



REPORT TO THE CONGRESS

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

Personnel Ceilings-- A Barrier To Effective Manpower Management

The Federal work force should be no larger than needed to do the essential work required to accomplish the programs and functions authorized by the President and the Congress.

Federal manpower management can be improved by employing or otherwise acquiring the most appropriate types of personnel resources for specific circumstances and purposes rather than by limiting the number of persons that may be reported on the Federal payroll on a particular day.

This summary report on personnel ceilings brings together a discussion of congressional and executive branch action, current perceptions of agency officials and managers, and previous GAO studies.

4



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To the President of the Senate and the
Speaker of the House of Representatives

Many officials are dissatisfied with personnel ceilings which provide little incentive for improving manpower management. This report discusses effects of yearend ceilings on agency operations and suggests a practical alternative.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget; the Chairman, Civil Service Commission; and the heads of departments and agencies included in our review.



Comptroller General
of the United States

D I G E S T

The Federal work force should be no larger than needed to do the essential work required to accomplish the programs and functions authorized by the President and the Congress.

Federal employment is controlled primarily through personnel ceilings which the Office of Management and Budget establishes for each agency. Also, since fiscal year 1975 the Congress has set an additional ceiling on the Department of Defense. (See p. 11.) In a recent fireside chat, the President said he would put a ceiling on the number of Federal employees as part of his effort to reform and reorganize the Government and to bring its growth under control. (See p 28.)

In the budget process the agencies, Office of Management and Budget, the President, and the Congress give considerable attention to agencies' programs and functions and the estimated funds and manpower needed to accomplish them. (See pp. 14 to 17.) This should provide effective control over the agencies.

In addition, the Office of Management and Budget imposes a personnel ceiling which limits the number of employees an agency may have on its payroll on the last day of the fiscal year, regardless of the work that must be accomplished and the funds available. Distributing this ceiling among its organizational elements and monitoring actual employment by these elements to insure that the ceiling is not exceeded on 1 day of the year creates an administrative burden and an illusion of control. (See p. 27.)

Many officials are dissatisfied with personnel ceilings which provide little incentive for

improved management and frustrate effective manpower management. (See p. 22.)

Personnel ceilings affect Government agencies in several ways:

- Services to the public and other agencies are reduced.
- Essential work is deferred or canceled and work backlogs are increased.
- Imbalances between clerical and professional staff and shortages in certain skills occur. (See p. 7.)
- Managers become more concerned with the number of persons actually employed on 1 particular day than with getting essential work done through the most effective, efficient, and economical use of people. (See p. 3.)
- If Government agencies cannot directly hire enough people to accomplish programs and functions approved by the President and the Congress, they must pay employees overtime or obtain the services of additional people indirectly through contracts with private firms or through grants to institutions and State and local governments. These people are neither included in employment ceilings nor counted as part of the Federal work force, but must be paid from Federal funds. (See p. 1.)
- Emphasis on limiting the number of persons on the Federal payroll may obscure the reality that the Government incurs the cost of all manpower resources devoted to Federal programs even though many of the people are not on the Federal payroll. (See p. 2.)

Although employment ceilings may be a tool to assure that concerns about the total number of Federal employees are met, ceilings are at best an inferior substitute for effective management. Management at all levels needs

4

to aggressively seek ways to improve productivity. Improved coordination of workload, funds, and manpower is needed. (See p. 27.)

In earlier reports, GAO suggested to the Congress that funding or program limitations would control the number of persons Federal agencies can employ. Additional controls imposed by personnel ceilings--setting a limit on the number of persons that actually may be employed on a particular day--deprived agency management of options for accomplishing essential work. (See p. 21.)

During fiscal year 1975 shortage of funds was a more severe constraint than personnel ceilings on the military services and the Customs Service. This showed that funds do control employment. An agency cannot hire workers unless it has funds to pay them. (See p. 7.)

The basic framework for a practical and effective alternative to yearend personnel ceilings already exists and is in operation in the budget process. (See pp. 14 to 17.) What is lacking is confidence in the soundness of the estimates prepared and submitted by the agencies and in the ability and reliability of agency managers to adhere to their estimates. (See p. 22.)

With direction and guidance from the Office of Management and Budget the agencies could develop methods for preparing sound estimates of the minimum manpower requirements of all types to accomplish authorized programs and functions. The agencies should fully document the processes and data used and make this information available to the Office and the concerned congressional committees for evaluation. (See p. 22.)

This alternative to yearend personnel ceilings would respond to the concerns of the President and the Congress and the objectives of the proposed Sunset Act of 1977. Since the budget process takes place every year and budget examiners and congressional committees and subcommittees monitor agency activities during the year, agency managers would have a hard

time deviating substantially from their estimates without approval. (See p. 22.)

Officials of most agencies reviewed support a search for an effective alternative to externally imposed personnel ceilings. (See p. 30.)

The former Director, Office of Management and Budget, proposed establishing a task force to develop criteria and plans for a controlled and rigorous test to determine the feasibility of controlling employment levels by means other than direct employment ceilings. The present Director, Office of Management and Budget, said he did not believe this is the time to discontinue employment ceilings for some agencies even on a limited, experimental basis. (See p. 29.)

Aggressive action should be taken to improve manpower management. Since some officials have reservations about whether employment would be controlled without ceilings, a test would be useful in demonstrating the effectiveness of the budget process to require agencies to prepare sound estimates of their minimum manpower needs of all types and agency managers to adhere to these estimates.

GAO recommends that the Director, Office of Management and Budget:

- Establish a task force at the earliest practicable time to develop criteria and action plans for a controlled and rigorous demonstration of the feasibility and general applicability of the budget process as a control over total manpower resources, including direct employment. The demonstration project should be undertaken simultaneously in several agencies with different types of operations.
- Consult and coordinate closely with congressional committees involved to invite their support of this project and furnish the committees periodic reports on the progress of the demonstration effort.

C o n t e n t s

	<u>Page</u>
DIGEST	i
CHAPTER	
1 INTRODUCTION	1
2 MANPOWER MANAGEMENT WITH PERSONNEL CEILINGS	3
Internal controls over employment	3
Actions taken to meet yearend ceilings	4
Effects of ceilings on operations	7
Agencies' views on how personnel ceilings affect their flexibility to manage manpower	9
3 CONGRESSIONAL AND EXECUTIVE ACTION TO CONTROL CIVILIAN EMPLOYMENT	11
Congressional action	11
Executive action	13
The budget process	14
Establishing personnel ceilings and reporting actual employment	17
Proposed legislation	18
4 CONCLUSIONS, AGENCY COMMENTS, AND RECOMMENDATIONS	20
Agency comments	23
Recommendations	30
5 SCOPE OF REVIEW	31
APPENDIX	
I Personnel ceilings and reported employment	33
II Excerpts from certain public laws enacted to control Federal employment	34
III Bureau of the Budget Circular No. A-64 (revised)--Position management and employment ceilings	36
IV Effects of personnel ceilings on operations	42

APPENDIX		Page
V	Other studies of personnel ceilings	54
VI	Letter dated March 24, 1977, from the Director, Office of Management and Budget	70
VII	Letter dated November 8, 1976, from the Director, Office of Management and Budget	72
VIII	Letter dated October 29, 1976, from the Bureau of Policies and Standards, Civil Service Commission	76
IX	Letter dated December 9, 1976, from the Assistant Secretary for Administration, Department of Agriculture	79
X	Letter dated October 28, 1976, from the Assistant Secretary for Administration, Department of Housing and Urban Develop- ment	80
XI	Letter dated November 19, 1976, from the Assistant Secretary for Administration, Department of Transportation	81
XII	Letter dated October 27, 1976, from the Deputy Administrator General Services Administration	89
XIII	Principal OMB officials responsible for administering activities discussed in this report	90

ABBREVIATIONS

BOB	Bureau of the Budget
CSC	Civil Service Commission
DCD	Department of Defense
FAA	Federal Aviation Administration
FTP	full-time permanent
GSA	General Services Administration
HEW	Department of Health, Education, and Welfare
HUD	Department of Housing and Urban Development
IPS	Internal Revenue Service
OMB	Office of Management and Budget
SCS	Soil Conservation Service
SSA	Social Security Administration
VA	Veterans Administration

The Civil Service Commission (CSC) reported fiscal year-end total Federal civilian employment, excluding the Central Intelligence Agency and the National Security Agency, for the last 3 years as follows:

At June 1974 - 2,091,119
At June 1975 - 2,046,918
At June 1976 - 2,001,116

Even though the agencies, the President, and the Congress force an estimated level of employment throughout the budget process, an additional control-personnel ceiling is imposed on the executive branch agencies. Personnel ceilings apply only to the last day of the fiscal year.

In some instances the Congress has enacted statutory limits on employment. (See pp. 11-12.) Where statutory limitations did not apply, the Office of Management and Budget (OMB) or its predecessor, the Bureau of the Budget (BOB), has imposed numerical ceilings on the agencies. OMB officials said they lacked assurance that agency managers would effectively control employment levels without numerical ceilings.

Efforts on limiting the number of persons in the Federal payroll may obscure the reality that the Government bears the cost of all taxpayer resources devoted to Federal programs even though many of the people are not on the Federal payroll.

CHAPTER 2

MANPOWER MANAGEMENT WITH PERSONNEL CEILINGS

Manpower management practices of the agencies we reviewed were influenced by the necessity of meeting year-end personnel ceilings. Although Public Law 93-305, which applied to the Department of Defense (DOD) (see p. 1) and the Office of Management and Budget Circular A-64 on position management systems and employment ceilings, stressed the policy of reducing Government costs (see app. III), agency manpower practices and actions seemed to be more concerned with not exceeding the number of persons actually employed on a particular day than with getting essential work done through the most effective, efficient, and economical use of manpower.

INTERNAL CONTROLS OVER EMPLOYMENT

Internal controls over management of personnel varied among the agencies we reviewed. Most agencies receive a single set of ceilings--one for full-time permanent (FTP) employment and one for total employment--which they allocate to their organizational elements on the basis of prior-year needs, projected workload and staff-year requirements, productivity changes, new legislation and priorities, and other considerations.

In some instances OMB sets employment limitations for specific agency programs in addition to the overall ceilings for FTP and total employment. For example, for fiscal years 1976 and 1977 OMB furnished the General Services Administration (GSA) a breakdown of its FTP ceiling by program area. Also, for fiscal year 1976 OMB furnished the Department of Agriculture specific ceilings for its Food and Nutrition Service. Congressional oversight committees often request the maximum and/or minimum employment levels, and agencies report these projections as employment targets to be met, if possible.

Agency headquarters monitor their organizational elements and report actual employment to the Civil Service Commission on standard form 1134, Monthly Report of Federal Civilian Employment.

ACTIONS TAKEN TO MEET YEAREND CEILINGS

Since ceilings apply solely to the last day of the fiscal year, agencies may have more employees during the year. If employment trends indicate that the number of employees may be larger than authorized by the ceiling for the count date, an agency may take action for the specific purpose of decreasing the number of persons on the payroll that day.

Separating employees in compliance with CSC requirements is time consuming. During the year an agency anticipating that its actual employment may be above the ceiling at yearend may apply a freeze on hiring, request authority from CSC to offer early optional retirement to eligible employees, initiate a reduction in force, or take other action to get people off the payroll for the day of accountability to avoid a possible reprimand by OMB.

We examined documents and obtained information from agency officials on some actions taken to meet yearend ceilings.

--In December 1974 Army Forces Command Headquarters and the Garrison at Fort Sam Houston temporarily converted 130 of the Fort's authorized FTP positions to temporary part-time positions to reach the June 30, 1975, FTP ceiling. These 130 positions were reconverted to PTP positions when the fiscal year 1976 personnel ceiling was established.

--To meet fiscal year 1975 end strength (ceiling) for naval shipyards, it was necessary to dismiss about 1,800 temporary employees before June 30, 1975. Approximately 1,500 were rehired after July 1, 1975, to sustain the necessary work force.

--In June 1975 the Air Force Logistics Command obtained early optional retirement authority for most of its installations. At Ogden Air Logistics Center, Hill Air Force Base, 20 percent of the retirements for the fiscal year occurred in June 1975.

--To maintain as much capability as possible to execute the assigned workload, during the year some Logistics Command installations hired temporary employees with needed skills, when they could be obtained, with the expectation of separating them in June 1975 if attrition of permanent employees was insufficient to meet their yearend ceilings.

--On May 13, 1975, the Administrator of General Services imposed a hiring freeze on all GSA component organizations as one means of controlling employment to reach the June 30 assigned ceiling. The Administrator removed the hiring freeze effective July 1, but instructed components except the Public Building Service that employment should not exceed the June 30 ceiling until congressional action was completed on the fiscal year 1976 appropriation.

--In past years the Internal Revenue Service (IRS) furloughed large numbers of seasonal employees working in the service centers before June 30 and brought them back on the rolls in early July. According to IRS officials, this procedure was expensive, disruptive, and almost incomprehensible to managers and employees alike. It involved the wasteful effort of preparing and processing documents to release employees that IRS needed and had funds to pay and required evaluating and ranking employees to determine who would be separated. This process resulted in the permanent loss of many experienced employees.

In June 1975 OMB granted the Department of the Treasury's request for authorization to exceed its end-of-year ceiling for temporary employees. Treasury passed this authorization on to IRS.

- In November 1975 the Veterans Administration (VA) Area 4 Field Director instructed the Los Angeles Regional Office to immediately concentrate on hiring to meet increased ceilings. The memo said: "We will be reviewing progress in this area closely, as it is necessary that we fill these positions that we have indicated to OMB are desperately needed."
- At the Brentwood VA Hospital, Los Angeles, employees were hired on a part-time (39-hour week) or temporary basis with a promise of conversion to FTP status in the following fiscal year. On July 6, 1975, 22 employees hired during fiscal year 1974 against the "other" ceiling were converted to FTP status. Occasionally, officials at the hospital asked employees in a leave-without-pay status not to return to work until July.
- On June 30, 1975, at the Wadsworth VA Hospital, Los Angeles, 26 employees hired in late June were not reported against the hospital's ceiling. Also, when it appeared that the hospital would have too many FTP or other employees on board as of June 30, actions were taken through the computer to reverse the recorded career status of an appropriate number of employees. Changes made in June were reversed in July, the following fiscal year. No Notification of Personnel Action (SF 50) forms were prepared or recorded in the affected employees' personnel records.

EFFECTS OF CEILINGS ON OPERATIONS

Use of personnel ceilings to control civil employment affected the agencies we reviewed in several ways. Services to the public and to other agencies were reduced. Essential work was deferred or canceled and work backlogs increased. Alternate sources of manpower were used. Imbalances between clerical and professional staff and shortages in certain skills occurred.

We examined documents and obtained information on these effects and others from agency officials at headquarters and field installations and activities. (See app. IV.) We did not verify essentiality of the work, substantiate manpower requirements, or evaluate the cost effectiveness of alternative actions taken or that might have been taken.

Officials attributed some problems the agencies encountered to a combination of personnel ceilings, shortage of funds, and other constraints. During fiscal year 1975 shortage of funds provided a more severe constraint on the military services and the Customs Service than did personnel ceilings imposed by the Congress or OMB. This showed that funds do control employment. An agency cannot hire workers unless it has funds to pay them.

Officials of some agencies said problems resulted solely from personnel ceilings. In two cases officials of the parent agency and headquarters disagreed with their elements that ceilings alone contributed to certain problems.

