United States General Accounting Office

GAO

Report to the Chairman, Subcommittee on Civil Service, Committee on Government Reform and Oversight, House of Representatives

June 1997

FEDERAL DOWNSIZING

Effective Buyout Practices and Their Use in FY 1997

GAO

United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-277085

June 30, 1997

The Honorable John L. Mica
Chairman, Subcommittee on Civil Service
Committee on Government Reform and
Oversight
House of Representatives

Dear Mr. Chairman:

For the last several years, to help reduce and restructure their workforces, federal agencies have been paying separation incentives—commonly known as buyouts—of as much as $25,000 to employees to voluntarily leave federal service. The Department of Defense (DOD) has had buyout authority since January 1993.[1] Most non-DOD executive branch agencies have had two buyout opportunities. The first, under the Federal Workforce Restructuring Act (FWRA) of 1994,[2] generally gave agencies the authority to offer buyouts from March 30, 1994, through March 31, 1995. The second buyout opportunity was authorized by section 663 of the Treasury, Postal Service, and General Government Appropriations Act of 1997 (P.L. 104-208, Sep. 30, 1996). It gave most non-DOD executive branch agencies the authority to offer buyouts from October 1, 1996, through December 30, 1997. Certain agencies with their own buyout authorities were excluded from section 663 of the act.[3] According to Clinton Administration officials, the buyouts have had three distinct purposes. Initially they were used to help ease reductions in the DOD civilian workforce following the end of the Cold War. Later, as part of the National Performance Review—the Clinton Administration's initiative to reinvent government—buyouts were used in both DOD and non-DOD agencies to reduce what the administration has called "management control" positions. These positions included those held by managers and supervisors, and employees in personnel, budget, procurement, and accounting occupations. The third purpose of the buyouts has been to help save money by reducing the federal workforce as Congress and the President agreed to pursue a balanced budget.

[1]P.L. 102-484, Oct. 23, 1992, authorized DOD buyouts through Sept. 30, 1997; P.L. 103-337, Oct. 5, 1994, extended DOD buyouts through Sept. 30, 1999.

[2]P.L. 103-226, March 30, 1994.

[3]Non-DOD agencies that had agency-specific buyout authorizations during fiscal year 1997 included the U.S. Department of Agriculture (USDA), Agency for International Development (AID), Central Intelligence Agency, National Aeronautics and Space Administration (NASA), Railroad Retirement Board and its Office of Inspector General, Smithsonian Institution, Bonneville Power Administration, and Federal Deposit Insurance Corporation.

During the first non-DOD buyout window, both Congress and we began expressing concerns over the planning and implementation of agencies' buyout programs and workforce reduction initiatives.[4] Congress raised these concerns in a series of hearings and addressed some of them when it passed P.L. 104-208, which directed agencies to prepare strategic buyout plans for congressional review. The Office of Management and Budget (OMB) required agencies to first submit their plans to OMB prior to submitting them to Congress.

This letter responds to your request that we review the management and results of agencies' buyout programs authorized by P.L. 104-208. As agreed with your office, we (1) identified practices that we believe are associated with effective use of buyouts, (2) assessed the extent to which OMB requirements and Office of Personnel Management (OPM) guidance for implementing buyouts under P.L. 104-208 incorporated these practices, and (3) determined whether selected agencies' buyout programs were better planned and implemented than was generally the case governmentwide during the first non-DOD buyout program.

We included in our analysis the six agencies whose buyout programs had been approved by OMB when we began our study in mid-December 1996: the Departments of Energy (DOE)[5] and Veterans Affairs (VA), the General Services Administration (GSA), Internal Revenue Service (IRS), U.S. Information Agency (USIA), and Minority Business Development Agency (MBDA). Since then, OMB has approved buyout programs at six additional agencies as of June 2, 1997.[6]

Results in Brief

On the basis of our prior studies of buyout programs at DOD and non-DOD agencies, other organizations' studies of downsizing, and our review of proposed and enacted buyout legislation, we identified 13 practices that we believe are associated with effective buyout usage. These practices include, for example, prior to downsizing, ensuring that actions planned to maintain productivity and service levels do not cost more than the savings

[4]See, for example, Federal Employment: The Results to Date of the Fiscal Year 1994 Buyouts at Non-Defense Agencies (GAO/T-GGD-94-214, Sep. 22, 1994); and Federal Downsizing: Better Workforce and Strategic Planning Could Have Made Buyouts More Effective (GAO/GGD-96-62, Aug. 26, 1996).

[5]DOE's large contractor workforce has also had a buyout program that we reviewed. See Department of Energy: Value of Benefits Paid to Separated Contractor Workforce Varied Widely (GAO/RCED-97-33, Jan. 23, 1997).

[6]The Bureau of Engraving and Printing, Merit Systems Protection Board, Department of the Treasury Departmental Offices, Department of Housing and Urban Development, U.S. Mint, and the National Weather Service.

generated by the workforce reductions, preceding buyouts with an economic analysis showing whether they would generate more net savings than reductions-in-force (RIF) or attrition, and using buyouts selectively to eliminate positions in order to accomplish specific organizational objectives. Taken together, the practices can help agencies use buyouts as a tool as they manage their downsizing efforts and engineer desired changes to their workforces. Nevertheless, because each agency's circumstances are unique, all of these practices may not apply in every buyout situation.

Ten of the 13 practices were generally reflected in OMB's October 1996 bulletin to agency heads on how to implement the buyouts and/or OPM's December 1996 buyout guidelines. Four of these 10 practices were required by P.L. 104-208, and OMB and/or OPM explained in more detail how they were to be implemented. The other six practices, such as OMB's requirement for OPM to gather information on buyout activity under P.L. 104-208, were over and above what was required by statute.

Based on the justifications for, and the results of, selected agencies' buyout programs, it appears that the six agencies' buyout programs were better planned and implemented than was generally the case among non-DOD agencies in 1994 and 1995. Among the problems we reported on during that buyout window was the granting of buyouts across the board rather than prioritizing them to achieve specific organizational goals. We also found that in a number of cases, buyouts were granted late in the fiscal year, thereby diminishing their potential savings.

