United States General Accounting Office

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Report to the Chairman, Committee on Agriculture, Nutrition, and Forestry U.S. Senate

July 1997

FEDERAL DOWNSIZING

Buyouts at the Farm Service Agency

GAO/GGD-97-133

GAO

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General Accounting Office
Washington, D.C. 20548

General Government Division

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July 23, 1997

The Honorable Richard Lugar
Chairman, Committee on Agriculture, Nutrition, and Forestry
United States Senate

Dear Mr. Chairman:

This letter responds to your request that we review voluntary separation incentives or "buyouts" at the U.S. Department of Agriculture Farm Service Agency (FSA). Specifically you asked us to (1) determine if FSA's fiscal year 1997 buyout program was planned in accordance with legal requirements, (2) determine if the decision to grant buyouts was based on a well-supported cost and savings analysis, and (3) describe the results of the fiscal year 1997 buyouts, including the impact of buyouts and downsizing on the agency's operations.

Background

FSA, an agency of the U.S. Department of Agriculture (USDA), administers farm commodity and conservation programs for farmers and makes farm loans. With over 17,000 employees, FSA maintains its headquarters in Washington, D.C., and operates offices in each state and in most counties. FSA is the lead agency for administering payments to the farmers who receive federal agricultural assistance.

Each state director oversees the operation of county field offices through district directors, who generally supervise operations in 6 to 10 counties. Employees in county offices can be either federal or nonfederal. Nonfederal employees are county employees who are governed by separate FSA personnel regulations and are subject to county supervision. Their pay and benefits, including retirement benefits, are provided by the federal government and are generally the same as those federal employees receive. A key difference in personnel regulations is that nonfederal employees, unlike their federal counterparts, cannot displace other employees under a reduction-in-force (RIF). Prior to a 1994 reorganization creating FSA, these nonfederal employees managed farm commodity programs for the Agricultural Stabilization and Conservation Service. Under the reorganization, these nonfederal employees joined the FSA organization.

Work in the county offices includes direct services to farmers and producers; administering loans on commodity programs; administering disaster assistance programs; managing direct and guaranteed farm loan

programs to help farmers who are temporarily unable to obtain private, commercial credit; and administering a conservation program that encourages farmers or producers to plant grass or trees instead of crops on highly erodible and environmentally sensitive lands. The County Executive Director, a nonfederal employee, is selected by a committee of local farmers.

The Federal Agriculture Improvement and Reform Act of 1996 (P.L. 104-127) provided fundamental changes to the way farm programs are administered. This act removed the link between income support payments, production levels, and farm prices. Farmers receiving federal support for agriculture can now operate with fewer federal controls over which crops to plant and how much acreage to put into production.

As part of its continuing streamlining and downsizing efforts, USDA was authorized in its fiscal year 1997 appropriations to offer voluntary separation incentive payments over a 4-year period to assist those agencies within the Department that were targeted for workforce reductions.[1] These payments, commonly referred to as buyouts, were authorized for employees serving under a permanent appointment for a continuous period of at least 3 years. The law established the amount of the fiscal year 1997 payments as the lesser of the employee's severance pay entitlement or an amount up to $25,000, as determined by the agency head. The maximum buyout amount authorized by the law is reduced by $5,000 each year until fiscal year 2000, the final year of the authority, when the maximum amount is $10,000.

Results in Brief

Faced with a need to reduce its staff by 1,339 positions (7.6 percent) during fiscal year 1997, FSA designed its buyout program to help it reach its downsizing goals while minimizing the need for RIFs. FSA included all required legal provisions in its buyout program. These included a strategic plan for using buyouts that identified the types of positions that were to be eliminated by organizational unit, location, broad occupational groups and grade levels; the number and amounts of buyout payments anticipated; and how the mission areas would be affected by elimination of the positions and functions.

