

**GAO**

Report to the Chairman, Subcommittee  
on Federal Services, Post Office and  
Civil Services, Committee on  
Governmental Affairs, U.S. Senate

March 1990

**FEDERAL  
PERSONNEL**

**Observations on the  
Navy's Managing To  
Payroll Program**





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

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General Government Division

B-236901

March 27, 1990

The Honorable David H. Pryor  
Chairman, Subcommittee on  
Federal Services, Post Office  
and Civil Service  
Committee on Governmental Affairs  
United States Senate

Dear Mr. Chairman:

In response to your request, we reviewed the Navy's progress in meeting the objectives of its Managing To Payroll (MTP) program. MTP was established on October 1, 1986, in response to congressional criticism of the Navy's ability to manage its civilian personnel budget.

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## Background

Before MTP was established, payroll and position classification were centrally managed by the Navy's major commands. Under this approach to compensation management, the Navy had difficulty staying within its payroll budget. For example, in fiscal year 1985, the Navy exceeded its payroll budget of \$9.9 billion by \$500 million.

The Navy's objectives for MTP were stated in general terms—to enable the Navy to better control its payroll costs and to simplify its position classification process. With the advent of MTP, the Navy authorized payroll and classification responsibilities to be decentralized. Under this concept, Navy managers at the lowest practical levels of management were allocated a payroll amount for the fiscal year and, within the limits of these allocations, were made responsible for determining the number and classification of the positions they needed to perform their operations. In making these determinations, managers had to adhere to job classification standards that had been established by the Federal Office of Personnel Management and the Navy's Office of Civilian Personnel Management.

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## Results in Brief

MTP has provided the Navy with better information to use in monitoring and controlling its civilian payroll budget. In general, Navy managers at the activities we visited said that the increased accountability provided through MTP has made them more aware of payroll costs. Moreover, officials from the Navy Comptroller's office told us that the changes to the payroll budget that do occur are now better justified.

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offices of these organizations and the Air Force's Manage to Budget test site at Edwards Air Force Base, California.

We did our review between August 1988 and November 1989 and in accordance with generally accepted government auditing standards. We discussed the contents of this report with responsible officials of the Departments of the Army, Air Force, and Navy. They generally agreed with the information presented.

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## **MTP Has Provided the Navy With Better Information on Its Payroll Budget**

Because of MTP, the Navy has better information to use in monitoring and controlling its payroll budget. The Navy believes that because responsibility for the budget has been delegated to lower level managers rather than being centrally managed at the command level, there is a greater awareness of personnel costs. Both activity and lower level managers told us that MTP had made them more aware of the impact of the cost of personnel on their operations.

Although it cannot be attributed conclusively to MTP because of the significant number of other factors that can also affect payroll costs, the Navy has had some success in reducing its budget deviations. In fiscal years 1983 through 1986, expenditures for civilian payroll exceeded the budget by an average of 3.7 percent. These overexpenditures ranged from 5.8 percent in fiscal year 1983 to 2.0 percent in fiscal year 1984. In fiscal year 1987, the first year of MTP, the Navy spent \$26 million less than the \$9.107 billion that had been budgeted. And, although the Navy exceeded its fiscal year 1988 civilian payroll budget, the difference was only about 1.5 percent of the \$9.376 billion that had been authorized. Also, for the first time, the Navy had information to explain the basis for the budget deviations that did occur.

Table 1 contains data from the Navy Comptroller's office showing the variances between the payroll budget and the payroll expenditures for the four commands we visited during this review. At three of the four, expenditures were less than the amount budgeted for fiscal years 1987 and 1988.

justifications and rebuttals did not have to be prepared to justify position classifications. Also, one classification officer said that the average turnaround time for a classification action had decreased from 30 to 45 days before MTP to 18 days or less after MTP.

## The Navy Has Made Preliminary Assessments of MTP

In the third quarter of fiscal year 1989, the Navy completed a review of the implementation of MTP that included, among other things, the results of on-site visits to 14 Navy and Marine Corps activities. The resulting report did not identify any systemic problems related to MTP and said that managers supported MTP and liked the flexibility the program provided. The report also said that MTP had improved fiscal discipline and resulted in the Navy's payroll expenditures being more closely related to its budget estimates.

Regarding the delegation of classification authority, the Navy's report said that in those locations where authority had been delegated, relationships between lower level managers and classifiers had improved and that the time consumed in classification-related discussions had been reduced. The Navy reported that although managers did not consider these to be significant problems before MTP, the few disagreements that did occur between managers and personnel specialists were now more easily resolved. The report also said that the accuracy of lower level managers' classifications had not been a problem; however, it did not contain sufficient information for us to assess the basis for a conclusion on classification accuracy.