--Social Security Administration (SSA) officials said that personnel ceilings, among other things, had caused them to use overtime labor extensively and to defer essential work. However, Department of Health, Education, and Welfare (HEW) officials said that SSA's problems were not caused by overly restrictive OMB personnel ceilings, but resulted from (1) hiring employees before receiving authorization for increased employment and (2) hiring full-time employees instead of term employees.

In July 1974 SSA requested HEW to approve an increase in SSA's position authorization by more than 12,000 FTP positions. These increases were requested so that SSA could clear up existing backlogs, including those associated with the supplemental security income program, and complete certain one-time work projects.

On March 11, 1975, the President authorized a redistribution of HEW's total employment ceiling for SSA, involving an increase of 1,500 FTP employees and 6,000, 2-year limited-term employees (to be counted as permanent employees for ceiling purposes), and 4,000 temporary employees. Before this action was taken, SSA had started hiring additional FTP employees. A hiring freeze was imposed to prevent SSA from exceeding its authorized FTP position level. HEW said that SSA used extensive overtime in fiscal year 1975 because of increased workload caused by the supplemental security income program.

--Department of Housing and Urban Development (HUD), Region 9, officials said operating problems were caused by personnel ceiling controls, including reduced service to the public; deferral of essential work; and contracting for personal services. However, HUD headquarters officials said that Region 9 problems were independent of personnel ceilings and were common to all HUD regions. Headquarters officials said that if Region 9 had problems of personnel shortages it was because the Congress had not authorized enough positions and not because of OMB-imposed ceilings.

AGENCIES' VIEWS ON HOW PERSONNEL CEILINGS
AFFECT THEIR FLEXIBILITY TO MANAGE
MANPOWER

Most agency officials responding to our inquiries said that personnel ceilings which apply only to the last day of the fiscal year allow some flexibility in their manpower management. Ceilings do not affect the agencies' ability to adjust manpower levels of their organizational elements during the year. However, certain limitations were identified, and some officials were dissatisfied with intra-agency controls over employment.

- Federal Aviation Administration (FAA) officials said that limitations on flexibility include (1) minimum yearend employment levels prescribed for specific programs, such as the Air Traffic and Airway Facilities Program, by OMB and/or the Office of the Secretary of Transportation, (2) delays in either office in obtaining adjustment of ceilings by transfer of positions to or from other Federal agencies to accompany transfer of functions, and (3) problems from reimbursable agreements negotiated during the year with non-Federal organizations, including foreign governments.
- GSA officials in San Francisco said they were unable to transfer staff within and between services without central office approval, nor could they exceed their FTP ceiling at any time during the year.
- GSA officials in San Francisco and VA officials in Los Angeles said that when personnel ceilings prevent them from increasing the size of their FTP work force, use of temporary and intermittent employees to do permanent-type functions is not always an effective alternative. A minimum of 1 year of on-the-job training is required to train new employees, and temporary appointments are usually limited to 700 hours. It

is not practicable to invest time and money in persons who will leave the agency after a short period of employment.

--Navy officials said that flexibility existed if they were given one overall ceiling free of subsidiary controls or constraints.

--SSA officials said that flexibility of managing manpower controlled by ceilings decreases the further down one goes in the organization.

--Soil Conservation Service (SCS) officials said that the agency's tentative employment ceiling was established early in the budgetary process. Later, additional responsibilities are often assigned that had not been considered when the employment estimates were made or when firm ceilings were established, and they must perform both the originally planned work and the additional work with no increase in ceiling. An example is the agricultural conservation program which often is eliminated or reduced when the President's budget is prepared but which the Congress restores each year. SCS has responsibility for technical assistance to the program and this generates a need for about 530 staff-years for which no provision has been made.

--VA officials in Los Angeles said they had little flexibility in managing employment levels. Although ceilings apply to only 1 day of the year, only a certain number of employees can realistically be carried on the rolls at any one time. If too many employees were hired during the fiscal year and attrition was less than anticipated, the region would be unable to meet the ceiling without conducting a reduction in force.

CHAPTER 3

CONGRESSIONAL AND EXECUTIVE ACTION

TO CONTROL CIVILIAN EMPLOYMENT

Concern about the number of Federal employees is not new. Action by the Congress or the executive branch, discussed below and cited in more detail in appendix II, has been primarily in the interest of economy and efficiency and in the effective use of personnel. The predominate method of control over employment has been the establishment of personnel ceilings.

CONGRESSIONAL ACTION

Public Law 77-821, December 22, 1942, required department and agency heads in the executive branch to present to the Director, Bureau of the Budget, such information as he needed to justify the number of employees in their departments and agencies. The act authorized the (1) Director to reduce the number of personnel by the number he found to be in excess of their minimum requirements and (2) Civil Service Commission to transfer any employees released to other departments or agencies who needed and could use their services effectively.

Public Law 79-106, the Federal Employees Pay Act of 1945, in section 607 entitled "Personnel Ceilings" (see app. II) required the executive branch agencies to give the Director, BOB, any information as he needed, at least quarterly, to determine the number of full-time civilian employees required for the proper and efficient performance of their authorized functions. The act required the Director, BOB, to determine at least quarterly the number of full-time permanent employees and staff-months of part-time employment needed by each agency, in his opinion, and order any excess personnel to be released or terminated.

Public Law 79-390, May 24, 1946, in section 14 entitled "Personnel Ceilings" amended section 607 of Public Law 79-106. This act required the Director, BOB, to determine the number of full-time civilian employees and the staff-months of part-time employment on the basis

of needs of the departments and agencies of the executive branch and GAO. The act established maximum fiscal yearend ceilings for the Departments of War and the Navy and quarterly ceilings on the aggregate employment of all other departments and agencies. The act permitted the Director, BOB, to set lower ceilings where he determined the number of employees to be more than necessary for the proper and efficient exercise of authorized functions.

Public Law 81-784, Budget and Accounting Procedures Act of 1950, on September 12, 1950, repealed section 607 of Public Law 79-106, as amended, and terminated statutory ceilings.

On June 28, 1968, the Congress enacted the Revenue and Expenditure Control Act of 1968 (Public Law 90-364). Section 201, Limitation on the Number of Civilian Officers and Employees in the Executive Branch, prescribed that, with certain exceptions, no full-time civilian employee be appointed to a permanent position in the executive branch during any month when the number of employees was greater than on June 30, 1966. During any such month an agency could appoint persons to fill 75 percent of the vacancies in permanent positions. The act gave the Director, BOB, responsibility for administering the hiring limitations. The Congress repealed section 201 of the Revenue and Expenditure Control Act of 1968 on July 22, 1969.

Public Law 93-365, the Department of Defense Appropriation Authorization Act, 1975, established separate fiscal yearend civilian personnel ceilings for the Army, Navy, Air Force, and other DOD agencies combined.

Public Law 94-106, the Department of Defense Appropriation Authorization Act, 1976, established single numerical civilian personnel ceilings for all of DOD for the end of fiscal year 1976 and for the end of the fiscal year transition period, September 30, 1976. The single ceiling covered not only civilians hired directly by the Government but all foreign nationals hired indirectly through special agreements with foreign governments.

The act directed the Secretary of Defense to apportion the ceilings in such numbers as he prescribed among the Army, Navy, Air Force, and other DOD agencies. The act also gave the Secretary of Defense authority to increase the ceiling by 1/2 percent when necessary in the national interest.

Public Law 94-361, the Department of Defense Appropriation Authorization Act, 1977, established a single numerical ceiling for DOD for the end of fiscal year 1977 with the same authority to increase the ceiling by 1/2 percent.

EXECUTIVE ACTION

Bureau of the Budget Circular A-44, issued June 13, 1951, communicated the views of the executive branch on the conservation and use of manpower in the Federal Government to the heads of executive departments and establishments. This circular said that the President stressed the importance of conserving manpower and that all agencies would be responsible for giving this objective top priority.

On June 28, 1965, BOB issued Circular A-64 (revised) on position management systems and employment ceilings to the heads of executive departments and agencies. (See app. III.) This circular, still in effect,

"(a) establishes criteria for the operation of an effective position management system, and
(b) sets forth information on the concepts and procedures to be followed with regard to employment ceilings, their observance, and related reporting to the Bureau of the Budget."

Circular A-64 (revised) defines executive branch policy on these matters:

"Consistent with the policy of reducing Government costs (see Bureau of the Budget Circular No. A-44, Revised, March 29, 1965), the President expects each agency head to pursue vigorously the efforts of his agency to achieve lower employment levels and increased productivity

through tighter management, aggressive manpower utilization programs, simplification of procedures, and stripping work to essentials; and to assure strict observance of the employment ceilings."

On January 2, 1970, OCB amended Circular A-84 to establish new procedures for adjustment of ceilings " * * * when necessary and appropriate, in cases where Federal employees are used in lieu of service contracts for the performance of required services."

THE BUDGET PROCESS

The agencies, the President, and the Congress focus on levels of employment throughout the budget process. Agencies' annual budget requests, forwarded to the Office of Management and Budget, furnish data which include estimates of the number of employees needed at the end of the fiscal year to fill FTP positions and part-time or temporary positions. Budget examiners evaluate these estimates, and senior OMB officials and the President consider them in relation to program priorities in establishing the yearend employment authorizations (ceilings) shown in budget analyses which the President forwards to the Congress. OMB officials said that, in the process, employment levels are related to decisions made on the President's program.

Ceilings may be increased or decreased during the year to adjust personnel authorizations for changes in programs or functions attributable to Presidential, congressional, or agency action. According to OMB officials, many people influence where, and to what extent, changes are made. Agency officials are consulted about their current program priorities and current estimates of personnel needs. Budget examiners review current data on agency programs, including actions taken or being considered by the Congress, and they suggest where the cuts should be made. Top OMB officials add their current appraisal of program and budget priorities and, after discussing alternative proposals with the President, advise affected agencies of their revised yearend ceilings.

Excerpts from the Budget in Brief, Fiscal Year 1977,
describing this process.

The budget sets forth the President's proposed financial plan of operation for the Federal Government. The process through which this plan is considered and put into effect is crucial to the determination of national priorities.

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*The budget process has four interrelated phases: (1) executive formulation and transmittal, (2) congressional action, (3) budget execution and control, and (4) review and audit.

*Executive formulation and control. The President's transmittal of his budget proposals to the Congress is the result of many months of planning and analysis throughout the executive branch. Formulation of this budget, transmitted to the Congress in January 1976, began in the spring of 1975. Each spring, agency programs are evaluated, policy issues are identified, budget projections are made, and preliminary program plans are then presented to the President.

*The President reviews the budget projections, and establishes general budget and fiscal policy guidelines for the fiscal year that begins over a year later, on October 1. Tentative policy determinations and planning targets are then given to the agencies as guidelines for the preparation of their budgets.

"In the fall, agencies formulate their proposed budgets, which are reviewed in detail by the Office of Management and Budget and presented to the President in the context of overall fiscal policy issues. This budget-- submitted to Congress in January, 1976-- reflects the President's recommendations for individual programs, as well as total outlay and receipt levels appropriate to the state of the economy. Supplemental budget requests and amendments may be submitted later to cover needs unforeseen at the time the budget was formulated.

"As a result of the Congressional Budget Act, by November 10 the President must also submit current services estimates for the upcoming fiscal year. These estimates are projections of the budget authority and outlays required to continue existing programs in the upcoming fiscal year without any policy changes.

"Congressional action. The Congress, which has the power to change any of the President's recommendations, begins its formal review of the budget when the President submits his current services estimates. Review of these estimates is intended to lay a base for consideration of the President's January budget.

"Before considering appropriations for a specific program, the Congress first enacts legislation that authorizes an agency to carry out that program. Such legislation authorizes an appropriation for the program, and, in some cases, sets a limit on the amount that can be appropriated."

* * * * *

"budget execution and control. Once approved, the budget becomes the financial basis for the operations of agencies during the fiscal year. Non-budget authority, and other budgetary resources are made available by the Office of Management and Budget under an apportionment system that assures the effective and timely use of available authority."

"Review and audit. Individual agencies are responsible for assuring that the obligations they incur and the resulting outlays are in accordance with the laws and regulations. The Office of Management and Budget reviews program and financial reports and the General Accounting Office, a congressional agency, regularly audits, evaluates, and reports on Federal programs."

ESTABLISHING PERSONNEL CEILINGS AND REPORTING ACTUAL EMPLOYMENT

About the time the President sends his budget to the Congress, the Director, OMB, sends each department an allowance letter which includes year-end ceilings on full-time employment in permanent positions and total employment. As shown above (see p. 12) for fiscal years 1975 through 1977, the Congress established additional civilian personnel ceilings for DOD. The ceilings, established by the Congress or OMB, may be increased or decreased to adjust personnel authorizations for changes in programs or functions attributable to Presidential, congressional, or agency action.

The agencies distribute their authorized employment levels among their organizational elements, and the process continues downward until the operating installations and activities are given ceilings. Although OMB considers the ceilings applicable only to the last day of the fiscal year, as a practical matter the agencies and their elements recognize, and in some cases apply, these ceilings throughout the year in determining how to accomplish their

work through using Federal employees or by contracting for services or products.

Agencies report to CSC their actual yearend employment--full time in permanent positions regardless of employee status or type of appointment held, and total employment. CSC summarizes the data for all agencies and reports to OMB. To more accurately reflect the permanent or continuing work force, CSC has recommended to OMB that agencies report employees according to their appointment status rather than by type of position held.

PROPOSED LEGISLATION

On February 3, 1976, the Government Economy and Spending Reform Act of 1976, S. 2925, was introduced in the Senate. The bill was to require review and evaluation of Government programs on a regular basis to eliminate duplicative and inactive programs and insure that those programs which the Congress continues accomplish their objectives efficiently and at a reasonable cost. On May 12, 1976, a Senator, who cosponsored S. 2925 and submitted an amendment that would require standing committees to decide in advance and periodically reassess the amount and types of personnel resources needed to perform Government programs effectively, efficiently, and responsibly, commented in part, that:

"The heart of S. 2925 is the requirement that Congress and the executive branch consider the quantity and quality of services that can be provided by alternative funding levels. It seems to me that it is equally important for Congress to consider alternative methods of accomplishing program goals, for there are several ways of getting the Government's work done. We hire employees directly. We create public or semipublic corporations. We make grants to State and local governments. We let contracts with private nonprofit and for-profit organizations to provide goods and services. In many instances we are deliberate and open in making these choices. * * *

"Despite the proliferation of agencies and programs and the almost tripling of Federal spending from 1965 to 1975, the number of Federal civilian employees remains about the same, 2.8 million, as it was a decade ago. Federal workers actually constitute a smaller proportion of the population today--13.0 per 1,000, estimated for 1976--than they did 20 years ago--14.0 per 1,000 in 1956. But since there has been no moratorium on adding to the Government's workload, agencies have exploited other ways of doing their jobs. One of them is the use of private contractors."

* * * * *

"The contract workforce must be counted as part of the Government bureaucracy, and yet neither Congress nor the executive exercises anything like the degree of control over contracting that we have over Federal employment. Because very few agencies maintain adequate inventories, we have very little idea how many contracts there are or how much they cost and only a superficial notion of what they are for. Our recent experience with limitations on the number of Federal employees illustrates the point that citizens still pay the cost of government regardless of the type of manpower used."

* * * * *

"The lesson is clear that reducing the Federal workforce without reducing the workload creates a dangerous and misleading illusion of control. It controls the number of Federal workers, all right; but it does not control costs, does not produce efficiency, and often forfeits accountability."

The Government Operations Committee approved S. 2925, but it was not enacted by the 94th Congress.

