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**FEDERAL  
DOWNSIZING**

The President's Fiscal Year 1996 Budget  
And Its Compliance With the Federal  
Workforce Restructuring Act of 1994

Statement of  
Timothy P. Bowling, Associate Director,  
Federal Human Resource Management Issues,  
General Government Division



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THE PRESIDENT'S FISCAL YEAR 1996 BUDGET AND ITS  
COMPLIANCE WITH THE FEDERAL WORKFORCE RESTRUCTURING ACT OF 1994

Summary of Statement by  
Timothy P. Bowling, Associate Director  
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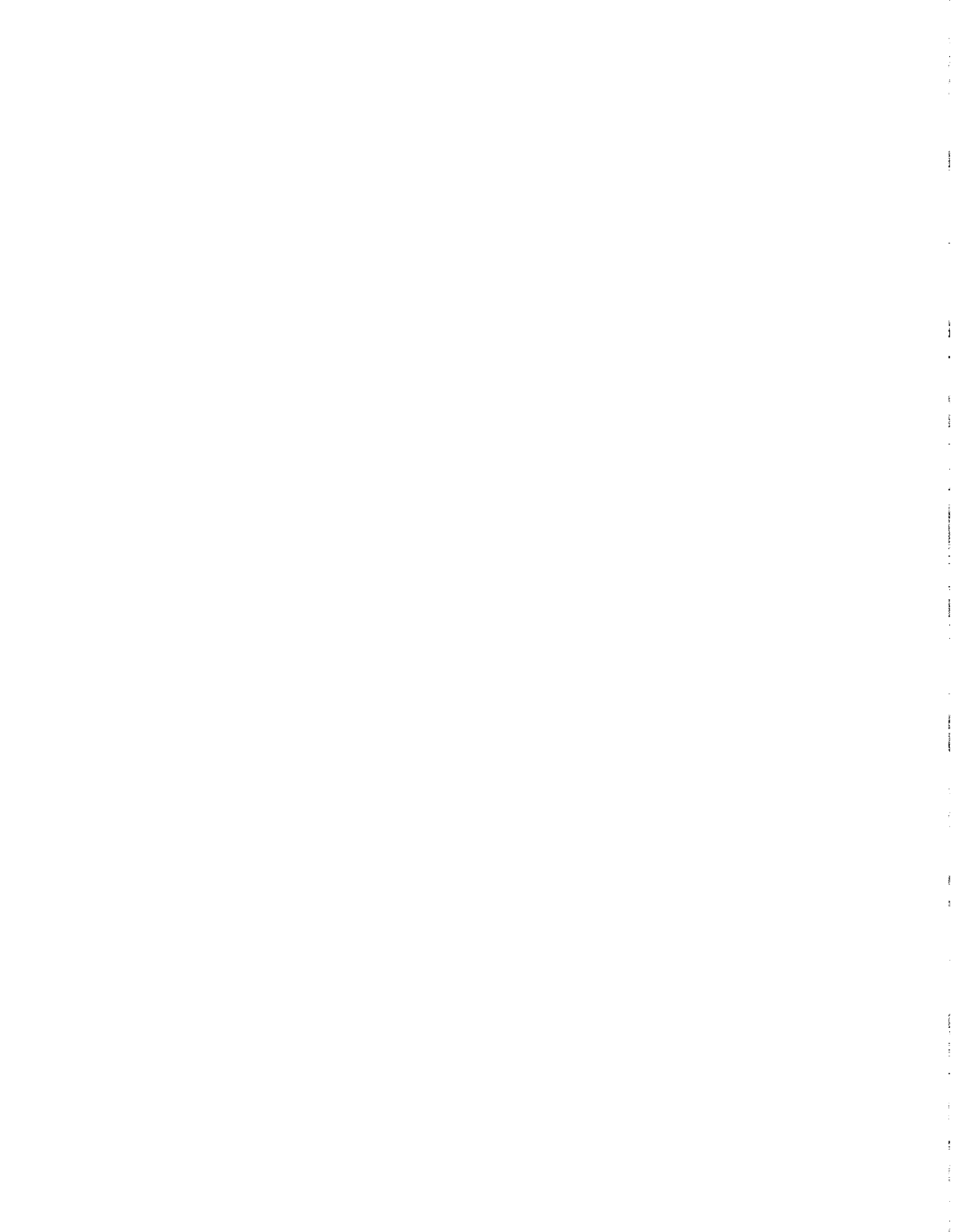
The Federal Workforce Restructuring Act of 1994 (P.L. 103-226) requires the government to reduce its workforce by 272,900 full-time equivalent (FTE) positions by 1999. To assess whether the workforce levels in the President's fiscal year 1996 budget comply with the Federal Workforce Restructuring Act, GAO examined budget data and interviewed officials from the Office of Management and Budget and the Office of Personnel Management. GAO also sent surveys to 36 non-Defense federal agencies and reviewed available downsizing documents to see how individual agencies were implementing the act.