Although not required to do so by legislation, USDA completed a cost and savings comparison of buyouts and RIFs for FSA prior to the fiscal year 1997

[1]The buyouts were authorized by the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 1997 (P.L. 104-180).

buyouts at the request of the Chairman, Senate Committee on Agriculture, Nutrition, and Forestry. Actual buyout and RIF costs from fiscal year 1997 were not yet available at the time of our study. Although the USDA analysis showed that buyouts held an economic advantage over RIFs, estimates for the RIF costs of relocation and unemployment compensation were not well supported and appeared to be higher than appropriate for FSA based on comments from FSA personnel and on our prior work on the costs and savings of buyouts and RIFs. Although these estimates appeared to be high, they did not invalidate USDA's conclusion that buyouts should generate more net savings than RIFs over a 5-year period.[2]

However, separating retirement-eligible employees who could not be reassigned through RIFs in offices that were closing or scheduled to close may have generated more savings than granting them buyouts. Since employees eligible for a retirement annuity cannot receive severance pay under a RIF, a significant cost element would have been avoided by separating an employee under a RIF rather than a buyout. However, RIFs can often cause noneconomic impacts that must also be considered. These include lower productivity and morale, increased work in processing RIFs and in handling appeals of RIF decisions, and disruptions in the efficient operation of the workplace. Nevertheless, an economic analysis of RIFs in those situations where offices are closing can be an important part of the decision as to which separation strategy to pursue. USDA officials told us they had analyzed the relative cost and savings of buyouts and RIFs across the agency but had not considered applying the economic analysis to employees in offices that are closing.

As of the end of April, FSA reported that 926 employees have been separated with buyouts in fiscal year 1997, and 329 employees have been separated under RIFs. The total separations of 1,255 compared to a planned separation of 1,339 employees. Of the 926 buyout-takers, 57 percent were eligible for regular retirement, and an additional 33 percent were eligible for early retirement. The number of federal employees receiving buyouts met FSA's expectations; however, 697 buyouts were granted to nonfederal county employees compared to 875 planned nonfederal buyouts. Agency officials explained that the shortfall in nonfederal buyouts was created because some overstaffed county offices did not receive a sufficient number of applications.

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

FSA officials reported they generally used the buyout authority in those areas of the agency where declining workloads and budgets dictated staffing reductions. However, officials at headquarters and in the Kansas City Management Office (KCMO) reported that they experienced the loss of expertise in the administrative and information technology areas when employees separated with buyouts. Although these employees worked in positions within the broad administrative occupational area targeted in the strategic plan, agency officials said that in hindsight, better targeting of buyouts would have excluded these employees from buyout eligibility, thus avoiding the loss of needed expertise.

FSA officials indicated the use of buyouts helped them meet downsizing goals while reducing the need for RIFs. Although they cited cases where they lost employees with valuable expertise to buyouts, they reported they were generally able to mitigate this loss through increased training, longer work hours for the remaining employees, and increased use of contract services.

FSA officials expressed some strong concerns about future workforce reductions. They told us that an additional reduction of 2,850 staff years over the next 2 fiscal years, called for in the President's fiscal year 1998 budget, could seriously affect the agency's ability to meet its mission and maintain high customer service levels. Further, although agency officials indicated they intend to use the buyout authority in fiscal year 1998 to facilitate the required workforce reductions, they told us that buyouts may not be as effective in avoiding RIFs because the lower buyout amount ($20,000) and fewer retirement-eligible employees may generate fewer buyout-takers than needed. We did not examine the validity of these concerns for this report. However, as part of our ongoing work, we are examining the impacts of projected FSA workloads on the agency's operations and staffing levels.

Scope and Methodology

To determine if FSA's fiscal year 1997 buyouts were planned in accordance with legal and regulatory requirements, we compared FSA's buyout plans with requirements identified in the authorizing legislation. These requirements included a strategic plan that identified the positions and functions to be eliminated by organizational unit, location, occupational category, and grade levels; the number and amounts of buyout payments anticipated; and a description of how the mission areas would be affected by elimination of the positions and functions. We interviewed key agency

human resource and budget personnel to determine how the buyouts were planned.

To determine if the decision to grant buyouts was based on a well-supported cost and savings analysis, we analyzed USDA's cost and savings analysis of FSA buyouts and RIFs, comparing it to our prior work that identified the type of cost and savings data needed to analyze the economics of buyouts. We interviewed USDA and FSA human resource management and budget personnel to obtain their rationale for the estimates, and we interviewed FSA program personnel to determine their perceptions about the appropriateness of the estimates.