In contrast, in granting a total of 5,948 buyouts as of late spring 1997, the 6 agencies generally linked buyouts to achieving specific organizational objectives and implemented their buyout programs in ways that tended to increase savings. For example, agencies reported that they needed buyouts to minimize the need for RIFs brought on by budget constraints and to restructure their workforces. Thus, agencies reported targeting their buyouts to those positions that met these objectives and did not grant buyouts universally, as was often the case in 1994 and 1995. Moreover, as required by OMB, agencies provided estimates of the savings anticipated from the buyouts (thus ensuring that money would in fact be saved, but not necessarily that buyouts offered more savings than other potential separation strategies). Also, per OPM's guidelines, in all but one instance agencies reported that they limited the duration of their buyout programs to a short window early in the fiscal year to increase savings.

Nevertheless, had OMB required agencies to include in their strategic plans the three practices associated with effective buyout usage that were not included in statutory, OMB, and OPM requirements and guidance for implementing the buyout authority, agencies may have further increased their savings. These practices included (1) prior to downsizing, ensuring that actions planned to maintain productivity and service levels do not cost more than the savings generated by reducing the workforce, (2) performing an economic analysis showing whether buyouts would generate more net savings than other separation strategies, and (3) giving priority for buyouts to employees not eligible for regular retirement.

As Congress and the President negotiate further steps to balance the budget, the potential savings from reducing the workforce may continue to be considered. For example, in June 1997, H.R. 1778, the Defense Reform Act of 1997, was introduced in the House and included a provision to reduce DOD's acquisition workforce by 124,000 positions over 4 years. To facilitate these reductions, H.R. 1778 contains a 1-year buyout authority, separate from DOD's existing buyout authority, that provides buyouts to acquisition workforce employees affected by the mandated reductions.

Background

Buyouts were first authorized for non-DOD agencies by FWRA in 1994. In addition to requiring governmentwide downsizing, FWRA gave non-DOD agencies the authority to offer buyouts of as much as $25,000 to workers who left federal employment by March 31, 1995 (unless extensions were approved by agency heads, but not later than March 31, 1997). According to OPM data, 36,035 buyouts had been paid under FWRA through September 1996.[7] Citing OMB's estimate that the average full-time government worker costs more than $44,000 per year in net pay and benefits, the administration calculated that cutting 250,000 jobs can save well over $10 billion each year.

Currently, statutory buyout authority for most non-DOD agencies expires on December 31, 1997, while the DOD buyout authority expires on September 30, 1999. However, continued efforts to balance the federal budget may raise the buyout option again for congressional consideration.

Scope and Methodology

We limited our review to the six agencies offering buyouts under P.L.104-208 that had their buyout plans approved by OMB when we began

[7]According to OPM data, as of September 1996 DOD had paid 92,432 buyouts under its own legislation.

our study in mid-December 1996. These agencies included DOE, VA, IRS, GSA, MBDA, and USIA.

To identify practices associated with effective buyout usage, we reviewed our prior work on buyouts, the literature on workforce downsizing,[8] and the provisions of five proposed bills and 10 pieces of enacted legislation containing buyout provisions as of the end of fiscal year 1996.[9] From the various buyout practices identified by these reviews, we selected those that would require agencies to link their buyout programs to achieving specific organizational objectives and ensure they were implemented in ways that maximized savings in conjunction with achieving other operational, human resource, and agency objectives. Taken together, we believe that these practices could have alleviated many of the shortcomings we observed in the first non-DOD buyout window in 1994 and 1995.

To assess whether OMB requirements and OPM guidance were consistent with these practices, we compared them to requirements contained in OMB's October 24, 1996, buyout bulletin and OPM's December 2, 1996, guide to implementing buyouts under P.L. 104-208. Because the practices we identified to meet the first objective had not been refined when OMB and OPM issued their guidance, we would not necessarily expect to find all of them reflected in the guidance. Our assessment, therefore, was not normative.

To determine whether selected agencies' fiscal year 1997 buyouts were better planned and implemented than was generally the case governmentwide during the 1994 and 1995 buyout window, we interviewed agency human resource, planning, and budget officials; and we reviewed agencies' strategic plans to assess the extent to which the six agencies linked their buyouts to specific organizational objectives and managed

[8]In particular, we drew upon a study by the National Academy of Public Administration (NAPA): Effective Downsizing: A Compendium of Lessons Learned for Government Organizations, NAPA, 1995. NAPA is a congressionally chartered independent nonpartisan organization that helps federal, state, and local governments improve their performance.

[9]The proposed legislation we examined included the Federal Employee Separation Incentive and Reemployment Assistance Act (H.R. 2751), Federal Employment Reduction Assistance Act of 1996 (H.R. 3532), as well as provisions of appropriations bills that authorized buyouts for specific agencies: IRS, Bureau of Alcohol, Tobacco and Firearms, and Customs Service (H.R. 3756); Department of Housing and Urban Development (H.R. 3666); and DOE (H.R. 3816). The enacted legislation we examined authorized buyouts for DOD (P.L. 102-484, Oct. 23, 1992, and P.L. 103-337, Oct. 5, 1994); most non-DOD agencies (FWRA, P.L. 103-226, Mar. 30, 1994, and P.L. 104-208, Sep. 30, 1996); Department of Transportation (P.L. 104-205, Sep. 30, 1996, later superseded by P.L. 104-208); NASA (P.L. 104-204, Sep. 26, 1996); USDA (P.L. 104-180, Aug. 6, 1996); AID (P.L. 104-190, Aug. 20, 1996); and Smithsonian Institution (P.L. 104-134, Apr. 26, 1996).

their buyout programs to increase savings. We also discussed the management of the buyout authority with OMB. We did not verify the information that agencies and OMB provided.

We did our audit work in Washington, D.C., between December 1996 and April 1997, in accordance with generally accepted government auditing standards.

We requested comments on a draft of this report from the Directors of OMB, OPM, and the heads of the six agencies. (In MBDA's case, comments were requested from the Secretary of Commerce, MBDA's parent organization.) The comments we received are summarized and evaluated at the end of this letter.

Practices That Can Result in More Effective Buyouts

On the basis of our earlier work, a review of the literature on workforce downsizing, and an analysis of specific provisions contained in 5 proposed bills and 10 pieces of enacted legislation containing buyout provisions, we identified 13 practices that we believe are associated with effective buyout usage that could result in better planned buyout programs that are linked to specific organizational goals and managed in ways that tend to increase savings.

Because these are general practices, they may not apply in all circumstances. For example, although agencies will generally save more money by separating employees earlier in the fiscal year, in some cases it may make sense to have later separations to adequately plan buyout programs and notify employees, or ensure that essential work gets accomplished. Therefore, these practices should be weighed against agencies' operational, human resource, or other objectives.