During our review, we found situations in which managers attributed problems to MTP. For example, the Navy's report pointed out that managers said mandated hiring freezes constrained the use of available MTP dollars. Also, some managers complained that MTP resulted in a shortage of payroll dollars that caused them to contract out projects that could have been done in-house. According to Navy officials, factors such as budget constraints and hiring freezes are headquarters' administrative actions and are not related to the MTP program.

We can understand the basis for concern about such administrative actions as hiring freezes; however, we agree with Navy officials that they are not directly attributable to MTP. MTP involves delegating responsibility for managing available program funds to lower level management. Actions that affect the amount of such funds can make a manager's job more difficult, but they are unrelated to the concept of making managers accountable for the money that is available.





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## Air Force Program

The Air Force Managing to Budget test program, entitled Palace Compete, is part of its 5-year strategic plan for civilian personnel management, entitled Palace Agenda. Palace Compete's primary focus is on testing the ability of managers to establish and maintain an effective civilian work force with budgetary dollars as their only constraint. Managers will be permitted to adjust position and grade structures within broad legal limits as long as overall civilian payroll costs remain within budgeted constraints.

The Air Force Flight Test Center at Edwards Air Force Base was selected as the test site for Palace Compete. The Palace Compete test began in fiscal year 1988 and is to continue for at least 2 years, with a 1-year extension if necessary. The test has been expanded to include about 10 additional sites in fiscal year 1990, and by fiscal year 1992, the Air Force plans to implement a manage to budget concept Air Force-wide.

The Air Force evaluation system will be an ongoing process with the budget office making a monthly comparison of civilian pay with the estimated baseline. Statistical data will be tracked through the various Air Force data systems already in place. Also, manager and employee attitudes concerning the work environment will be measured at the beginning and end of the test.

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# Major Contributors to This Report

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# Activities Visited

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Office of Personnel Management, Washington, D.C.  
Department of the Air Force, Washington, D.C.  
Edwards Air Force Base, CA  
Department of the Army, Washington, D.C.

Department of the Navy Comptroller  
Navy Office of Civilian Personnel Management, Washington, D.C.  
Southeast Region Office of Civilian Personnel Management Norfolk, VA  
Southwest Region Office of Civilian Personnel Management  
San Diego, CA

Naval Sea System Command Headquarters, Washington, D.C.  
Naval Weapons Station, Yorktown, VA  
Norfolk Naval Shipyard, Portsmouth, VA  
Mare Island Naval Shipyard, Vallejo, CA  
Naval Weapons Station, Seal Beach, CA

Commander in Chief, Atlantic Fleet Headquarters, Norfolk, VA  
Commander Naval Base, Norfolk, VA

Commander Naval Air Force, Pacific Fleet Headquarters, San Diego, CA  
Naval Air Station, Miramar, CA

Naval Facilities Engineering Command Headquarters, Washington, D.C.  
Public Works Center, Norfolk, VA  
Public Works Center, San Diego, CA

Naval Supply Systems Command Headquarters, Alexandria, VA  
Naval Supply Center, Norfolk, VA  
Naval Supply Center, San Diego, CA

# Budget Management Programs in Other Services

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## Army Program

In response to a 1986 Army Inspector General report, which reinforced a study by the National Academy of Public Administration in 1983, the Army Chief of Staff chartered the Civilian Personnel Modernization Project (CPMP) to modernize the civilian personnel system. The CPMP devised the Army's Managing the Civilian Work Force to Budget (MCB) program. The basic purpose of MCB was to establish fiscal accountability among line supervisors for the costs of civilian personnel by providing those supervisors with the flexibility to manage, motivate, and reward civilian employees. This fiscal accountability by line supervisors was to be the main building block for future modernization initiatives, such as simplification of the position classification system and delegation of special pay rate authorization.

MCB included delegation of authority, responsibility, and accountability to the lowest practical level of management for position classification and execution of the approved Army budget for civilian personnel resources. Under MCB, supervisors are provided maximum flexibility to classify positions consistent with Office of Personnel Management classification standards and to manage their civilian personnel costs, which include base salary, benefits, overtime, awards, and premium pay, within a civilian pay ceiling. The Army rescinded existing controls over civilian personnel costs, such as average grade and high grade controls, employment level ceilings, and supervisor-to-employee ratios.

The Assistant Secretary of the Army, Manpower and Reserve Affairs, approved MCB for testing on October 1, 1987. The testing will continue through fiscal year 1990 at 15 Army activities and will be evaluated annually by the U.S. Army Audit Agency and the U.S. Army Civilian Personnel Evaluation Agency. These agencies plan to look at each installation's performance measurement system. The purpose of the performance measurement system is to provide objective measurement of activity and work-center performance against key productivity or mission indicators. The first evaluation by the two agencies concluded that the MCB concept is sound but that compressed lead time and absence of consistent training contributed to delays in its effective implementation.