Available data show that FTE targets were met in fiscal year 1994 and will likely be met in fiscal year 1995. In fact, 31,900 more reductions were made through the end of fiscal year 1994 than were called for by the act. Because of this, the budget shows that half of the total needed reductions will already be made by the end of fiscal year 1995, leaving 4 more years to accomplish the remaining reductions. From the start of the workforce reductions in fiscal year 1993 through fiscal year 1996, the administration proposes eliminating 173,300 FTE positions. Of these, 75 percent are to come from Defense agencies.

Based on GAO's review of the process, the reporting system used to track FTEs appears to produce accurate and unbiased data, although Department of Defense reports were based on estimates until this year.

GAO's survey results show that the targets of many agencies' workforce reductions are headquarters staff; supervisors and managers; grade levels 14 and above; regional office staff; and certain occupational series. These targets are generally consistent with the reinvention goals of the National Performance Review (NPR). Governmentwide, GAO's analysis shows that the workforce reductions specified by the act could be achieved by attrition without separation incentives or a reduction-in-force (RIF). However, as some agencies may be required to make more significant reductions than others, isolated cases of RIFs may occur at some agencies, especially during fiscal year 1996.

The savings associated with the workforce reductions are difficult to measure. While the 272,900 FTE reductions could yield billions of dollars of payroll savings, these savings have already been reflected in the budget. Moreover, if the work previously done by separated employees is contracted out or shifted to other agencies, downsizing's true savings to taxpayers may be reduced.



Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the President's fiscal year 1996 budget proposal and our assessment of its compliance with the Federal Workforce Restructuring Act of 1994 (P.L. 103-226).

As you are aware, the National Performance Review (NPR) called on agencies to initiate reforms that would allow them to flatten bureaucratic layers, reduce headquarters staff, and pare down management control structures. To ensure that the workforce would be reduced, the administration worked with Congress to pass the Federal Workforce Restructuring Act, which requires agencies to cut employment levels by 272,900 full-time equivalent (FTE) positions by fiscal year 1999.<sup>1</sup>

To accomplish this downsizing while avoiding costly and disruptive reductions-in-force (RIF), the act allows non-Defense executive branch agencies, subject to Office of Management and Budget (OMB) approval, to offer voluntary separation incentive payments--commonly known as buyouts. These may be offered to employees in any designated component, occupation, grade, series, and/or location who voluntarily agree to resign, retire, or take voluntary early retirement by March 31, 1995, unless extended by the head of the agency, but no later than March 31, 1997. The Department of Defense (DoD), though subject to the act's governmentwide FTE ceilings, has the authority to offer buyouts under separate legislation through September 30, 1999.

So that agencies would accompany their downsizing with management reforms consistent with the NPR's reinvention goals, the President 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 the ratio of managers and supervisors to other personnel; to delegate authority; to decentralize operations; and to decrease the ranks of auditors, personnelists, procurement specialists, and other internal headquarters functions. OMB officials said the quality of these plans has played an important role in OMB's decisions to approve or disapprove agencies' buyout requests.

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<sup>1</sup>According to OMB guidance, an FTE or work-year generally includes 260 compensable days or 2,080 hours. These hours include straight-time hours only and exclude overtime and holiday hours.