To describe the results of the fiscal year 1997 buyouts, we collected and analyzed demographic data on buyout-takers from the agency's human resource managers, compared original expectations with results, and interviewed agency officials in those areas where the greatest number of buyouts took place. These included the state directors in the five states with the most buyouts and managers in KCMO and at those headquarters units that had the most buyouts.[3] In addition, we interviewed representatives of four employee associations and two unions to obtain additional information on the results of the fiscal year 1997 buyout program. We did not independently verify agency officials' statements about the impact of downsizing on service delivery nor about how successful agency efforts such as outsourcing mitigated the loss of expertise created by downsizing.

Our work was performed in Washington, D.C., and Denver, Colorado, between October 1996 and May 1997, in accordance with generally accepted government auditing standards.

We provided the Secretary of Agriculture and the Administrator of the Farm Service Agency with a draft of this report for their comments on May 30, 1997. USDA's written comments are summarized and evaluated at the end of this letter and are presented in full in appendix II.

[3]The five states included Illinois, Iowa, Minnesota, North Carolina, and Texas. These states, along with the Kansas City Management Office, and the offices of the Deputy Administrator for Management at headquarters, accounted for over one-third of the total 926 buyouts granted.

Buyout Program Planned in Accordance With Legal Requirements

FSA's plan for using buyouts addressed all elements required by P.L. 104-180, which authorized buyouts at USDA. The law required USDA to submit a strategic plan to the House and Senate Committees on Appropriations, the Senate Committee on Governmental Affairs, and the House Committee on Government Reform and Oversight that showed the intended use of buyouts and a proposed organizational chart for the agency once the buyouts have been completed. The law required the plan to include:

(1) the positions or functions to be reduced or eliminated, identified by organizational unit, geographic location, occupational category, and grade level;

(2) the number and amounts of voluntary separation incentive payments to be offered; and

(3) a description of how the agency will operate without the eliminated positions and functions.

According to FSA's strategic plan, 1,108 buyouts were to be directed to positions within broad occupational groups at headquarters, in KCMO, the Kansas City Commodity Office (KCCO), the Aerial Photography Field Office in Salt Lake City, and in state offices. Buyouts were to be targeted at headquarters to higher graded employees who were eligible for regular or early retirement. At KCMO, KCCO, and the Aerial Photography Office, buyouts were generally to be targeted to positions within the broad occupational groups of personnel, general administration and clerical, accounting/budgeting, legal, business and industry, and education. Buyouts were authorized for all series and grades of federal positions in the state offices. Nonfederal employees in the counties could apply for buyouts, but buyouts granted were targeted to those counties considered to be overstaffed relative to their workloads. It was also anticipated that almost all buyouts (99 percent) would go to retirement-eligible federal and nonfederal employees.

In the field areas where the staffing reductions were being driven by workload, the plan stated that adjustments in staffing would be made to accommodate shortages and to conduct rightsizing where needed.[4] The plan further stated that program delivery and support would be adjusted

[4]Rightsizing occurs when personnel reductions made in overstaffed units are offset by employees hired in units that are understaffed.

on the basis of fiscal year 1997 appropriation levels to ensure the maintenance of customer service expectations.

FSA did not anticipate any changes to the agency's mission areas or organizational structure as a result of the buyouts. A proposed organizational chart approved on November 26, 1996, was submitted to the cognizant congressional committees.

USDA's Economic Analysis of Buyouts and RIFs Was Not Well Supported and Was Not Applied to Separations Created by Office Closures

Although not required to do so by legislation, USDA, in November 1996, completed a cost and savings comparison of buyouts and RIFs in the FSA and Rural Development mission areas over a 5-year period in response to a request from the Chairman, Senate Committee on Agriculture, Nutrition, and Forestry. The analysis for FSA concluded that if buyouts were granted to employees in all 1,339 positions targeted for elimination, the first year's net savings would be almost $3 million; separating the same number of employees through RIFs would result in a net cost of $13 million. The analysis also concluded that after 5 years, the net savings from buyouts would be almost $243 million; the net savings from RIFs would be $191 million.

USDA's analysis of the relative costs and savings of buyouts and RIFs in FSA appears to have overstated per capita RIF costs in two areas. USDA officials told us they based their RIF cost estimates on actual costs from a small RIF in the Forest Service in 1993, and they said that they realize the estimates may not be accurate for FSA. Actual cost and savings data from the fiscal year 1997 buyouts and RIFs were not available for our analysis at the time of our study. Appendix I includes a comparison of USDA's buyout and RIF cost estimates for the year of separation with the cost estimates we used in our previous work on the costs and savings of buyouts and RIFs.

