officials estimate and that there are opportunities to offset or reduce temporary living expenses. If these factors are considered, the expanded use of employees' household effects may be an efficient and cost-effective alternative to State's practice of buying, storing, and managing large inventories of residential furniture supplemented by making additional shipments of employee-owned furniture.

We reviewed transportation documents and other information provided by State to determine if there were significant differences between furnished and unfurnished posts in the amount of household effects shipped. Our analysis showed that the average weight of household effects shipped overseas is often about the same regardless of whether the post provides furniture or not. A State transportation document listing shipments to more than 50 posts in 1996 showed relatively small differences between partial and full-shipment posts in the average amounts of household effects shipped. For example, the average weight of shipments of household effects to Brussels (a furnished post) was about 4,800 pounds compared with an average weight of about 5,100 pounds for Rome (an unfurnished post). For those posts included in the document, a comparison of seven furnished and unfurnished posts having the largest number of shipments showed that the average weight of shipments varied by only about 1,100 pounds.

¹⁶In our October 1997 report on State's transfer process *State Department: Using Best Practices to Relocate Employees Could Reduce Costs and Improve Services* (GAO/NSIAD-98-19), we concluded that the Department could operate much more efficiently and save money by adopting the door-to-door method for shipping overseas that is used by the private sector. Unlike State's current process for shipping household effects that involves substantial personnel and other indirect support costs, the door-to-door approach used by the private sector entails contracting with only one commercial freight forwarder for all transportation and related services to relocate an employee's household effects.

We also identified options, such as providing temporary furniture or using rental furniture until an employees' household effects arrive, that may offset or reduce temporary living costs. For example, the embassy in Paris, a mostly unfurnished post, was able to accommodate about 80 incoming employees in 1997 by using temporary furniture in their assigned quarters or by using government-owned and furnished transient quarters, according to the general services officer. He said that the post did not pay any temporary quarters allowances in fiscal year 1997. In addition, representatives of a furniture rental company in London told us their company offers a basic set of temporary furniture and private sector companies are taking advantage of this option.

Local Procurement of Furniture

If State decides to continue to procure furniture, purchasing furniture locally or regionally may be a cost-effective option at certain locations. Local or regional procurement would be consistent with the practices of some of the organizations we studied and with State's own reengineering efforts. Moreover, officials at a number of posts told us they can purchase comparable furniture from local and regional sources and save money on transportation and warehousing costs.

Some foreign governments and private sector companies purchase residential furniture either locally or regionally. For example, according to British officials, the British government operates four central procurement units to purchase residential furniture. The unit in Washington, D.C., purchases furniture from local markets for British posts in the Americas; the Hong Kong unit, for posts in Australia and Asia; New Delhi, for that region; and London, for all other locations. British officials stated that in the past, their government had purchased furniture in the United Kingdom for distribution worldwide. However, about 10 years ago, the British government initiated a study of procurement options to develop ways to increase efficiency and established regional procurement units as a result. Other governments purchasing furniture locally include the Australian High Commission in New Delhi and the Canadians in Canberra, according to U.S. officials at those locations. In addition, officials of Proctor & Gamble in Caracas and Texaco in London told us their companies purchase furniture locally for use in company-owned temporary quarters.

In 1995, State established a Logistics Reengineering Project team to study how State procured its goods and services and to recommend improvements. The team, which met with a number of private sector companies to identify "best practices" applicable to State, concluded that

State's procurement system was characterized by long-cycle times, high overhead costs, redundancy, and substantial inventory. To address these inefficiencies, the team designed a new system offering customers more efficient alternatives for obtaining goods and services. Direct local purchase, where feasible, was a key option identified by the team. However, residential furniture purchases were not included in the team's study because State's residential furniture contract requires that, with few exceptions, all furniture be procured under the contract.

We previously raised the issue of central procurement of furniture with State in June 1997.¹⁷ State responded that the program had served it well for decades, was efficient, and was supported by "Buy America" Act principles. State officials have defended the domestically procured furniture as important in helping the Department meet its representational responsibilities. However, State did not cite any studies or analyses to support its conclusion that the furniture program is cost-effective or necessary for representational purposes. In addition, a State procurement official told us the Buy America Act does not generally apply to the purchase of furniture for use outside the United States.

Officials at a number of State's overseas posts told us that purchasing residential furniture locally or regionally would result in significant savings in direct procurement, transportation, and warehouse costs. For example, post officials in Costa Rica told us that they have explored the feasibility of local procurement, largely because of the long lead-time associated with contract purchases (typically 5 months or longer) and the significant number of missing items in recent shipments. They found that high-quality U.S. furniture can be purchased locally from a company operating furniture showrooms in San Jose. According to the officials, the company could deliver and set up furniture in a residence within 6 weeks. Furthermore, the purchase price of the furniture available through this company is typically lower than that offered under the contract. For example, according to post officials, a living room set would have cost \$4,296 under the contract compared with \$2,850 if purchased locally, representing a potential cost savings of 30 percent or more. In addition, their analyses showed that the post could buy four sets of furniture for the price it pays for three sets under the General Services Administration contract. They believed that the savings in containerization and shipping costs make the local purchase option even more attractive to the post in San Jose. Additional savings would also accrue from reduced inventories

¹⁷State Department: Provision of Residential Furniture Inconsistent With Best Practices (GAO/NSIAD-97-173R, June 10, 1997).

of furniture in the embassy warehouse. Post officials also noted that the U.S. furniture distributor operating in San Jose has similar showrooms in other countries. We contacted the company's headquarters and confirmed that similar operations exist in Guatemala, Colombia, Honduras, Venezuela, and Turkey. Other examples include the following:

- Officials at posts in Bogota and Panama City said significant opportunities exist to procure furniture locally or regionally and that such procurement would result in significant savings and better service.
- A post official in New Delhi estimated that he could save about \$13,000 on a complete set of furniture for a three-bedroom house with living room if purchased locally.
- Officials at the embassy in London told us they are exploring alternatives to the furniture contract and they are interested in pilot-testing options including local purchase.

