

February 1992

DEFENSE FORCE MANAGEMENT

Limited Baseline for Monitoring Civilian Force Reductions



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RELEASED

**National Security and
International Affairs Division**

B-246254

February 5, 1992

The Honorable Earl Hutto
Chairman, Subcommittee on Readiness
Committee on Armed Services
House of Representatives

The Honorable Lane Evans
House of Representatives

This report responds to your May 21, 1991, request that we review the Department of Defense's (DOD) plans for reducing the industrial and commercial sectors of its civilian work force. Specifically, our objectives were to (1) evaluate the accuracy and completeness of the 5-year Civilian Employment Master Plan that DOD submitted to the Congress in April 1991 and determine whether it provided a baseline for monitoring force reductions and (2) determine what force reduction guidance DOD issued in response to a congressional mandate, as well as its likely impact.

Background

Congressional concerns about DOD's management of its civilian work force, coupled with the desire for a baseline from which to track changes in the industrial and commercial work load and work force requirements, as well as the desire for advance notice of plans for involuntary separations, led to the enactment of section 322(a) of the National Defense Authorization Act for Fiscal Year 1991 (P.L. 101-510). The legislation required DOD to submit a 5-year master plan for industrial and commercial workers, projecting work load, employment levels by worker category, employee furloughs, and involuntary separations. The legislation also required DOD to develop guidelines for reducing the work force by setting priorities for reductions by categories of workers.

DOD's industrial and commercial activities are federally owned manufacturing and service activities that generate revenues through the sale of goods and services to others; these revenues flow into a revolving fund that is used to finance future work. According to DOD, these activities had 309,248 employees at the end of fiscal year 1991, about a third of DOD's total civilian work force.

Results in Brief

DOD's 5-year plan provides a limited basis for monitoring force reductions involving industrial and commercial workers. DOD organizations, with the exception of the Navy, provided projections in all requested areas for the full 5-year period. However, many DOD and service officials we spoke with discounted the reliability of outyear data given the uncertainties of future military force structure changes and funding levels. The plan also contains some incomplete, inaccurate, and inconsistent data involving work load, workers, and projected force reductions.

Although DOD acknowledged some of the gaps and limitations of its data, the Department nonetheless reached several broad conclusions in the master plan related to expected rates of work force reductions and the projection that force reductions will occur primarily through attrition. Because these conclusions are based on inadequate data, they appear to be premature. For example, only limited correlations can be made between changes in work load dollar values and changes in employment numbers since changes in work load values represent more than just changes in work orders. Also, in some instances, our analysis of the plan data suggests that involuntary separations at various locations could be somewhat higher than specifically indicated in the plan; however, data errors and other limitations preclude a definitive answer.

Guidelines issued by DOD in response to a section 322(a) requirement restated the legislative language citing the order in which categories of civilian workers should be considered for reduction when such decisions had to be made. However, the decentralized nature of DOD's civilian personnel management may limit the impact of this guidance.

The legislatively mandated master plan provides a limited perspective in that it addresses only one portion of DOD's civilian work force, as required by the legislation. Broader assessments could determine the impact of military downsizing on DOD's total civilian work force.

DOD'S Report Provides a Limited Baseline for Monitoring Industrial and Commercial Work Force Reductions

The 5-year master plan submitted by DOD to the Congress, as adjusted, projects a net reduction of 48,714 positions (15.8 percent) within the industrial and commercial work force between fiscal years 1992 and 1996. However, recent and ongoing reorganizations and consolidations, the addition of more types of workers to the industrial and commercial activity categories within DOD, and other factors make it difficult to establish a uniform starting point and baseline for tracking these reductions in employment levels (see app. I). More importantly, incomplete, inaccurate,

and inconsistent data, as well as other factors affecting the 5-year plan data, limit its usefulness in assessing and tracking planned work force reductions.

DOD officials told us that they attempted to be responsive to the legislative requirements but they were operating under tight time constraints and therefore could devote little effort to testing the accuracy and completeness of the data. DOD acknowledged in the introduction to the 5-year plan that its data was incomplete and subject to change in that it had not built into the plan the effects of the then-pending deliberations of the President's Base Closure and Realignment Commission, whose work would affect installations housing a number of commercial and industrial activities. We also learned that data-gathering for the report took place during Operations Desert Shield and Storm, before the full impact of the war on industrial and commercial activities could be determined. In some cases, DOD activities had to postpone planned force reductions and hire temporary workers.

The plan was also incomplete because the Navy had declined to provide detailed information on a number of shipyards. The Navy was concerned that the public release of such information would give private contractors an unfair advantage in competing with the Navy's shipyards for funded work. The Navy subsequently submitted that data, but only for the first 2 years of the plan. The Navy also submitted data on its aircraft maintenance depots for only the initial 2 years. The Navy stated it was unable to project future years' data by activity level because of organizational changes under way and outyear funding uncertainties. DOD and other service officials we spoke with also expressed doubt about their ability to reliably project out-year data given ongoing Defense reorganizations and budget uncertainties.

In some instances the reported data was inaccurate. For example, the Army's use of indirect estimating techniques resulted in the reporting of numbers for indirect labor and general and administrative personnel that were inconsistent with actual data at individual installations. This inconsistency had the effect of making the Army's general and administrative labor requirements appear much higher and its indirect labor requirements much lower than actual figures at individual locations.