On January 10, 1977, the Sunset Act of 1977, S. 2, was introduced into the Senate by 43 members. The purpose of this act is substantially the same as the purpose of S. 2925.

CHAPTER 4

CONCLUSIONS, AGENCY COMMENTS, AND RECOMMENDATIONS

If Government agencies are to effectively, efficiently, and economically accomplish the programs and functions authorized by the President and the Congress, they must judiciously use the most appropriate kinds of manpower capable of producing the desired results. There is general agreement that civilian employment must be controlled, but opinions differ about the effectiveness of different control techniques.

The predominate method of control over employment has been the establishment of personnel ceilings for each agency by the Office of Management and Budget. Since fiscal year 1975 the Congress has set an additional ceiling on the Department of Defense. The President and the Congress are concerned about effective, efficient, and economical use of manpower, but they lack assurance that the agencies would effectively control employment levels if they were not constrained by numerical ceilings.

This lack of assurance was expressed by the Senate Committee on Appropriations, commenting on the removal of ceilings from industrial fund activities, in its report 94-446 on the Department of Defense appropriation bill for 1976.

"Removal of ceiling controls from industrial funded activities (whose civilians now account for about 27 percent of the DOD civilian force) would inevitably mean that activities would clamor to become industrially funded so that they would no longer need to justify their civilian manpower requirements to the Congress. This is a crucial point to the Appropriations Committee, since although we agree in concept with the position taken by the General Accounting Office that financial controls are more effective than ceilings in promoting efficient management of personnel, we find it particularly difficult to obtain clear-cut and adequate justification of workload needs and funding requirements at industrially funded activities. The

justification material supporting operations and maintenance (O&M) funding requests, the appropriation that is the principal "customer" of the industrial funds, does not clearly differentiate the portion of funding for either current or new programs that will go to industrial funded activities, and the portion that will go to direct funded activities.

These justifications do not directly explain or justify the reasons for increases in industrial-funded civilians. Finally, and most critically, at the present time, there can be no financial control exercised on industrially funded civilians. This is so because the provisions of O&M funds in the appropriation act does not identify the portion that will go to pay for people, and the portion that will buy contracted services or materials, nor does the Committee believe that it should do this. If industrial funded civilians were removed from ceiling controls and subjected to funding constraints only, the Committee would be forced to place a limitation in the bill on the amount of the Operation and Maintenance funding that could be spent for the pay of civilians. We believe that such a step would be unwise, would promote inefficiency, and ultimately become more difficult to manage than the present authorization ceiling controls."

We do not recommend creating new kinds of ceilings on personnel dollars or staff-years. In earlier reports to the Congress (see app. V), we suggested that funding or program limitations seemed to be an effective means of controlling the number of persons an agency can employ. Additional controls imposed by personnel ceilings deprive agency management of options for accomplishing essential work through the most effective, efficient, and economical use of the most appropriate type of manpower in specific circumstances.

4

This study has reaffirmed our understanding that the main concern of the President and the Congress is that agencies manage and use needed manpower resources of all kinds as effectively, efficiently, and economically as possible. The President and the Congress, and OMB, the Civil Service Commission, other agency officials are dissatisfied with personnel ceilings which provide little incentive for improved management. Further, they are a barrier to effective manpower management.

We believe the basic frame work for a practical and effective alternative to yearend personnel ceilings already exists and is in operation. In the budget process, summarized on pages 14 to 17, the agencies, OMB, the President, and the Congress give considerable attention to agencies' estimated manpower needs, including employment levels. What is lacking is confidence in the soundness of the estimates prepared and submitted by the agencies and in the ability and reliability of agency managers to adhere to their estimates.

We believe that, with direction and guidance from OMB, the agencies could develop methods for preparing sound estimates of the minimum manpower requirements of all types to accomplish authorized programs and functions. The agencies should fully document the processes and data used and make this information available to OMB and the concerned congressional committees for evaluation.

After the estimates have been reviewed and approved by the President and the Congress, OMB should require the agencies to document and report the reasons for any major changes. Since the budget process takes place every year and budget examiners and congressional oversight committees and subcommittees monitor agency activities during the year, it will be difficult for agency managers to deviate substantially from their estimates without approval.

We recognize that modification of the budget process will initially require intensive effort by OMB and the agencies. However, we believe that sound estimates of manpower requirements would be responsive to the concerns of the President and the Congress and the objectives of the proposed Sunset Act of 1977.

With the exception of Project REFLEX (see app. V), we are not aware of any recent agency tests of using civilian employment controls other than personnel ceilings.

AGENCY COMMENTS

We presented our findings to the Director, OMB, for comment, and to the Chairman, CSC, and the heads of all agencies included in our review (see pp. 31 and 32) for their information.

By letter of November 8, 1976 (see app. VII), the Director, OMB, said:

"We are in full agreement with the report's statement that:

'The Congress, the President, and OMB are concerned about effective, efficient, and economical use of manpower, but they lack assurance that the agencies would effectively control employment levels if they were not constrained by numerical ceilings.'

"Chapter 3 of the draft report is replete with illustrations, anecdotal in character, that strongly reinforce our lack of assurance that agencies would control employment levels without the ceiling constraint. * * * Clearly, the thread running through chapters 3 and 4 of the draft report is that more Federal employees, added funding, less interference and fewer constraints by the Congress, the President, OMB, the Civil Service Commission, and higher level agency officials will result in more effective program management in the field.

"* * * although previous GAO reports * * * have emphasized the need to consider the full cost of employee benefits (e.g., retirement), the draft report does not seem to recognize the substantial hidden costs associated with use of Federal employees.

In this respect, the report seems to accept statements concerning alleged additional costs of contracting without question.

"Likewise, the fact that employment ceilings might result in increased contracting in areas where the Federal Government is competitive with private firms and in increased grants to State and local governments in areas where those governments are as able as the Federal Government to carry out the program is not a valid argument against employment ceilings. On the contrary, it has been the stated policy of this and prior Administrations to favor private firms and State and local governments in such circumstances. Implicitly, your draft report takes issue with that policy."

* * * * *

"We are also concerned that in developing the report the GAO solicited adverse comment concerning personnel ceilings without taking into account normal predilections in favor of hiring more Federal employees. It is natural for managers to desire more personnel under their direct control without restraint. It is also natural to disregard all indirect costs."

The Federal work force should be no larger than needed to do the essential work required to accomplish the programs and functions authorized by the President and the Congress. If agencies need more manpower than allowed by their assigned personnel ceilings, they must acquire the additional manpower by other means. Even though the Government ultimately bears the cost of all manpower used in Federal programs, reports on Federal employment give no recognition to manpower acquired through contracts for personal services or through grants to institutions and State and local governments.

We are not suggesting that agencies be relieved of all constraints or that total costs be ignored. Neither are we questioning the policy that certain types of work be contracted. This study is directed to the effects of personnel ceilings which deprive agency management of options for carrying out their responsibilities by using the most effective, efficient, and economical means available.

Bureau of the Budget (now OMB) Circular A-64, paragraph 4d (see app. III), provides that:

"Any decision to substitute the use of service contracts for direct employment, or to change the proportionate use of full-time (permanent or temporary), part-time, or intermittent employment must be based on considerations of effectiveness and economy in administering Federal programs, and must not be used as a device to avoid compliance with the ceilings."

We believe consideration of available manpower options should include comparisons of the total cost of direct employment with the total cost of contracting. However, in Circular A-76 on policies for acquiring commercial or industrial products and services for Government use, OMB does not require agencies to make cost comparisons before contracting below certain dollar amounts. Further, OMB seems to be moving away from the policy of requiring agencies to make cost comparisons.

The President and the Congress control the agencies and hold agency management accountable through exercise of the budget process each year and oversight of their operations during the year. (See p. 14.) These processes should reveal any significant wasteful practices or circumvention of approved Government policies.

The Director, OMB, also said:

"The report indicates that officials of most agencies responding to GAO inquiries stated that personnel ceilings allow them some management flexibility, since they apply only to the last day of the year. This approach permits the agencies to

adjust employment levels of their organizational components during the course of the year. Many of the problems cited in the report are due to inadequate or inflexible internal personnel management practices, rather than to the broad agency-wide, year-end employment ceilings."

Most agency officials do not agree with OMB because use of externally imposed ceilings is affected by other constraints on manpower management, including CSC regulations which must be applied in hiring and separating employees.

CSC regulations provide a major limitation on an agency's ability to increase its full-time permanent work force during the year and decrease this work force to meet the firm yearend ceiling. CSC has encouraged agencies to hire part-time or temporary employees to meet the needs of peak workloads or special work, but CSC regulations define the circumstances and types of positions in which these employees may be used and OMB requires that they must be counted against the ceiling for total employment.

Nearly all agency officials with whom we discussed the use of personnel ceilings said that considerable time throughout the year is spent keeping the combined employment of headquarters offices and all organizational elements within assigned ceilings. We found no agency that had attempted to segregate and accumulate the cost of administering their ceilings.

In addition, the Director, OMB, said:

"As we have stated in previous communications on this subject, we believe that:

' . . . employment ceilings exist to constrain increases, primarily because of the proper concern of the President, many members of Congress, and the public in the number of employees on the Federal payroll, regardless of any other considerations. Without ceilings, there would be no effective control over these numbers, and employment probably would increase at a faster pace than is now the case. . . .'

"It is the last phrase of the penultimate sentence regardless of any other considerations that has never been properly addressed in the many reports on the subject of employment ceilings that your Office has issued.

"For these reasons, we continue to believe that it is fundamentally desirable to control the number of employees on the Federal payroll and that such a position correctly reflects the preferences of the Congress, the President, and the public."

The phrase "regardless of any other considerations" has not been clearly defined. OMB officials informally have indicated that it may refer, in part, to the advantage of precisely identifying the number of persons on the Federal payroll. In our opinion:

- Excessive emphasis on limiting the number of persons on the Federal payroll may obscure the reality that the Government incurs the cost of getting essential work done regardless of the type of manpower used.
- Distributing personnel ceilings by agencies among their organizational elements and monitoring actual employment by these elements to insure that the ceilings are not exceeded on 1 day of the year creates an administrative burden and an illusion of control.
- Although employment ceilings may be a tool to assure the President and the Congress their concerns as to the total number of employees are met, they are at best an inferior substitute for effective management. Management at all levels needs to aggressively seek ways to improve productivity. Improved coordination of workload, funds, and manpower is needed.
- The budget and appropriation processes provide the President and the Congress with effective means of controlling the number of persons that can be hired. An agency cannot have more employees than it has funds to pay.

Personnel ceilings can force agencies to reevaluate program and work priorities, consolidate work groups, or

eliminate marginal operations or activities. We believe that these objectives can be achieved through the budget process without personnel ceilings. In regard to action that might be taken, the Director, OMB, said:

"* * * we would propose to establish a task force that would develop criteria for conducting a controlled and rigorous test in one or two suitable agencies (or parts of agencies). The task force would also develop an action plan to determine the feasibility of controlling employment levels by means other than by direct employment ceilings."

* * * * *

"We would expect that the development of the criteria and the test itself would take three years and would require the active cooperation of the affected agencies as well as the allocation of resources by those involved."

On March 3, 1977, OMB issued Bulletin 77-7, on limitation on hiring and revision of employment ceilings, to the heads of executive departments and agencies. The bulletin said, in part:

"In a recent fireside talk to the American people, President Carter reaffirmed his Administration's commitment to reform and reorganize the Federal Government and to bring its growth under control. As part of this effort, he promised to put a ceiling on the number of Federal employees.

"In his memorandum of March 1, the President stated that, preparatory to establishing new employment ceilings, a thorough evaluation of personnel requirements would be made to determine the lowest number needed to operate the Government effectively. In the interim, the President has ordered that a limitation on hiring be imposed so as to maximize this Administration's flexibility in meeting personnel requirements within the new ceilings. This procedure accepts the consensus of the advice

submitted by the Cabinet in response to the President's February 11 request for views on alternative employment control systems."

We invited the new Director, OMB, to comment on whether he concurred with the former Director's views on our findings. By letter of March 24, 1977 (see app. VI), the Director, OMB, said:

"As you know, on March 1 the President imposed an immediate, temporary limitation on Federal civilian hiring pending the establishment of revised employment ceilings. This Office is now in the process of developing, under specific guidance from the President, revised employment ceilings that are expected to be lower than those provided with the 1978 Budget by the previous Administration. Thus, the issue of whether executive branch employment ceilings will be continued has been resolved for the immediate future.

"Under the circumstances, I do not believe that this is the time to discontinue employment ceilings for some agencies--even on a limited, experimental basis. Such an action would be inequitable to the vast majority of agencies, who could not be included in the experiment. Nor, if past experience is any guide, would it further the President's objectives."

We support the President's plan to thoroughly evaluate personnel requirements to determine the lowest number needed to operate the Government effectively. Nor do we disagree with his decision to continue to control Federal employment through personnel ceilings in the immediate future. We believe, however, that aggressive action should be taken to improve manpower management.

As we have discussed in this report and others, we believe Federal manpower management can be improved by employing or otherwise acquiring the most appropriate types of personnel resources for specific circumstances and purposes rather than by limiting the number of persons that may be reported on the Federal payroll on 1 particular day.

The former Director, OMB, proposed to establish a task force to develop criteria and action plans for a controlled and rigorous test to determine the feasibility of controlling

employment levels by means other than direct employment ceilings. Since some officials have reservations about whether employment would be controlled without ceilings, we believe such a test would be useful in demonstrating the effectiveness and general applicability of the budget process to require agencies to prepare sound estimates of their minimum manpower needs of all types and agency managers to adhere to these estimates.

Officials of CSC, the Department of Agriculture, the Department of Housing and Urban Development, the Department of Transportation, and the General Services Administration commented that employment controls other than personnel ceilings should be explored. (See apps. VIII, IX, X, XI, and XII.) Officials of DOD; the Department of Health, Education, and Welfare; and the Department of the Treasury expressed their support of a search for an effective alternative to externally imposed personnel ceilings. The Veterans Administration did not comment.

RECOMMENDATIONS

In view of the concern about how effectively agencies would control employment if personnel ceilings were not used, we recommend that the Director, OMB:

- Establish a task force at the earliest practicable time to develop criteria and action plans for a controlled and rigorous demonstration of the feasibility and general applicability of the budget process as a control over total manpower resources including direct employment. The demonstration project should be undertaken simultaneously in several agencies with different types of operations.
- Consult and coordinate closely with the congressional committees involved to invite their support of this project, and furnish the committees periodic reports on the progress of the demonstration effort.

CHAPTER 5

SCOPE OF REVIEW

We examined Office of Management and Budget and Civil Service Commission guidelines and military and civil agency procedures and practices for managing and reporting civilian employment.

We selected the military installations and civilian activities on the basis of (1) large civilian employee populations, (2) stable or increasing workloads, or (3) known problems with personnel limitations. We selected certain military installations because they are industrially funded or have a large mix of civilian and military personnel. Several civil agencies were also selected because of their public service or revenue-producing functions.

Listed below are the agencies reviewed. We obtained general information and responses to specific questions from military and civilian agency headquarters and military commands. At headquarters and field installations and activities, we reviewed or obtained information to identify and document specific cases showing effects of managing through personnel ceilings.