Some posts already purchase residential furniture locally or regionally, further demonstrating the feasibility of expanding this option. For example, posts purchase items that are not provided under the contract or because contract items are unsuitable. The U.S. embassy in Hong Kong purchases furniture locally because furniture built to U.S. specifications is too large for Hong Kong residences. Because of the high costs associated with moving furniture inland from the port of destination to the embassy, and the availability of good quality/comparably priced local furniture, the Drug Enforcement Administration in Bogota recently decided to purchase five households of furniture from a local manufacturer for approximately \$55,000. According to Drug Enforcement Administration officials, they could purchase only three or four households of furniture for that price under State's contract, once inland transportation charges were added.

Conclusions

State's residential leasing and furniture processes are costly and, in some cases, do not result in a high level of customer satisfaction. Unlike the private sector companies we analyzed, State has not systematically weighed the potential cost advantages of using services available from private sector relocation companies or developing a sound housing allowance program. It also has not conducted valid, systematic analysis of its furniture program and its costs. We believe that State could save money and provide quality services to its employees and those of other agencies by adopting the practices we identified in the private sector.

Savings could be realized several ways. Using relocation and other service providers could reduce overall costs at posts having substantial in-house support costs. The data provided by the U.S. mission in Brussels and the U.S. embassy in London showed that the posts' internal compensation-related housing support costs for short-term leases were higher than the estimated costs of services available from relocation companies. If other support costs typically shared among agencies operating overseas are included in the posts' cost calculations, these two posts alone could potentially save several hundred thousand dollars annually by outsourcing relocation services instead of performing them in-house. Other posts having costly in-house support infrastructures could potentially do the same.

Expanding the use of housing allowances could eliminate most in-house support requirements at individual posts, reduce or eliminate maintenance costs, and produce overall savings. For example, it was projected in 1994 that a housing allowance program in Singapore could reduce annual housing costs to the U.S. government by as much as \$3,000 per lease compared to government short-term leases. Considering that State and other agencies have over 8,000 short-term leases worldwide, and shared property preparation and maintenance-related support costs of about \$30 million annually, the potential savings through the use of allowances are significant. Shipping employees' household effects as an alternative to providing government furniture could produce significant savings at posts having large furniture inventories, substantial staff resources devoted to support warehouse operations, and large warehouse rents. Although the savings are difficult to quantify, the potential appears large because State spends millions annually to purchase, store, and maintain residential furniture. Buying residential furniture locally could save up to 30 percent or more of the purchase, shipping, and packing price of government furniture at some posts. Furniture inventories, which have been estimated to exceed \$100 million, could also be reduced.

Clearly, some practices may have applicability only at certain posts, due to regional or country conditions. Thus, pilot projects should be used to establish the applicability of the practices at a broad selection of appropriate posts. In addition, each practice would have off-setting costs that would have to be carefully considered in the pilots before decisions are made. For example, the expanded use of housing allowances would have to consider how to minimize temporary housing costs, through the use of temporary furniture, rental furniture, or other means.

Recommendation

We recommend that the Secretary of State direct the Under Secretary for Management to establish a pilot program for testing the practices we identified for leasing and furnishing of overseas residences. The pilot should be coordinated through the ICASS framework at the pilot posts, which provides a mechanism to fully document direct and indirect costs of alternatives and involve all key agencies operating at posts. Options that should be in the pilot include outsourcing homefinding, expanding the use of housing allowances, increasing the use of employees' household effects, and procuring furniture locally. The Under Secretary should designate specific posts for the pilot. We believe the pilot should initially focus on 6-8 posts. We believe good candidates include Brussels, London, Paris, the Hague, Singapore, Bangkok, San Jose, Nassau and Mexico City. If the pilot tests confirm the cost advantages of one or more of the practices, the Under Secretary should also establish an implementation plan for a larger roll-out of these practices.

Agency Comments and Our Evaluation

In written comments on a draft of this report, State noted our report raised legitimate questions about possible savings in its housing program and that it plans to establish a task force to study whether modifications to the housing program are warranted. State did not agree with our conclusion that expanding shipments of employee-owned furniture or purchasing residential furniture locally are potential alternatives to the current system. State cautioned that its housing program is not a "one size fits all" activity and believed that the results of the pilot program would be prejudiced because the posts we suggested for consideration in the pilot are in well-developed countries. State said that its test would include a greater variety of posts from countries at other levels of the economic scale and geographic diversity. It also noted its test would include other costs and benefits of suggested alternatives. State identified several cost elements that it believed would not be reduced by outsourcing, such as market analyses and staff time and expenses related to participation in the housing boards, or would lead to additional costs, such as the overhead associated with private relocation services and the additional costs for shipping employees' household effects. State also said that changing to private relocation firms would not reduce the overhead State incurs in managing congressionally-mandated housing standards and regulations without a change in statute.