RIF costs typically include unemployment compensation payments; outplacement costs and, if the employee is not eligible for an annuity, severance pay; and refunds of retirement contributions. Other costs such as processing costs or appeals costs could be included if they represent additional costs, such as the hiring of an employee to manage a RIF or the hiring of a lawyer to handle RIF appeals. Costs can be incurred for other employees not separated but nevertheless affected by the RIF. These include retraining and relocation costs. Buyout costs generally include the cost of the incentive (up to $25,000) and the additional agency payment to the retirement fund (15 percent of final salary) required by authorizing legislation.

The two RIF cost elements appearing high in the USDA analysis of FSA RIFs were relocation and unemployment compensation costs. The USDA analysis included an estimate of $30,000 for relocation costs per RIF for employees affected by each RIF action. However, in our 1996 report, we estimated relocation costs at $3,500 per RIF based on a 1993 Congressional Budget Office study of RIF costs. In addition, FSA officials told us that very few relocations would occur as a result of RIFs in FSA, since nonfederal employees cannot compete for positions in other county offices in a RIF situation.

USDA used an estimate of $13,200 per RIF for unemployment costs incurred for each person separated by the RIF. However, according to the Department of Labor (DOL) data we used in our prior report, the average 1994 recipient of unemployment compensation received $3,233. This varied from a low of $1,632 in Mississippi to a high of $6,341 in Pennsylvania. In addition, DOL data showed that only about 60 percent of those individuals unemployed actually filed initial claims. USDA officials could not explain why the costs from the 1993 Forest Service RIF were substantially higher than the costs documented in the 1994 DOL data.

Although these estimates for RIF costs appear to have been overstated, it is likely that buyouts would still generate greater net savings than RIFs over a 5-year period. If the estimates for relocation costs and unemployment compensation were adjusted on the basis of the estimates we used in our previous work, the revised comparison would show RIFs as generating greater savings in the year of separation. However, because RIFs generally separate lower graded employees, the higher savings in salaries and benefits of buyout-takers would result in buyouts generating greater savings than RIFs in the second and subsequent years of the analysis.

Although buyouts are generally the more economical choice, RIFs could generate greater net savings in specific situations where the positions of retirement-eligible employees are targeted for elimination in offices that are closing or scheduled to close. If positions are to be eliminated in an office that is closing and the employees cannot relocate to another location, the agency has various options available for separating the employees. It can grant buyouts to all employees desiring voluntary separations and issue RIF notices to those not desiring buyouts, issue RIF notices to all employees, or offer buyouts only to those employees not eligible to retire and RIF notices to retirement-eligible employees. Whatever approach the agency takes can be based on noneconomic factors as well as costs and savings estimates. These noneconomic factors, such as lower

productivity and morale, increased work in handling appeals of RIF decisions, and disruptions in workplace operations, can weigh heavily in the decision as to which option to pursue. Nevertheless, an economic analysis of RIFs is an important part of this decision.

In our prior work, we found that separating retirement-eligible employees who cannot displace other employees through RIFs can generate greater net savings than granting them buyouts.[5] Retirement-eligible employees cannot receive severance pay in a RIF. Since this pay could amount to as much as a year's salary, depending on age and years of service, a significant cost could be avoided by separating an employee under a RIF rather than a buyout. Of nonfederal FSA employees separating with buyouts in fiscal year 1997, 90 percent were eligible for a retirement annuity.

We found that 14 retirement-eligible nonfederal employees received buyouts in 13 county offices that were closing or scheduled to close. In addition, FSA data show that 19 federal district directors who were stationed in the states and received buyouts were eligible for retirement. We were not able to determine which, if any, of these federal employees were stationed in county offices that were closing. However, if they were precluded from displacing other employees, RIF separations could have generated greater savings than buyouts. USDA officials told us they had analyzed the relative cost and savings of buyouts and RIFs across the agency, but they had not considered applying the economic analysis to those situations where offices were closing. Such an analysis may be an important part of decisions as to which separation strategies to use in the next 2 years. Fiscal year 1998 budget documents project the closure of an additional 500 county offices by the end of fiscal year 1999.

[5]Under federal RIF procedures, an employee whose position is targeted for elimination can, if qualified, displace another federal employees who is in a lower tenure group (appointment category) or who has less service. These processes, often called "bumping" and "retreating," do not apply to FSA's nonfederal employees.