1. Identify the agency's future operational, restructuring, downsizing, or other goals and determine how buyouts will help meet those goals. This will assist agencies in linking buyouts to specific organizational objectives.

2. Consider, prior to making downsizing decisions, how productivity and service levels will be maintained with fewer employees. This could entail, for example, redeploying employees, reinventing work processes, automating processes, and contracting out.

3. Prior to downsizing, ensure that actions planned to maintain productivity and service levels do not cost more than the savings generated by reducing the workforce.

4. Prioritize the granting of buyouts, targeting them to specific positions, programs, occupations, grade levels, etc., as necessary to achieve agencies' organizational objectives and to help ensure that employees critical to the mission of an agency are retained while surplus employees are separated.

5. Identify likely buyout takers by obtaining information on employees' eligibility for early and regular retirements, prior take-up rates, and other factors to better forecast who is likely to take buyouts, how many, and where they are likely to occur. Such an analysis will also help an agency determine cost/savings and will aid in succession planning.

6. Perform an economic analysis to determine the savings generated by buyouts relative to other separation strategies, such as RIFS. The analysis should be done for the year of separation and a reasonable number of subsequent years for which accurate assumptions and estimates can be made. Such an analysis would help agencies determine whether buyouts will in fact provide anticipated cost savings. Nevertheless, as we noted in our earlier work, economic considerations are just one factor an agency should consider when deciding between buyouts and other workforce reduction options.[10] Other factors include, for example, which combination of separation strategies is most likely to achieve the full set of agency operational and workforce goals while minimizing adverse effects on workforce diversity and morale.

7. Give priority for buyouts to those employees resigning or retiring early. Offer buyouts to those eligible for regular retirement when the first applicant pool has been depleted or when, after a review of employee demographics or as a result of employee surveys, it is evident that limiting buyouts to those not eligible for regular retirement would not generate sufficient numbers of voluntary separations. Although past buyouts frequently have been taken by those who were retirement-eligible, giving priority to employees not eligible for retirement may reduce the number of payments made to employees who likely would leave without financial incentives. It could also help agencies' retirement rates return to traditional levels more quickly. (In our prior work, we noted that recent

[10]Federal Downsizing: The Costs and Savings of Buyouts Versus Reductions-in-Force (GAO/GGD-96-63, May 14, 1996).

studies and our own analysis of agency-reported data suggest that when employees anticipate buyout offers, normal attrition declines as some employees delay their separations to receive buyouts.)[11]

Further, our cost analysis of RIFS versus buyouts concluded that RIFS can generate more savings than buyouts over a 5-year period if the employees separated by RIFS are (1) eligible for early or regular retirement (because such employees would not be entitled to severance pay, which could be as much as a year's salary depending on age and years of service); and (2) do not displace lower graded employees through a process known as "bumping" and "retreating."[12]

8. Exclude certain employees from receiving buyouts when doing so would be financially and operationally advantageous to the government. Such employees include, for example, those in positions defined as "hard to fill," or those who have received a recent recruitment, retention, or relocation bonus.

9. Maximize current year payroll savings by separating employees early in the fiscal year, preferably in the first quarter.

10. Prohibit the reemployment of buyout recipients unless they repay the full amount of the buyout payment before the first day of work.[13]

11. Require agencies to contribute additional funds to the government retirement fund (currently 15 percent of the final basic pay of each buyout recipient) to ensure that any increased number of retirements is adequately funded.

12. Limit the duration of the buyout program to as short a time period as possible. The faster employees separate, the greater the savings, and the sooner normal attrition will likely return to historical levels as employees stop delaying their departures to receive a buyout.

[11]GAO/GGD-96-63.

[12]Bumping means displacing an employee in the same competitive area who is in a lower tenure group (type of appointment category). Although the employee who displaces another employee through bumping must be qualified for the position, it may be a position that he or she has never held. Retreating means displacing an employee in the same competitive area who has less service within the same tenure group. The position into which the employee is retreating must be the same or an identical position the employee held in the past on a permanent basis.

[13]Both P.L. 104-208 and FWRA contained provisions that required buyout recipients to repay the full amount of the buyout if, within 5 years of separating, they are reemployed by the federal government. P.L. 104-208 requires this repayment prior to the buyout recipient's first day of reemployment.

13. Establish a tracking system to report relevant data on employees who take buyouts. This can help agencies determine where buyouts are occurring and who is taking them, spot any trends that could result in workforce imbalances, and take timely corrective action.

OMB Requirements and OPM Guidance Were Consistent With Most of the Practices Important for an Effective Buyout Program

Both OMB and OPM played important roles in the oversight and implementation of the buyout authority. For example, as outlined in its October 1996 bulletin sent to agency heads on planning and implementing the buyouts, OMB was to review and approve agencies' strategic plans.[14] These plans were required by P.L. 104-208 and were to provide information on agencies' intended buyout usage. The strategic plans were to include

- an organization chart showing the anticipated structure of the agency once the buyouts were completed,
- the positions and functions to be reduced or eliminated,
- the number and amounts of voluntary separation incentive payments to be offered, and
- a description of how the agency will operate without the eliminated positions and functions.

In addition to the statutory requirements, OMB required agencies to include in their strategic plans information about the timing of buyout offers and scheduled separation dates, the maximum dollar amount of buyout payments if determined by the agency head to be less than $25,000, and an estimate of the savings to be achieved in the fiscal years following the planned buyout separations. OMB also indicated it monitored agencies' buyout programs to ensure that workforce reductions and restructuring efforts proceeded as planned and directed OPM to collect information on agencies' buyout payments.

According to an OMB official, OMB thoroughly reviewed agencies' strategic plans. In so doing, we were told that OMB officials checked to see whether buyouts were targeted to specific positions, and, in those cases where an agency was offering buyouts governmentwide, OMB looked to see that agencies granted them according to some type of prioritization system. We were also told that in some cases, OMB had agencies redo their plans until they met OMB's standards.

OPM helped agencies implement their buyout programs by issuing a guide in December 1996. It contained detailed information on 22 topics ranging

[14] Once the plans were approved by OMB, agencies were to submit them to Congress.

from determining the amount of an employee's buyout payment to setting the buyout window and processing applications.