We are encouraged that State plans to establish a task force to study its housing practices. However, we are concerned that this proposed effort, if undertaken as described in State's comments, will preclude a full

examination of the merits of applying proven business practices to key operations. Specifically, State does not plan to review its furniture program, and its comments regarding the proposed housing study suggest that State (1) may select test locations that will not afford reasonable opportunities to explore the options, (2) has predetermined that some cost elements cannot be reduced and that other costs will be incurred, and (3) does not plan to explore options other than outsourcing that we believe offer cost savings potential. Our analysis clearly shows that opportunities exist to maximize efficiencies and cost savings in both the housing and furniture programs through the application of outsourcing and other business practices. Therefore, we urge State to expand the scope of its study to include the review of all the practices we recommended for pilot testing in both the housing and furniture programs.

We fully recognize that a “one size fits all” program is not practical, given the varying conditions in individual countries and cities. We also recognize that alternative service providers may not be available at some locations. The posts we identified for pilot testing were chosen because our analysis indicated that those posts had the potential to adopt some or all of the practices we identified and reduce costs. Our post selection profile included large and high-support cost operations, the existence of a relatively sophisticated business and diplomatic community, post receptivity to options and problems with existing programs, and the availability of alternative service providers. In selecting posts for its tests, State needs to consider these factors while ensuring that the location, scope, and cost of post operations warrant consideration for change.

We agree that State should consider all relevant cost elements in testing alternatives but it needs to ensure that cost analyses are not geared to maintaining the status quo. For example, it is premature to assume that outsourcing would not reduce costs associated with State’s market analysis programs, management of housing profiles, and housing board operations. State needs to determine if part or all of these support functions could be handled by a relocation company to lower costs and/or free up post staff to do higher priority work. Further, fees charged by outside service providers are negotiable, offering opportunities for posts to exercise their leverage in obtaining prices. The cost elements discussed in our report represent the major costs that must be considered in examining the merits of specific options. For example, in Brussels and London, the prices typically charged by relocation companies for housing services were significantly less than the direct and indirect costs incurred by those posts for short-term lease support.

Outsourcing, however, is not the only option that State should consider. Our analysis of the furniture program and State's own data demonstrate that local procurement could save substantial amounts of money and reduce delivery time at a number of posts. In addition, our report indicates that State employees at more than 50 posts are shipping almost the same amount of household effects regardless of whether the post is furnished or unfurnished. Therefore, the additional shipping costs incurred in shipping employees' household effects would likely be minimal, resulting in little or no need for a government-furniture program at some locations.

State is also incorrect in its assertion that statutory change is needed to reduce the management overhead associated with the housing program. According to State's regulations, the Congress mandated the development of an interagency housing policy in 1979 to ensure uniformity and equity in the program. Although there is general language in the conference report accompanying the 1979 Foreign Assistance Appropriations Act indicating that real property should be acquired under a consolidated master plan through a single government agency, that language does not legally require any particular housing policy. Therefore, State can address inefficiencies in its housing process without statutory change.

State needs a management commitment to cost-based decision-making and a willingness to change. Cost-based decisions can help State improve its operations, reduce support requirements, and free up resources to focus on core diplomatic programs and activities. The options we proposed are based on modern business practices that strive to achieve these objectives. Therefore, we believe that our recommendation for State to fully consider all of our identified options in the process of conducting its tests remain valid. Lastly, State expressed concern that our recommendation presupposed the outcome of any test by calling for a proposed implementation schedule for a larger rollout of the suggested practices. We clarified the recommendation to reflect that a schedule should be prepared if the test confirms the advantages of the suggested practices. State's comments and our analyses are detailed in appendix I.

Scope and Methodology

In recognition of the need for cost-effectiveness in undertaking foreign affairs activities, we identified potential efficiencies and cost savings in State's residential leasing and furniture processes. To map State's processes, we met with State officials and reviewed pertinent documents. We conducted fieldwork at embassies/missions in Brussels, Belgium; London, England; and Caracas, Venezuela—these cities each have

substantial embassy/mission operations and large numbers of expatriates employed by U.S. firms. We also contacted embassy officials at several additional posts and interviewed officials at State's headquarters in Washington, D.C., including key officials responsible for benchmarking with private and public sector organizations and designing State's new logistics system. We developed flow charts of generic housing and furniture processes and developed related cost data to the extent practical.

To identify best practices in the private sector and other organizations, we researched literature and consulted with various experts in the area, including representatives of the Employee Relocation Council—a professional organization of several thousand corporations and other organizations concerned with issues affecting the relocation of employees and their families overseas. To compare private sector and State processes, we visited six companies in the United States and three field offices for those companies in Brussels and London, and one company in Caracas to develop detailed information on these processes. We selected these companies based on the number of employees transferred overseas, the typical time frames for an overseas assignment, and actions taken to control costs of international operations. We also met with several international destination service and furniture rental companies to document the scope of their services and costs.

