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FEDERAL EMPLOYMENT:

The Results to Date of the Fiscal Year 1994 Buyouts at Non-Defense Agencies

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THE RESULTS TO DATE OF THE FISCAL YEAR 1994 BUYOUTS AT NON-DEFENSE AGENCIES

Summary of Statement by
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The Federal Workforce Restructuring Act of 1994 (P.L. 103-226) gives non-Department of Defense (DoD) executive branch agencies the authority to pay eligible employees as much as $25,000 to voluntarily leave federal service. This was done to help agencies meet the National Performance Review's (NPR's) downsizing and reinvention goals without resorting to costly reductions-in-force (RIFs). With a first round of buyouts about to be completed, and a second round to begin with the next fiscal year, GAO developed this status report on the results of the buyouts to date at non-DoD agencies. GAO did this by sending questionnaires to a judgmentally selected sample of 37 agencies, 35 of which reportedly had made buyouts when GAO began its study in August 1994. GAO received data representing 34 agencies. GAO also interviewed representatives of OPM, OMB, and five public employee unions. GAO did not verify the data agencies provided in their questionnaires nor the information obtained during the interviews.

According to the agencies GAO surveyed, the buyouts were successful in helping agencies avoid RIFs in fiscal year 1994. While 2 agencies said they RIFed a total of 642 employees, were it not for the buyouts, 9 other agencies said that nearly 2,800 employees would have been let go. Most agencies reported that RIFs will be unlikely in fiscal year 1995. Taxpayers apparently benefitted from the buyouts as well. Agencies said that savings from the buyouts will amount to nearly $642 million in fiscal year 1995.

Despite the large numbers of people leaving the government, most agencies reported the buyouts had no effect on their ability to carry out their missions. At the same time, neither the agencies GAO surveyed nor the union representatives GAO interviewed reported that contractors were being hired to do the work of separated employees.

While agencies were to accompany their workforce reductions with comprehensive plans detailing the management reforms and restructuring initiatives they intended to make to achieve the NPR's reinvention goals, GAO is concerned that a number of those plans appear to have fallen short of the administration's expectations. In its ongoing study of the lessons learned by 25 nonfederal employers who had already experienced a downsizing, GAO was told that such planning was essential. Nonfederal organizations that did not plan their downsizing said they cut needed employees, suffered skills imbalances, and were often forced to replace some of those lost through lack of planning.

Madam Chair and Members of the Subcommittee:

We are pleased to be here today to discuss the federal government's buyout activities at non-Department of Defense (DoD) agencies.

As you are aware, the buyouts were authorized by the Federal Workforce Restructuring Act of 1994 (P.L. 103-226) to help meet the National Performance Review's (NPR) goal of reducing the federal workforce by more than a quarter million people by 1999. The NPR stated that these positions will be unnecessary if agencies "reinvent" themselves through management reforms and restructuring.

Both the NPR and Congress intended the buyouts to be a cost-effective alternative to separating employees involuntarily through reductions-in-force (RIFs). According to an OPM official, as of September 20, 1994, non-DoD agencies reported paying buyouts to 14,930 employees.

With the 1994 buyouts winding down, and a second wave of buyouts set to begin with the new fiscal year, we wanted to determine how well the buyouts are working. We are monitoring the government's buyout activities and will prepare a detailed assessment after the buyout authority expires on March 31, 1995. However, at your request, we have prepared the following status report on the results to date of the 1994 buyouts at non-DoD agencies, with specific emphasis on the following questions.

-- Did the fiscal year 1994 buyouts help mitigate RIFs? Are RIFs expected in the future?

-- How much did the buyouts cost and what kinds of savings can taxpayers expect?

-- Have the buyouts affected the ability of agencies to accomplish their missions?

-- Are contractors being used to "backfill" vacancies created by the buyouts?

-- How do the buyouts relate to the NPR's goal of reinventing government?

We obtained our data by sending questionnaires to a judgmentally selected sample of 37 agencies in August 1994. Of those agencies, OPM data as of August 4, 1994, showed 35 had made buyouts. Two additional agencies that had not reported making any buyouts at the time of our study were included because of the possibility they may make buyouts in fiscal year 1995.