In September 1994, we testified on the status of the fiscal year 1994 buyouts at non-Defense agencies.<sup>2</sup> At that time, we expressed our concern that agencies might be trying to meet their downsizing targets without meaningful strategic or workforce planning.

At your request, we have examined the President's fiscal year 1996 budget proposal with regard to its compliance with the Federal Workforce Restructuring Act of 1994, paying particular attention to

- whether the administration met the FTE targets for fiscal year 1994 and is likely to meet them in fiscal year 1995,
- whether the administration's reporting system provides an unbiased and accurate tally of governmentwide full-time equivalent positions,
- where the administration proposes taking the required workforce reductions in fiscal years 1995 and 1996 and whether the administration proposes any exemptions,
- whether the proposed reductions can be achieved solely through attrition and early retirements,
- what the savings associated with workforce reductions would be, and
- whether agencies have complied with the act's requirement that agencies reduce their FTE ceilings by one for each buyout granted.

We obtained our data by reviewing the President's fiscal year 1996 budget proposal and discussing it with OMB officials. To obtain information on overall federal buyout and downsizing activities, we interviewed officials from the Office of Personnel Management (OPM) and examined OPM data.

To see how individual agencies are implementing the Workforce Restructuring Act, we sent questionnaires to 36 non-Defense agencies including all the cabinet level departments. According to OPM data, these agencies made about 97 percent of the 15,090 buyouts reported by non-Defense agencies in fiscal year 1994.<sup>3</sup>

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<sup>2</sup>Federal Employment: The Results to Date of the Fiscal Year 1994 Buyouts at Non-Defense Agencies (GAO/T-GGD-94-214, Sept. 22, 1994).

<sup>3</sup>The Department of Energy and two non-cabinet agencies did not submit data in time to be included in the OPM fiscal year 1994 report.

The questionnaires were generally sent to the heads of agency human resource, compensation, or employee benefits offices.

Responses from 28 of the 36 agencies were received in time to be included in our testimony today, so our survey results should be considered preliminary, as well as subject to change if subsequent responses differ significantly from those already received.

We also examined nine agency streamlining plans submitted to OMB. Data from four of them were included in this testimony to show how different agencies are achieving the administration's downsizing goals: the Department of Agriculture, the Department of Commerce, NASA, and the National Archives.

To verify the FTE levels reported in the President's fiscal year 1996 budget, we compared the budget numbers with FTE data reported by agencies in their questionnaire responses, when comparable data were available. We also discussed the FTE reporting process with OMB and OPM officials, as well as obtained relevant documents from them. We did not verify other information obtained during the interviews or provided by agencies in their questionnaire responses or streamlining plans.

AVAILABLE DATA SHOW THAT FTE TARGETS WERE MET IN  
FISCAL YEAR 1994 AND ARE LIKELY TO BE MET IN  
FISCAL YEAR 1995

Data from the President's fiscal year 1996 budget proposal show that the government met its fiscal year 1994 FTE target and had achieved 77 percent of its fiscal year 1995 target before the year even began. As shown in table 1, the Federal Workforce Restructuring Act limited the total number of civilian executive branch FTE positions to 2,084,600 in fiscal year 1994 and to 2,043,300 in fiscal year 1995. At the end of fiscal year 1994, total executive branch civilian employment was 2,052,700, which was 31,900 FTEs below the mandated ceiling for that time period.

Table 1: Executive Branch Civilian FTE Positions

FTE level	Fiscal year		
	1994	1995	1996
FTE ceiling mandated by Workforce Restructuring Act	2,084,600	2,043,300	2,003,300
Total number of executive branch civilian FTE positions <sup>a</sup>	2,052,700	2,017,800 <sup>b</sup>	1,981,900 <sup>b</sup>
Number of FTEs below mandated FTE ceiling target	31,900	25,500	21,400

<sup>a</sup>These FTE levels have been rounded to the nearest hundred in the President's budget.

<sup>b</sup>Estimate.

Source: The President's fiscal year 1996 budget.