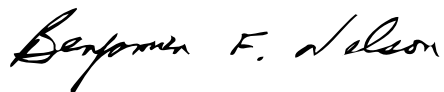
We visited the embassies of the United Kingdom and Canada in Washington, D.C., and met with the British Foreign and Commonwealth Office, London Procurement Group; and the Office of the Australian High Commission in London to obtain an understanding of how other national governments provide housing and furniture for their employees at overseas locations. In addition, we developed information on the U.S. Agency for International Development's housing and furniture processes. We did not independently verify any cost savings or performance benefits data provided by the companies and other organizations we visited or those identified in other studies.

We conducted our review from May 1997 to March 1998 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Administrator, U.S. Agency for International Development; the Director of the U.S. Information Agency; the Director, Office of Management and Budget; and interested

congressional committees. We will also make copies available to others upon request.

Please contact me at (202) 512-4128 if you or any of your staff have any questions concerning this report. The major contributors to this report are listed in appendix II.

A handwritten signature in black ink that reads "Benjamin F. Nelson". The signature is written in a cursive style with a large initial 'B' and 'N'.

Benjamin F. Nelson, Director
International Relations and Trade Issues

List of Congressional Committees

The Honorable Jesse A. Helms
Chairman
The Honorable Joseph R. Biden, Jr.
Ranking Minority Member
Committee on Foreign Relations
United States Senate

The Honorable Judd Gregg
Chairman
The Honorable Ernest F. Hollings
Ranking Minority Member
Subcommittee on Commerce, Justice, State,
the Judiciary and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Benjamin A. Gilman
Chairman
The Honorable Lee H. Hamilton
Ranking Minority Member
Committee on International Relations
House of Representatives

The Honorable Harold Rogers
Chairman
The Honorable Alan B. Mollohan
Ranking Minority Member
Subcommittee on Commerce, Justice, State,
and the Judiciary
Committee on Appropriations
House of Representatives

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Abbreviations

FBO	Office of Foreign Buildings Operations
ICASS	International Cooperative Administrative Support Services
LQA	Living Quarters Allowance

Comments From the Department of State

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



United States Department of State

Chief Financial Officer

Washington, D.C. 20520-7427


June 1, 1998

Dear Mr. Hinton:

We appreciate the opportunity to review your draft report, "STATE DEPARTMENT: Options for Reducing Overseas Housing and Furniture Costs," GAO Job Code 711259.

Enclosed are the Department's comments. If you have any questions concerning this response, please call Ms. Sheri Sprigg, Bureau of Administration, at (202) 647-3196.

Sincerely,


Kathleen J. Charles, Acting

Enclosure:
As stated.

cc:
GAO - Ms. Glod
STATE/A - Mr. Hayes, Acting

Mr. Henry L. Hinton, Jr,
Assistant Comptroller General,
National Security and International Affairs,
U.S. General Accounting Office.

Department of State Comments on the GAO Draft Report
"STATE DEPARTMENT: Options for Reducing
Overseas Housing and Furniture Costs."
GAO Job Code 711259
May 1998

The Department of State has responsibility for worldwide programs in both housing and furniture which are managed by professional staff, cognizant of the need to provide a safe, secure, durable product (be it housing or furniture) in a cost-effective manner. We are constantly reviewing procedures and working with both our customers and providers in the public and private sectors to ensure our programs meet these goals. While we welcome a review of our efforts and agree that a test of programs at various posts can have positive results, we are concerned that the GAO presupposes outcomes (as witnessed by the recommendation) before the test has been conducted.

GAO Recommendation: We recommend that the Secretary of State direct the Under Secretary for Management to establish a pilot program for implementing the practices we identified for leasing and furnishing of overseas residences. Options that should be in the pilot include outsourcing homefinding, expanding the use of housing allowances, increasing the use of employees' household effects, and procuring furniture locally. The Under Secretary should designate specific posts for the pilot. We believe the pilot should initially focus on 6-8 posts. We believe good candidates include Brussels, London, Paris, the Hague, Singapore, Bangkok, San Jose, Nassau and Mexico City. The Under Secretary should also establish an implementation plan that includes evaluation criteria, the identification of total costs, specific start and completion dates for pilots, and a proposed implementation schedule for a larger roll-out of these practices.

Department Response: This recommendation deals with two different issues: overseas housing and furnishings, which we will address below.

HOUSING

The Department's housing program is diverse and complex. We have 12,353 residential properties located at 287 posts in 178 countries around the globe. We have posts with over 300 residential units and we have posts that have only one. There are countries where we cannot own property and leasing is the only option. We try to fit the housing program to the individual post to maximize cost effectiveness yet meet the needs of the mission. At some posts, it is more advantageous to go with a short-term lease program while at others it would be most appropriate to go to a living quarters allowance. At others, a government-owned program works best. Most posts have a mix or blend of residential holdings. Currently the Department owns or long-term leases 3750 residential units or 30.3% of our housing inventory while we short-term lease 7929 units or 64.2%. We provide Living Quarters Allowance for 674 residences or 5.5%. We believe the GAO

Appendix I
Comments From the Department of State

needs to take into account that the United States Government housing program overseas is not a “one size fits all” activity. We are always looking for a better way to meet housing requirements and often make adjustments. Therefore, we welcome the opportunity to test the GAO’s suggestions, to see whether some of them are applicable to our housing program.