Data representing 34 of the 37 agencies was received in time to be included in our study (two agencies combined their responses with other units in the same department). These 34 agencies were responsible for 94 percent of the 14,760 buyouts reported to OPM as of August 4, 1994. We also interviewed officials from the Office of Personnel Management (OPM); the Office of Management and Budget (OMB); and five public employee unions. We did not verify the data agencies provided in their questionnaires nor the information obtained during the interviews.

BACKGROUND ON THE FEDERAL BUYOUTS

The Federal Workforce Restructuring Act allows non-Defense executive branch agencies to offer voluntary separation incentive payments (VSIP)--commonly known as buyouts--to employees in any designated component, occupation, grade, series, and/or location who voluntarily agree to resign, retire, or take voluntary early retirement. Agencies may allow employees to take buyouts through March 31, 1995.

To receive a buyout, an employee must

-- be serving under appointment without time limit;

-- have 12 months of continuous service;

-- not be a reemployed annuitant;

-- not be eligible for disability retirement;

-- agree to resign or retire voluntarily before April 1, 1995, unless the head of the agency agrees to an extension, but no later than March 31, 1997; and

-- be in a position designated by the agency as eligible for buyouts.

The buyout is $25,000 or an amount equal to the employee's severance pay entitlement, whichever is less. The law also requires that for each buyout taken, agencies are to make a one time payment of 9 percent of an employee's basic salary at the time of the buyout to the federal retirement fund.

If any employee receiving the buyout is rehired by the federal government or performs services under a personal services contract with the government within 5 years of the date of separation, the employee must repay the full buyout to the agency that made the payment.

How the Buyout Reductions are Monitored

To ensure that savings are achieved and vacated positions are not simply refilled, the Federal Workforce Restructuring Act requires a governmentwide (excluding the Department of Defense and Central

Intelligence Agency) reduction in full time equivalent (FTE) positions for each buyout given.[1] OMB has interpreted this to mean that, for each buyout that occurs in a fiscal year, the following year's FTE level should be reduced by at least one.

Because this FTE offset is to be implemented governmentwide (excluding the Department of Defense and Central Intelligence Agency), the act designated OMB as the focal point for monitoring the federal buyout effort to ensure that the required governmentwide reduction in FTEs is achieved.

AGENCIES REPORT BUYOUTS NEARLY ELIMINATED THE NEED FOR RIFS IN FISCAL YEAR 1994 AND WILL LIKELY MITIGATE THEM IN FISCAL YEAR 1995

According to the agencies we surveyed, the buyouts were successful in helping agencies avoid RIFs in fiscal year 1994. This is important because RIFs can be costly to agencies. When agencies separate employees through RIFs, they are required to make severance payments that, depending on an employee's length of service, can be as much as 1 year's pay at the level received immediately prior to separation. Moreover, the involuntary nature of RIFs and their widespread impact can disrupt agency operations and affect employee morale.

Of the 32 agencies responding to the question, only 2 said they RIFed employees. One agency said it RIFed 70 employees, while the second, OPM, said it RIFed over 500 employees. OPM's RIFs resulted from somewhat special circumstances, however. The agency had to RIF employees in the spring of 1994 to help stop a $3 million per month shortfall in OPM's training and investigations revolving fund. They said the buyout authority came too late to avert those separations.

Were it not for the buyouts, agencies reported that many more employees would have lost their jobs involuntarily. Of the 9 agencies that said RIFs would have been necessary in fiscal year 1994 if not for the buyouts, 8 estimated they would have RIFed nearly 2,800 employees. Moreover, it seems that fiscal year 1994 buyouts will help agencies avoid RIFs in fiscal year 1995. Indeed, were it not for this fiscal year's buyouts, 12 agencies said they would probably need to RIF over 8,000 workers in fiscal year 1995.

The buyouts were reported as particularly effective by the United States Information Agency (USIA) which was on the brink of a RIF. According to a USIA official, RIF notices had already been issued

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[1] An FTE is normally equivalent to one person working 1 year. According to OMB guidance, this generally equals 260 compensable days (2,080 hours), and excludes overtime and holidays.

to over 200 employees. Passage of the buyout bill, however, made any involuntary separations unnecessary.