OMB's requirements and OPM's guidance generally reflected 10 of the 13 practices associated with effective buyout usage (see table 1). Four of these 10 practices were already required by P.L. 104-208, and OMB and/or OPM reemphasized them or explained how they were to be implemented. Six practices, including OMB's requirement for agencies to provide savings estimates and for OPM to track buyouts, were in addition to what was required by P.L. 104-208.

Table 1: Desirable Buyout Practices Were Generally Reflected in Statutory, OMB, and OPM Requirements and Guidance

	Where reflected		
Practice	**OMB bulletin/guidance**	**OPM guidance**	**P.L. 104-208**
1. Identify the agency's future operational, restructuring, downsizing, or other goals and determine how buyouts will help meet those goals.	X	X	
2. Consider, prior to making downsizing decisions, how productivity and service levels will be maintained with fewer employees.	X		X
3. Prior to downsizing, ensure that actions planned to maintain productivity and service levels do not cost more than the savings generated by reducing the workforce.			
4. Prioritize the granting of buyouts, targeting them to specific positions, programs, occupations, grade levels, etc. as necessary to achieve goals.	X	X	
5. Identify likely buyout takers.		X	
6. Perform an economic analysis showing whether buyouts would generate more net savings than other separation strategies, such as RIFs or attrition.			
7. Give priority to employees eligible for early retirement and those not eligible for regular optional retirement.			
8. Exclude buyout coverage for employees when it would not be financially or operationally advantageous to the government to do so, such as employees in positions defined as "hard-to-fill," reemployed annuitants, etc.	X	X	X
9. Maximize current year savings by separating employees early in the fiscal year, preferably in the first quarter.		X	
10. Prohibit the reemployment of buyout recipients unless they first repay the full amount of the buyout payment before the first day of work.	X	X	X
11. Include provisions for agencies to contribute additional funds to the government retirement fund to help pay for additional retirements resulting from buyouts.	X	X	X
12. Limit the duration of the buyout program to as short a time period as possible.		X	
13. Establish a tracking system to report relevant data on buyout recipients.	X	X	

Source: GAO analysis.

The three practices not reflected in statutory, OMB, and OPM documents were (1) prior to downsizing, ensuring that actions planned to maintain productivity and service levels do not cost more than the savings generated by reducing the workforce, (2) performing an economic analysis showing whether buyouts would generate more net savings than other separation strategies, and (3) giving priority for buyouts to employees not eligible for regular retirement. The savings generated by buyouts could increase if these practices are adequately considered.

For example, with regard to the first practice, prior to downsizing, as an agency develops an overall strategy for maintaining productivity and service levels with fewer employees, the costs of these actions should be considered to ensure that they do not exceed the savings generated by reducing the workforce. Although some options that agencies can pursue, such as reinventing work processes, could have comparatively low costs, with other options, such as contracting out work formerly done by federal employees, the costs could be more substantial. In such instances, it would be appropriate for agencies to do a cost analysis and consider the results when selecting a particular downsizing strategy. Generally, where contracting is concerned, doing so would be consistent with OMB Circular A-76.[15]

With regard to the second practice, although OMB required agencies to estimate the savings produced by buyouts, this calculation by itself would not help agencies determine whether alternative separation strategies could have produced even greater savings (although, as indicated above, noneconomic considerations such as impact on employee morale can also play a role in determining the most appropriate separation strategy).

The third practice—giving priority for buyouts to those employees who resign or take early retirement—can increase savings because it could result in fewer buyouts paid to retirement-eligible employees, some of whom might have left federal service without a buyout. Moreover, as we noted in our earlier work, RIFs may be more economical for separating retirement-eligible employees who cannot bump or retreat.[16] These employees are not eligible to receive severance pay, which, as noted earlier, could be as much as a year's salary.

[15]Under OMB Circular A-76, whenever commercial sector performance of a government operated commercial activity is permissible, generally the cost of contracting is to be compared with the cost of in-house performance to determine who will do the work. Circular A-76 procedures can assist with the transition of current employees through its provision that federal employees and existing federal support contract employees adversely affected by a decision to convert to contract have the right-of-first-refusal for jobs for which they are qualified that are created by the firm that receives the new federal contract.

[16]GAO/GGD-96-63.

Selected Agencies' Buyout Programs Were Generally Better Planned and Implemented Than Was Typically the Case Governmentwide During the 1994 and 1995 Buyout Window

Based on our review of the buyout programs at the six agencies included in our study, it appears that statutory and OMB requirements, as well as OPM's guidelines, led to better planning and implementation of these agencies' buyout programs than was true during the 1994 and 1995 non-DOD buyout window. During that earlier buyout opportunity, agencies did not consistently manage their buyout programs in ways that produced the greatest savings consistent with other organizational objectives.

Our Prior Work Concluded That Earlier Buyouts Could Have Been Better Planned and Implemented

As we noted in our August 1996 study, which, among other things, reported the results of our survey of 24 departments and agencies that granted the most buyouts between January 1993 and September 1995,[17] most agencies did not precede their buyout programs with adequate strategic or workforce planning. Strategic planning helps establish an organization's future goals and the work to be carried out, and workforce planning helps determine what skills are necessary—and where—to achieve those goals.

As a result, agencies often granted buyouts across the board rather than prioritizing them to achieve specific organizational objectives. This contributed to a variety of adverse operational impacts. For example, 15 agencies said that they had experienced a loss of corporate memory and expertise, and 11 agencies said that there were work backlogs because key personnel had separated.

Moreover, of the five agencies that said they were using contractors to perform work previously done by employees who had taken a buyout, four reported that some of the contract employees were former federal workers who took buyouts and then returned to the agency under a contract.[18] Although the reemployment of buyout recipients as employees of service contractors was not prohibited under the DOD and non-DOD buyout authorities, we noted that a cost comparison would help ensure that a particular contracting action was financially advantageous to

[17] GAO/GGD-96-62.

[18] Non-DOD employees hired under a personal services contract are required to repay the separation incentive to the agency from which they had received it.

government, and that any savings realized from buyouts would not be offset by increased contracting costs.

We also found that in a number of instances, agencies granted buyouts late in the fiscal year, substantially reducing the savings they generated. Some agencies granted buyouts as late as September, the last month of the fiscal year.