Buyout Results Generally Met Expectations, but FSA Officials Noted Some Buyouts Resulted in the Loss of Needed Expertise

As shown in table 1, the total number of FSA reductions in fiscal year 1997 has been slightly less than planned. According to FSA officials, the combination of a hiring freeze and higher than normal attrition allowed the agency to reduce the size of the total reduction it needed to take. Although the number of nonfederal employee buyouts in the counties fell slightly short of FSA's expectations, the number of RIFs was higher than expected. An agency official estimated that about 10 percent of the 304 agency RIFs were rightsizing RIFs, where the separation of an employee through a RIF in an overstaffed unit was made so that an understaffed unit could hire a new employee. FSA officials said that the number of buyout applications received from nonfederal employees in some offices scheduled for downsizing was somewhat below the number needed at these locations. Although agency officials reported they were able to avoid some RIFs by asking nonfederal employees in overstaffed offices to relocate, this was not always successful.

Table 1: FSA FY 1997 Separations

	Federal employees		Nonfederal (county employees)		Totals	
	Planned	Actual	Planned	Actual	Planned	Actual
Buyouts	233	229	875	697	1,108	926
RIFs	0	25[a]	231	304	231	329
Total separations	**233**	**254**	**1,106**	**1,001**	**1,339**	**1,255**

[a]Includes 9 full-time permanent employees in the states and 16 temporary/term employees in the KCMO.

Source: FSA buyout plan, FSA statistics on buyouts and RIFs as of April 30, 1997.

As shown in table 2 below, most of the buyouts went to employees who were eligible for either regular or early retirement.

Table 2: FSA FY 1997 Buyouts by Retirement Eligibility

	Regular retirement	Percent	Early retirement	Percent	Resignations	Percent	Totals	Percent
Federal employees	113	49	89	39	27	12	229	100
Nonfederal employees	411	59	220	32	66	10	697	100
Totals	**524**	**57**	**309**	**33**	**93**	**10**	**926**	**100**

Source: FSA statistics on FY 1997 buyouts and GAO calculations.

FSA officials considered buyouts as a useful management tool in helping them reach agency downsizing goals while reducing the need for RIFs. The agency generally used buyouts in areas of declining workloads and where budgets dictated staffing reductions. Buyouts were excluded for certain positions in the farm credit area, since staffing was already at minimum levels considered essential for meeting customer service expectations. Although most FSA employees could apply for buyouts, some states and organizational units offered buyouts to all applicants; others screened applications, offering buyouts only to employees from units or offices determined to be overstaffed.

Because the buyout program relied on voluntary separation decisions, FSA officials said they could not directly control who would apply for a buyout. However, they stated that they were generally able to manage the distribution of buyouts so that the number of RIFs would be minimized. For example, they said one of their options under the buyout program was to grant a buyout in an office that was not overstaffed, refill the position with an employee relocated from an overstaffed office, and count the position reduction in the overstaffed office as the required offset to the buyout.

Although agency officials and representatives of employee associations and unions stated they generally believed the buyout program was well implemented, some cited examples where employees separating with buyouts created the loss of critical expertise. State program officials cited some loss of expertise at the state and county levels through buyout separations, but they indicated they have instituted aggressive training programs to enable remaining staff to complete the required work.

Officials at headquarters and KCMO reported the buyouts granted to federal employees in the administrative and information technology areas resulted in the loss of valuable expertise and, as one official stated, a “brain drain.” Although these employees worked in occupational groups targeted in the strategic plan, agency officials at headquarters and in Kansas City said that in hindsight, it would have been better to exclude employees in these positions from receiving buyouts. They said that better targeting of buyouts could have prevented this situation from taking place.

To compensate for the departure of buyout-takers, FSA officials reported they have increased training of the remaining staff. Officials at KCMO have also increased the use of contract services, primarily in the information technology services area, to mitigate the effect of the loss of employees through buyouts.

State officials we contacted reported they have generally been able to maintain high levels of customer satisfaction during this downsizing period and have received very few complaints from farmers and producers, but they also said they are already operating at staffing levels below what their workload levels would suggest. As a result, they said many employees are working longer hours to ensure customer service levels are maintained.