While fiscal year 1994 saw RIFs at few of the agencies we surveyed, the outlook for the future is also optimistic. Of the 31 agencies responding to the question, 21 said it was likely that they would need to reduce their workforce levels next year based on fiscal year 1996 ceilings. However, only 5 agencies indicated that it was likely that employees would be released through RIFs in fiscal year 1995, compared to 22 that said RIFs were unlikely. Of course, the likelihood of RIFs in fiscal year 1995 will depend largely on agencies' fiscal year 1996 budget allocations and their ability to make the number of buyouts they need.

Most of the agencies we surveyed believe they will offer a number of buyouts in fiscal year 1995. Twenty-one agencies responding estimated they will offer a total of over 10,000 buyouts. Governmentwide, OPM estimated that agencies will make as many as 50,000 buyouts in fiscal year 1995. This number includes approximately 25,000 to 30,000 buyouts expected at DoD (our data excludes DoD). Moreover, agencies' buyout estimates will continue to evolve until the fiscal year 1996 federal budget is finalized. Until then, all such estimates should be considered preliminary.

AGENCIES ESTIMATE THE BUYOUTS WILL SAVE TAXPAYERS MONEY IN FISCAL YEAR 1995

Twenty-seven of the agencies responding estimated they spent $336 million in fiscal year 1994 on the voluntary separation incentive payments. Agencies also made one-time retirement fund contributions of $26 million for employees to whom they offered buyouts. Thus, the total cost of the buyouts in terms of the voluntary separation incentives and the contribution to the federal retirement fund cost agencies about $362 million in 1994.

Most agencies said they did not realize any savings from the buyouts in fiscal year 1994 because the buyout authority came too late to offset costs. However, for fiscal year 1995, 25 agencies projected savings of nearly $642 million from the fiscal year 1994 buyouts.

MOST AGENCIES REPORTED THAT WORKFORCE REDUCTIONS DID NOT AFFECT THEIR ABILITY TO PERFORM THEIR MISSIONS

Eighteen agencies believed that the decrease in staff that resulted from the buyouts did not affect their ability to perform their missions. In fact, seven agencies responding said the buyouts enhanced their ability to do their work. NASA, for example, said the buyouts allowed the agency to complete the workforce restructuring necessary following the reduction in the space station mission.

However, three agencies reported being adversely affected by the buyouts, citing the loss of expertise or corporate memory as affecting mission accomplishment. For example, one agency said:

> "The buyout has 'gutted' corporate memory . . . the number of key managers who left has resulted in a deleterious domino effect. Depth and coverage in certain offices . . . has been negatively impacted."

AGENCIES SAID VACANCIES RESULTING FROM BUYOUTS WERE NOT BACKFILLED BY CONTRACTORS

Section (5g) of the Federal Workforce Restructuring Act prohibits an increase in service contracts as a result of implementation of the buyout provisions of the act, unless a cost comparison shows such contracts to be to the financial advantage of the government.

We asked agencies if they have used service contracts to perform the work of employees who left because of buyouts. Twenty-nine of the 30 agencies responding said they had not while the remaining agency was unsure. We also asked agencies if they had any requests for contract proposals pending to perform the work of employees who left with a buyout in fiscal year 1994. Of the 29 agencies responding, 26 reported they did not have such requests and the 3 remaining agencies were unsure.

We also contacted representatives of five major federal employee unions to ask them if they were aware of any increase in the use of service contracts to cover the work of employees who left under buyouts. None had any indication such backfilling was occurring. They said that while it may still be too early to tell if agencies are using contractors in such situations, they were concerned that this could be a possibility in the future.

BUYOUTS SHOULD BE ACCOMPANIED BY ADEQUATE STRATEGIC AND WORKFORCE PLANNING TO MEET THE NPR'S REINVENTION GOALS

In its September 1993 report, From Red Tape to Results: Creating a Government that Works Better and Costs Less, the NPR called for agencies to initiate a series of management reforms that would allow the government to eliminate approximately 252,000 positions by fiscal year 1999 (since raised to 272,900). These cuts were intended in part to reduce the ranks of what the NPR called "management control structures" such as headquarters staff, supervisors, auditors, personnelists, budgeteers, and procurement specialists.