DEPARTMENT OF DEFENSE:

Army:

- Army Material Command
- Major Item Data Agency
- Army Garrison (Post), San Antonio, Texas
- Brooke Army Medical Center, San Antonio, Texas
- Red River Army Depot, Texarkana, Texas

Navy:

- Naval Air Systems Command
- Naval Sea Systems Command
- Naval Air Rework Facility, North Island, San Diego, California
- Philadelphia Naval Shipyard, Philadelphia, Pennsylvania

Air Force:

- Logistics Command
- Military Airlift Command
- Military Airlift Command Units, Scott AFB, Illinois
- Ogden Air Logistics Center, Hill AFB, Ogden, Utah

DEPARTMENT OF AGRICULTURE:

Soil Conservation Service:

Montana State Conservationists' Office, Bozeman,
Montana
North Dakota State Conservationists' Office,
Bismarck, North Dakota
Colorado State Conservationists' Office, Denver,
Colorado
Area One Office, Grand Junction, Colorado

General Services Administration:

Federal Supply Service
Public Building Service
National Archives and Records Service
Automated Data and Telecommunications Service
Region IX, San Francisco, California

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE:

Social Security Administration, Baltimore, Maryland
Region 7, Kansas City, Missouri
Bureau of District Office Operations, Kansas City,
Missouri
Bureau of Retirement and Survivors Insurance, Mid-
American Program Center, Kansas City, Missouri

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:

Region 9, San Francisco, California

DEPARTMENT OF TRANSPORTATION:

FAA Great Lakes Region, Des Plaines, Illinois

DEPARTMENT OF THE TREASURY:

Customs Service, Region IX, Chicago, Illinois
Customs District Office, Chicago, Illinois
Customs District Office, Minneapolis, Minnesota
Internal Revenue Service Mid-Atlantic Region,
Philadelphia, Pennsylvania
IRS Philadelphia Service Center, Philadelphia, Pennsylvania

VETERANS ADMINISTRATION:

Regional Office, Los Angeles, California
Brentwood Hospital, Los Angeles, California
Wadsworth Hospital, Los Angeles, California

APPENDIX I

APPENDIX I

PERSONNEL CEILINGS AND REPORTED EMPLOYMENT

Agency/ component	Fiscal year 1975				Fiscal year 1976	
	Assigned ceiling		Report employment (note a)		Assigned ceiling	
	Full-time permanent	Total	Full-time permanent	Total	Full-time permanent	Total
Department of Agriculture:	80,250	112,590	79,133	118,986	81,061	114,701
Soil Conservation Service	13,575	16,238	13,575	16,195	13,175	16,018
Department of Defense	(c)	995,000	954,721	989,323	(c)	(c)
(note b):						
Department of Army:	118,210	317,517	315,613	338,039	(c)	(c)
Army Materiel Command	(c)	116,900	(c)	(c)	111,437	113,701
Department of the Navy:	307,847	338,132	306,766	314,938	(c)	(c)
Naval Air Systems Command	41,505	43,534	43,098	43,602	(c)	(c)
Naval Sea Systems Command	91,314	93,526	91,851	93,240	(c)	(c)
Department of the Air Force:	263,304	265,578	261,528	263,718	(c)	(c)
Air Force Logistics Command	(d)	89,661	90,360	90,494	(c)	(c)
Military Airlift Command	(d)	16,151	15,527	15,507	(c)	(c)
General Services Administration	36,806	38,806	36,400	38,219	36,697	39,517
Department of Health, Education, and Welfare	e/131,584	143,932	129,285	141,804	e/132,639	144,987
Social Security Administration	78,365	85,644	72,733	79,958	78,241	85,617
Department of Logging and Urban Development	15,200	17,321	15,142	16,681	15,200	17,174
Department of Transportation	70,128	72,128	70,345	72,575	71,967	73,967
Federal Aviation Administration	54,885	55,882	54,885	55,886	56,092	57,089
Department of the Treasury	109,057	120,893	108,178	119,281	112,454	121,954
Customs Service	14,288	15,611	14,546	15,450	13,913	15,236
Internal Revenue Service	72,741	82,241	71,710	81,064	75,363	83,162
Veterans Administration	186,207	209,436	184,502	209,123	195,725	221,030

a/Taken from ASB ceiling data portion of CSC's SF 113A, which is based on the positions occupied by employees, without regard to the type of appointments held. This information does not agree with CSC's Central Personnel Data File, which reports the number of employees by types of appointments held.

b/Assigned ceiling and reported employment for DOD and the military services include all direct-hire civilian personnel employed to perform military functions.

c/Information not available.

d/The Air Force does not allocate full-time permanent positions to commands/bases.

e/Excludes ceiling for St. Elizabeth's Hospital (3,911) due to the proposed transfer to the District of Columbia government.

EXCERPTS FROM CERTAIN PUBLIC LAWSENACTED TO CONTROL FEDERAL EMPLOYMENT

Public Law 79-106, the Federal Employment Act of 1945, section 607, entitled "Personnel Ceilings," in part:

"a. It is hereby declared to be the sense of the Congress that in the interest of economy and efficiency the heads of departments, and of independent establishments or agencies, in the executive branch, including Government-owned or controlled corporations, shall terminate the employment of such of the employees thereof as are not required for the proper and efficient performance of the functions of their respective departments, establishments, and agencies.

"b. The heads of departments, and of independent establishments or agencies, in the executive branch, including Government-owned or controlled corporations, shall present to the Director of the Bureau of the Budget such information as the Director shall from time to time, but at least quarterly, require for the purpose of determining the numbers of full-time civilian employees (including full-time intermittent employees who are paid on a when actually employed basis) required within the United States for the proper and efficient performance of the authorized functions of their respective departments, establishments, and agencies. The Director shall, within sixty days after the date of enactment of this Act and from time to time, but at least quarterly, thereafter, determine the numbers of full-time employees and man-months of part-time employment, which in his opinion are required for such purpose, and any personnel or employment in such department, establishment, or agency in excess thereof shall be released or terminated at such times as the Director shall order."

Public Law 90-364, the Revenue and Expenditure Control Act of 1968, title II, section 201, entitled "Limitation on the Number of Civilian Officers and Employees in the Executive Branch," in part:

"a. Except as otherwise provided in this section--

(1) No person shall be appointed as a full-time civilian employee to a permanent position in the executive branch during any month when the number of such employees is greater than the number of such employees on June 30, 1966.

(2) The number of temporary and part-time employees in any department or agency in the executive branch during any month shall not be greater than the number of such employees during the corresponding month of 1967.

"(b) (1) During any period when appointments are otherwise prohibited under subsection (a) (1), the head of any department or agency may, except as otherwise provided in this subsection, appoint a number of persons as full-time civilian employees in permanent positions in such department or agency equal to 75 percent of the number of vacancies in such positions which have occurred during such period by reason of resignation, retirement, removal, or death.

(2) For purposes of paragraph (1), all agencies which, on the first day of any period when appointments are otherwise prohibited under subsection (a) (1), have 50 or fewer full-time civilian employees in permanent positions shall be treated as one agency, and the Director of the Bureau of the Budget (hereinafter in this section referred to as the 'Director') shall determine the vacancies in each such agency which may be filled by reason of paragraph (1).

(3) For purposes of paragraph (1), the Director may reassign vacancies from one department or agency to another department or agency when such reassignment is, in the opinion of the Director, necessary or appropriate because of the creation of a new department or agency, because of a change in functions, or for the more efficient operation of the Government.

(4) If a full-time civilian employee in a permanent position is transferred from one department or agency to another department or agency--

(A) such transfer shall be taken into account under paragraph (1) as an appointment by the head of the department or agency to which he transfers, and

(B) subsection (a) (1) shall not apply to an appointment to the vacancy in the department or agency from which he transferred and such vacancy shall not be taken into account under paragraph (1).

"(c) For purposes of subsection (a) (2), the Director may reassign authorized temporary and part-time employment from one department or agency to another department or agency when such reassignment is, in the opinion of the Director, necessary or appropriate because of the creation of a new department or agency, because of a change in functions, or for the more efficient operation of the Government."

EXECUTIVE OFFICE OF THE PRESIDENT

BUREAU OF THE BUDGET

WASHINGTON, D. C. 20503

June 28, 1965

CIRCULAR NO. A-64
(Revised)

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Position management systems and employment ceilings

1. Purpose. This Circular (a) establishes criteria for the operation of an effective position management system, and (b) sets forth information on the concepts and procedures to be followed with regard to employment ceilings, their observance, and related reporting to the Bureau of the Budget. Effective July 31, 1965, this revised Circular replaces Circular No. A-64 dated March 31, 1964, as amended by Transmittal Memorandum No. 1 of January 5, 1965.

2. Policy. Consistent with the policy of reducing Government costs (see Bureau of the Budget Circular No. A-44, Revised, March 29, 1965), the President expects each agency head to pursue vigorously the efforts of his agency to achieve lower employment levels and increased productivity through tighter management, aggressive manpower utilization programs, simplification of procedures, and stripping work to essentials; and to assure strict observance of the employment ceilings.

3. Position management.

a. Each department and agency will develop and maintain a position management system designed to assure that the work is organized and assigned among positions in a manner which will serve mission needs most effectively and economically. As used in this Circular, position management includes the evaluation of the need for positions and required skills and knowledge, and the organization, grouping and assignment of duties and responsibilities among all positions. The position structure should be designed to utilize the most effective work processes, equipment, procedures, methods and techniques.

The position management system should be designed to identify, prevent and eliminate such common faults as unnecessary organizational fragmentation, excessive layering, excessive use of deputies, assistants to, and special assistants, improper design of jobs, outmoded work methods, and improper distribution of manpower resources.

b. A position management system should be developed which is best adapted to the needs of a particular agency or program. Provision normally should be made in each position management system, however, for the following key elements:

(1) Assignment of responsibility. Responsibility for work organization and position management should be explicitly assigned to line managers at appropriate levels in the organization.

(2) Utilization of total staff resources. In carrying out their responsibilities, line managers should utilize budget, planning, management analysis, personnel, and other special staff in the development and continuing operation of an effective position management system in the organization. It is especially important that the work of the different staff elements be coordinated and mutually supporting.

(3) Position authorization and employment controls. A position authorization and employment control procedure should be established to assure that existing and proposed work organization and staffing arrangements meet the requirements of good position management. Such a procedure must have as its basis adequate records, not only to identify the numbers of employees, but to identify positively the types of employment which are covered by the attached statement of definitions.

The procedure must ensure that (a) employment requirements are kept under continuous review, (b) positions authorized are limited to those that can be financed from available funds, (c) year-end employment does not exceed the approved ceiling, and (d) employment is not permitted to reach a point at any time during the year which would require reduction-in-force or other disruptive or uneconomical actions to get within the approved ceiling by year-end.

The requirements for the authorized position structure should be determined principally through the budget process, but also through the use of such tools as work measurement, work standards, productivity analysis, and manpower and workload reporting. An adequate position authorization and employment control system should provide control over total employment as well as over full-time employment in permanent positions.

(4) Vacancy control. Before any vacancy is filled, a review should be made to determine whether the duties of the position can be eliminated, assigned to other positions, or modified to permit performance at a lower grade.

(5) Position reclassification. Before any position is reclassified, the organizational work pattern should be thoroughly reviewed to ascertain the necessity for assigning responsibilities as high as the grade being proposed. Approval should be withheld unless the review indicates that such action is clearly consistent with the aims of effective and economical accomplishment of the agency mission.

(6) Approval of organizational changes. Each proposed change of organization or position structure should be reviewed and approved as appropriate from the standpoint of work design, occupational distribution, grade distribution, manpower requirements, and costs.

(7) Interagency sharing of personnel resources. Efforts to achieve effective manpower utilization should include the exploration of possible arrangements with other agencies for the sharing of personnel resources to meet certain nonrecurring needs or to take care of continuing housekeeping or administrative services. This type of arrangement could be advantageous for small offices, in Washington or in the field, but may be also applicable to specialized work in larger offices, particularly where other agencies are better equipped to perform such services more effectively and economically.

(8) Reporting. The position management system should provide complete, accurate, reliable, and timely information on numbers of employees to meet central reporting requirements of the Civil Service Commission and the Bureau of the Budget as well as periodic reports for the use of the agency in reviewing the effectiveness of the system. The reports should provide essential data for effective analysis by the agency head and upon request by the Bureau of the Budget, the Civil Service Commission, and the Congress. While the frequency of central reporting will vary from agency to agency, the system should make it possible to provide management, either periodically or upon request, with the following information:

(a) The number of positions authorized under the position management system, by employment category and grade. (See Attachment A for definitions of employment categories.)

(b) The number of occupied positions, by employment category and grade.

(c) Any new arrangements entered into for the provision of services by contract.

(d) An analysis and explanation of any significant changes in the position structure, together with an analysis of any longer-term trends indicated.

(9) Special reviews. When budget reviews, internal management appraisals, quarterly reports, or other available data indicate that an organization may not be achieving effective position management, action should be initiated to identify the reasons and bring about changes in personnel, organization structure, management practices, or work processes to achieve improvement.

C. Assessments of the effectiveness of its position management system should be made by the department or agency itself, and will be made by the Bureau of the Budget as part of its continuing surveillance of agency programs, by the Civil Service Commission in its inspection of position classification, and as a part of the joint reviews of management and manpower utilization conducted by the Bureau of the Budget, the Civil Service Commission, and the agencies under review.

4. System and nature of employment ceilings.

a. Maximum allowable employment figures ("employment ceilings") are determined by the President at the time of the annual budget review, both for the end of the fiscal year then in progress and for the end of the succeeding fiscal year.

b. Each year the employment ceilings applicable to the year in progress are intended to be absolute limits as of the end of the fiscal year, consistent with the employment reportable to the Civil Service Commission on the Standard Form 113 series, and in accordance with this Circular.

c. Generally, employment ceilings reflect budget proposals and assumptions with regard to workload, efficiency, proposed new legislation, interagency reimbursable arrangements, and other special financing methods. Employment included for proposed legislation, or for carrying out proposed supplemental appropriations, must be reserved until the additional funds become available by congressional action. Employment under estimated reimbursable arrangements must also be reserved until such arrangements have been negotiated.

d. Any decision to substitute the use of service contracts for direct employment, or to change the proportionate use of full-time (permanent or temporary), part-time, or intermittent employment must be based on considerations of effectiveness and economy in administering Federal programs, and must not be used as a device to avoid compliance with the ceilings.

5. Adjustments to employment ceilings. Under normal circumstances it would be expected that requests for revisions in employment ceilings for the current year in progress would be considered by the Bureau of the Budget during the examination of agency budget submissions for the following year. In the case of unusual or emergency situations, requests for revisions may be submitted at other times.

Revisions to employment ceilings will be considered only when congressional action on the budget request, or on supplemental requests or budget amendments transmitted after the budget, or any development subsequent to the establishment of the ceilings clearly requires a material change in the number of positions.

In the agency's request for an adjustment, it is not sufficient merely to justify the need for additional employment in a particular bureau or unit. The justification should indicate clearly why the increase cannot be absorbed through an internal adjustment in the agency's ceiling distribution, or why the need cannot be postponed to the next fiscal year.

All requests for adjustments in ceilings will be brought to the President's attention through the Bureau of the Budget.

6. Report of violations. It is the responsibility of each agency head to insure that the end-of-year employment is kept within the approved ceilings. In exceptional situations where the end-of-year employment exceeds an approved ceiling, the agency head will be responsible for the preparation of a report containing:

a. An explanation of the factors which caused employment to exceed the ceiling;

b. A statement describing the specific weaknesses in the agency's employment control system which permitted the violation to occur and the action taken to prevent recurrence of such violations; and

c. A schedule showing by bureau, the agency distribution of the established ceiling and the corresponding numbers of employees at the end of the year.