Six Agencies' Fiscal Year 1997 Buyouts Improved Compared to Earlier Non-DOD Buyouts

Although we did not have the data to compare the results of agencies' buyout programs authorized by P.L. 104-208 with those authorized by FWRA in 1994 and 1995, available data suggest that the 6 agencies included in this review managed their buyout programs more effectively than was typically the case among all non-DOD agencies participating in the earlier buyout program. Indeed, in granting a reported total of 5,948 buyouts, the 6 agencies we examined generally used buyouts as a management tool to achieve specific organizational objectives and implemented their buyout programs using methods that generally can be expected to produce the greatest savings.

As shown in table 2, which summarizes the objectives and results of agencies' buyout programs, all of the agencies reported using buyouts to reduce or eliminate the need for RIFs. Although agency officials could not always determine precisely how many RIF separations they avoided by using buyouts, buyouts clearly played an important role. Indeed, officials at 5 of the 6 agencies in our study said that had it not been for buyouts, well over 2,600 employees could have been involuntarily separated. MBDA's buyout program did not help the agency avoid the need for RIF separations. (See app. I for more detailed information.)

The number of RIFs avoided is important for two reasons. First, as noted in our prior work, in most instances, a buyout for a typical federal employee separating within the first half of fiscal year 1995 could have generated over $60,000 more in net savings for an agency than a RIF for each vacated position over a 5-year period. Second, RIFs can have negative noneconomic effects, such as decreased productivity, reduced morale, and diminished workforce diversity. Because of the voluntary nature of buyouts, these noneconomic effects are usually less problematic.

Agencies also reported using buyouts to help restructure their workforces. Certain VA components, for example, used buyouts to help achieve a skill mix better suited to meeting its mission; IRS used buyouts to help complete its field office reorganization.

Agencies said they generally targeted their buyouts, typically giving top priority to surplus positions or those identified for elimination. Other reported targets reflected the administration's goal to reduce management control positions.

Consistent with the buyout practices we identified, the six agencies we examined increased buyout savings by, among other activities, generally separating employees within the first quarter or early in the second quarter of the fiscal year. DOE reported that 40 of its 98 approved buyout separations occurred after March 31, 1997. However, DOE said that units offering these buyouts had to first demonstrate their cost effectiveness using a formula provided by the Department.

Also consistent with the buyout practices we identified, IRS indicated it gave priority to employees not eligible for optional retirement. Some agencies also reported they increased savings by targeting buyouts to higher level employees.

Table 2: Objectives and Results of Fiscal Year 1997 Buyout Programs at Selected Agencies

	DOE	VA
Buyout objectives	To help meet assigned staffing and funding targets while minimizing the need for RIFs.	To change the skill mix of key components of the workforce; reduce certain administrative, upper level, and supervisory positions; and alleviate the impacts of a proposed RIF.
Buyout eligibility	Decisions on workforce reductions left to each component, typically based on program needs.	Varied with each component, but included surplus employees in consolidated facilities, administrative and clerical positions, and GS-14 and above.
Latest separation date	58 separations occurred prior to Mar. 31, 1997. An additional 40 employees separated after March 31, 1997, where cost effective.	Jan. 3, 1997.
Number of positions identified for elimination before buy-out	128 at DOE, 30 at FERC.	1,687
Number of employees RIFed as of May 1, 1997	78	40
Extent to which buyouts avoided RIFs	Buyouts combined with internal and external job placements helped to reduce the number of RIFs. Also, FERC planned to initiate a RIF in January 1997, but because 30 employees took buyouts, this was unnecessary.	Buyouts mitigated a large number of RIFs, but RIFs are still expected.
Number of buyouts authorized	160	5,062
Number of buyouts approved as of late spring 1997	68 DOE 30 FERC	4,376
Estimated net FY 1997 savings in millions of dollars as reported in strategic plan (costs are shown in parentheses)[a]	\$1.0 DOE \$0.30 FERC	\$65.5

GSA	IRS	MBDA	USIA
To reduce employment levels while minimizing the need for a RIF. Buyouts were offered selectively to avoid skill imbalances or adversely affecting customers' needs.	To help reorganize field offices, achieve targeted reductions at the national office, and minimize the need to conduct a RIF.	To minimize the need for RIFs because of budget constraints, buyouts were targeted toward administrative support functions.	To mitigate the effects of a RIF and to provide flexibility in reducing employment in certain Foreign Service occupations.
Generally excluded from receiving buyouts were employees in the Federal Supply Service, Office of the Inspector General, Office of Governmentwide Policy, regional Federal Protective Service positions, and certain positions in the Federal Telecommunications Service.	Buyouts offered according to a 10-tiered priority system. First priority went to employees in noncontinuing positions not eligible for optional retirement.	Persons affected by impending RIF, including such positions as program and policy, administrative services, and clerical and support.	Persons affected by proposed RIF, including overstaffed occupations, higher grade levels, and supervisory positions.
Jan. 3, 1997.	Feb. 28, 1997.	Dec. 21, 1996.	Jan. 3, 1997
0	As many as 3,388.	55	80
0	None, but RIFs were anticipated once agreement was reached with the employees union.	55	2
According to GSA, the 140 buyouts granted mitigated the need for about as many RIFs.	According to IRS officials, had it not been for the buyouts, about 2,500 employees would have had to be separated in a RIF.	None.	Buyouts mitigated about half of the RIF impact.
Up to 223.	3,388 (although IRS estimated that 1,326 offers would be accepted).	30	100
140	1,261	7	60 Civil Service, 6 Foreign Service.
$9.0	$14.4	$0.15	($0.13)

[a]Because agencies did not always include in their strategic plans the assumptions and methodologies used to estimate savings, the savings are not comparable across agencies and do not necessarily reflect the actual savings that accrued once the buyout was completed.

Source: GAO analysis of agency and OMB data.

Our examination of the strategic plans agencies submitted to Congress shows that the plans generally complied with statutory and OMB content requirements. Because much of OPM's guidance asked agencies only to "consider" certain factors, we could not determine the extent to which agencies' buyout programs addressed OPM's guidelines. However, agencies' buyout results suggest that agencies generally implemented their buyout programs consistent with OPM's guidance. For example, it appears that agencies considered which functions, units, and positions would receive buyouts, and what the final organizational structure would be.

With regard to offering additional buyouts before the authority expires in December 1997, DOE, VA, GSA, and USIA indicated that future buyouts were possible if circumstances warranted; MBDA said it would wait and see. IRS approved a buyout window for July 6 through July 19, 1997, as part of an agreement with the National Treasury Employees Union to further reduce the impact of an anticipated RIF.