Fiscal year 1998 budget documents indicate that FSA may need to close or consolidate at least 500 more county offices by the end of fiscal year 1999, with additional staff reductions of 2,850 staff years. FSA officials indicated they are planning to use buyouts as a management tool for separations in fiscal year 1998, as authorized by P.L. 104-180, to assist in these future downsizing efforts. However, they expressed serious concerns about the impact of future downsizing on their ability to meet their mission. They said the workload reductions are not dropping as fast as the budgets for staffing, and as a result they will likely not be able to meet their customers' service needs in the future. Further, they told us that buyouts may not be as effective in avoiding RIFs in the future, because the lower buyout amount ($20,000) and fewer retirement-eligible employees may result in fewer buyout-takers than needed. We did not examine the validity of these concerns for this report. However, as part of our ongoing work, we are examining the impacts of projected FSA workloads on the agency's operations and staffing levels.

Conclusions

FSA's fiscal year 1997 buyout program included all the required legal provisions and was beneficial in helping the agency manage its downsizing efforts. The legislation authorizing FSA's buyouts did not require that decisions to grant buyouts be based on a cost and savings comparison with RIFs. Although USDA completed such an analysis covering FSA, it included estimates for two RIF cost elements that appear to be higher than what might be expected in an FSA RIF. Actual costs experienced were not available at the time of our study. If these cost estimates were revised, buyouts would still generally hold an economic advantage over RIFs. Nevertheless, analyzing buyouts and RIFs in situations where offices are closing could have yielded different results, especially in offices where retirement-eligible employees were working. Although noneconomic considerations of RIFs can weigh heavily in the decision on which separation strategy to pursue, the economics of separating employees through buyouts versus RIFs in offices that are closing can be an important element in the decisionmaking process. Since the President's fiscal year

1998 budget indicates an additional 500 county offices might be closed by the end of fiscal year 1999, the potential exists that greater savings could be realized through RIF separations in these offices than through buyouts.

FSA officials reported that some buyouts granted to employees in the administrative and information technology areas resulted in the loss of needed skills and expertise. A more selective use of buyouts could have alleviated some of the adverse operational impacts noted, such as the loss of expertise and critical skills.

Recommendations to the Secretary, USDA

We recommend the Secretary, U.S. Department of Agriculture, ensure that a well-supported cost and savings analysis of buyouts and RIFs is part of any future decision to offer buyouts to FSA employees. The analysis should show the economic advantage of either buyouts or RIFs for the agency as a whole and for those situations where employees might be separated in offices that are closing.

In addition, we recommend that the Secretary direct the FSA Administrator, in planning any future buyouts, to ensure that positions or occupational series where the loss of experienced personnel may adversely affect the agency's operations be excluded from buyout offers. The Administrator should ensure that buyouts are linked to areas where workloads are anticipated to decline, or to areas where separations will assist the agency in meeting organizational workforce goals, rather than offered broadly across occupational groups.

Agency Comments and Our Evaluation

USDA's Acting Under Secretary for Farm and Foreign Agricultural Services provided written comments on a draft of this report. These comments and our responses to certain of the specific comments are contained in appendix II.

USDA generally agreed with our report and its recommendations. In particular, USDA agreed that a well-supported cost and savings analysis of buyouts and RIFs should be part of any future plan. In doing future analyses, USDA said that it would review and revise as appropriate its estimates of relocation and unemployment compensation costs associated with RIFs. However, USDA cautioned that it may be difficult to estimate unemployment costs accurately given variation in state laws. Specifically in regard to addressing in the cost analyses the economic advantage of buyouts or RIFs in offices that are closing, USDA said that it would attempt

to do so. However, USDA observed that the extent of any further downsizing and office closures is uncertain, and, therefore, estimates must be tentative. Finally, USDA also agreed that future buyouts should be done in a way that minimizes adverse effects on its ability to conduct its operations.

We believe USDA's commitment to doing well-supported cost and savings analyses will better ensure that the full savings potential of buyouts or other employee separation strategies will be realized consistent with other USDA objectives. We also recognize that estimating specific cost components, like unemployment costs, can be challenging and that budget uncertainties can complicate the task of determining how best to conduct further downsizing and office closures. We believe that a well-supported cost and savings analysis that takes the full range of options into account can help USDA select buyout and other separation strategies that achieve savings while minimizing adverse effects on mission-related operations.

USDA also offered various suggestions to improve the clarity or accuracy of the report. We incorporated these changes in the report where appropriate.