An original and two copies of the report described above will be submitted to the Bureau of the Budget no later than the 20th of the month following the end of the fiscal year.

CHARLES L. SCHULTZE
Director

Attachment

DEFINITIONS OF EMPLOYMENT CATEGORIES

Note that the three types of employment are the equivalent of those set forth in the Federal Personnel Manual, Chapter 292. The employment categories used in the Civil Service Commission Monthly Report of Federal Civilian Employment (Standard Form 113-A) are consistent with these definitions.

1. A full-time employee is one who is regularly scheduled to work the number of hours and days required by the administrative workweek for his employment group or class. (Most full-time employees have an administrative workweek of 5 days of 8 hours each). Such employees may occupy either of two types of positions.

- a. A permanent position -- one which has been established without time limit, or for a limited period of a year or more, or which, in any event, has been occupied for a year or more (regardless of the intent when it was established).
- b. A temporary position -- one which has been established for a limited period of less than a year and which has not been occupied for more than a year.

2. A part-time employee is one who is regularly employed on a prescheduled tour of duty which is less than the specified hours or days of work for full-time employees in the same group or class.

3. An intermittent employee is one who is employed on an irregular or occasional basis, with hours or days of work not on a prearranged schedule, and with compensation only for the time actually employed or for services actually rendered.

EFFECTS OF PERSONNEL CEILINGS ON OPERATIONS 1/REDUCED SERVICES

- Customs Service provides reimbursable service to entrepreneurs engaged in bonded warehouse operations and duty-free shops. Customs frequently has to reject requests from warehouse proprietors to open new warehouses or to expand services in existing warehouses because ceiling limitations did not permit Customs to hire enough employees to staff them.
- Inadequate staffing has prevented the Federal Aviation Administration (FAA), Great Lakes Region, from operating a proper flight standards surveillance program which includes monitoring the airworthiness of airmen and aircraft. Officials said that FAA must apply continuous pressure on air carriers and others involved in the flying industry to insure that they follow approved practices and procedures.

FAA's Chicago Flight Service Station, DuPage County Airport, has been unable to provide timely service to pilots requesting weather briefings and flight planning services. Incoming calls are counted and records are maintained on the number of calls which are not completed because service station lines are tied up (abandoned calls). There were 6,653 abandoned calls in fiscal year 1972; the number increased to 25,698 in fiscal year 1975. Although officials attributed this situation to staffing shortages, they felt that purchasing additional automated equipment would be the most practical solution for handling increasing workloads.

- In February 1975 GSA Region 9, San Francisco, requested 137 additional Federal Protective Service positions to provide security services and to help monitor and support contracted guards. Local officials based this request on increased subversive activity, such as

1/We examined documents and obtained information on these effects and others from agency officials at headquarters and field installations and activities. We did not verify essentiality of the work, substantiate manpower requirements, or evaluate the cost effectiveness of alternative actions taken or that might have been taken.

bombings, shootings, and thefts. Because the ceiling increase request was denied, protective services at some facilities had to be reduced. Officials said that reductions in manpower would mean less protection for Federal facilities, and could result in a serious shortage of personnel qualified to respond during emergency situations.

- Because of staffing shortages, GSA's National Archives and Records Service has been unable to provide services to agencies in southern California.

GSA, San Francisco, officials, said 8,000 to 9,000 records relating to the Bureau of Indian Affairs' work had not been properly stored and indexed by the National Archives and Records Service because personnel ceilings did not permit adequate staffing. As a result, the records are not readily available for GSA's Indian Claims Division, lawyers, and others to use.

- HUD's Equal Employment Opportunity Division is responsible for investigating and answering discrimination complaints from the public. The law stipulates that complaints must be answered within 30 days, but Region 9, San Francisco, answers few complaints within this period and takes 4 to 6 months to answer many.

Because of ceiling limitations, HUD's Housing Management has been unable to monitor multifamily and subsidy projects until they are about to, or actually do, run out of funds. It has not monitored open-space projects as closely as required by statute and has not closed out completed projects. Also, because of inadequate staffing in most cases HUD is unable to review community grants at least once every 2 years as required.

- At SSA Region 7, Kansas City, reduced service to the public resulted in delays in processing claims and answering telephone inquiries, increased waiting lines, and reduced dissemination of information.

- Soil Conservation Service (SCS), Colorado, has been able to give technical assistance on conservation measures to only about 1,000 of 6,230 farmers and ranchers during each of fiscal years 1975 and 1976. SCS could use 20 additional soil scientists to assist farmers and ranchers. Funding would not be a problem and equipment and facilities are available, but the 20 persons will not be employed because of personnel ceilings.

In 1975 SCS, Colorado, could not give farmers and ranchers technical assistance on water management construction projects estimated to cost \$1.5 million because of insufficient engineering and design staff. The backlog of requests for this type of assistance has been increasing about 10 percent annually for the past 4 years. SCS' failure to maintain contact with farmers and ranchers has caused them to revert to old conservation methods which may lead to soil erosion in later years. The farmers and ranchers have been advised to contract with private engineering firms.

SCS, Colorado, was able to schedule only 1 of 23 flood hazard studies HUD requested in fiscal year 1976.

SCS, New York, provides technical assistance to the Environmental Protection Agency (EPA) on a reimbursable basis. One study, required by Public Law 92-500, is currently underway. After its completion SCS will be unable to provide further technical assistance because of employment limitations, even though EPA is ready to provide the necessary funds.

- VA officials in Los Angeles said that ceilings had hindered them from hiring the appropriate mix of personnel needed to carry out the region's workload in a satisfactory manner, and that they had been able to give only minimum levels of service to the public. Services affected include answering written, telephone, and walk-in inquiries about veterans' benefits. Heavy workload pressures cause some VA claims and awards to be processed inaccurately because employees at times were more concerned with getting claims processed than with accuracy.

DEFERRED OR CANCELED WORK: INCREASED
WORK BACKLOGS

- Recurring preventive maintenance at Ogden Air Logistics Center, Hill Air Force Base, has been severely limited because of insufficient manpower.
- Military Airlift Command airlifts men and supplies for DOD, and maintenance of the aircraft used for this mission cannot be deferred or canceled. However, some base support work, such as maintenance of family housing, has been delayed.

APPENDIX IV

APPENDIX IV

--At many Naval Air Systems Command installations programs and projects were deferred or canceled because of manpower limitations.

--At FAA's Great Lakes Region required preventive maintenance work was done on air control equipment and work backlogs developed. Officials said that this could cause serious long-range problems and result in loss of service to the public.

--GSA's National Archives and Records Service has been unable to make, on a reimbursable basis, paperwork management reviews requested by other agencies because of personnel ceilings. This has resulted in a large backlog of requests and an increase in ineffective, inefficient paperwork management in the Federal Government.

--GSA's Federal Supply Service has delayed opening new self-service stores and motor pools. It also has deferred updating Federal specifications and, as a result, goods of obsolete technology have been received and closer inspection has been required.

GSA's Public Building Service has deferred preventive maintenance on machinery and equipment. This results in the premature deterioration of equipment and necessitates major repairs. The Construction Management Division has had to defer repair and alteration projects and small projects which contractors will not handle.

--HUD's Housing Production Mortgage Credit... San Francisco... developed... backlog... processing... mortgage... credit... application... processing... time... credit... application... backlog... processing... time... credit... application... processing... time...

--SCS had... interest... GS... (C...)... on... make... r... way... d... th... b... o... f... l... a... n... a... g... e... m... e... n... t... u... n... t... l... S... C... S... h... e... a... d... q... u... a... n... t... i... e... s... a... n... d... t... h... e... B... u... d... g... e... t... h... e... a... n... n... y... p... r... o... c... e... s... s... i... n... t... o... p... o... r... s... a... n... d... t... h... e... i... n... t... e... r... e... s... t... e... n... t... e... s... S... C... S... c... o... n... t... r... o... l... l... e... a... n... d... o... p... e... r... a... t... i... o... n... s...

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personnel could be hired to complete each study in 12 to 15 months.

--SSA's Bureau of Retirement and Survivors Insurance has had to defer many projects over the past few years. Because of the lack of trained staff, the Bureau's Mid-American Program Center, Kansas City, said that 50,000 automatic earnings recomputation program cases that it should have processed in fiscal year 1975 were carried over to fiscal year 1976. SSA headquarters instructed component organizations not to exceed their personnel ceilings at any time during the year, and they were prevented from hiring to fill anticipated future losses.

--VA, Los Angeles, had established a standard for processing veterans' educational assistance claims and awards within 7 days after receipt of claims. Because of an insufficient number of authorized FTP personnel, the actual processing time is 21 days and a backlog of 2,000 claims has developed.

ALTERNATE SOURCES OF MANPOWER USED

The agencies we reviewed used sources of manpower other than their regular work force because ceiling limitations prevented them from hiring needed employees. Alternate sources of manpower included contracting for personal services and use of overtime labor.

Contracting for personnel services

--As of November 26, 1975, the approved workload for guard services at GSA Region 9 was 641,194 hours; the region's ceiling of 184 positions provided for only 326,784 hours of the approved workload to be accomplished through use of the Federal Protective Service guards it was authorized to employ.

In response to GSA headquarter's denial of its request for additional positions for the Federal Protective Service, the Region 9 Administrator wrote the Administrator of General Services that "Practical field experience has consistently demonstrated that security contractors provide watchman service at best. Security contractors, with rare exception, lack authority, training, skill, or inclination to perform police protection functions."

For three contracts of about \$881,500 awarded for security guards, GSA cost studies prepared during fiscal year 1975 showed the work could have been done for about \$836,800 or 5 percent less if in-house guards were used. For three additional contracts awarded for about \$1,382,600, GSA cost studies for fiscal years 1975 and 1976 showed that contracting saved about \$430,000, or 31 percent; in each case where guards were contracted there were complaints about the service.

The extensive need for contract guards has resulted in an unbalanced work force--177 productive Federal officers and 286 contracted guards. Approximately 60,000 hours of productive time (35 staff-years) was spent by Federal protective officers in monitoring contract guards, resulting in reduced effectiveness of the Federal Protective Service.

- Because of personnel ceiling limitations, GSA San Francisco, awarded four custodial contracts totaling \$1,171,000 in fiscal year 1975. GSA cost studies showed that \$153,000 could have been saved by doing the work with its own employees.
- HUD's San Francisco Area Office appraised 15,810 housing units for mortgage insurance in fiscal year 1975; 7,242 of these appraisals, 46 percent, were made by contract appraisers. HUD officials said contract appraisers were used because of understaffing resulting from personnel ceilings. Central office officials said that the cost of using contract appraisers is approximately 60 percent more than the cost of using HUD staff, and that contracting for more than 25 percent of the appraisals could cause the quality of processing the appraisals to deteriorate because of inadequate supervision.
- Navy ship overhauls must be shifted to the private sector or deferred when sufficient work force is not available to accomplish scheduled work in the naval shipyards, even though the funding may be available. Because of uncertainties about what the fiscal year 1975 ceilings for the shipyards would be and when the ceilings would be approved, 15 ship overhauls were deferred and/or rescheduled.

APPENDIX IV

APPENDIX IV

Reassignment of the USS Biddle overhaul from Norfolk Naval Shipyard, Virginia, to Bath Iron Works, Maine, in December 1974, is one example. Some degree of industrial efficiency was lost because planning for this overhaul (estimated to require 80,000 staff-days) had been underway at Norfolk for nearly 9 months before the transfer decision. Also, the shift of the USS Biddle from Virginia to Maine caused hardship for Navy personnel and their families.

--In 10 months five major changes were made in the overhaul schedule for the Navy's USS McCloy. Changes included reassignment of the overhaul from Philadelphia Naval Shipyard to a private shipyard in November 1974 to accommodate a reduction in force planned at the Philadelphia shipyard to meet its projected fiscal year-end ceiling; then, reassignment of the overhaul back to the Philadelphia shipyard in February 1975, only 1 month before the overhaul was scheduled to start, when it was learned that Navy headquarters would not authorize a reduction in force.

Shipyard officials said that the effect of these changes was traumatic: (1) efficient shipyard overhaul advance planning was impossible, (2) maintenance programs were disrupted and poorly organized, and (3) ship's force morale was low because of the inability of families to plan moves to coincide with the uncertain overhaul schedule and location

---Because of personnel ceilings Navy Air Systems Command had to contract for services at an increased cost over performance of work in-house.

--SCS has been required to use some contract services to obtain environmental assessment data and soil surveys, and to edit soil manuscripts. SCS scientists often have trained contractor personnel in conservation practices.

OVERTIME LABOR

19 U.S.C. 267, as amended. Thus, a large share of the compensation to the inspectors for Sunday, holiday, and night overtime work is reimbursed to the Government by the parties requesting the services, such as common carriers. In fiscal year 1975 reimbursable overtime accounted for \$2.4 million of the \$3.5 million paid to Region 9 employees.

- During fiscal year 1975, GSA's Federal Supply Service warehouse at Stockton, California, used 17,477 overtime hours. A service manager said that about 80 percent of this overtime could have been handled by intermittent employees but that additional employees could not be hired because of personnel ceilings.
- GSA officials in San Francisco said that a considerable amount of overtime in Region 9 resulted from personnel ceilings. In June 1975 overtime costs in the region increased 74 percent over the 1975 monthly average. A Public Building Service official said the increase was attributable to the layoff of temporary employees to meet yearend ceiling limitations.
- SCS received an increased number of claims from contractors involved in the construction of watershed projects. SCS does not have enough inspectors because of employment limitations, and those it does have must work long hours over extended periods. Employees have complained that the extra work hours interfere with their personal lives. Morale and performance have been affected, and one result has been the increase in contractor claims.
- Personnel ceilings have made it necessary for SSA to use more overtime than its managers would prefer since this is the only way to achieve the staff-years needed to process its work. Overtime used by two bureaus in Region 7, Kansas City, is summarized below.

APPENDIX IV

APPENDIX IV

	<u>Hours</u>		<u>Overtime percent of regular</u>	<u>Estimated cost of overtime at \$2.79 an hour</u>
	<u>Regular</u>	<u>Overtime</u>		
Bureau of District Office Opera- tions:				
FY 1975	3,707,705	260,205	7.02	\$725,972
1st quarter, FY 1976	1,022,729	62,404	6.10	174,107
Mid-American Program Center:				
FY 1975	5,052,923	293,683	5.81	819,376
1st quarter, FY 1976	1,392,087	97,282	6.99	271,416

The regional representative estimated that about 50 percent of the overtime work in District Operations and about 75 percent in the Program Center could have been converted to FTP positions. Local SSA officials said that overtime has become a way of life. Because of its use over an extended period, errors have increased and productivity decreased. Overtime has caused labor relation problems since it is paid to higher grade technicians who are capable of doing the work and lower grade union members who do not work overtime feel that they are discriminated against.

--VA officials in Los Angeles said that overtime is used as an alternative to more FTP employees. Overtime is used on a regular basis because the regional office does not have enough FTP employees to process financial assistance claims on a timely basis. In fiscal year 1975 overtime hours accounted for 4.4 percent of the total labor hours used. For fiscal year 1975 and the first quarter of fiscal year 1976, the region's overtime costs amounted to approximately \$1 million.

IMBALANCES IN THE WORK FORCE

--Air Force headquarters directed that no reduction in force of permanent personnel would be undertaken in fiscal year 1975 if the yearend ceiling could be met by other means. This policy and an unusually low attrition rate severely restricted hiring persons with

needed skills at most Logistics Command installations. Massive skill imbalances resulted with hundreds of employees with surplus skills and hundreds of vacancies in needed skills that could not be filled because of the ceilings.