Each agency's buyout program is described in greater detail in appendix I.

Conclusions

Overall, the fiscal year 1997 buyout programs at the six agencies we examined appear to have been better managed than was generally the case governmentwide during the 1994 and 1995 non-DOD buyout window. This was due in large part to statutory and OMB requirements, as well as OPM guidance, that were generally consistent with all but three of the practices that we found were associated with effective buyout usage. Together, the requirements and guidance resulted in more structured programs in which agencies indicated they used buyouts to accomplish specific objectives and reportedly will save millions of dollars in the years ahead.

Nevertheless, opportunities for still further savings may have been identified if OMB had required agencies to not only estimate the savings generated by buyouts, but compare them to estimated savings produced by alternative separation strategies, such as a RIF. This would have allowed agencies to determine which separation strategy, or combination of strategies, would have produced greater savings. We have stated in this report and in our earlier work that economic considerations are just one factor that agencies should address in determining which separation strategy to use.[19] By comparing the costs and savings of each strategy, agencies could better determine which makes more economic sense and better judge whether the economic advantages are outweighed by noneconomic factors.

Additional savings also may have been achieved had OMB required agencies to (1) include in their comparisons the costs and savings associated with the steps agencies planned to take to maintain productivity and service levels and (2) consider giving priority for buyouts to employees resigning or retiring early. We found that these practices were associated with effective buyout usage, but they were not reflected in statutory, OMB, and OPM requirements and guidance.

All 13 of the practices we identified as associated with effective buyout usage may not apply in all circumstances. For example, although agencies will generally save more money by separating employees earlier in the fiscal year, in some cases it may make sense to have later separations to adequately plan buyout programs and notify employees, or ensure that essential work gets accomplished. Therefore, these practices should be weighed against agencies' operational, human resource, or other agency objectives.

The non-DOD buyout authority is to expire at the end of December 1997. The DOD buyout program is to continue until September 30, 1999. However, to the extent that further workforce reductions are required in response to budgetary restrictions, buyouts may again be raised as an option to help facilitate federal downsizing.

Recommendations to the Director, OMB

To achieve the full potential savings from buyouts consistent with other organizational objectives, we recommend that the Director, OMB, require agencies to include the following in any future requests for buyouts.

1. Agencies should include information comparing the estimated costs and savings of buyouts versus other separation strategies, such as RIFS, for the separation year and a reasonable number of subsequent years for which accurate assumptions and estimates can be made. Agencies should include in their comparisons the anticipated costs and savings of steps planned to maintain productivity and service levels, such as contracting out, if they are expected to be significant. If RIFS are shown to save more money than

[19] GAO/GGD-96-63, p. 12.

buyouts but agencies chose to use buyouts, then OMB should require agencies to justify their use of buyouts by indicating the noneconomic factors the agency considered that made buyouts more advantageous than a RIF.

2. Agencies should consider giving buyout priority to those employees wishing to resign or take early retirement, and if such priority is not given, provide an analysis showing why it is advantageous to allow retirement-eligible employees to have equal access to buyouts.

Agency Comments and Our Evaluation

We received written comments from the Secretary of Commerce; DOE's Assistant Secretary for Human Resources and Administration; VA's Deputy Assistant Secretary for Human Resources Management; IRS' Chief of Management and Administration; and the Director, USIA. Oral comments were received from GSA's Director of Personnel Policy and Planning, and OMB's Chief of the Budget Concepts Branch. We requested comments from the Director of OPM but, despite several additional inquiries, comments were not received in time to be included in this report.

GSA indicated it agreed with the information we provided on GSA, but it provided no comments on our recommendations. The remaining agencies, with the exceptions noted below, generally agreed with our findings, provided updated information, and suggested ways of improving the clarity of the report. We incorporated their suggestions where appropriate.

DOE agreed with our recommendations but preferred that they not be adopted governmentwide so that agencies maintain the flexibility to apply them as needed. VA commented on our recommendation to give priority for buyouts to employees who wish to resign or take early retirement. VA noted that given the number and complexity of reorganizations facing the agency, managers should retain the flexibility to determine buyout priority appropriate to the situation.

We acknowledge the importance of flexibility and recognize that each agency's buyout situation is unique. We believe that our recommendations do not limit agencies' buyout options; rather, they help ensure that agencies' buyout decisions are supported by data and structured in such a way that agencies realize the largest potential savings consistent with other organizational objectives.

The Chief of OMB's Budget Concepts Branch and other OMB officials provided us with comments on the draft. OMB officials said that the linkage we made between buyouts and the requirement for an analysis comparing the cost of performing work in-house with contracting out was not relevant. Buyouts, they said, are a tool to facilitate downsizing and minimize the need for RIFs. As such, buyouts are not directly related to contracting. OMB noted that OMB Circular A-76 already requires cost comparisons between in-house and contractor performance in a number of circumstances, but not in all. Further, although OMB did not disagree with our recommendation that it require agencies to give priority for buyouts to those employees wishing to resign or take early retirement, OMB said that even if buyouts are given to employees close to or at retirement, buyouts could still save money if they accelerated those retirements.

In response to OMB's comment on the lack of a relationship between buyouts and contracting out, we added material that better clarifies this connection. We also modified the list of practices to reflect the fact that contracting out is one of several actions that agencies can consider prior to making downsizing decisions to ensure that productivity and service levels are maintained with fewer employees. We believe that the cost of these actions is an appropriate consideration in determining which employee separation strategy to adopt. Therefore, in our recommendation that agencies should include information comparing the estimated costs and savings of buyouts versus other separation strategies, we included a requirement that agencies factor in the estimated costs and savings of these actions as part of their comparisons.

We agree with OMB's observation that buyouts could still save money in certain instances if paid to employees eligible for regular retirement. However, as we noted in our report, giving priority for buyouts to those employees not eligible for retirement could reduce the number of buyouts paid to individuals who may leave without an incentive. Although buyouts have likely accelerated a number of retirements, our data suggest that in other cases retirement-eligible employees may delay their separations to receive buyouts. Without the prioritization we recommend, buyouts may come to be viewed as a retirement "sweetener" for some individuals.

As arranged with your office, unless you announce the contents of this report earlier, we plan no further distribution until 15 days after its issue date. At that time, we will send copies to the Ranking Minority Member of the Subcommittee, the Directors of OMB and OPM, the heads of the six agencies, and other interested parties. We will make copies available to others on request.