We agree with the concept of a limited test, not a pilot program, of housing practices as suggested by GAO in its recommendation. The selection of the post(s) however, should be left to the Department. There is no one solution to these issues that transcends all the differences among the Department’s geographic regions. What works in Singapore may not work in San Jose and vice versa. The GAO’s suggested test posts are all in well-developed countries and will prejudice the results. The Department’s post sampling will include a greater variety of posts from countries at other levels of the economic scale and geographic diversity.

In some instances, comparing the State Department processes to those of the private sector may be valid for study purposes but in some others, it may not be valid. GAO notes examples where the private sector does not provide maintenance but instead relies on the landlord to make minor repairs. We would certainly prefer this as well, but it is not always possible, since local custom (especially in many African locations) often dictates otherwise. In addition, the repair skills may not readily exist in all geographic areas. Absent from GAO’s discussion is the substantial security and other make-ready costs that will have to be considered, no matter how the properties are acquired.

The GAO has not provided sufficient cost detail in this draft report for the Department to confirm comprehensively or challenge the GAO analyses. It would be useful to review with the GAO specific cost data and elements developed in the course of their work in preparing this report. The Department’s test will include a full comparison of costs and effectiveness of suggested alternatives with current operations. Some of the cost elements that must be included in the cost comparison are listed below.

Costs which would not be reduced by outsourcing:

- Security surveys;
- Department of State specific make-ready costs such as security requirements;
- Market analysis;
- Management of housing profile (even if the system were changed, there would still be the necessity of oversight of the program);
- Management of Government-owned and functional space properties;
- Warehousing of Government furnishings, depending on the extent of the furnishings program;
- Housing Board participation (time and money) - the Board may indeed have more responsibilities under a private leasing program.

Additional costs due to outsourcing relocation services and private leasing:

- Management of outsourcing arrangements;

- Overhead of relocation services (whether included in leases or paid as separate fees);
- Potential additional shipping costs for household effects, depending on furnishings program;
- Interim storage charges for Government furnishings or personal household effects if housing is not available immediately upon arrival;
- Potential higher lease costs if leases are limited to tour of duty than if leases are not consistently managed and negotiated by a single United States Government manager;
- Cost of house finding trips: (1) travel, per diem, salaries of employees, and (2) related disruption and loss of work time;
- The added cost of leases due to the pressure of employees to obtain the highest cost/size lease in their category;
- The added cost due to the profit incentive of the relocation service in providing high cost leases.
- The added cost of temporary stays in a hotel while searching for a private lease instead of moving directly into government leased quarters.

FURNISHINGS

GAO proposes either shipment of employee-owned furniture or the local purchase of household furniture as alternatives to the current system. We do not agree with the recommendation presented on page 28 which calls for “ a proposed implementation schedule for a larger roll-out of these practices.” As is the case in the Housing area, we are concerned that incomplete data has been used to reach this conclusion. Even the GAO noted on page 30 that it “did not independently verify any cost savings or performance benefits data provided by the companies or other organizations.” We must be sure that accurate data comparing like products be obtained and verified as the basis for sound recommendation(s). As an example, Jakarta has provided detailed pricing information for locally purchased three bedroom households of residential furniture. Their cost was \$16,939 for 60 pieces of furniture, dining chairs, sofas, love seats, occasional chairs, none of which were upholstered. (Post itself recommends against local purchase of upholstered pieces.) Contract prices range from \$15,900 to \$16,100 for 87 pieces (plus shipping). Included under the contract and missing from Jakarta prices were lamps, lampshades, bed frames, mattresses, box springs, pillows, and a number of other items.

It is self-evident that packing and shipping personally owned household furniture over the course of multiple employees’ tours is inherently more expensive than the initial cost of purchasing furniture under a bulk contract and shipping it once. Also, the purchase of U.S. made furniture, of known sound construction and adhering to U.S. flammability safeguards, carries significant advantages.

CONCLUSION

The GAO draft report raises legitimate questions about possible cost savings in our housing program. We will undertake appropriate studies at several overseas posts to determine if modifications to any part of this program is warranted.

The Department will initiate studies to document where such changes can be made by establishing an inter-Bureau task force to examine housing in the context of relocation policies and practices. Recommendations for specific program changes must be based on well documented and accurate data considering the full benefits to the Department as opposed to post-by-post savings that may ultimately prove more costly to the Department as a whole.

Our detailed concerns regarding specific segments of the draft report follow.

DEPARTMENT OF STATE SPECIFIC COMMENTS

1. Draft Report Page 2 – 4: The "millions of dollars" of potential cost savings claimed by GAO are not supported in the details of the draft report.

See comment 1.
Now on p. 2.

2. Draft Report Page 4, Line 9: "State's processes are cumbersome and inefficient". The housing support processes noted are Congressionally mandated; change to private relocation companies would not change the "overhead" of management of these Congressionally mandated housing standards and regulations.

See comment 2.
Now on p. 3.

3. Draft Report Page 5, line 3: "It is costly, staff and time intensive, and we found that employees are sometimes not satisfied with their residences." Even if the costs are high (though the report does not prove this conclusively), this is not proof in itself that alternative procedures would be less costly. Also, employees will often complain when polled, especially if dissatisfied with the mandated size of their unit.