- Separate ceilings for FTP and total employment have limited management's ability at Red River Army Depot, Texas, to maintain a balanced work force because of the difficulty of employing certain types of skilled workers, such as welders, machinists, and sheet metal mechanics, on a temporary or part-time basis. Operations have been adversely affected.
- HUD and GSA officials in San Francisco said that personnel ceilings created imbalances between professional and clerical staffs. During staff reductions, clerical personnel with lower retention rights tended to be the first released.
- A HUD Housing Production Mortgage Credit single family housing program study showed that 35 to 37 percent of HUD's Region 9 work force should be clerical personnel. In several of the region's insuring offices, this ratio was as low as 22 percent, with skilled personnel doing clerical work.
- Some SCS State Conservationist Offices are staffed with one-of-a-kind disciplines, such as geologists, foresters, financial managers, and sanitary engineers. Because of employment limitations, offices are unable to train replacements because the authorized positions are needed for employees to carry out program responsibilities. When an office loses one of these specialized employees, valuable time is lost in training the replacement.

About 12 clerical positions in 12 field offices were permanently abolished. As a result, GS-9 and 11 soil scientists had to type, file, and do other clerical work in addition to their professional duties.

OTHER EFFECTS

- Air Force Logistics Command officials said that converting positions from military to civilian, even when desirable and economically advantageous, is restricted by the personnel ceiling limitations. There are no provisions for increasing the civilian ceilings for military positions converted to civilian positions.

- At Brooke Army Medical Center, every department, service, and activity has been affected by personnel shortages resulting from fund limitations and the hiring lag caused by difficulties in recruiting eligible candidates and processing personnel actions. Stringent actions were taken to keep within the limits of the fund authorization document. Military personnel with required skills were used when available.
- Personnel of other agencies may be designated customs officers (excepted) without additional compensation to perform any of the duties of customs officers. (See 19 U.S.C. 1401(i).) At July 1, 1975, Customs' Region 9 had 707 military and civilian employees from other agencies authorized to perform these duties. One reason for using military and other agency personnel was the limited Customs staff. The regional commissioner said that the quality of Customs inspection was reduced when personnel other than Customs inspectors were assigned.
- HUD officials said that personnel ceilings did not discourage automatic promotion of employees or hiring persons at higher grade levels than needed.
- SCS trains employees of State and county units of government cooperating in the National Cooperative Soil Survey in conservation work. These units provide funds and soil scientists to help meet the demand for soil surveys. A SCS survey of States with cost-sharing agreements indicated that at least \$1 million of additional State and local funds would be available annually for conservation work, if no Federal employment limitations exist.
- Most agencies we reviewed said that managing employment levels with personnel ceilings requires more administrative effort. None of the agencies had determined the cost of administering the ceilings.
- Personnel ceilings have frequently made it necessary for agencies to defer the effective reporting date of new employees until after the end of the fiscal year. For some agencies this has resulted in inability to hire needed college graduates available in May or June who are unable to wait for employment until after July 1.

--Several agencies said that employees on extended sick leave awaiting disability retirement had caused problems. Although these employees were not on duty to do the required work, they were counted against the agency's ceiling as long as they were on the agency's rolls.

Officials at FAA's Great Lakes Region identified staffing shortages caused by extended absences of air traffic controllers as a serious problem. Controllers excused for medical reasons continued to count against ceilings and prevented FAA from filling vacant positions. This reduced FAA's ability to function effectively. In November 1975 the Air Route Traffic Control Center at Aurora, Illinois, had 25 controller vacancies resulting from extended medical absences.

Federal Personnel Manual Letter 296-32, dated June 17, 1976, allows agencies to exclude employees on extended sick leave from their monthly reports of civilian employment when (1) the disability retirement of the employee has been approved by CSC and (2) the employee's use of sick leave exceeds or is scheduled to exceed 30 days. These guidelines were effective with the June 1976 report for agencies capable of implementation by that date. Other agencies were required to implement the guidelines with the July 1976 report.

OTHER STUDIES OF PERSONNEL CEILINGS

We have sent to the Congress other reports on the effects of personnel ceilings on agency management and the use of civilian personnel to carry out assigned programs and functions. Summaries of five of our reports follow.

IMPACT OF EMPLOYMENT CEILINGS ON
MANAGEMENT OF CIVILIAN PERSONNEL
(B-165959, APRIL 30, 1971)

The Department of Defense absorbed the reduction of civilian personnel resulting from the hiring restrictions imposed by the Revenue and Expenditure Control Act of 1968 (see pp. 12 and 13) without serious effects on its programs. In some cases, imbalances of work-force skills resulted--too many workers in some skills and not enough in others. Those imbalances, combined with personnel shortages, could have affected programs adversely if the restrictions had remained in effect.

The hiring limitations, along with the spending reductions required by the act, increased emphasis on setting priorities for the allocation of personnel and funds. This emphasis should have long-range beneficial effects.

Personnel management was more flexible under ceilings imposed by the executive branch than under hiring limitations directed by the statutory restrictions which prescribed that only three of every four civilian employees leaving DOD could be replaced.

As a result of our review, the Deputy Secretary of Defense proposed eliminating ceilings on a trial basis so that DOD and the Office of Management and Budget could jointly assess the effectiveness of fiscal and program constraints on employment levels. In December 1970 the Director, OMB, agreed to eliminate employment ceilings for DOD for a 1-year trial period. DOD action on this authorization is discussed on p. 66.

PROJECT REFLEX (RESOURCE FLEXIBILITY)--A
DEMONSTRATION OF MANAGEMENT THROUGH USE OF
FISCAL CONTROLS WITHOUT PERSONNEL CEILINGS
(B-165959, JUNE 21, 1974)

Project REFLEX was a DOD demonstration project in which several laboratories operated solely under financial controls without personnel ceilings so that management could adjust personnel levels to match workload requirements and available funds.

The Departments of the Army, Navy, and Air Force began Project REFLEX in 1970. After providing initial guidance, the Office of the Secretary of Defense gave the services complete freedom in implementing and monitoring the project. The services needed some flexibility because of the differences in laboratory operations.

Although the project was to operate without personnel ceilings, REFLEX laboratory managers were under some constraints during the test period.

- Hiring freezes were imposed, and in some cases, ceilings were only partially lifted.
- Government-wide programs for reducing employment and average grade levels were instituted.
- Civil Service Commission and agency regulations limited the ability of laboratories to hire or separate employees.

Officials involved in REFLEX made extensive efforts to develop techniques to measure project success. The Office of the Secretary of Defense and Army, Navy, and Air Force officials had not developed such a system. We analyzed a substantial amount of statistical data but found it to be of little value in evaluating the project. This is characteristic of the difficulty of measuring performance of research and development activities, whether Federal or private. However, both the services and we made evaluations which showed that benefits had been realized even though constraints were not entirely removed. Managing with fiscal controls and without personnel ceilings helped operations.

- Planning for and matching funds, workload, and manpower improved.
- Delegation of responsibility and authority to lower management levels was encouraged.
- Management was provided with more options to use, i.e., direct hire or contracting.
- Management's capability for advancing new technology in-house improved and more effective technical direction was given to contractors.
- High-level management was relieved of costly and time-consuming administration associated with personnel ceilings.

--Management was allowed the flexibility of acquiring employees with appropriate skills and levels of experience and organizing them in balanced working groups to increase efficiency and productivity.

All REFLEX laboratory managers agreed the project had been successful because an environment created by encouraging flexibility permitted management to meet rapid change. They conceded, however, that some of the economies and other benefits probably could have been achieved without REFLEX through sound management practices. We suggested that the concept of holding local management officials accountable for resources made available to them has merit and should be tested further.

Comments on our findings by the Director, OMB, and our evaluation of his comments follow.

"* * * The OMB agrees with the general objective of the test, namely, to improve management by allowing more flexible correlation of workload, funds and manpower."

* * * * *

"It should be noted * * * that the present ceiling control system is such that agency heads have wide latitude in which to maneuver, i.e., employment ceilings are assigned to each agency as a whole, and the agency head may re-allocate--intra-agency--as he sees fit. As a result, all agency heads already have the flexibility to further test the REFLEX concept."

Commenting on this report to the Chairman of the Senate Committee on Government Operations, the Director, OMB, said:

"* * * the present employment ceiling control system, in which ceilings are assigned to each agency as a whole, affords agency heads wide latitude in which to voluntarily test the REFLEX concept through intra-agency reallocation of ceilings as they see fit. However, since the Congress, the President, and the public are concerned about the absolute number of civilian employees on the Federal payroll, there is a need for continuing emphasis on effective agency personnel management systems to administer the ceilings within agencies."

"Thus, while we are anxious to realize whatever benefits may accrue from further exploration of the concept, there are cogent indications that additional examination of the DOD experience is warranted before urging widespread implementation of the test throughout other Federal agencies."

Even in the laboratory environment, for which no effective productivity measurements had been devised, the test of entrusting local managers with authority and responsibility for conducting their operations with fiscal controls improved management. We recommended that the test of management through fiscal controls be extended to other Federal laboratories and to other DOD and civil agency activities, including some activities in which productivity measurements could be developed. We also recommended that further testing of management through fiscal controls be made using common criteria and guidelines to provide a basis for identifying and comparing actions taken and results experienced by the participating activities.

IMPLEMENTATION AND IMPACT OF REDUCTIONS
IN CIVILIAN EMPLOYMENT, FISCAL YEAR 1972
(B-180257, JULY 2, 1974)

In August 1971 the President directed Federal departments and agencies to reduce civilian employment by 5 percent to check the rise in the cost of the Government. We studied the impact of the reductions on 15 installations and activities of 7 departments and agencies.

The agencies used a partial freeze on hiring, encouraged eligible employees to retire, and made reductions in force to meet ceilings imposed for a particular date, June 30, 1972, the end of the fiscal year. Then, after July 1 some installations and activities rehired some recently separated employees and increased employment to meet workload needs.

Accelerated actions taken primarily to reduce civilian employment to meet personnel ceilings were disruptive to management. Headquarters imposed reductions in ceilings on installations and activities without corresponding reductions in workload.

Since much of the work still had to be done, agencies substituted other sources of manpower such as overtime labor, military personnel, or contracting for personal services; backlogs increased; work was deferred or not done; and services were reduced or terminated. Employees having

needed skills and experience retired sooner and in larger numbers than expected. Employees receiving reduction-in-force notices when their positions were abolished displaced other employees with lower retention rights as they competed for the remaining positions. The employees who remained were not always the best qualified for the positions they occupied. Many had to be trained.

The lesson from this experience is that personnel ceilings hurriedly set by agency officials are not the most effective way to reduce civilian employment.

Comments on our findings by the Director, OMB, and our evaluation of his comments follow.

"Of course, the question might be raised as to whether employment ceilings should be imposed at all. Certainly, the merits and demerits of employment ceilings have been debated for years. The fact is, however, that the public, the Congress, and every President in recent memory have been favorably disposed toward them. There has been, and continues to be, an avid interest in reducing the number of Federal civilian employees * * *. And * * * it is a fact that, occasionally, circumstances require employment ceilings to be established on very short notice. Under these circumstances, we must put major emphasis on effective agency personnel management systems to administer the ceilings within agencies.

"The employment ceilings purposely apply only to year-end employment. This gives agency heads considerable flexibility during the course of the year in their management of personal employment requirements and in planning reductions so that they can be accomplished in an orderly manner by the end of the year. * * *

"I am sure that we all agree that it is desirable to keep Federal civilian employment at the minimum level necessary for the conduct of essential programs. To attain that end, all recent Presidents have decided that it is necessary to maintain employment ceilings. For this reason, we can expect continuation of some type of employment ceiling. We expect and encourage agencies to use a number of management techniques * * * to help them operate

within such ceilings in the most reasonable and effective manner."

Personnel ceilings, in our opinion, do not provide the most effective management control of manpower resources. We have discussed accelerated actions taken by installations and activities to meet imposed ceilings that may not have been in the best interests of the Government. In some cases, employment increased soon after the ceiling date had passed.

We agree that the Federal work force should be no larger than needed to carry out effectively, efficiently, and economically the programs, functions, and activities approved by the President and the Congress. Management at all levels should aggressively seek to devise ways of improving productivity. Reduction of the Federal work force without corresponding reductions of programs, functions, and activities may increase, rather than decrease, total cost to the Government as alternate sources of manpower are acquired.

A report "Measuring & Enhancing Productivity in the Federal Government," June 1973, by the Joint Project Team of OMB, CSC, and GAO, included a recommendation that:

"OMB should continue to experiment with imaginative techniques of substituting controls based on budgets and average annual man-years rather than on personnel ceilings tied to a June 30 date. The experience in the Department of Defense should be carefully monitored and recommended as appropriate for application by other large agencies. In addition, selected smaller agencies should be exempted from personnel ceilings for a test period."

PART-TIME EMPLOYMENT IN
FEDERAL AGENCIES
(B-159950, JANUARY 2, 1976)

The Government's programs and functions are carried out primarily by its full-time permanent work force. However, when workloads fluctuate or less than 40 hours a week of staff time is needed, using part-time employees may be the best and most economical way of accomplishing essential work.

In providing part-time employment, the Government can use a great pool of talent not needed or available on a full-time basis. Part-time employment also benefits many persons who cannot or choose not to work full time. Agency officials

cited instances in which additional part-time employees could have been effectively used but were not hired primarily because of funding limitations and personnel ceilings.

Personnel ceilings deprive agency management of flexibility in accomplishing essential work by most effectively and economically using the most appropriate type of manpower in specific circumstances.

Comments on our findings by the Director, OMB, and our evaluation of his comments follow.

"We certainly agree with * * * the desirability of part-time employment and * * * the need to find appropriate ways to make it easier for part-time employees to be hired. However, we are not at all certain that the central personnel ceilings are producing the problems outlined in your report."

* * * * *

"It is our view that many of the problems discussed in the * * * report result from a failure to take advantage of the considerable flexibility that exists under the current ceiling system. We believe that the personnel ceiling system can accommodate the varying needs of agencies, especially for part-time employment. First, when an agency's employment ceiling is set during the fall budget process, consideration is given to requests for part-time and temporary employment commensurate with the agency's perceived needs to cover periods of unusual workloads. Second, ceilings are provided to the agency as a whole, and each agency head has discretion to allocate and reallocate that ceiling among the bureaus and elements of the agency. Finally, the personnel ceiling is applicable only to one day out of the year--June 30. The agency head can (within dollar limitations) exceed that ceiling during the year so long as the ceiling can be reached in an orderly manner by the end of the year.

"However, employment ceilings exist to constrain increases, primarily because of the proper concern of the President, many members of Congress, and the public in the number of

employees on the Federal payroll, regardless of any other considerations. Without ceilings, there would be no effective control over these numbers, and employment probably would increase at a faster pace than is now the case. Even with ceilings on part-time and temporary employment, their numbers (Executive Branch less Postal Service) have increased by 40,000 (or 27%) over the last four years. Full-time permanent employment has declined by 40,000 over the same period.

"In summary, we believe that it is fundamentally desirable to control the number of employees on the Federal payroll and that the present system provides the necessary flexibility for agency heads to accommodate the needs of their agencies for peak loads for part-time employment. The 40,000 increase in part-time and temporary employment over the last four years gives some indication of the present ceiling system's ability to provide for new needs through this means. We do not believe that further relaxation of these ceilings is necessary to accommodate the objectives that the report addresses."