Please call me on (202) 512-9039 if you have any questions concerning this report. The major contributors to this report are listed in appendix II.

Sincerely yours,

Michael Brostek
Associate Director,
Federal Management and Workforce
Issues

Contents

Abbreviations

AID	Agency for International Development
DOD	Department of Defense
DOE	Department of Energy
FERC	Federal Energy Regulatory Commission
FWRA	Federal Workforce Restructuring Act
GSA	General Services Administration
IRS	Internal Revenue Service
MBDA	Minority Business Development Agency
NAPA	National Academy of Public Administration
NASA	National Aeronautics and Space Administration
OMB	Office of Management and Budget
OPM	Office of Personnel Management
RIF	Reduction-in-Force
USDA	United States Department of Agriculture
USIA	United States Information Agency
VA	Department of Veterans Affairs
VBA	Veterans Benefits Administration
VHA	Veterans Health Administration

Highlights of Selected Agencies' Fiscal Year 1997 Buyout Programs

DOE Used Buyouts to Give Managers Flexibility in Reducing Its Workforce

DOE requested buyout authority to help it reach its funding targets and allow it some flexibility in reducing the size of its workforce. Included in DOE's strategic plan was a provision for offering 21 buyouts to employees in 4 organizations funded by the Departmental Administration Account (employees in other units could take buyouts as long as they were shown to be cost effective). RIF notices had been sent to 128 employees on October 29, 1996, with an effective date of January 3, 1997. DOE also made provisions for the Federal Energy Regulatory Commission (FERC) to offer 30 buyouts through January 3, 1997. FERC was planning to issue 30 RIF notices on January 7, 1997, and had hoped to use buyouts to reduce the number of involuntary separations necessary.

According to DOE, 68 employees accepted buyout offers, and 78 employees were ultimately RIFed. The buyouts, along with internal and external job placements, helped minimize the number of involuntary separations. At FERC, 30 employees accepted buyout offers. These separations, along with internal placements, eliminated the need for a RIF.

According to a DOE representative, the heads of each organizational component subject to downsizing had discretion to determine where to cut the workforce. These decisions were generally based on program needs, but they may also have been influenced by the administration's desire to reduce management control positions. Among the 128 DOE and 30 FERC positions identified for elimination, 43 were GS-14 and above, 52 were science and engineering positions, 49 were administrative/management control, and 6 were clerical.

Cost effectiveness was one of DOE's nine explicit criteria for offering buyouts. It was determined by the amount of salary and benefits DOE would be obligated to pay if the employee stayed for the remainder of the fiscal year. These savings were offset by the cost of the buyouts, including the separation incentive and the additional contribution to the federal retirement fund. On the basis of this formula, DOE calculated savings of $329,424 at DOE and $264,839 at FERC for fiscal year 1997.

According to DOE as of early June 1997, 58 of its 98 buyout separations occurred prior to March 31, 1997. Forty buyout separations took place after March 31. Although these buyouts were later in the fiscal year, which could have decreased the savings they generated, DOE said that each unit offering these buyouts had to demonstrate their cost effectiveness according to a formula DOE provided.

VA Used Buyouts to Help Facilitate Workforce Restructuring

VA requested authority to offer as many as 5,062 buyouts to help it convert to a primary/managed care model of health care delivery, integrate facilities, reengineer business processes, and reduce the number of management control positions while minimizing the need for RIF separations. RIF plans had already been approved for 1,687 employees at 19 separate facilities because of these reinvention initiatives.

As VA's largest employer, the Veterans Health Administration (VHA) used the most buyouts. As many as 4,442 buyouts were to be used to help support the ongoing shift from a hospital-based method of health care delivery to a primary/managed care model. VHA is to accomplish this transition by, among other actions, streamlining operations, consolidating nearby facilities, and eliminating duplicative clinical or support functions.

According to VHA officials, priority for receiving buyouts included surplus employees in those facilities that were to be integrated and consolidated; surplus medical occupations, such as physicians and registered nurses; and supervisory positions.

Of the 4,442 buyouts authorized by VHA, 3,819 were granted. Of these, 818 were medical positions, 761 were wage grade, 2,171 were GS-13 and below, and 69 were GS-14 and above. VHA officials explained that the actual number of buyouts fell short of their expectations because of VHA's strict eligibility criteria. They noted that VHA could have paid the 4,442 buyouts authorized but chose not do so, because it would have violated VHA's buyout criteria. Further, the officials noted that the buyouts did not attract young to middle-age employees, because the separation incentive they would have received was too low to cause them to quit.

The Veterans Benefits Administration (VBA) was the second largest user of buyouts at VA with up to 500 buyouts authorized to help it achieve the right mix of skills in the right locations. VBA officials told us that VBA had 10 different eligibility categories. Receiving top priority for buyouts were administrative and clerical positions and upper level employees in keeping with the agency's mandate to reduce management control positions. VBA also targeted a large number of buyouts to employees in supervisory positions GS-13 and below to reduce supervisory layering.

VBA paid a total of 483 buyouts. These included 443 approved for employees in positions GS-13 and below, as well as 40 in positions GS-14 and above. VBA officials believed that the buyout program was successful because it attracted certain medical officers that VBA had tried to separate for years but had been unable to. VBA officials also stated that the buyouts helped them better manage VBA's downsizing by targeting certain supervisory functions in administrative and clerical occupations that were no longer needed because VBA was moving to a team/coaching environment. Further, the officials said that buyouts mitigated the need for RIFS. VBA had already convened a national team to organize a RIF of as many as 500 employees.

VA estimated that buyouts would save about $65.5 million in fiscal year 1997. For VA to achieve these savings, buyout recipients generally had to separate no later than January 3, 1997. However, VA granted an exception to employees who did not become eligible for early retirement until after December 31, 1996. These employees were required to apply during the established window but could delay their separations until they became eligible for early retirement.

GSA Used Buyouts to Help Avoid a RIF

According to GSA's strategic plan, the President's Fiscal Year 1997 budget called on GSA to reduce its employment levels by 337 full-time positions. This decrease was over and above the reductions mandated under the previous buyout authority and could not be accomplished by attrition alone. Thus, to avoid separating employees by a RIF, GSA planned on using buyouts to achieve its downsizing goals.