In addition, our analysis of the plan data for selected Air Force, Army, and Navy installations identified instances in which significant increases in work load dollar values and significant work force reductions were projected during the same time period. Service representatives told us that

some of this data in the plan was incorrect. In one case, Army officials told us that the large work force decrease shown for 1 year reflected an earlier reduction decision that has now been deferred to the next year. In another case, an Air Force official told us that the projected reductions in employment levels at its various activities appeared much greater than they were actually expected to be because different approaches were used for projecting end strength levels for the 2 years in question. In another instance, a Navy official reported that an accounting error at one location had resulted in the plan showing a change in work load amounts that was higher than intended.

We believe DOD could correct most of the data problems we have identified as it prepares updates to its 5-year plan, but DOD officials said they will only be able to reliably project broad aggregate work load and force reductions over a 2- to 3-year period and not on an installation level. Even then, such data should be viewed as providing tentative rather than absolute indicators of work loads and work force changes, particularly at the activity level, because near-term work load data is subject to unanticipated changes. Both Army and Air Force officials at the activity level cited examples of unanticipated work orders received since the time the 5-year plan was being prepared.¹ In addition to the tentative nature of this data, future budget uncertainties complicate long-term projections for this sector of the work force. Outyear data is apt to remain uncertain until (1) requirements for supporting a downsized military force structure and (2) expected levels of budget authority are more clearly determined. Further, DOD officials told us that projecting work load and work force requirements for industrial and commercial activities is especially difficult because of the multiple customers they serve—this involves forecasting multiple customer requirements and funding.

DOD Conclusions Based on Inadequate Data

DOD has drawn several summary findings or conclusions from its 5-year plan that appear premature in light of the data limitations, including some noted by DOD. First, DOD concludes that “for activities that provided data, total overhead and administrative employment trends are projected to decline at a faster rate than direct labor.” Whether this trend will occur, however, is unclear because of limitations in the plan data. The Navy did not provide a complete breakdown of its labor force by categories in the outyears beyond fiscal year 1993. In addition, both DOD and other officials

¹Officials at Rock Island Army Arsenal told us that they had received \$90 million in additional work since data for the 5-year plan was compiled. Officials at Warner Robins Air Logistics Center said they added about 2 years of work requiring about 200 workers to repair wing cracks in the C-141 aircraft—work that was not anticipated when the 5-year plan was prepared.

at locations we visited described various factors that complicate the relationship between direct and indirect labor. For example, equipment modernization can result in an increase in indirect labor but yield overall productivity gains. At the same time, as work load decreases, indirect labor and other costs may become a greater percentage of the total cost. These officials said that determining the extent to which net increases in indirect labor costs are undesirable and how such changes relate to net increases or decreases in productivity is a complex process.

While DOD took note of some limitations in the Navy's data, and urged caution in evaluating changes in the ratio of direct to indirect labor, it nevertheless found the report data sufficient to draw its conclusion. Given the materiality of omitted Navy data (the Navy accounts for some 62 percent of DOD's industrial work force), the acknowledged difficulty in assessing changes in direct labor and productivity, coupled with questionable overhead data submitted by the Army, as well as uncertainty about outyear data, DOD's generalized conclusion does not appear to be warranted.

Another of DOD's conclusions is that "... on balance, civilian employment levels decline consistent with funded work load." That is, as funded work loads decline, so does civilian employment. On one hand, one would expect employment levels to decrease as budgets shrink and work orders decline. On the other hand, changes in work load do not necessarily correlate uniformly with work force requirements because work load dollar values can be affected by changes in such areas as personnel, equipment, material costs, and accounting methods. For instance, one Air Force activity projected a \$640 million increase in work load for fiscal year 1992; however, Air Force officials told us that this increase was related largely to more complete accounting of military personnel costs, rather than to changes in work orders. Likewise, changes in fuel costs can also affect work load values without necessarily indicating a change in work orders.

Various DOD officials, including industrial activity managers, offered other cautions against trying to correlate changes in work load dollar values with changes in work force requirements. They noted that time, material, and personnel requirements vary from one type of industrial operation to another. Further, the dollar amount of funded work load shown at any one point in time reflects both orders received in that year and uncompleted work carried over from a prior year, as well as work orders that may not be completed until the next year. The extent of work backlogs can also vary over time and from one type of activity to another. It was not clear to what extent work load data shown in the 5-year plan was uniformly presented.

It should also be noted that as annual budget appropriations are reduced, industrially funded activities may not be as quickly affected as other activities. This is true because industrial facilities operate with various types and sources of funding, some direct and some indirect, with some sources more stable than others. Some activities are funded by (1) procurement or research and development appropriations, which are available from 2 to 5 years; (2) operations and maintenance appropriations, which normally are available for just 1 year; and (3) sales to other countries under foreign military sales contracts. Officials at the Army's Rock Island Arsenal told us that approximately 60 percent of their funding involved procurement funds and that most of the remainder was operations and maintenance funding. They also noted that they had received three \$20 million contracts from another country in the past 3 years.

A third conclusion in the 5-year plan is that employee reductions will be achieved primarily through attrition—in line with DOD's stated policy goal.² The 5-year plan data, including supplemental information provided by the Navy, indicates that involuntary separations will comprise about 15 percent of expected civilian personnel reductions for industrial and commercial activities. However, our analysis of the 5-year plan data at the installation level shows numerous instances where the projected annual reductions in end strength exceed normal patterns of attrition but involuntary separations are not indicated.³ To the extent these reductions occur as projected in the plan and attrition rates fall below normal patterns, the data suggests that the involuntary separations could range between 25 and 45 percent of planned reductions. The numbers could be decreased by such factors as intra-agency transfers and reductions in temporary workers, who have higher attrition rates than permanent full-time employees. The plan does not differentiate between permanent full-time and temporary employees. Some locations we visited reported having already terminated their temporary workers, a prerequisite to involuntary separations.