Commenting on this report to the Chairmen, House and Senate Committee on Government Operations, the Director, OMB, said:

"* * * we have some indication that rigidity of ceilings in some agencies stems from overly restrictive or non-existent internal reallocation mechanisms. It is incumbent on agency managers to make the most effective use of part-time, temporary, or full-time staff to meet the seasonal and special workload requirements for their respective programs. In our estimation, experience has demonstrated that employment ceilings, when properly administered by agency officials, have not been a deterrent to adoption of flexible staffing patterns to meet the various and differing agency program needs."

* * * * *

"We also believe that it is fundamentally desirable to control the number of employees on the Federal payroll and that the present system provides the necessary flexibility for agency heads to

accommodate the respective needs of their agencies to meet peak loads with temporary or part-time employment. We further believe that there is sufficient flexibility in the present system to accommodate the objectives of the report without further relaxation of employment ceilings."

By considering an agency's personnel needs in relation to its anticipated workload during the budget process, OMB and the President influence projected employment levels. When the Congress approves programs and functions and appropriates funds to implement them, personnel requirements can be determined more realistically and an effective control is established over an agency's actual workload and employment levels. An agency cannot hire workers unless it has funds to pay them.

In addition to these controls, OMB imposes a personnel ceiling which limits the number of employees an agency may have on its payroll on the last day of the fiscal year, regardless of the work that must be accomplished and the funds available. Distribution of this ceiling by an agency among its organizational elements and monitoring actual employment by these elements to insure that the ceiling is not exceeded on 1 day of the year creates an administrative burden and an illusion of control.

We agree with the Director, OMB, that the Federal work force should be no larger than needed to effectively, efficiently, and economically carry out the programs and functions approved by the President and the Congress.

Although employment ceilings may be a tool to insure that the concerns of the President and the Congress as to total number of Federal employees are met, they are at best an inferior substitute for effective management. Management at all levels needs to aggressively seek ways to improve productivity.

27 YEARS' EXPERIENCE WITH
DEFENSE INDUSTRIAL FUNDS
(B-159896, OCTOBER 5, 1976)

Congressional legislation enacted in 1949 gave the Secretary of Defense authority to establish working capital funds (1) to finance inventories of such supplies as he may designate and (2) for designated industrial and commercial-type activities that provide common services within or among DOD departments and agencies. Industrial funds are revolving

funds modeled after business financial arrangements. Industrial fund activities are given working capital to finance the cost of producing goods and services ordered by customers and later receive reimbursements by billings, much as private business.

The record of the past 27 years shows that DOD industrial funds have achieved some of the objectives intended by the Congress, but have not been the panacea many hoped for. Some private business-like methods of operation could not be brought into the Government.

Although patterned after private businesses, industrial funds are subject to civilian employee ceilings and constraints on hiring and firing, as are other DOD activities. As a result, industrial fund management does not have the flexibility that private business management has to quickly increase or decrease employment levels to meet workload requirements. For instance, when workload drops off management is not able, because of DOD and Civil Service regulations, to quickly reduce its labor force.

Conversely, when unexpected work develops, personnel ceilings frequently prevent management from hiring people permanently to do the work. Thus, they must use expensive overtime, hire temporary or part-time help, use military personnel, or contract work out. But these substitute sources of labor are also subject to constraints.

Besides decreasing managers' flexibility, these constraints also tend to present a disincentive. When coupled with the need to keep a broad base of skills for mobilization and the fact that work is largely allocated on the basis of capacity and capability (that is, keeping employees busy) rather than cost, managers have a strong incentive to keep their staff--particularly critical staff--even when workloads decrease. They can keep the existing personnel ceiling, thereby retaining the ability to be given work and take on new or additional work when the need arises.

It is important to recognize in evaluating industrial funds that personnel constraints also apply when appropriated funds are used. While these constraints reduce the effectiveness of the industrial fund concept, no advantage would accrue from returning to appropriated funding.

As an alternative to personnel ceilings, Defense officials and others have proposed that industrial fund activities be permitted to use financial controls for managing staff levels.

This has been tested at a few industrial fund activities, and although the ceilings were not totally lifted during the tests, those evaluating the results, including GAO, concluded that some benefits were realized.

The President and the Congress have long been concerned about limiting the total number of employees on the Federal payrolls and have used personnel ceilings to accomplish this. Although various congressional committees have periodically considered excluding industrial funds from civilian personnel ceilings (including the Senate Committee on Appropriations and the House Committee on Armed Services in early 1976), the prevailing view has been that such controls are invaluable and the decision has been to retain civilian ceilings. Contrary to the idea of relaxing ceiling controls, both the Senate and House Committees on Appropriations recommended specific personnel reductions at individual industrial funded activities in all services.

We suggested that DOD make further tests of operating selected industrial funds without personnel ceilings to clearly and conclusively demonstrate whether financial controls could be relied on to provide controls that meet congressional requirements while permitting managers greater flexibility. In response, DOD officials supported the idea of operating without civilian ceilings. However, they feel that applying this exclusion only to industrially funded activities would penalize those DOD activities remaining under personnel ceilings and deprive DOD the flexibility to respond to unforeseen workload increases and legislated manpower reductions. DOD is concerned about the value of resuming a test program limited to only industrial fund activities.

We agree with DOD that excluding only industrially funded activities from civilian personnel ceilings could result in tighter ceilings on other activities, and it was not our intention to imply that this be done. Our suggestion for further tests was intended to see whether financial controls acceptable to the Congress could be developed. We believe such tests would be beneficial.

STUDY BY THE HOUSE COMMITTEE ON
APPROPRIATIONS' INVESTIGATIVE STAFF

Because of its concern, the House Committee on Appropriations requested its investigative staff to study and report on the effects of end-of-year employment ceilings. The investigative staff's observations were included in the Committee's June 1976 report no. 94-1218 on appropriations

for the Department of the Interior and related agencies for the fiscal year ending September 30, 1977.

"Personnel ceilings have not effectively limited employment but have resulted in artificially contrived staffing practices.' In the five bureaus reviewed, there were over 9,000 employees who were actually working substantially full-time schedules but who were charged off for ceiling purposes as seasonal and intermittent help * * *. The short term implications of this artificial staffing situation include recruitment difficulties, morale problems, wasteful turnover and retraining, a watering down in the quality of the staff and the buildup of a caste system with two classes of employees.

"Contracting versus in-house performance decisions are seldom supported by cost studies, even though such studies are required by OMB Circular A-76. It is clear that in many instances contracting is more expensive than in-house performance but bureaus have little incentive to make cost analysis because additional personnel is usually not a viable alternative.'

"Playing the 'ceiling game' (whereby thousands of employees are separated just before the end of the fiscal year and are rehired when the new fiscal year begins) was criticized as 'wasting manpower, generating volumes of unnecessary paperwork, impugning the credibility of Government employment figures, confusing employees, and accomplishing nothing.

"Restrictions on hiring full-time staff have generally impaired the competitive recruiting position of these bureaus * * *. Officials complained bitterly about the frustrations and the time wasted in having to explain to bright young college graduates why employment with the organization has to be on something less than a full-time basis.'"

The Committee commented:

"It is clear that personnel ceilings greatly undermine the objective of maximum efficiency and economy in the expenditure of Federal funds. The Committee

strongly believes that dollar levels and prudent management, rather than artificially contrived personnel ceilings, should govern the level of permanent positions allocated to an agency. The Committee expects that OMB and the various Departments will recognize the wastefulness and futility of artificially low ceilings."

TESTS OF EMPLOYMENT CONTROLS
OTHER THAN PERSONNEL CEILINGS

As noted above (see p. 54), in December 1970 the Director, OMB, agreed to eliminate ceilings on employment in DOD for a 1-year trial period. The purpose was to assess the effectiveness of fiscal and program constraints on employment levels.

By letter of March 19, 1973, the Secretary of Defense said:

"* * * I agree that the concept holds promise as an effective mechanism for the control of our personnel strengths without unduly limiting the freedom of operating officials to carry out their programs.

"In fact, I find that the Department of Defense has, with one exception, consistently followed this policy of controlling personnel strengths through funding limitations ever since the initiation of the one-year trial period for fiscal constraints, which began with Office of Management and Budget concurrence on March 19, 1971. That exception covered the period from January to June 1972 when late appropriation action by the Congress required sharp reductions in full-time permanent employment in Department of Defense military functions by June 30, 1972. Time simply did not permit the management communication of revised objectives upon which the alternative controls depend; nor were the controls themselves adequately established at that time.

"Once the FY 1972 reductions were achieved, an Assistant Secretary of Defense (Comptroller) memorandum of May 22, 1972, reinstated the test of alternative controls on civilian employment within the Defense components without the use of specific numerical ceilings. This policy has been followed since that date and should continue in effect in the foreseeable future."

Although we made inquiries at Army, Navy, and Air Force headquarters and selected commands and installations, we found no DOD organizations that had actually tested the concept except the laboratories that participated in Project REFLEX.

Project REFLEX, a demonstration of management through use of fiscal controls without personnel ceilings, is discussed on pages 54 to 57. In our current review of controls over civilian employment, we obtained information on actions taken since the end of the test period, June 30, 1973.

Further testing of the REFLEX concept was discontinued in DOD for all practical purposes, as a result of two actions:

- In April 1974 DOD initiated a study to (1) determine the requirements for and capabilities of its laboratories, (2) identify excess capacity and overlapping capabilities, (3) identify instances where work could be contracted at a savings, and (4) define a program to upgrade the laboratories' quality.
- In the Department of Defense Appropriation Authorization Acts for fiscal years 1975 and 1976, the Congress established yearend civilian personnel ceilings. (See p. 12.)

By letter of August 13, 1974, the Director of Defense Research and Engineering informed us that DOD had authorized and encouraged the military departments to continue Project REFLEX. However, the April 1975 report on the DOD laboratory utilization study recommended a 10- to 15-percent decrease of the approximately 56,000 people in the laboratory system. In those circumstances:

- Army extended part of the REFLEX concept, exemption from manpower surveys, to practically all its research and development activities and four installations beginning July 1, 1973, to June 30, 1976, but did not exclude any part of the program from personnel ceilings. A report on the test at the four installations did not provide conclusive proof of the effectiveness of REFLEX. Some manpower managers feel that as long as ceilings are imposed, REFLEX is meaningless and only causes extra accounting.
- Navy discontinued testing the REFLEX concept. The administration necessary to monitor manpower levels in REFLEX laboratories and provide offsets elsewhere was considered a luxury that could not be afforded in

light of reductions imposed on support areas in the past few years.

--Air Force reimposed personnel ceilings on laboratories that had participated in Project REFLEX and the test was discontinued.

We have identified no civil agencies that have tested alternatives to personnel ceilings for controlling employment.

Commenting on our report "Part-time Employment in Federal Agencies," the Director, OMB, discussed a test that we were not aware of and on which we have no additional information. The Director in his letter to the Chairmen, House and Senate Committees on Government Operations, said that:

"You may be interested in some historical perspective on the issue raised in the Comptroller General's report. The same issue on the elimination of ceilings on part-time and temporary employment arose in 1965.

"At that time Congressmen Henderson, Chairman of the House Subcommittee on Manpower, questioned the inclusion of part-time and temporary employees in the numerical count against personnel ceilings on the grounds that this practice is restrictive and tends to decrease flexibility in the management of employment in the Federal Government.

"Accordingly, the Bureau of the Budget adopted the policy that for the 1967 Budget (transmitted to the Congress in January 1966) primary attention would be given to controlling employment in full-time permanent positions. Thus, the allowances in connection with the 1967 Budget established firm ceilings only on the number of employees in full-time permanent positions. Part-time and temporary employees were not charged to an employment ceiling. Instead, the agencies were expected to keep their part-time and temporary employment to the numbers that were needed to accomplish agency missions and that could be financed within the funds provided for personnel compensation.

"The effect of dropping the numerical control on part-time and temporary employment was quickly evident. Between January and September 1966, a 21.6 percent increase in part-time and temporary Federal employment occurred, far more than the normal seasonal increase. The criticism from the

Congress and the public on the significant rise in part-time and temporary Federal employment in 1966 caused a reinstatement of a ceiling on temporary and part-time employment by direction of President Johnson on September 20, 1966. We believe that the 1966 experience just cited lends credence to the proposition that employment levels cannot be adequately controlled with dollar limitations alone."

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MAR 24 1977

Mr. H. L. Krieger, Director
Federal Personnel and
Compensation Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Krieger:

Thank you for your letter of March 7, 1977, providing me an opportunity, as new Director of this Office, to comment on your draft report "Personnel Ceilings--A Barrier to Effective Manpower Management."

You noted in your letter that my predecessor, Mr. James T. Lynn, did not agree with the report's recommendation that the Director of OMB issue a policy statement declaring his intention to discontinue personnel ceilings on an individual agency basis, as soon as the agency demonstrates that it can and will control employment without ceilings. Instead, Mr. Lynn proposed the establishment of a task force to develop criteria and plans for a test of the feasibility of controlling employment by means other than direct employment ceilings. The test would involve lifting employment ceilings in one or two suitable agencies (or parts of agencies).

As you know, on March 1 the President imposed an immediate, temporary limitation on Federal civilian hiring pending the establishment of revised employment ceilings. This Office is now in the process of developing, under specific guidance from the President, revised employment ceilings that are expected to be lower than those provided with the 1978 Budget by the previous Administration. Thus, the issue of whether executive branch employment ceilings will be continued has been resolved for the immediate future.

Under the circumstances, I do not believe that this is the time to discontinue employment ceilings for some agencies--even on a limited, experimental basis. Such an action would be inequitable to the vast majority of agencies, who could not be included in the experiment. Nor, if past experience is any guide, would it further the President's objectives.

APPENDIX VI

APPENDIX VI

Thank you again for affording me the opportunity to present my views on this subject.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Bert Lance', with a long horizontal flourish extending to the right.

Bert Lance
Director

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

NOV 6 1976

Honorable Elmer B. Staats
Comptroller General of the
United States
U.S. General Accounting Office
441 'G' Street, N.W.
Washington, D.C. 20548

Dear Elmer:

This responds to your request for comments on the General Accounting Office's (GAO) draft report on personnel ceilings versus monetary or program limitations as requested in Mr. Krueger's letter of September 22, 1976.

Our respective staffs have had informal discussions on this subject both before and after the GAO draft report was prepared.

We are in full agreement with the report's statement that:

"The Congress, the President, and OMB are concerned about effective, efficient, and economical use of manpower, but they lack assurance that the agencies would effectively control employment levels if they were not constrained by numerical ceilings."

Chapter 3 of the draft report is replete with illustrations, anecdotes in character, that strongly reinforce our lack of assurance that agencies would control employment levels without the ceiling constraint. The considerable discussion about essential work not being accomplished is often a very subjective judgment by a program or unit manager--not the considered opinion of persons with broader responsibility. Clearly, the thread running through chapters 3 and 4 of the draft report is that more Federal employees, added funding, less interference and fewer constraints by the Congress, the President, OMB, the Civil Service Commission, and higher level agency officials will result in more effective program management in the field.

The report gives too much credence to unsupported, or only partially supported, statements and most of the time does not attempt to quantify or to follow through the organizational

chain the many complaints recorded in these chapters. Further, although previous GAO reports (e.g., N-155-85 of July 1971) have emphasized the need to consider the full cost of employee benefits (e.g., retirement), the draft report does not seem to recognize the substantial hidden costs associated with use of Federal employees. In this respect, the report seems to accept statements concerning alleged additional costs of contracting without question.