As agreed with your office, unless you announce the contents of this report earlier, we plan no further distribution until 5 days after its issue date. At that time, we will send copies to the Ranking Minority Member of the Senate Committee on Agriculture, Nutrition, and Forestry; the Chairman and Ranking Minority Member of the Subcommittee on Civil Service, House Committee on Government Reform and Oversight; the Chairman and Ranking Minority Member of the Senate Committee on Governmental Affairs; the Secretary of Agriculture; and the Administrator, Farm Service Agency. We will make copies available to others on request.

The major contributors to this report are listed in appendix III. If you have any questions about the report, please call me on (202) 512-9039 or Assistant Director Steve Wozny on (202) 512-5767.

Sincerely yours,

Michael Brostek
Associate Director,
Federal Management and
Workforce Issues

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Abbreviations

DOL	Department of Labor
FSA	Farm Service Agency
KCCO	Kansas City Commodity Office
KCMO	Kansas City Management Office
RIF	reduction-in-force
USDA	United States Department of Agriculture

Comparison of USDA's First-Year Buyout and RIF Cost Estimates for FSA With Cost Estimates Used in 1996 GAO Report

	Cost per buyout			Cost per RIF	
Cost element	**USDA estimate**	**GAO estimate**		**USDA estimate**	**GAO estimate**
Buyout amount	$25,000	regular retirement early retirement resignation	$24,501[a] $24,802[a] $14,031[a]		
Payment to retirement fund	15 percent of final salary	15 percent of final salary			
Unemployment compensation payments				$13,200	$1,222
Outplacement				$7,456	$7,456
Retraining				$1,900	$1,900
Relocation[b]				$30,000	$3,500
Severance pay				$9,527[c]	$6,182[d]
Refund of retirement contributions				(not included)	$6,085

[a]Actual buyout amounts will vary based on age and years of service. GAO figures shown are based on actual governmentwide demographic data for buyout-takers.

[b]USDA estimate based on costs from a small 1993 Forest Service RIF; GAO estimate based on a 1993 Congressional Budget Office study of average relocation costs in the Department of Defense.

[c]Average severance pay of both federal and nonfederal employees in previous agency RIFs.

[d]Based on average governmentwide demographic data for non-retirement-eligible employees separated by a RIF from FY 1993 through the first half of FY 1995.

Comments From the U.S. Department of Agriculture

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

TO: Michael Brostek
Associate Director
Federal Management and Workforce Issues
General Accounting Office

FROM: Dallas R. Smith [signature] JUN 16 1997
Acting Under Secretary for
Farm and Foreign Agricultural Services

SUBJECT: The General Accounting Office (GAO) Draft Report - Federal Downsizing: Buyouts at the Farm Service Agency (FSA)

This is in response to your request for comments on the draft GAO buyout report.

See comment 1.

We are in general agreement with the report and its recommendations. Concerning Recommendation 1, we agree that a well supported cost and savings analysis of buyouts and reductions in force (RIF) should be part of any future plan, although we may differ to some extent with the estimates of certain components of estimated costs associated with buyouts and RIF's. FSA prepared numerous analyses over several months, which received review in the Department of Agriculture (USDA), Office of Management and Budget (OMB), and various Congressional staff. These analyses showed the costs and savings based on many variables (including employee eligibility numbers) associated with separating the required number of employees to stay within expected available funding for 1997. These FSA analyses did **not** include factors for the two RIF cost elements that GAO found objectionable ($30,000 for relocation costs and $13,200 for unemployment costs), as stated on page 12 of the draft report. USDA will review and revise where appropriate their estimates of relocation and unemployment compensation costs associated with RIF's. However, it is important to note that it may be difficult to estimate the unemployment costs accurately, given the variation in State laws on eligibility and benefits paid.

Now on pp. 7 and 8.

USDA will also attempt to look more closely at separation costs in offices that are closing. However, the extent of further downsizing and office closures is uncertain. Changes in program parameters and delivery procedures are currently under evaluation. Estimates of the comparative costs of buyouts and RIF's in this context must be tentative, particularly with regard to office closings, mergers, and consolidations. Further, since reductions in staffing must be completed early in the fiscal year to be most cost-effective, our ability to show the economic advantage of either buyouts or RIF's based on separation costs for offices that are closing may be limited until more specific plans for closures are in place.