See comment 3.
Now on pp. 3-5.

4. Draft Report Page 5, line 5: "Residential leasing is a multi-step process. Typically, in-house staff search the rental market;...Figure 1 illustrates State's government leasing process at a typical overseas post." There would be no significant change if a relocation company were involved because the Department of State would still need to review the process and results for correctness -- unless there were a change in statutory and regulatory requirements.

See comment 2.
Now on p. 6.

5. Draft Report Page 7, line 10: "The support costs associated with this type of program can be very significant at certain posts. For example, at the mission in Brussels and the embassy in London, we obtained information on the number of people who spent all or part of their time on residential short-term lease activities. We multiplied the time each person spent by their compensation level to arrive at the salary cost allocated to short-term lease activities..." The Department would be interested in confirming the actual time spent by embassy staff in handling just those leasing functions that would be outsourced; we were unable to validate GAO's data when we checked at one post.

See comment 4.
Now on p. 7.

6. Draft Report Page 7, line 10: "The support costs associated with this type of program can be very significant at certain posts." Although the GAO reports on the costs, it does not speculate on the "benefits" side of the equation. For example, one purpose of Government-leased housing is to reduce costs based on maintenance of a stable inventory of housing with resulting reduction in make-ready and security costs, reduction of hotel costs for arriving staff, reduction of shipping costs, and preferred tenant discounts and discounts due to consistent negotiations.

See comment 5.
Now on p. 7.

7. Draft Report Page 7, line 20: "FBO's review and approval of proposed leases exceeding cost ceilings and/or space standards has resulted in additional indirect costs to the government. These costs result from the staff requirements in FBO to review and approve waiver requests and costs associated with cabling posts on waiver decisions." In A/FBO there are very few people involved in leasing. In A/FBO's Real Estate Division,

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See comment 5.
Now on p. 7.

lease approvals and management are handled by positions totaling three full-time staff. In addition, policy and analysis, which would be necessary in any system in order to provide prudent management, involves others in the lease review process and in the clearance and approval process. GAO does not comment on the benefit to the U. S. Government of reviewing proposed leases exceeding cost ceilings and or space standards.

See comment 5.
Now on p. 8.

8. Draft Report Page 8, line 15: "Despite State's substantial investment in resources to locate housing, we identified instances in which the employees were not satisfied with the housing selected for them." Providing appropriate, decent, safe and sanitary housing in a cost-effective manner is the Department's objective. Preassignment of housing reduces temporary housing costs and increases productivity since employees begin work immediately upon arrival at post rather than spend time house hunting. No matter what housing system is employed, there will always be some employees who are dissatisfied with their housing assignments, especially when we are working with mandated standards.

See comment 6.
Now on p. 8.

9. Draft Report Page 9, line 5: "In a limited number of locations, State operates a Living Quarters Allowance (LQA) program that allows employees to choose their residence. It provides an allowance to employees based on rank and family size, and employees typically work with real estate agents to locate and select a residence. The employee is responsible for signing the lease. As a result, posts having LQA programs often incur relatively minor support costs for short term residential leasing. For example, three posts currently under LQA (Geneva, Guatemala City and Quito) have a combined ICASS¹ budget of about \$150,000 for leasing and short-term residential leasing (STL) building operation expense support in fiscal year 1998, compared to over \$1.5 million allocated for the post in Brussels." There is a faulty logic trail here. It is necessary to compare total costs. While it is true that a post under short-term lease does incur maintenance costs, a post under LQA will have staff absent from work searching for housing and staying at home to handle maintenance -- both costly endeavors given the total cost of maintaining personnel overseas. Employing local staff, at significantly lower per hour cost, to handle maintenance issues is more logical. A second important cost saving of an STL program is the rental savings inherent in signing a multi-year lease with defined rates of increase, rather than the landlord being able to raise the rent every time s/he signs a new lease under the LQA program. Without knowing other factors, comparison of the total budget for such costs in Geneva, Guatemala City, and Quito (LQA) and Brussels (STL) is meaningless. Other factors such as size of inventory and labor costs must be considered. Even a per unit cost comparison is not valid. The comparison must be at the same location. A post with mixed LQA and STL housing would be the preferable comparison study.

See comment 5.
Now on p. 12.

10. Draft Report Page 13, line 14: "We found that the prevalent private sector process for providing housing and furniture includes contracting with a relocation company or other service provider to identify available housing from which the employees can make a choice, giving an allowance to the employee to pay for rent, and using a contractor to ship

¹ International Cooperative Administrative Support Services

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Comments From the Department of State

employees' household effects to furnish the residence." We would like to see the data and analyses generated to compare United States Government practices with those of private sector organizations. GAO's report does not demonstrate that the private sector system is truly cost effective for the United States Government.

11. Draft Report Page 16, line 3: "Although outsourcing is being used extensively in the private sector to save money and provide quality services, State has not examined the potential application of this option to its housing program. During our benchmarking exercise, we found that many leading U.S. companies and at least one other Government embassy have outsourced homefinding and destination services to professional international relocation companies. Relocation companies assist the employee in finding suitable housing and handle all settling-in activities. Our benchmarking efforts indicate the private sector's use of relocation companies has provided quality services that meet employees' needs for secure, safe, suitable, and affordable housing. Our analysis at two posts indicates that using a relocation company could result in potential savings of several hundred thousand dollars annually. Further, the increasing availability of relocation services throughout the world makes outsourcing homefind services an option that State should consider." The details on outsourcing done by private sector organizations are not provided and therefore we cannot review or comment.