²DOD's force reduction guidance was essentially the continuation of its policy of restricted hiring (a general freeze on hiring from outside the Department, with some exceptions), which, coupled with normal attrition, was expected to generally provide the desired force reductions. Air Force and Army officials told us that in their 5-year projections, they assumed a continued hiring freeze. That freeze, once expected to be rescinded at the end of fiscal year 1991, has now been extended into fiscal year 1992.

³DOD officials told us that attrition rates for full-time permanent personnel averaged 7.4 percent for the 10-year period ending with fiscal year 1990. Fiscal year 1991 attrition rates are not yet available, but are expected to be lower. Some installations we visited reported historical attrition rates averaging around 4 percent. However, they also told us that DOD's freeze on external hires, in effect since 1989, other force reduction actions, and a slow economy have decreased normal attrition rates.

In keeping with the conclusion that employee reductions will be achieved primarily through attrition, while the 5-year plan states that only a few DOD activities anticipate using involuntary separations, the data shows major differences between the services. For example, the Navy, with 62 percent of the industrial work force and about 73 percent of the projected force reductions contained in the master plan, expects to have involuntary separations but did not provide complete information on those separations for DOD's use in preparing the report. Also not known at the time DOD completed its 5-year plan was the Navy's planned reduction in force (RIF), potentially affecting about 2,400 persons at five aviation depots, to take place at the end of fiscal year 1991.⁴ Supplemental information provided by the Navy identifies the potential for involuntary RIFs of another 3,983 persons at five shipyards during fiscal years 1992 and 1993. The Navy further indicates in the 5-year plan the likelihood of an unspecified number of involuntary separations in fiscal years 1994 through 1996 at an additional three locations.

Air Force data does not reflect any involuntary separations between fiscal years 1992 and 1996.⁵ Army data projects over 3,200 involuntary separations in fiscal years 1993 and 1994, about 50 percent of its planned reductions over the life of the plan. Data for other non-service Defense agencies does not reflect any involuntary separations from fiscal years 1992 through 1996; however, the data does show that they collectively expect to have 16 percent fewer employees in fiscal year 1994 than in fiscal year 1993. This figure is significantly higher than historical patterns of attrition would indicate, yet the plan does not indicate that involuntary separations are planned by any of the Defense agencies.

Guidance Is of Limited Help in Determining How to Reduce the Civilian Work Force

The required guidance DOD issued for reducing the industrial and commercial work force restated the section 322(a) legislative language; that is, it suggested that reductions should be made first to positions filled by foreign nationals; then to U.S. civilian employees overseas; next to overhead, indirect, and administrative positions; and last to direct operating or production positions in the United States.

⁴The announcement of a RIF does not mean that the number of persons targeted for reduction in the RIF notice will in fact undergo involuntary separations. Many persons targeted for RIF may be placed in jobs elsewhere within the Department; however, this placement may become increasingly difficult over a prolonged period of downsizing. Another option involves early retirement. Announcement of a RIF is a required first step toward seeking the Office of Personnel Management's authority to offer early retirement, commonly referred to as "early out."

⁵The Air Force conducted an involuntary separation of 2,028 persons in fiscal year 1991, prior to the 5-year period covered in the plan.

This priority ranking is likely to have little effect in making decisions about how to reduce the work force. The first two categories of workers to be reduced—foreign nationals and U.S. workers overseas—represented less than 3 percent of the 309,248-member civilian work force in industrial and commercial activities at the end of fiscal year 1991. Most of DOD's overseas civilians work in areas other than industrial and commercial activities.⁶

Further, management for civilian personnel is more decentralized in DOD than it is for uniformed military personnel, and civilian employment levels are more driven by operating budgets at the activity level. Thus, guidance that assigns priorities based on such broad categories of workers is likely to have little impact on reduction decisions at activities in the United States.

Additional Observations

Congressional concerns about growth in the numbers of DOD civilians, particularly in management and overseas positions, and the desire to see some relationship between military and civilian force reductions extend beyond the issue of industrial and commercial workers. Given the support role of civilian employees, another type of analysis may be needed to provide a broader perspective on overall civilian force reductions. This analysis could involve various assessments of the impact of specific downsizing and restructuring actions on support requirements and civilian employment levels. The scope of such studies could include examining changes over time in the percentages of civilians assigned to logistics activities, domestic and foreign base operations, research and development activities, and others, or changes in the ratios of military to civilian personnel in these operational areas. Such studies would not likely identify any one optimal ratio of military to civilian personnel or percentage of civilians desirable in each operational area; however, they could provide a clearer picture of DOD's and the services' planning for force reductions in these areas and of the extent to which changing requirements are being examined.

Agency Comments and Our Evaluation

DOD concurred or partially concurred with the findings contained in our report. However, it expressed concern that we had not fully recognized data limitations cited in the 5-year plan. DOD also emphasized limitations in its ability to develop precise plan data even within the first 3 years of the plan.

⁶DOD's fiscal year 1991 appropriation legislation placed a ceiling of 175,960 on civilian work years overseas, giving some indication of the total number of civilians overseas.

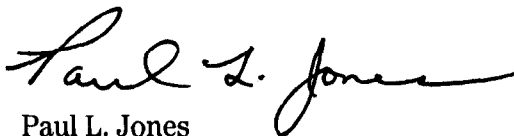
DOD noted some important limitations in its data and we have modified the report to increase that recognition. However, despite these and other data limitations cited we believe DOD's summary conclusions were premature, given the materiality of those data limitations. We believe our report appropriately recognizes areas where DOD can make corrections in future reporting as well as inherent limitations in its reporting due to unanticipated changes at the activity level.

