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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

74-0421

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

AUG 21 1973

B-176519



The Honorable
The Secretary of Defense

Dear Mr. Secretary:

GAO has reviewed DOD's policies and practices in the Philippines for paying severance allowances to local national (Filipino) employees. We examined the allowances DOD paid to Filipino employees who had participated in the U.S. civil service retirement system and whose employment had been terminated in calendar year 1971.

During that year DOD paid severance allowances of \$386,000 to Filipino employees who were also entitled to immediate civil service retirement annuities. If this practice continues, additional severance allowances totaling about \$1 million will be paid to employees entitled to immediate annuities.

SEVERANCE ALLOWANCES PAID TO EMPLOYEES
ENTITLED TO IMMEDIATE ANNUITIES
AT THE TIME OF SEPARATION

About 900 of the 15,000 Filipinos employed at U.S. bases in the Philippines participate in the civil service retirement system. Because all of these employees have participated in the system for over 20 years--no appointments carrying entitlement to civil service retirement benefits have been made since 1951--many of them are now eligible for civil service retirement benefits, particularly under reductions in force.

The Foreign Service Act of 1946 and DOD policy require that, in general, U.S. employment practices be consistent with the prevailing local practices. According to a local wage survey by the State Department, it is not the prevailing

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practice in the Philippines for local employers to pay severance allowances to employees eligible for retirement benefits. The State Department's compensation plan in the Philippines adheres to this local practice.

In accordance with provisions of a base labor agreement dated May 27, 1968, with the Philippine Government and provisions of subsequent negotiations with local labor organizations, DOD pays severance allowances to all Filipino employees who are involuntarily separated (except for cause), regardless of whether they are entitled to immediate civil service annuities. DOD does not pay severance allowances to employees who are voluntarily separated or retired. It does, however, invite employees who meet the minimum age and service requirements for immediate annuities (under either voluntary retirement or reductions in force) to volunteer for separation under reduction in force and "involuntarily" separates those who volunteer, which makes them eligible for severance allowances.

In calendar year 1971, DOD separated 320 Filipino employees who were enrolled in the civil service retirement system. Our analysis of employee records showed that 317 of the 320 employees were eligible for immediate civil service retirement annuities and that 312 of the 317 employees (98 percent) received severance allowances totaling \$386,000.

If the remaining 900 employees who are civil service retirement system participants are paid severance allowances, they will receive an estimated \$1 million in addition to civil service retirement annuities.

CONCLUSIONS

We believe DOD should not pay severance allowances to employees entitled to immediate civil service retirement annuities, because such payments:

1. Are inconsistent with prevailing local practices.

2. Are inconsistent with the purpose of a severance allowance, which is to sustain involuntarily separated employees who may have no other source of income for a limited time while they seek other employment. Employees who are eligible for immediate annuities are not without income.

CORRECTIVE ACTION TAKEN

The Commander in Chief, Pacific, Representative, Philippines, has instructed personnel officers and U.S. bases in the Philippines, whenever possible, not to separate Filipino employees who are eligible for civil service retirement annuities under reductions in force.

We believe this policy, if properly implemented, will eliminate some dual payments. However, such a policy will be difficult to administer as long as local labor agreements do not specifically prohibit payment of severance allowances to separated employees who are immediately eligible for civil service retirement annuities.

RECOMMENDATION

We recommend that you modify the basic agreement with the Philippine Government to specifically exclude Filipino employees eligible for immediate civil service retirement system annuities from eligibility for severance allowances.

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We shall appreciate being advised of your views on the matters discussed in this report and of any action thereon that you take or plan to take.

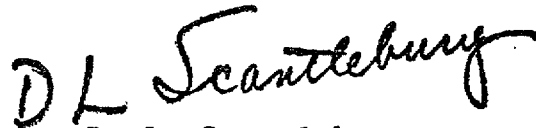
C1-5 We are sending copies of this report today to the Chairmen of the House and Senate Committees on Appropriations, House and Senate Committees on Government Operations, House

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and Senate Committees on Armed Services, and House and Senate Committees on Post Office and Civil Service; the Director, Office of Management and Budget; the Secretary of the Navy; and the Secretary of the Air Force.

Sincerely yours,

A handwritten signature in cursive script that reads "DL Scantlebury". The "DL" is written in a larger, bolder hand than the surname.

D. L. Scantlebury
Director