The largest share of the workforce reductions is expected to come from DoD between the fiscal year 1993 enacted base and fiscal year 1996.<sup>4</sup> The budget shows that of the 173,300 FTE reductions that the administration expects to occur during that time period, 75 percent will come from DoD agencies, while the remainder will come from non-Defense agencies.

The budget indicates the administration expects to meet, and probably exceed, its fiscal year 1995 FTE target. The Federal Workforce Restructuring Act requires the reduction of 41,300 FTE positions from the fiscal year 1994 ceiling to be reflected in the fiscal year 1995 ceiling. Because the fiscal year 1994 FTE level was 31,900 FTE positions below the required ceiling for that year, the government began fiscal year 1995 having already achieved 77 percent of this year's target. However, for fiscal year 1995, the administration has called for 25,500 additional reductions beyond the Workforce Restructuring Act's mandated ceiling of 2,043,300 FTEs. Based on the current pace of

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<sup>4</sup>According to OMB, the fiscal year 1993 base is the FTE level established by the previous administration and presumably would have been the size of the workforce had the current administration's restructuring efforts not have occurred. It is used as the starting point for calculating the FTE reductions required by the Federal Workforce Restructuring Act.



voluntary separation incentive payments, it seems likely that many of these reductions will be accomplished through buyouts.

Additional FTE reductions may be required to meet the goals of the second phase of NPR. This initiative, intended to examine agencies' basic missions, has initially focused on five agencies where the administration has proposed further workforce reductions. The five agencies are the Departments of Energy, Housing and Urban Development, and Transportation; the General Services Administration; and OPM. OMB officials told us that other agency downsizing or restructuring may be announced as a result of further NPR analyses under this second phase. Any workforce reductions resulting from this second phase would be over and above those already required by the Workforce Restructuring Act.

THE FTE REPORTING SYSTEM PROCESS APPEARS  
TO PRODUCE AN UNBIASED AND ESSENTIALLY  
ACCURATE TALLY OF GOVERNMENTWIDE FTE POSITIONS

OMB is responsible for ensuring compliance with the FTE limitations specified by the Federal Workforce Restructuring Act. Its decisions are based on agency FTE usage plans and OPM data. Agencies are required to provide FTE usage plans to OMB each December that show monthly anticipated usage for the entire fiscal year. In addition, agencies are required to calculate actual employment levels from personnel payroll data and report the resulting FTE calculation to OPM on a monthly basis.<sup>5</sup>

The act requires OMB, on a quarterly basis, to use this information in determining whether governmentwide FTE limitations are being met. Should OMB find that the fiscal year FTE limitation is not being met, a governmentwide hiring freeze is to be imposed.

When we compared the administration's fiscal year 1994 FTE numbers to the FTE levels reported by agencies in their questionnaire responses, we found virtually no variation. Further, OPM officials told us they review the monthly FTE reports submitted by agencies to ensure consistency and reliability of the data and contact agencies to reconcile any discrepancies.

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<sup>5</sup>As specified in OMB Circular A-11, agencies are to determine FTE employment by dividing the total number of regular hours (worked or to be worked) by the number of compensable hours applicable to each fiscal year. FTE usage plans are to take into account both seasonal variations in personnel requirements and employment trends.

An OMB official we interviewed said that OMB does not independently verify FTE calculations, but the process for calculating the FTEs is unambiguous and relies on a rigorous reporting system that uses payroll data as its source. Further, DoD had been estimating its FTE levels until this year. However, beginning in fiscal year 1995, DoD is to use payroll records. Finally, the FTE count does not include all executive branch agencies. According to OMB, the Central Intelligence Agency has always been excluded from the executive branch FTE count.

On the other hand, the current method of calculating FTE employment includes positions that in the past were exempt from ceiling controls. In addition to covering full-time and part-time permanent employees and temporary workers, FTE counts now include positions covered by the Summer Aid, Federal Junior Fellowship, Stay-in-School, Cooperative Education, and Worker Trainee Opportunity programs.