The full text of DOD's comments is reproduced in appendix III along with additional, annotated evaluations of the specific statements.

Our scope and methodology are discussed in appendix II.

Unless you announce its contents earlier, we plan no further distribution of this report until 15 days after its issue date. At that time, we will send copies to the Chairmen of the Senate Committee on Armed Services and the House and Senate Committees on Appropriations; the Director of the Office of Management and Budget; and the Secretaries of Defense, the Air Force, the Army, and the Navy. We will also make copies available to other interested parties on request.

Please contact me at (202) 275-3990 if you or your staff have any questions concerning this report. Other major contributors to this report were Barry W. Holman, Assistant Director; Robert Bontempo, Evaluator-in-Charge, Keith Burnham, Evaluator; and Beverly Schladt, Supervisory Reports Analyst.



Paul L. Jones
Director,
Defense Force Management Issues

Aggregate Changes in Civilian and Military Force Levels

DOD's 5-year Civilian Employment Master Plan, submitted to the Congress in April 1991, represents what DOD states is "the Department's best estimate of the impact of the 25 percent reduction in force levels on this part of the support establishment [civilian workers in commercial and industrial activities]." Our analysis of the plan shows an overall decline of 48,714 employees from a baseline of 309,248 at the end of fiscal year 1991. This represents a 15.8-percent reduction from fiscal years 1992 through 1996, or an average decrease of approximately 3 percent per year.¹ Table I.1., using adjusted data from the 5-year plan, shows projected changes in employment levels for industrial and commercial employees between fiscal years 1992 and 1996 for each service and for other DOD agencies.

Table I.1: Projected Changes in Industrial and Commercial Employment

Activity	Number of employees		Net changes	
	Beginning of	End of	Number	Percent
	fiscal year 1992	fiscal year 1996		
Navy	190,400	154,781	-35,619	-18.7
Air Force	54,471	43,940	-10,531	-19.3
Army	37,905	31,848	-6,057	-16.0
Defense agencies	26,472	29,965	+3,493	+13.1
Total	309,248	260,534	-48,714	-15.8

DOD is in the process of consolidating a number of service supply operations with similar DOD activities; consequently, Defense agencies are projected to add personnel during the 5-year period covered by the master plan. An unspecified portion of the services' personnel reductions are attributed to these transfers to the Defense Logistics Agency.

Percentage decreases in employment depend on the base year chosen and will change each year as projected data is replaced with actual end strength numbers. For instance, employment figures for the beginning of fiscal year 1992 were based on projected strength levels at the end of fiscal year 1991. Air Force data available to us in September 1991, just before the end of the fiscal year, showed an end strength figure for fiscal year 1991 that was over 3,600 less than the figure calculated using data in the 5-year plan and reflected in table I.1. This change would reduce the net change in Air

¹By way of comparison, the Secretary of Defense reported in February 7, 1991, testimony before the House Armed Services Committee that total DOD civilian strength was projected to drop to 940,000 in fiscal year 1995, about 17 percent below its post-Vietnam peak of 1,133,000 in fiscal year 1987, and that active military end strength would fall to 1,653,000 by the end of fiscal year 1995, 24 percent below its post-Vietnam peak of 2,174,000 in fiscal year 1987.

**Appendix I
Aggregate Changes in Civilian and Military
Force Levels**

Force data over the 5-year period from -19.3 to -13.6 percent; it would change the overall DOD reduction from -15.8 to -14.8 percent.

The absence of complete data from the Navy regarding projected future years' funded work load precluded us from determining DOD's overall projected work load decreases involving industrial and commercial activities for the period covered by the 5-year plan. Air Force data that was provided indicates a work load increase of 3.1 percent, while the Army is expecting a work load decrease of 16.4 percent, and other DOD agencies are expecting work load decreases of 18.6 percent over the 5-year period. DOD budget estimates provided to the Congress, in conjunction with the Department's budget for fiscal years 1992 through 1993, project an average real decline (adjusted for inflation) of 3 percent annually in overall Department budget authority for fiscal years 1992 through 1996.

Scope and Methodology

To evaluate DOD's 5-year plan, we obtained information from DOD and service representatives on how the plan had been developed and compared information contained in it with data available at three Army and one Air Force field activities selected by the congressional requesters. We examined the summary conclusions contained in the plan to determine how well they were supported by the plan's data and corroborated by information we obtained at the service locations we visited. We also obtained and reviewed DOD's force reduction guidance and discussed its impact with DOD and service officials.

We obtained pertinent documents for review and analysis and interviewed cognizant officials at the following locations:

- the Office of the Assistant Secretary of Defense for Force Management and Personnel;
- the Department of the Air Force's Office of the Deputy Chief of Staff for Logistics and Engineering, Washington, D.C.; the Air Force Logistics Command, Wright Patterson Air Force Base, Ohio; Warner Robins Air Logistics Center, Warner Robins, Georgia;
- the Department of the Army's Office of the Deputy Chief of Staff for Personnel, Washington, D.C.; the Army Material Command, Alexandria, Virginia; the Army Depot Systems Command, Chambersburg, Pennsylvania; the Army Armament, Munitions and Chemical Command, Rock Island, Illinois; the Corpus Christi Army Depot, Corpus Christi, Texas; the Red River Army Depot, Texarkana, Texas; the Rock Island Arsenal, Rock Island, Illinois; and
- the Office of the Deputy Chief of Naval Operations for Navy Program Planning.