GSA's plan also notes that the agency intended to carefully target its buyouts and thereby avoid some of the shortcomings of the 1994 and 1995 buyout window when buyouts were granted nonselectively. According to GSA's plan, these agencywide buyouts, along with normal attrition, resulted in personnel reductions that were not always consistent with GSA's organizational or business goals and led to skill imbalance. By tailoring its fiscal year 1997 buyout program, GSA hoped to avoid exacerbating these imbalances or making it harder to address customers' needs.

To this end, GSA's buyout program excluded the Federal Supply Service and the Office of Inspector General, which were already on track toward meeting their workforce goals; the Office of Governmentwide Policy and the Federal Protective Service, which were both growing in size because of greater responsibilities; and certain regions and/or job series where there was a shortage in specific telecommunications skills.

GSA granted 140 buyout applications from among the 223 employees who had signed declarations of intent indicating their desire to receive a buyout. According to a GSA official, this was probably sufficient to allow GSA to achieve its remaining workforce reduction goals by attrition. If not, GSA said it might consider opening another buyout window in the fall of 1997.

GSA concluded that for the buyouts to be cost effective, it could offer them only in the first quarter of the fiscal year. Consequently, buyout recipients had to be off the employment rolls by January 3, 1997. GSA's buyout program also indicated that buyout decisions were to be based on the impact individual buyouts would have on GSA's mission, which may have increased the buyout's cost effectiveness.

IRS Used Buyouts to Help Reorganize Field Offices and Reduce Headquarters Employment Levels

The objectives of the IRS buyout program were to complete its field office reorganization, selectively downsize its headquarters, and reduce or eliminate the need to conduct a RIF. Facing funding reductions that caused it to accelerate the pace of its reorganization efforts, IRS identified 3,388 positions for realignment or elimination. About 70 percent of these positions were in field offices.

Although 3,388 buyouts were authorized, IRS projected that 1,326 would actually be accepted. According to IRS data as of late spring 1997, 1,261 buyouts had been approved. Of these, 935 (74 percent) went to field employees, and 326 (26 percent) went to headquarters employees. Had it not been for the buyouts, agency officials estimated that about 2,500 employees would have had to be separated in a RIF.

To further reduce the impact of an anticipated RIF, as part of an agreement with the National Treasury Employees Union, IRS plans on offering another round of buyouts from July 6, 1997, through July 19, 1997. Under the terms of the agreement, the buyouts are to be limited to the number of RIF separations expected within each commuting area and are to be offered in accordance with specific eligibility criteria. Receiving top priority are those employees expected to be separated in a RIF who are not immediately eligible for early or regular retirement. Employees selected for a buyout are to be off the rolls by August 2, 1997.

IRS supported its strategic plan with extensive economic analysis that not only calculated the savings generated by buyouts, but compared those savings to those it estimated would accrue from a RIF. Assuming 1,326 buyouts, IRS calculated in its strategic plan that buyouts would produce

$8.4 million in net savings compared to separating employees through a RIF and would result in $14.4 million in net fiscal year 1997 savings.

IRS offered buyouts according to a 10-tiered priority system. Buyouts were first offered to employees in noncontinuing positions, then to employees in positions where departures would create vacancies that could be filled by people in noncontinuing positions. Consistent with one of the practices associated with effective buyout programs that we identified, IRS gave priority for buyouts to employees not eligible for optional retirement.

MBDA's Buyout Program Targeted Specific Groups

MBDA was forced to reduce its personnel expenses following severe budget cuts that reduced MBDA's funding from $44 million in fiscal year 1995 to $28 million in fiscal year 1997, a decline of about 36 percent. To that end, it planned on conducting a RIF that would affect approximately 73 positions, about 55 of which would ultimately be abolished. To minimize the impact of the impending RIF, MBDA offered 30 buyouts to employees in the 75 positions affected by the RIF.

According to agency officials, the RIFs—and hence the buyouts—were targeted toward general administrative support functions rather than programmatic positions. The cuts were aimed at headquarters units that included data resources, planning and evaluation, and the office of administration, because such services were more readily available from MBDA's parent agency, the Department of Commerce.

MBDA officials said that although MBDA was prepared to offer 30 buyouts and expected that 10 to 15 employees would accept them, 7 employees actually received buyouts. According to agency officials, the reason for the shortfall was that most employees in the targeted positions were ineligible for retirement and wanted to eventually return to the government. The reemployment restrictions in the buyout authority would have prevented them from returning to federal employment for 5 years unless they first repaid the full amount of the buyout.

Because of the low acceptance rate, agency officials said that buyouts did not help MBDA avoid a RIF, and 55 employees were ultimately separated in this manner. Nevertheless, agency officials noted that the buyouts, together with RIF separations, helped MBDA achieve its goal of reducing the ratio of headquarters personnel to field personnel, moving from 1.7:1 to 1:1.5. In its strategic plan, MBDA estimated an average savings of $5,000 per buyout recipient.

USIA Used Buyouts to Manage Its Workforce Reductions

USIA's ongoing reinvention efforts, combined with funding restrictions, led the agency to identify 80 positions for elimination. To minimize the impact of the impending RIFS, USIA offered up to 100 buyouts. The buyouts were to also reduce over-staffed occupations, such as Foreign Service secretaries, and decrease the number of employees in higher grade levels and supervisory positions.

Although employees in the 80 positions likely to be eliminated had priority for receiving buyouts, USIA also allowed "swapping." Under this procedure, USIA considered buyout applications from employees elsewhere in the agency in comparable series and identical grade levels who could substitute for the employees in affected positions.

USIA paid 66 buyouts. Of these, 60 were Civil Service and 6 were Foreign Service. As a result of the buyouts, an agency official estimated that buyouts mitigated about half of the RIF impact. Further, once the buyout program was completed, two employees were separated by RIF.

Although USIA calculated that the buyouts produced a net cost of $133,000 in fiscal year 1997, it estimated annual savings in fiscal year 1998 and each year beyond at $3.24 million. In addition to reduced salary expenses, these savings were also generated by phasing out programs, consolidating offices, and streamlining administrative functions, among other activities.

USIA's management of its buyout program also tended to increase savings. For example, in addition to aiming buyouts at higher graded positions and generally requiring separations by January 3, 1997, USIA granted separation deferments only to those individuals assigned overseas and for a period not to exceed 60 days. Further, in instances where swapping took place, if there were multiple candidates, USIA reported that the buyout was granted on the basis of the greatest salary savings and least separation cost, among other criteria.

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