WHERE THE ADMINISTRATION PROPOSES  
REDUCING THE WORKFORCE IN FISCAL YEAR  
1996

As stated earlier, the employment ceiling mandated by the Workforce Restructuring Act for fiscal year 1996 is 2,003,300 FTE positions. However, because of the pace of workforce reductions, the administration's budget anticipates a workforce level of 1,981,900 FTEs.

Because the workforce reductions are currently under way, data on how workforce reductions will be distributed across functional categories and grade levels within each agency are incomplete. However, our review of selected agencies' streamlining plans shows the progress being made by four agencies--the Department of Agriculture, NASA, the Department of Commerce, and the National Archives--in reducing the ranks of specific populations targeted by NPR (see table 2). NPR calls for agencies to reduce headquarters staff by 50 percent (including supervisors, personnel specialists, budget specialists, acquisition specialists, and accountants and auditors) and increase supervisors' and managers' span of control over other employees from 1:7 to 1:15 by the end of fiscal year 1999.

Table 2: Downsizing at Selected Agencies by NPR-Targeted Populations, FY 1993 Base to FY 1996

Population	USDA		NASA		Commerce		Archives	
	FY 1993 base	FY 1996	FY 1993 base	FY 1996	FY 1993 base	FY 1996	FY 1993 <sup>a</sup>	FY 1996
Total FTEs	114,206	108,053	24,692	23,028	36,723	35,699	2,722	2,598
Supervisors	13,174	10,398	3,809	2,800	4,833	3,781	446	262
Supervisory ratio <sup>b</sup>	1:8	1:10	1:5.4	1:8	1:6.6	1:8.4	1:6.5	1:9.9
Headquarters staff	3,114	2,721	2,078	1,800	4,550	4,014	165	143
Personnel specialists	2,651	2,478	434	383	612	492	38	34
Budget specialists	2,010	1,832	875	711	283	245	23	14
Acquisition specialists	2,569	2,331	1,427	1,249	272	298	27	11
Accountants and auditors	2,975	2,675	573	534	369	298	18	12
Organizational layers	n/a	n/a	8	7	5 <sup>c</sup>	4 <sup>c</sup>	11	7

<sup>a</sup>As of September 30, 1993.

<sup>b</sup>Supervisory ratios were obtained from agency streamlining plans. Calculating the ratios from the number of supervisors and the total FTEs does not always produce the ratio reported by agencies in their streamlining plans.

<sup>c</sup>Department average.

Source: Agency streamlining plans.

Governmentwide, the results of our survey show that 25 agencies are targeting their workforce reductions toward specific positions in fiscal year 1995. The most frequent targets (those identified by 14 or more agencies) include headquarters staff, supervisors and managers, employees in grade levels 14 and above, regional office staff, and employees in occupational series that include such fields as acquisition, personnel, accounting, and budgeting. Agencies anticipate targeting these same positions in fiscal year 1996. Few agencies indicated that they were

targeting specific programs, agency components, or employees eligible for early retirement.

THE BUDGET SHOWS SEVERAL THOUSAND  
FTEs ARE EXEMPT FROM FTE CEILINGS

The President's budget shows that in fiscal year 1996, about 6,100 FTEs will be exempt from FTE ceilings. According to OMB, none of these exemptions have been initiated by the administration. All have been exempted as a result of legislative initiatives taken by Congress in appropriations actions. About 5,700 exempt FTE positions are at the Veterans Health Administration. Other exempt FTE positions are at the Department of Health and Human Services and the Agency for International Development. According to OMB, the exemptions already granted will not have an adverse impact on the government's ability to meet the requirements of the Workforce Restructuring Act, since the administration is already anticipating yearly FTE levels that are far enough below the act's ceilings.