To ensure these management reforms would take place, the President, on September 11, 1993, directed each federal agency to submit a streamlining plan to OMB. Among the items agencies were to include in their plans were the steps being taken to reduce bureaucratic layers; flatten hierarchy; reduce headquarters staff; and pare down management control structures. These streamlining plans are an important part of the NPR's reinvention efforts because they direct agencies to initiate management reforms and workforce restructuring first, and the personnel reductions are supposed to result.

Many Agencies We Surveyed Reported They are Targeting Their Buyouts

The buyouts can be a useful tool for agencies in helping them to surgically reduce and restructure their workforce where it is needed most. When asked whether their buyouts were targeted in any way, 11 of the 30 agencies in our study that said they offered buyouts in fiscal year 1994 indicated they had no specific targets, i.e., all eligible employees were allowed to apply. Of the remaining agencies that said they targeted their buyouts, the most frequent targets included specific, presumably higher grade levels; supervisors and managers; and employees in certain geographic locations.

Nonfederal Agencies With Experience In Downsizing Say that Adequate Planning Is Essential

Whether workforce reductions are targeted or not, private sector and nonfederal organizations that have already gone through downsizing stress the importance of adequate planning. In our ongoing review of the lessons learned by 25 private, state, and foreign government employers who reportedly downsized successfully, most said that planning--strategic, workforce, or a combination--was necessary before downsizing or making any changes in organizational structure. Strategic planning established organizations' future goals and work to be carried out. Workforce planning identified the skills that organizations would need in order to do that work and those skills that would no longer be required.

The nonfederal organizations that told us they did not plan for their restructuring and the skills they would need after downsizing said they ended up cutting needed employees, suffered skills imbalances, and were often forced to replace those lost through lack of planning.

NASA and the Department of Education were two agencies that reportedly did some careful planning prior to offering buyouts. NASA, for example, had to reduce its workforce after its space station project was curtailed. An agency official said that while NASA did not target its buyouts because it had a broadbased need to downsize, it gave priority to certain categories of employees. In order of priority, those categories included early-retirement eligibles; supervisors and managers grade 14 and above; all other supervisors and managers grade 13 and above; and all remaining employees.

As we reported in our August correspondence on buyouts at the Department of Education, we were told by Department officials that when the buyout legislation was still under consideration by Congress in the fall of 1993, the Department realized it could use buyouts as a workforce planning tool.[2] In October 1993, the Department's Office of Human Resources and Administration surveyed employees to determine who was likely to apply for the buyouts and how much it would cost the agency. Between late-April and mid-May, the Department accepted buyout applications only from those employees who were eligible for retirement (about 30 percent of the workforce).

Department officials told us that because of the buyouts, the Department was able to release higher graded employees in areas where workloads were decreasing, improve productivity, and restructure its workforce to better reflect new legislative priorities such as managing the Direct Student Loan program.

Many Agencies' Streamlining Plans Fell Short of What OMB Expected to Achieve the NPR's Reinvention Goals

While OMB said some agencies supported their downsizing with adequate planning, the administration's response to agencies' streamlining plans suggests that the plans fell short of what was expected to meet the NPR's reinvention goals. One OMB official told us many agencies did not take the time or effort to develop their plans. As a result, the official said that in mid-August, following a review of the plans, OMB asked all departments and major agencies to submit improved streamlining plans no later than October 3, 1994. In so doing, OMB directed agencies to emphasize the restructuring of their organizations and work processes, and reflect the importance of a related reduction in the number of supervisors, headquarters staff, and support staff.

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[2]Buyouts at the Department of Education (GAO/GGD-94-197R), Aug. 17, 1994.

CONCLUSION

In analyzing the reported results of the buyouts to date, we believe most successfully helped agencies meet their fiscal year 1994 workforce reduction targets without resorting to RIFs. However, agencies were to accompany their workforce reductions with comprehensive plans detailing the management reforms and restructuring initiatives they intended to make to achieve the NPR's reinvention goals. To the extent that the resubmitted plans may still not meet the administration's expectations, agencies may be trying to meet their downsizing targets without meaningful strategic or workforce planning.

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This concludes my prepared remarks. I will be pleased to answer any questions the Subcommittee may have.

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