12. Draft Report page 23: GAO notes "Our analysis shows that shipping costs would not increase as much as State Officials estimate." Data compares the one-time shipment of household effects (HHE) between furnished and unfurnished posts. DOS residential furniture bought under the current contract is shipped to post only once. The life expectancy of furniture under normal use is eight to twelve years. During this period the furniture is used by three to five DOS employees serving a normal two or three year tour at a post. A cost comparison must calculate the cost of six to ten shipments (arriving and departing) of HHE versus the cost of one-time procurement under the contract.

We are concerned that GAO considers Household Effects shipments allowed DOS employees as representing primarily residential furniture. HHE shipments include a variety of items (clothing, dishes and glassware, appliances, art work and decorative pieces, linens) needed to turn a furnished house into a home. To compare realistically shipping household furniture with HHE, the cost of shipping contract furniture under current practices should be added to HHE costs documented in DOS records.

GAO does not address the issues involved in the customs clearance of shipments. Brazil, for example, prohibits the import of diplomatic HHE shipments before the employee arrives in country and is accredited. Only then can HHE shipment be received and the customs clearance process begin - a process that takes two to four months. In such instances GAO recommends housing in temporary DOS-leased apartments (which they propose eliminating) furnished with rental furniture (cost?) or temporary Government-owned furniture (which they propose eliminating).

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See comment 5.
Now on p. 13.

See comment 7.
Now on pp. 19-20.

See comment 8.

Appendix I
Comments From the Department of State

See comment 9.
Now on p. 21.

13. Draft Report, pages 24 through 26: GAO suggests that several posts can purchase residential furniture locally at costs equal to or below contract prices, and concludes on page 28 that "Buying residential furniture locally could save 40 percent or more of the purchase price...." DOS disputes this finding.

See comment 10.
Now on p. 21.

14. Draft Report, page 25: GAO discusses "savings" available in San Jose. "For example, a living room set costs \$4,112 under the contract compared with \$2,850 if purchased locally." Nine living room sets are available under the contract, ranging in cost from \$2,507 to \$4,836 and averaging \$3,405. Cost comparisons are meaningless, however, without knowing what pieces are included and the quality of the set purchased in San Jose.

See comment 11.
Now on p. 21.

15. Draft Report, Page 25, line 3: GAO addresses the DOS response to previous questions raised about operations of the residential furniture program. GAO fails to include DOS concerns that residential furniture be manufactured to meet US construction and safety standards which ensure quality products being purchased by DOS, and the issue of displaying American made furniture in the overseas residences of U.S. Government officials.

See comment 12.
Now on p. 23.

16. Draft Report Page 26: DOS continues to disagree with the GAO conclusion that savings that accrue to a single post abroad are necessarily in the best interest of the Department as a whole. Reduced ordering under the contract may lead to increased contract furniture prices for the remainder of DOS.

See comment 13.
Now on p. 22.

17. Draft Report, page 26: GAO cites Copenhagen as stating significant savings available by locally purchasing residential furniture. DOS reviewed Copenhagen data presented via cable 98 Copenhagen 1313, and responded via cable 98 State 41948 noting inaccurate data. Corrected data showed contract furniture cost approximately 10% more than local purchase, while local purchase items were noted by post as being "not of similar quality."

See comment 14.
Now on p. 23.

18. Draft Report page 28 line 4: GAO suggests DOS residential furniture inventories worldwide total \$100 million. GAO implies a significant percent of DOS warehouse expenses worldwide are attributed to the furniture program. The vast majority of the furniture inventory is in active use in residences and the estimated value of the inventory is based on purchase price exclusive of depreciation. Additionally, the DOS recoups significant dollar amounts on the sale of used furniture with funds generated being utilized to purchase replacement furniture. Thus GAO's inferred conclusion is inaccurate.

The following are GAO's comments on the Department of State's letter dated June 1, 1998.

GAO Comments

1. The estimate that millions of dollars could be saved is based on our analyses of several cost indicators. As noted in the report, one indicator is the large numbers of American and foreign national personnel directly involved in managing and supporting posts' residential housing and furniture programs. The costs to support one American direct hire overseas have been estimated to exceed \$200,000 annually, and the costs of foreign nationals average at least \$18,500. Very few positions worldwide would have to be eliminated or assigned to higher priority tasks to achieve substantial savings and/or efficiencies. Another example is the potential use of LQA—as noted in our report, data generated by the post in Singapore indicated that savings of as \$3,000 per lease could result from using LQA in place of government leasing. Considering that State and other agencies have over 8,000 short-term leases worldwide, the potential for significant cost savings is apparent.