Likewise, the fact that employment ceilings might result in increased contracting in areas where the Federal Government is competitive with private firms and in increased grants to State and local governments in areas where those governments are as able as the Federal Government to carry out the program is not a valid argument against employment ceilings. On the contrary, it has been the stated policy of this and prior Administrations to favor private firms and State and local governments in such circumstances. Implicitly, your draft report takes issue with that policy.

The report indicates that officials of most agencies responding to GAO inquiries stated that personnel ceilings allow them some management flexibility, since they apply only to the last day of the year. This approach permits the agencies to adjust employment levels of their organizational components during the course of the year. Many of the problems cited in the report are due to, inadequate or inflexible internal personnel management practices, rather than to the broad agency-wide, year-end employment ceilings. In fact, officials of two parent agencies disagreed with their field representatives that employment ceilings alone were responsible for certain problems. Some of the complaints noted by field managers are typical operational problems that should be resolved by local managers.

We are also concerned that in developing the report the GAO solicited adverse comment concerning personnel ceilings without taking into account normal predilections in favor of hiring more Federal employees. It is natural for managers to desire more personnel under their direct control without restraint. It is also natural to disregard all indirect costs.

As we have stated in previous communications on this subject, we believe that:

"... employment ceilings exist to constrain increases, primarily because of the proper concern of the President, many members of Congress, and the public in the number of employees on the Federal payroll, regardless of any other considerations. Without ceilings, there would be no effective control over these numbers, and employment probably would increase at a faster pace than is now the case. ..."

It is the last phrase of the penultimate sentence "regardless of any other considerations" that has never been properly addressed in the many reports on the subject of employment ceilings that your Office has issued.

For these reasons, we continue to believe that it is fundamentally desirable to control the number of employees on the Federal payroll and that such a position correctly reflects the preferences of the Congress, the President, and the public.

GAO note: Deleted material pertain to matters discussed in or in response to the draft report which are omitted from this final report.

we would propose to establish a task force that would develop criteria for conducting a controlled and rigorous test in one or two suitable agencies (or parts of agencies). The task force would also develop an action plan to determine the feasibility of controlling employment levels by means other than by direct employment ceilings.

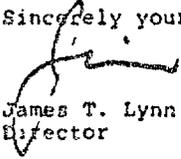
APPENDIX VII

APPENDIX VII

We would expect that the development of the criteria and the test itself would take three years and would require the active cooperation of the affected agencies as well as the allocation of resources by those involved.

Should you be amenable to our suggestion, please ask your staff to contact Mr. George H. Strauss (395-3172) so that the preliminary staff discussions can begin at an early date.

Sincerely yours,



James T. Lynn
Director

cc: Chairman, CSC



UNITED STATES CIVIL SERVICE COMMISSION
BUREAU OF POLICIES AND STANDARDS
WASHINGTON, D.C. 20415

DO NOT PLACE HEREIN

HEAD OFFICE

OCT 21 1976

Mr. H. L. Krieger
Director
Federal Personnel and Compensation Division
U. S. General Accounting Office
Washington, D.C. 20540

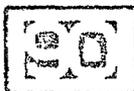
Dear Mr. Krieger:

We have read with interest the General Accounting Office's draft report, Personnel Ceilings - A Barrier to Effective Manpower Management? From our experiences with Federal agencies on manpower matters, we have no reason to doubt the report's central findings that (a) personnel ceilings are often administered inflexibly and that (b) the existence of fixed ceilings on the visible category of Federally-funded civilian employment can force Federal managers to resort to non-controlled categories of employment, sometimes at higher cost to the Government, in order to get necessary work accomplished.

We therefore read with particular interest the report's recommendations that the Office of Management and Budget:

- ~~is~~ a statement of policy which declares the intention of discontinuing the use of personnel ceilings on an individual agency basis as soon as the agency demonstrates that it has an acceptable system for estimating and controlling manpower requirements without ceiling controls.
- Establish a task force composed of representatives of OMB, the Civil Service Commission, and selected agencies to develop methods, publish guidelines, and provide technical assistance to agencies for developing such systems.
- Establish a continuous system for evaluating agency systems for estimating and managing manpower resources without personnel ceilings.

While we are by no means convinced that these are the best or the only recommendations that could be made from the report's findings, the



MERIT PRINCIPLES ASSURE
QUALITY AND EQUAL OPPORTUNITY

APPENDIX VIII

APPENDIX VIII

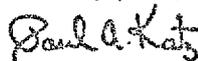
Commission would certainly be willing, if called upon, to serve on the recommended task force, provide assistance in agency evaluations, or provide whatever other assistance that might be desired.

[See GAO note 1, p. 78.]

[See GAO note 1, below.]

The GAO report does not discuss in detail the manner in which Federal agencies report on their "Full Time Permanent" employment to USCSC each month. USCSC has proposed to OMB a change in the reporting definitions which would define "permanent" by the employee's appointment status (career, career conditional, temporary, term, etc.) rather than by the position the employee occupies (more than one year). We believe this reporting change would more accurately reflect the continuing ("permanent" in a Federal program sense) workforce. This point is only tangentially mentioned in the GAO report (page 54, footnote c) and might be emphasized to illustrate and articulate the concern on the part of personnel ceiling proponents that the size of the permanent workforce be controlled.

Sincerely yours,



~~Paul~~ Frederick A. Kistler
Director

- GAO notes:
1. Deleted comments pertain to suggestions for clarification of material contained in the draft report but not in the final report.
 2. Page references in this appendix may not correspond to page numbers in this final report.



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

December 9, 1976

Mr. Henry Eschwege, Director
Community and Economic Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

Here are the Department's comments regarding the General Accounting Office's Draft Report: "Personnel Ceilings - A Barrier to Effective Manpower Management?"

We suggest that the report include two areas not covered in the draft. The first of these is an analysis of unfunded liabilities of the Civil Service Retirement Fund. If retirement deductions are currently not adequate to maintain the retirement fund at actuarially sound levels, this additional cost should be added to the cost of direct Federal employment. This could affect management decisions regarding the use of Federal employment vs. contractual services.

The second area which should be considered in the report is the impact of the Congressional Budget and Impoundment Control Act on personnel requirements. In past years, Appropriation Acts were normally passed long after the beginning of the fiscal year. Between the beginning of the fiscal year and the passage of the Act agencies were required to operate under a continuing resolution. If Congress passed the full amount of the appropriation, or increased the level beyond that requested, agencies were required to carry out a year's program of work in much less than a full year. Under such conditions, a large number of employees often had to be added during the latter part of the year. The New Act, with its emphasis on timely passage of Appropriations Bills should eliminate or at least sharply reduce this problem.

The report argues not so much for the elimination of employment ceilings as for the orderly management of our personnel resources. We feel that some type of effective controls must be maintained over the growth in Federal employment.

We appreciate the opportunity to offer our comments.

Sincerely,

J. P. ...
Assistant Secretary
For Administration

APPENDIX X

APPENDIX X



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

OFFICE OF THE ASSISTANT SECRETARY
FOR ADMINISTRATION

OCT 23 1976

IN REPLY REFER TO:
AMR

Mr. Henry Eschwege
Director, Community and Economic
Development Division
U. S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

Secretary Hill has asked me to respond to your letter of September 28, 1976, transmitting copies of your draft report to the Congress on your review of controls over civilian employment-- personnel ceilings versus monetary or program limitations.

As I indicated in my letter to Mr. Newell of your office on August 9, 1976, our experience in HUD has been that the management problems cited in your report as created by personnel ceilings, would not be lessened appreciably by the abolition of personnel ceilings. Ceilings are closely coordinated with the attendant operational appropriations. The appropriation as a sole control would permit little staffing movement from the personnel ceilings.

As I also indicated in my letter, we do not object to the principle of dollar controls per se, only to the inherent duplication that results in the present climate of interest in limiting numbers of personnel. This Department has no objection, however, to further testing of controls without personnel ceilings on a selective basis, as proposed in your report.

Sincerely,

Thomas G. Cody
Thomas G. Cody
Assistant Secretary



ASSISTANT SECRETARY
FOR ADMINISTRATION

OFFICE OF THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

November 19, 1976

Mr. Henry Eschwege
Director
Community and Economic Development Division
U. S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

This is in response to your letter of September 27, 1976, requesting comments from the Department of Transportation on the General Accounting Office draft report entitled, "Personnel Ceilings - A Barrier to Effective Manpower Management?" We have reviewed the report in detail and prepared a Department of Transportation reply.

Two copies of the reply are enclosed.

Sincerely,

William S. Heffelfinger
William S. Heffelfinger

Enclosures

APPENDIX XI

APPENDIX XI

DEPARTMENT OF TRANSPORTATION'S REPLY

TO GAO DRAFT REPORT

SEPTEMBER 27, 1976

OK

"PERSONNEL CEILINGS - A BARRIER TO EFFECTIVE

HANPOWER MANAGEMENT?"

Summary of GAO Findings and Recommendations

GAO documents a number of examples where it believes that personnel ceilings have forced managers of Federal field elements to resort to actions detrimental to Federal and public interests. These actions include reductions in force (RIF); cutbacks in services; use of contractors, etc. GAO contends that personnel ceilings, because they are so inflexible, do not allow the Federal manager to operate his program effectively, and provide little incentive for improved management. Personnel ceilings also force managers to use alternate sources of manpower. GAO criticizes this effect of personnel ceilings since "limiting the number of persons on the Federal payroll may obscure the reality that the Government incurs the cost of getting essential work done regardless of the type of manpower used."

GAO recommends that the Office of Management and Budget (OMB), after consultation with the appropriate Congressional committees, make a gradual move towards the discontinuance of personnel ceilings. Personnel ceilings would be discontinued on an individual agency basis when it demonstrates that it has an acceptable system for estimating and controlling manpower resources. A task force would be established to provide guidelines and assistance in developing such a system. Concurrently, a system for evaluating the manpower control programs of the various agencies would also be established.

Summary of DOT position

We basically concur in concept with the GAO recommendation that the Office of Management and Budget eliminate personnel ceilings, providing other acceptable resource controls can be established and proven effective. We fully endorse GAO's recommendation that a task force be established to explore various alternatives to personnel ceilings, as well as developing a system for the continuing evaluation of each agency's program.

However, within DOT we have found that internal personnel ceilings when properly administered and used in conjunction with other manpower controls do provide real control which promotes effective and efficient utilization of manpower resources. Effective management of personnel ceilings has measurably enhanced this Department's flexibility to respond to unexpected program requirements or shifts in priorities by reassigning resources from low or diminishing priority programs and is one of the few tools available to an agency head to meet priority requirements without being limited by the budget appropriation process. In view of our success and satisfaction to date with personnel ceilings as a management tool this Department would continue to control manpower resources through a personnel ceiling system until a satisfactory and tested alternative could be identified which would prove as effective and economical as the current personnel ceiling system.

Position Statement

The GAO report cites a significant number of examples of cases in which it related personnel ceilings to manpower problems of the field elements of various agencies. The problems which GAO related to externally imposed personnel ceilings are well within the experience of every Federal agency and suggest an underlying need for a thorough exploration for and examination of various alternatives to personnel ceilings which would give Federal managers the resources necessary to effectively conduct their programs without a significant and sudden growth of the Federal work force.

While personnel ceilings in the examples cited by GAO, are described as overly restrictive and a deterrent to good management, there is no conclusive evidence, or GAO analysis, which substantiates that personnel ceilings per se, and not some additional factors, are the real and basic problem. Speaking strictly from a DOT standpoint, our manpower control system is so designed that it permits maximum flexibility to meet priority or unexpected requirements on a true need basis, while at the same time providing the adequate controls to insure the most effective and efficient utilization of manpower where it is needed the most.

As far as the other examples cited in the GAO report regarding other agencies and their problems associated with personnel ceilings, some of their problems could stem from other factors and we can not automatically conclude that personnel ceilings alone are totally to blame.

GAO shows that in a number of cases, due to personnel ceilings, managers of Federal activities resorted to costly practices such as building up backlogs, RIF's, contracting out work, reducing services, etc. Having claimed that personnel ceilings are the cause GAO concludes that personnel ceilings are restrictive and that another control mechanism should be installed. Due to the fact that a variety of factors may be involved in the manpower resource difficulties outlined in the GAO report, we believe that GAO's conclusions are not totally substantiated by its findings.

We agree that Congressional and O'B restrictions on manpower have under certain circumstances and situations inhibited our internal management and that the most effective management of manpower resources for accomplishment of the public service is probably not best achieved through the use of personnel ceilings. However, we believe there are certain organizations and particular instances where personnel ceilings are necessary, especially from a public relations standpoint in the eyes of the general public. Even though personnel ceilings might not be the ultimate answer, until other alternatives can be explored and proven effective, it is the best system available.

We are inclined to agree with GAO that an unintended effect of personnel ceilings may be that Federal managers attempt to circumvent personnel ceilings by contracting out some kinds of work which might be more appropriately or more economically performed in-house. In those cases

APPENDIX XI

APPENDIX XI

where work is unjustifiably contracted out we concur with GAO's observation that "limiting the number of persons on the Federal payroll may obscure the reality that the Government incurs the cost of getting essential work done regardless of the type of manpower used." We have found that personnel ceilings are directly related to a departmental/agencies' policies on use of contracts for performing government work. We suggest, however, that excessive use of contractors, although related and closely intertwined with personnel ceilings, may be the result of a lack of adequate internal agency controls on the use of contractors.

Personnel ceilings, like agency regulations, policies and funding limitations, should be considered part of an overall management control system which enables management to assign or direct priorities and program emphasis as well as determine the maximum level of resources to be devoted to accomplishing those activities. Manpower management and control systems are one of the few tools available to an agency head which he can use to meet immediate priority requirements without being limited by the budget appropriation process. Sound manpower planning and management, combined with an efficient manpower allocation system, have assured adequate resources to accomplish the mission and goals of this Department. In our opinion, personnel ceilings and the corresponding control systems established to administer these ceilings, when used in conjunction with other Departmental management controls, provides a most effective and efficient utilization of DOT's manpower and fiscal resources and could be made equally effective in other Departments and agencies in the Federal government.

APPENDIX XI

APPENDIX XI

While this Department recognizes the shortcomings of personnel ceilings as a method of control and is willing to explore other alternatives, before we would institute a different type of system we would have to be satisfied that the alternative approach not only was as effective but that it was as efficient and as economical to administer.


William P. Davis
Deputy Assistant Secretary
for Administration

APPENDIX XII

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UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION
WASHINGTON, DC 20548



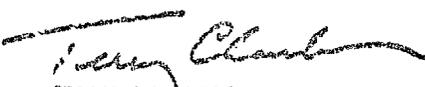
October 27, 1976

Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
Washington, DC 20548

Dear Mr. Staats:

The General Services Administration has reviewed the draft report initiated by the Comptroller General for the Congress concerning personnel ceilings. We are in agreement with your proposal and recommendations to establish controls over civilian employment based on cost rather than on the present system based on personnel ceilings. We had expressed the same sentiments earlier in our comments and observations previously provided to Mr. Paul Hewell, Assistant Director, Federal Personnel and Compensation Division, GAO, in October 1975.

Sincerely,


PERRY CHAMBERS
Deputy Administrator

PRINCIPAL OMB OFFICIALS RESPONSIBLE FORADMINISTERING ACTIVITIESDISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
DIRECTOR:		
Thomas B. Lance	Jan. 1977	Present
James T. Lynn	Feb. 1975	Jan. 1977
Ivy L. Ash	Feb. 1973	Feb. 1975
Casper W. Weinberger	June 1972	Feb. 1973