We conducted our review from May to October 1991 in accordance with generally accepted government auditing standards.

Comments From the Department of Defense

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



**FORCE MANAGEMENT
AND PERSONNEL**

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301-4000

JAN 2 1992

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Conahan:

This is the Department of Defense response to the General Accounting Office draft report, "DEFENSE FORCE MANAGEMENT: Limited Baseline for Monitoring Civilian Force Reductions" dated November 6, 1991 (GAO Code 391165/OSD Case 8880). The Department concurs or partially concurs with the report findings.

The GAO critiques the "Five-Year Civilian Employment Plan: A Report Required by Section 322(b) of the Fiscal Year 1991 Authorization Act." In preparing the plan, the DoD complied with the legislative requirement to identify the number and type of personnel, the manpower requirements, and the work load in each industrial-type and commercial-type activity. Also, the plan lists each activity planning furloughs or involuntary separations and examines the management factors used to determine the size and location of the proposed involuntary separations. While the DoD presented its best estimate, consistent with resource levels submitted in the President's FY 1992/FY 1993 Budget, the DoD qualified its presentation of data so that the reader would not draw unwarranted conclusions.

See comment 1.

The DoD agrees that the employment plan would be more complete with the inclusion of Navy shipyard and aviation depot data and that the Army techniques for estimating overhead, administrative, and direct labor could improve. The Department also agrees that the guidance required by the Congress in Section 322(a) of the FY 1991 DoD Authorization Act is of limited help in determining how to reduce the civilian work force in industrial-type and commercial-type activities. In addition, the DoD agrees that alternative methods of evaluating the civilian manpower requirements determination processes and personnel management strategies are desirable.

See comment 1.

The Department only partially agrees in those instances where the GAO uses partial quotes from the DoD plan to suggest incorrectly that the DoD presented conclusions that were not supported by the data. The DoD report specifically indicates that the data had limitations and must be interpreted with caution. Also, the DoD does not agree with the GAO position that

**Appendix III
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See comment 2.

the level of detail and precision of manpower and work load data required by the Congress in Section 322(b) is achievable, even in the first 3 years of the planning horizon.

The detailed Department of Defense comments on the GAO findings are provided at the enclosure. The Department appreciates the opportunity to comment on this draft report.

Sincerely,



Christopher Jehn

Enclosure:
As Stated

**Appendix III
Comments From the Department of
Defense**

GAO DRAFT REPORT - DATED NOVEMBER 6, 1991
(GAO CODE 391165) OSD CASE 8880

"DEFENSE FORCE MANAGEMENT: LIMITED BASELINE FOR MONITORING
CIVILIAN FORCE REDUCTIONS"

DOD RESPONSE TO FINDINGS IN THE GAO DRAFT REPORT

Finding A: Report Provided a Limited Baseline For Monitoring Industrial and Commercial Work Force Reductions. The GAO reported that the 5-year Civilian Employment Master Plan submitted by DoD to the Congress (as adjusted) in response to Section 322(b) of the National Defense Authorization Act for Fiscal Year 1991 projects a net reduction of 48,714 positions (or 15.8 percent) within the DoD industrial and commercial civilian work force between FY 1992 and FY 1996 (see Table I.1 of Draft Report). The GAO noted that according to DoD those activities had 309,248 employees at the end of FY 1991. The GAO observed, however, that recent and ongoing reorganizations and consolidations, and other factors, make it difficult to establish a uniform starting point and baseline for tracking the reductions. More importantly the GAO found that incomplete, inaccurate, and inconsistent data, as well as other factors affecting the 5-year plan data, limit its usefulness in assessing and tracking planned work force reductions.

The GAO reported that, while attempting to be responsive, DoD officials were operating under tight time constraints. The GAO noted that DoD acknowledged in the introduction to the 5-year plan that its data was incomplete and subject to change in that the Department had not built into the plan the effects of the then-pending deliberations of the President's 1991 Base Closure and Realignment Commission. The GAO also found that the data-gathering for the report took place during OPERATIONS DESERT SHIELD/DESERT STORM, before the full impact of the war on industrial and commercial activities could be determined. The GAO observed that in some cases DoD activities had to postpone planned force reductions and hire temporary workers. The GAO concluded that the DoD 5-year plan provides only a limited basis for monitoring force reductions involving industrial and commercial workers.

- **Navy Declined to Provide Information.** The GAO reported that the plan was also incomplete because the Navy initially had declined to provide information on a number of shipyards due to concern over giving private contractors an unfair competitive advantage. The GAO noted that the Navy finally submitted shipyard and aircraft maintenance data for only 2 years of the plan. The GAO further noted that DoD and Service officials expressed doubt about their ability to project out-year data reliability, given ongoing Defense reorganizations and budget uncertainties.

Now on p. 10.

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- **Data Inaccuracies and Fluctuations.** The GAO found that in some instances the reported data was inaccurate. For example, the Army usage of indirect estimating techniques resulted in the reporting of numbers for indirect labor and general and administrative personnel that were inconsistent with actual data at individual installations--making the Army general and administrative labor requirements appear much higher and its indirect labor requirements much lower than actual figures at individual locations.

The GAO also found--for selected Air Force, Army, and Navy installations--instances where significant increases in work load dollar values and significant work force reductions were projected during the same time period. The GAO conceded that DoD could correct most of the identified data problems as it prepares updates to its 5-year plan. The GAO reported, however, that DoD officials indicated they will be able to project aggregate work load and force reductions reliably only over a 2- to 3-year period. The GAO stated that, even then, such data should be viewed as tentative.