2. We do not agree that a statutory change is needed to reduce the overhead associated with the State's housing program. With the exception of the current legislative requirement for approval of leases in excess of \$50,000 per year, inefficiencies in State's overseas processes can be addressed without changes in statutory requirements, primarily by looking for ways to minimize posts' in-house support requirements. State's housing allowance programs already demonstrate that posts' support requirements can be minimized while still complying with housing standards. Another alternative is to contract with relocation companies to measure properties for compliance with space standards, conduct market surveys, and visit potential properties to determine the compatibility with State's policies. According to State's regulations, Congress mandated the development of an interagency housing policy in 1979 to ensure uniformity and equity in the program. Although there is general language in the conference report accompanying the 1979 Foreign Assistance Appropriations Act indicating that real property should be acquired under a consolidated master plan through a single government agency, the language does not legally require any particular housing policy.

3. We believe that high cost operations that include substantial overhead and numerous administrative steps deserve special attention for reengineering and consideration of alternative practices. For example, we noted in our draft report that the internal support budget for the

short-term leasing program in Brussels totaled more than \$1.5 million in fiscal year 1998, compared to about \$150,000 in total for leasing and short-term residential leasing building operation expense support at three posts currently under LQA (Geneva, Guatemala City, and Quito).

4. The staff, compensation, and time data were supplied by the posts in London and Brussels based on their budget and personnel records.

5. We recognize that the current process may offer several benefits. We note that the options we presented may also offer benefits, including some of the same benefits that currently exist. For example, it is our understanding that relocation companies can negotiate the same favorable lease terms on behalf of the U.S. government as State currently receives. As stated in our report, we reviewed whether any private sector practices offer the potential to reduce costs and provide quality services overseas to State. Since we identified several practices with such potential, we would expect that State, in its study of the housing program, would examine and compare specific costs and benefits of the practices we identified and its current process. Until State performs this analysis, it is difficult to project the cost-effectiveness of State's current system.

6. We found that State has little comprehensive cost data to support its decisions concerning whether to use government short-term leasing or LQA for housing programs. However, ICASS data shows that government leasing programs often have substantially higher support costs compared to LQA programs—an important issue to be considered. Because the support cost differences are potentially so great, State should include an examination of housing allowance options in its housing studies. If State determines that the costs of other factors—such as the need for employees to stay home for maintenance and look for residences—outweigh the advantages of reduced in-house administrative support costs, then these costs should be fully documented as part of the decision-making process.

7. We agree various shipping cost factors need to be considered in a comparative analysis. However, State appears to miss the point by making the comment that to compare shipping household effects with contract furniture, the cost of shipping contract furniture under current practices should be added to the costs of household effects. This would skew the results of any analyses designed to determine if it is more cost-effective to ship employee household effects or provide government furniture. Analyses must first be based on State's actual shipping data, which we found to show that employees often ship the same weight of household

effects whether a post is furnished or unfurnished. For example, State provided us actual shipping data for over 50 posts in 1996. Our comparison of seven furnished and unfurnished posts having the largest number of shipments showed that the average weight of shipments varied by only about 1,100 pounds, or about 6 percent of the maximum amount authorized for shipment to unfurnished posts. This data suggests that the significant sums of money spent on operating a government-furniture program may be excessive and unneeded. In addition, State's comments did not consider the potential cost savings that could be derived by using household effects in place of government furniture. For example, the post in Singapore estimated that its annual warehousing costs alone could be reduced about \$180,000 by using household effects instead of government furniture.

8. Clearly, country-unique factors would have to be considered in making decisions. Assuming State's assertion is correct, in countries such as Brazil it may not make sense to consider the use of employees' household effects as an option to government furniture. Other options may exist, however, such as purchasing furniture locally or even working with the host government to eliminate rules/customs that contribute to inefficiencies in diplomatic missions.

9. We clarified the text to state that the estimate of potential savings resulting from local procurement could be as much as 30 percent or more of the purchase, shipping, and packing costs of the contract furniture. This conclusion was based on data provided by State's overseas posts. For example, post officials in San Jose told us that they could purchase a living room set locally for about \$2,850, compared to the contract cost of approximately \$4,296.

10. The information was provided by post officials in San Jose. We did not verify the data on local costs and availability, but post officials told us that high-quality furniture is available locally often with purchase prices below the government-furniture contract price. In addition, they note that the lead time for local delivery would be about 6 weeks, compared to 5-months or longer under the contract.

11. We recognize the importance of purchasing quality products and expect that State would consider this factor in examining the local purchasing option. We found that a few posts now purchase furniture locally, and based on our overseas visits, we are unaware of any concerns

about safety or fulfilling representational responsibilities associated with these purchases.

12. State's comments assume that its current furniture contract would be continued and that prices would increase if quantities were decreased. However, until State explores the various options identified in this report, it is difficult to project how the current contract might be affected, including whether it should be continued or renegotiated. We again encourage State to include its furniture program in its study plans.

13. We modified the text in response to this data.

14. The lack of a worldwide property inventory system in State makes it difficult to verify State's claim that most of the residential furniture is in use. Although this seems to be a logical assumption, at two of the posts we visited large inventories of residential furniture were in storage at that time. For example, in London, the majority of the items in the warehouse were residential furniture, including hundreds of dining chairs. Overall, our analysis shows that local procurement can substantially reduce the time for delivery of goods and services; thus, reductions in overall inventory and storage requirements could be expected. This view is consistent with State's own efforts to reengineer its logistics system. According to State, the benefits associated with simpler and cheaper supply channels are expected to total millions of dollars in savings, partially resulting from reduced inventory costs and consolidated warehousing.

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