Michael Brostek 2

We also agree with Recommendation 2 regarding ensuring that the use of buyouts does not adversely affect the Agency's ability to conduct its operations.

We offer the following specific comments on the GAO draft report:

Modified text
See p. 1.

1. In the first paragraph on page 1, the reference to FSA handling the federal crop insurance program should be deleted. We also recommend the following minor clarifications be added to the second paragraph on page 1 (changes highlighted):

   "Each state director oversees the operation of county field offices through district directors, who generally supervise operations in 6 to 10 counties. Employees in county offices can be either federal or nonfederal. Nonfederal employees are county employees who are generally governed by ~~county~~ agency personnel regulations and are subject to county supervision. However, their pay and benefits are provided by the federal government and are generally the same as federal employees receive. ~~Two~~ A key difference~~s~~ in personnel regulations ~~are~~ is that nonfederal employees, unlike their federal counterparts, cannot displace other employees under a reduction-in-force (RIF) ~~and cannot be reassigned involuntarily~~. Nonfederal employees previously managed farm commodity programs for the Agricultural Stabilization and Conservation Service. In a 1994 reorganization creating the FSA, these nonfederal employees became part of the FSA organization."

Now on p. 3.
See comment 2.

2. On page 4, the report states that ". . . separating employees through RIF's in offices that were closing or scheduled to close may have generated more savings than granting them buyouts, especially in those offices where retirement-eligible employees worked." This is only partially true. It can not be assumed that all county positions are eliminated in an office closure situation; normally only the supervisory CED position and at most 1 subordinate position are eliminated. Most subordinate employees usually move with the work to the neighboring county office that is picking up the work. Therefore, buying out an excess subordinate employee in an office scheduled for closing may be a valid option, because it saves the position of another subordinate employee who would otherwise have been involuntarily separated, and may have been eligible for severance pay.

   Now on p. 8.

   This issue is also addressed at the bottom of page 13 and the top of page 14, and we have no problems with the report language on these pages.

Now on pp. 7 and 8.
See comment 3.

3. On page 12, at the bottom of the second paragraph, the report states ". . . very few relocations would occur as a result of RIF's in FSA, since FSA cannot direct the relocation of nonfederal employees, ... " We recommend that the report delete the phrase "since FSA cannot direct the relocation of nonfederal employees" and replace

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it with the phrase "since non-Federal employees only compete within their county office in a RIF situation."

Now on p. 11.
See comment 4

4. On page 18, the report states that " . . . some states and organizational units accepted all buyout applications; while others screened applications, accepting only those from units or offices determined to be overstaffed." This is inaccurate. Employees sent applications directly to the Human Resources Division, which accepted every application from eligible employees. We believe that the report should be clarified to read ". . . some States and organizational units offered buyouts to all applicants, while others screened applications, offering buyouts only to employees from units or offices determined to be overstaffed." This will distinguish between buyout applications and actual buyout offers to employees.

GAO Comments

1. USDA said that FSA had prepared analyses that were reviewed by USDA, the Office of Management and Budget, and various congressional staff. These analyses were said to include cost and savings based on many variables, but not including relocation and unemployment cost elements. We had suggested in the draft report that the relocation and unemployment cost elements in the USDA cost and savings analyses were inappropriately high. The FSA estimates to which USDA refers were conducted in the spring of 1997, after the buyout round was virtually completed. The cost and savings analyses we analyzed for our report were those done by USDA at the Department level in November 1996. These are the analyses that supported FSA's buyout decisions. We clarified in the report that the analyses we analyzed were those done by the Department.

2. USDA said that our statement that "separating employees through RIFs in offices that were closing or scheduled to close may have generated more savings than granting buyouts, especially in those offices where retirement-eligible employees worked" was only partially true. USDA said our statement was partially true because only the positions of the County Executive Director and at most one subordinate position are eliminated in county offices that are closing, since much of the work and most of the subordinate employees usually move to a neighboring county office. We have clarified the report to show that additional savings may be realized when separating through RIFs retirement-eligible employees whose positions are eliminated in offices that are closing. Buyouts may remain the best option from a cost and savings standpoint for those excess subordinate employees who are not retirement eligible and who would receive severance pay under a RIF separation.

3. The report has been revised to state that nonfederal employees compete only within their county offices in a RIF situation.

4. The report has been clarified to distinguish between buyout applications and actual buyout offers made to employees.

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