The GAO noted that out-year data is apt to remain uncertain until two areas are more clearly determined--(1) requirements for supporting a downsized military force structure (2) expected level of budget authority. The GAO further reported that projecting workload and work force requirements for industrial and commercial activities is especially difficult because of the multiple customers they serve. (pp. 2-6, pp. 13-15/GAO Draft Report)

DoD Comment: Partially concur. The DoD prepared the report in response to specific requirements set forth in Section 322(b) of the National Defense Authorization Act for Fiscal Year 1991(P.L. 101-510). The DoD acknowledged that the data reflected decisions that had been made as of January 1991, and which had been incorporated into the FY 1992/FY 1993 President's Budget. The DoD report also indicated that decisions, which had not yet been approved (such as the Secretary of Defense recommendations to the Base Closure and Realignment Commission), were not reflected in the plan. The DoD presented the data requested by the Congress, but qualified the summary findings to indicate that the data had to be interpreted with caution, particularly for the out-years.

The DoD report presented "Summary Findings" in terms of available data and noted the gaps in the data, accounting changes, fuel price fluctuations, and other factors that make it inappropriate to draw conclusions by comparing individual activity end strength and funded work load over time. As stated on page 2 of the "Five-Year Civilian Employment Plan," the DoD report presented the Department best estimate. The Department agrees that the employment plan data would be more complete with the addition of Navy shipyard data and out-year estimates for Navy depot maintenance. The DoD also agrees that the Army could refine its

Now on pp. 2-4.

See comment 1.

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model for estimating direct labor, indirect labor, and general and administrative personnel. In addition, the Department agrees that forecasting out-year data at the level of detail required by the Section 322(b) does not provide a reasonable basis for evaluation or management.

See comment 2.

The DoD does not, however, agree with the GAO position that the level of precision and stability of manpower and work load data required by the Congress in Section 322(b) is achievable, even in the first 3 years of the planning horizon because DoD industrial fund and commercial-type activities are so large and dynamic. Funded work load and manpower level execution are subject to variances at the activity level from current year plans consistent with emerging high priority requirements, work load slippages, and fact of life adjustments. Industrial fund activities have multiple customers, and customer priorities are often modified in the course of execution. The Congress also accepts the dynamic nature of industrial and commercial-type activities. Since FY 1983, Congress has acknowledged the need for industrial funded operations to adjust quickly to changes in funded work load by mandating operations without civilian end strength or work year ceilings.

Finding B: DoD Conclusions Based on Inadequate Data. The GAO reported that the DoD has drawn several conclusions from its 5-year plan that appear premature in light of the data limitations.

- **Overhead.** The GAO questioned DoD's conclusion that "total overhead and administrative employment trends are projected to decline at a faster rate than direct labor." The GAO explained that data limitations make it unclear whether this trend will occur. The GAO also found that the Navy did not provide a complete breakdown of its labor force by categories in the out-years beyond FY 1993. The GAO concluded that the generalized DoD conclusion does not appear warranted because of the various factors complicating the relationship between direct and indirect labor, coupled with questionable overhead data submitted by the Army.

- **Employment Proportionate to Workload.** The GAO also questioned the DoD conclusion that "...on balance, civilian employment levels decline consistent with funded work load." The GAO noted that changes in work load do not necessarily correlate uniformly with work force requirements, because work load dollar values can be affected by changes in such areas as (1) personnel, (2) equipment, (3) material costs, and (4) accounting methods. The GAO further noted that changes in fuel costs also can affect work load values without necessarily indicating a change in work orders. The GAO also reported that time, material, and personnel requirements vary from one type of industrial operation to another--and the dollar amount of funded work load shown at any

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one point in time reflects both orders received in that year and uncompleted work carried over from a prior year, as well as work orders that may not be completed until the next year. In addition, the GAO noted that the extent of work backlogs can also vary over time and from one type of activity to another, and it is not clear to what extent work load data shown in the 5-year plan was presented uniformly. The GAO also pointed out that, as annual budget appropriations are reduced, industrially funded activities may not be as quickly affected as other activities. The GAO explained that this is because industrial facilities operate with various types and sources of funding, some direct and some indirect--with some sources more stable than others.

- **Reductions through Attrition.** The GAO questioned a third conclusion in the 5-year plan, that employee reductions will be achieved primarily through attrition. The GAO reported that the 5-year plan data, including supplemental information provided by the Navy, indicates that involuntary separations will comprise about 15 percent of expected civilian personnel reductions for industrial and commercial activities. The GAO found that 5-year plan data at the installation level shows numerous instances where the projected annual reductions in end strength exceed normal patterns of attrition, but involuntary separations are not indicated. The GAO concluded that the data suggests that separations could range between 25 and 45 percent of planned reductions. The GAO also observed that some locations have already terminated their temporary workers--a prerequisite to involuntary separations. GAO found that the Navy, with 60 percent of the industrial work force and about 70 percent of the projected force reductions contained in the master plan, expected to have involuntary separations--but did not provide complete information on those separations. The GAO also pointed out that the 5-year plan does not include several Navy planned reductions-in-force. The GAO also reported that the Air Force data does not reflect any involuntary separations between FY 1992 and FY 1996. The GAO further reported that Army data projects nearly 3,200 involuntary separations in FY 1993 and FY 1994--about 50 percent of its planned reductions over the life of the plan. Finally, the GAO observed that data for the Defense Agencies does not reflect any involuntary separations from FY 1992 through FY 1996, although the data shows that they collectively expect to have 16 percent fewer employees in FY 1994 than in FY 1993. The GAO concluded that, because the DoD conclusions are based on inadequate data, they appear to be premature. (p. 2, pp. 6-10/GAO Draft Report)

Now on pp. 2, 4-7.