AVAILABLE DATA SHOW THAT  
REDUCTIONS MANDATED BY THE ACT  
CAN GENERALLY BE ACHIEVED THROUGH  
ATTRITION

As noted above, the President's budget projects an FTE level at the end of fiscal year 1995 that is 25,500 FTEs below the fiscal year 1995 ceiling imposed by the Federal Workforce Restructuring Act. The budget shows an aggregate reduction of 137,500 FTEs at the end of this fiscal year, about half of the 272,900 FTE reductions called for by the act. This leaves an additional 135,400 reductions to be made from fiscal years 1996 through 1999. Our analysis of available data shows that this additional reduction could be achieved governmentwide by attrition alone, even assuming a turnover rate as low as 1.75 percent per year. (Turnover has historically run several percentage points higher.)

This general observation, however, assumes a relatively even distribution of the remaining 135,400 reductions across the federal government. Experience has shown that downsizing is generally not homogenous and that some agencies may experience more significant reductions than others as programs are dropped and/or missions are changed. Consequently, in some instances, agencies may need to RIF some employees. Moreover, the possibility of additional reductions resulting from the second phase of NPR could also require RIFs.

While there may be some instances of involuntary separations, our questionnaire data indicate that few agencies are expecting RIFs in fiscal year 1995. Indeed, of the 26 agencies responding to

this questionnaire item, 21 reported that RIFs were somewhat unlikely or very unlikely in fiscal year 1995. Three agencies reported that RIFs were somewhat likely or very likely, while two indicated that RIFs were as likely as unlikely. Agencies' outlooks for fiscal year 1996 were somewhat less certain, however. Fifteen agencies reported that RIFs were somewhat unlikely or very unlikely, while five said just the opposite. Two agencies indicated RIFs were as likely as unlikely, and four were unsure.

SAVINGS ASSOCIATED WITH WORKFORCE REDUCTIONS ARE DIFFICULT TO DETERMINE

The savings realized from government downsizing efforts are difficult to document or estimate. Based on OMB calculations, the average fiscal year 1994 FTE cost \$42,200 for pay and benefits. OMB expects this amount to rise to \$47,700 in fiscal year 1999. Multiplying OMB's average FTE cost for each year covered by the act by the mandated 272,900 FTE reductions yields billions of dollars in payroll savings. However, according to OMB, any estimated savings from FTE reductions are used by agencies to meet their overall discretionary spending caps and are not available to fund other programs.

Payroll savings attributed to FTE reductions would not be the amount of actual savings to the federal government from the personnel reductions. Personnel reductions have costs associated with them such as separation incentives or--in the case of RIFs--severance pay. In addition, savings would depend on what happened to the work previously performed by the persons in the FTE positions that were dropped. For example, if some of the work was contracted out to private companies, contract costs should be considered in determining whether net savings resulted from workforce reductions.

A number of agencies responded to our questionnaire item on savings from FTE reductions. Table 3 highlights the amount of 1994 savings reported and the anticipated savings for fiscal years 1995 and 1996.

Table 3: Agencies' Net Savings From Workforce Reductions

Fiscal year	Savings reported (net of costs)	Number of agencies reporting
1994 (actual)	\$391,600,000	15
1995 (anticipated)	\$540,330,000	13
1996 (anticipated)	\$361,810,000	10

Source: GAO survey.

OMB SAYS THE ACT'S REQUIREMENT TO  
REDUCE GOVERNMENTWIDE FTE CEILING BY  
ONE FOR EACH BUYOUT GRANTED HAS BEEN MET

To ensure that vacated positions are not refilled, section 5(f) of the act requires a governmentwide reduction (excluding DoD and the Central Intelligence Agency) in FTE positions for each buyout given. 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, the act designated OMB as the focal point for monitoring federal buyouts. We were told by OMB that, governmentwide, there has been an FTE reduction for each buyout granted. OMB said that either agencies reduced their FTE levels by one or more for each buyout, or OMB offset the buyout with an FTE reduction at another agency.

OBSERVATIONS

Our analysis of the President's fiscal year 1996 budget shows that agencies are well on their way to achieving the downsizing goals mandated by the Federal Workforce Restructuring Act. While payroll savings will no doubt accrue from these reductions, some of the projected savings may be offset by costs associated with what agencies do with the work previously performed by separated employees. To the extent that work is shifted to other employees, contracted out, or transferred to other agencies, downsizing's true savings to taxpayers may be reduced.

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

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