See comment 1.

DoD Comment: Partially concur. The report should reflect the DoD report summary findings on Overhead, Employment Proportionate to Workload, and Reductions through Attrition.

- **Overhead.** The DoD report (p. 5) stated:

"For those activities that provided data, total overhead and administrative employment trends are projected to decline at a

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faster rate than direct labor. The Navy did not provide a distribution of civilian employment by type for Navy Shipyards. Changes in the ratio of direct to indirect labor should be evaluated with caution."

See comment 1.

The DoD summary findings factually state aggregated data that were provided. The DoD report also indicated that the data are incomplete and should be interpreted with caution. Thus, the implied criticism by the GAO that the DoD report made unsupported conclusions should be qualified.

Now on p. 6

The reason the Navy did not provide the data beyond FY 1993 for Navy Aviation Depots was largely due to the fact that detailed planning was underway related to an ongoing Defense Management Report initiative. The initiative had a primary objective of reducing overhead personnel and costs. That planning was the basis for the FY 1991 reduction-in-force, which the GAO noted (at p. 9.) had not been known at the time the Section 322 Report was prepared. In short, while the statement that overhead personnel are declining faster than direct labor may not have been supported fully by data in the Section 322 Report, many other sources of information external to the Section 322 Report are available to confirm that conclusion.

See comment 3.

- **Employment Proportionate to Workload.** The DoD report statements should be reflected fully in the GAO report. The statement that "... on balance, civilian employment levels decline consistent with funded work load" is qualified in the DoD report (p. 6) as follows:

See comment 4.

"Figure 5 shows aggregate funded work load trend data for activities covered in this report, excluding shipyards. Detailed work load is presented in "then year" dollars. Converting funded work load to constant FY 1992 dollars indicates a 13 percent decline in funded work load between FY 1992 and FY 1996. However, these data must be interpreted with caution. Changes in cost accounting for depot level reparables and fuel price fluctuations mask the overall downward trend in aggregate funded work load for the activities evaluated in this report. Also, stock fund costs associated with commissary operations are transferred to the Defense Commissary Agency in FY 1992."

See comment 1.

The GAO should acknowledge that the DoD report already states that funded work load trends had to be interpreted with caution. The DoD does not, however, disagree with the further amplification provided by the GAO as to why the funded work load data must be interpreted with caution. As the GAO report correctly states on page 7, conclusions cannot be drawn from comparisons of funded work load that are unadjusted for inflation, fuel price fluctuations, accounting changes, and activities included in the baseline. The paragraph at the end of page 14 nonetheless draws conclusions by comparing unadjusted data on funded work load.

Now on p. 5.

Now on p. 11.
See comment 5.

See comment 6.

- **Reductions through Attrition:** Regarding attrition, the GAO incorrectly states that normal attrition for the full time permanent work force is 4 to 5 percent. The levels reflect recent attrition levels, which are depressed by hiring constraints and economic conditions. Normal attrition of full time permanent workers during FY 1980 to FY 1989 ranged from 6.2 to 7.6 percent for the DoD work force. When the temporary work force is included, normal attrition is about 12 to 13 percent. Thus, the GAO estimate that up to 45 percent of the total work force reductions projected in the commercial and industrial activities assuming normal attrition is incorrect.

Finding C: Guidance Is of Limited Help in Determining How to Reduce the Civilian Work Force. The GAO reported that the required guidance the DoD issued for reducing the industrial and commercial work force restated the Section 322(a) legislative language; that is, it suggested that reductions should be made (1) first to positions filled by foreign nationals, (2) then to U.S. civilian employees overseas, (3) next to overhead, indirect, and administrative positions, and (4) last to direct operating or production positions in the U.S. The GAO found that the priority ranking is likely to have little effect in making decisions about how to reduce the work force. The GAO noted that the first two categories of workers to be reduced--foreign nationals and U.S. workers overseas--represented less than 3 percent of the work force in industrial and commercial activities. The GAO observed that most of the DoD overseas civilians work in areas other than industrial and commercial activities. The GAO further found that management for civilian personnel is more decentralized in DoD than it is for uniformed military personnel, and that civilian employment levels are driven more by operating budgets at the activity level. The GAO concluded, therefore, guidance that assigns priorities based on such broad categories of workers is likely to have little impact on reductions decisions at activities in the U.S.

DoD Comment: Concur. In general, the DoD agrees with the GAO that the guidance, as required in Section 322(a), has little effect in making decisions about how to reduce the commercial and industrial fund work force. The DoD also agrees, in general, with the rationale provided by the GAO as to why that guidance would have limited effect on manpower plans. However, the DoD was nonetheless required by law to provide the guidance on priorities for reducing commercial and industrial manpower as specified.

The GAO statement that the first two categories of workers to be reduced--positions filled by foreign nationals and U.S. citizens overseas--represented less than 3 percent of the work force in industrial and commercial activities is incorrect. The DoD only collected data on foreign nationals in commercial-type and industrial fund activities, which represent less than 3 percent

See comment 7.

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of the work force. Data on U.S. citizens assigned overseas is not identified separately in the DoD Report.

Finding D: Additional Observations. The GAO reported that congressional concerns about growth in the numbers of DoD civilians, particularly in management and overseas positions--and the desire to see some relationship between military and civilian force reductions--extend beyond the issue of industrial and commercial workers. The GAO found that, given the support role of civilian employees, another type of analysis may be needed to provide a broader perspective on overall civilian force reductions. The GAO suggested such an analysis could involve various assessments of the impact of specific downsizing and restructuring actions on support requirements and civilian employment levels. The GAO also suggested that the scope of such studies could include examining changes over time in the percentages of civilians assigned to (1) logistics activities, (2) domestic and foreign base operations, (3) research and development activities, and (4) others--or to changes in the ratios of military to civilian personnel in these operational areas. The GAO indicated that such studies likely would not identify any one optimal ratio of military to civilian personnel or percentage of civilians desirable in each operational area; however, the studies could provide a clearer picture of the DoD and Services' planning for force reductions in those areas and of the extent to which changing requirements are being examined. (pp. 11-12/GAO Draft Report)

Now on p. 8.

DoD Comment. Concur. The DoD agrees that alternative methods of evaluating the civilian manpower requirements determination process and personnel management strategies are desirable. Civilian manpower planning and execution are very dynamic processes. Civilians are a resource to execute programs rather than a program in and of themselves. Therefore, civilian manpower levels, in aggregate, and at the activity level, are subject to adjustment and modification associated with work load adjustments. Opportunity for resource modifications is increased in commercial and industrial activities where work orders come from multiple customers.

The GAO notes that the Department work load planning and execution process operates with continual adjustments. Budget requests are formulated, justified, aggregated, and presented to higher headquarters (including the Office of the Secretary of Defense and the Congress) for approval. Adjustments are made at every level. The results of decisions are distributed through the chain of command. The processes include the Planning, Programming, Budgeting System and the Congressional authorization and appropriations process. Consequently, it is unlikely that programs and plans and resourcing levels proposed at the local level will be approved without adjustment.

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The Department is committed to personnel management practices that will minimize involuntary separations. To achieve that objective, the Department adopted hiring limitations on external workers and relies on the Priority Placement Program to help place surplus workers. Also, as the GAO noted, the DoD adds temporary workers to meet temporary requirements, such as those of DESERT STORM/DESERT SHIELD.

The following are GAO's comments on the Department of Defense's letter dated January 2, 1992.

GAO Comments

1. We agree that to a certain extent DOD qualified its presentation and summary conclusions, and we have modified our report to further indicate DOD's position. However, while DOD's report did indicate some limitations regarding its data, the impact of those limitations on DOD's conclusions was often not clear. For example, the report concludes that for activities that provided data, total overhead and administrative employment trends are projected to decline at a faster rate than direct labor. It is followed by a statement that the Navy did not provide a distribution of civilian employment by type for the Navy shipyards. The significance of this statement to the conclusion is not clear. Not indicated at this point is the fact that other Navy data was not submitted, including detailed outyear data beyond the initial 2 years of the plan. The Navy accounts for some 62 percent of DOD's industrial work force. We found other data problems, such as the Army's use of indirect estimating techniques that resulted in the reporting of numbers for indirect labor and general and administrative personnel that were inconsistent with actual data at individual installations. Thus, we continue to believe that this and other summary conclusions contained in DOD's report were premature. That DOD should be drawing such conclusions is even more questionable given the concerns it cites in its formal comments to us about its ability to reliably project near-term as well as outyear data for a 5-year plan.
2. We are not suggesting that DOD is able to provide precise, unchanging data for the first 3 years of the planning horizon. We recognize that changes occur even in the near-term and that the outyears pose even greater uncertainty. While DOD's official comments suggest that it cannot provide reliable data even within the first 3 years of the planning horizon, DOD officials had previously told us that they could more reliably project work load and force reduction data over a 2- to 3-year period if they could provide it in the aggregate rather than on a detailed installation basis.
3. DOD's report did not specify this additional data in drawing its summary conclusion. Subsequent to receiving this comment, we requested but did not receive this additional data from DOD.
4. The conclusion cited in this comment is found on page 3 of DOD's report; the qualifying statement is found as noted by DOD on page 6. In this and other instances, such qualifying statements are found apart from individual

conclusions without a clear indication of how or to what extent they might temper individual conclusions.

5. Our intent was not to draw a conclusion but to highlight the fact that missing data precluded us from tallying future years' projected funded work load decreases as we had done for overall end strength reductions using DOD's data.

6. We modified our report to reflect the most currently available data from DOD regarding attrition rates, including the 7.4 percent attrition rate for full-time permanent personnel for the 10-year period ending with fiscal year 1990. At the same time, numerous DOD officials we interviewed at the installation level told us that historical attrition rates for their locations were about 4 percent. Further, these officials stated that current economic conditions and previous early out acceptances had caused the attrition rates to drop almost in half. These statements and our analysis of data contained in DOD's plan suggest the potential for involuntary separations to be greater than that reflected in DOD's 5-year plan.

7. We obtained the number of civilians overseas by extrapolating data from DOD's 5-year plan. By subtracting the number of foreign nationals located at an overseas installation from the total population at the same post, we determined the number of U.S. citizens involved in industrial and commercial activities at that location. The summation of the total number of civilians overseas and the foreign nationals represented 2.8 percent of the total industrial and commercial population. A DOD official told us that the actual number of civilians working overseas could be somewhat higher if some workers on the rolls of stateside activities were working overseas. It is not clear that this would significantly alter our point regarding the relative size of civilian workers overseas engaged in industrial and commercial activities compared with civilians employed in other overseas activities.

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