The evaluation program was to meet the unique mission and organizational requirements of the activity. The program is to include command oversight and inspection and a reporting mechanism to monitor the impact and effectiveness of management's decisions on accomplishing mission performance.

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## Abbreviations

CPMP	Civilian Personnel Modernization Project
MCB	Managing the Civilian Workforce to Budget
MTP	Managing To Payroll
OPM	Office of Personnel Management

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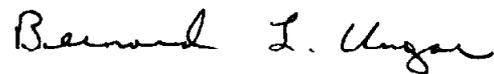
The Naval Audit Service is doing an audit that covers certain aspects of MTP. One of the issues it is dealing with is the need for performance criteria to measure program effectiveness. This report is expected to be issued in the spring of 1990.

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As requested, we plan no further distribution of this report until 30 days after its issuance unless you publicly announce its contents earlier. At that time, we will send copies to the Office of Personnel Management, the Secretary of the Navy, and other interested parties upon request.

Major contributors to this report are listed in appendix III. If you have any questions concerning the contents of this report, please call me on 275-5074.

Sincerely yours,



Bernard L. Ungar  
Director, Federal Human Resource  
Management Issues

**Table 1: Comparison of the Payroll Expenditures and Budgets for Selected Major Commands**

Dollars in millions

Commands	Fiscal year 1987			Fiscal year 1988		
	Budget	Actual	Variance	Budget	Actual	Variance
Naval Sea Systems Command	\$3,223.6	\$3,230.5	\$6.9 <sup>a</sup>	\$3,421.5	\$3,427.8	\$6.3 <sup>a</sup>
Naval Facilities Engineering Command	556.9	553.0	(3.9)	589.7	578.0	(11.7)
Naval Supply Systems Command	626.9	626.6	(0.3)	643.7	634.4	(9.3)
Commander in Chief, Atlantic Fleet	222.9	213.5	(9.4)	233.8	227.5	(6.3)

<sup>a</sup>Navy officials told us that an unanticipated growth in work load at Naval shipyards within the command was the primary reason why expenditures exceeded the amount that had been budgeted in fiscal years 1987 and 1988. They also told us that they were not aware of any significant cutbacks at the other locations.

Navy Comptroller representatives told us that MTP has resulted in a better system for monitoring payroll increases during the year. They said that because lower level managers are required to obtain approval for significant budget deviations, they could better assess those situations in which expenditures exceeded budget estimates. Before MTP's implementation, the Navy's major commands could not specifically explain and identify the reasons for such budget overruns.

## Lower Level Managers Have the Authority to Classify and Approve Civilian Positions

Among other things, granting lower level managers greater authority to classify and approve civilian positions was intended to improve the relationship between managers and classifiers, improve classification timeliness, and decrease paperwork. Although such delegation was encouraged, 8 of the 14 locations we visited either had not done so or had only delegated the authority to certain units. One of these locations had chosen to return the authority to its personnel office for all but three of its departments. The eight locations did not believe they had a need to fully delegate. The reasons included little employee turnover and a perception that their activities had good working relationships with their personnel specialists.

Eleven of the 14 locations we visited had fully or partially delegated classification authority. Managers and personnel specialists at seven of these locations either supported the view that the relationship between managers and classifiers had improved because of MTP, agreed that the process involved less personnel-related paperwork, or said that classification timeliness had improved because managers had become more involved in the process. Among other things, officials said that lengthy

It is not possible to determine the extent to which MTP was responsible for the reduction in budget deviations that occurred; however, since MTP's implementation, the Navy's overall payroll expenditures have been either under or within about 1 percent of its budget.

Although delegation of position classification authority has been encouraged, not all activities have done so and one that did delegate the authority has chosen to return the authority to its personnel office. At those activities where classification authority was delegated to lower level managers, officials believed that it improved the classification process and reduced friction between managers and personnel specialists.

Although some problems have been attributed to MTP since its inception, Navy officials have said that the problems were actually caused by budget constraints, hiring freezes, or other factors that did not result from MTP.

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## Objective, Scope, and Methodology

The objective of our review of MTP was to assess how well the program increased control over payroll costs and simplified position classification. Our review included work at the Navy's Office of Personnel Management, the Navy Comptroller, and 4 of the Navy's 23 major commands. We judgmentally selected and visited activities within those commands that were either funded by appropriated funds or reimbursed from a revolving fund known as the Naval Industrial Fund. We included industrially funded activities in our selection because we had been told that these activities were dissatisfied with MTP. We visited a total of 10 activities—6 of which were funded with appropriated funds. (The locations we visited are listed in app. II.)

To obtain information on the Navy's implementation of MTP, we interviewed agency officials, activity heads, lower level managers, and personnel specialists who are implementing MTP at the various locations. We also examined budget and classification information pertaining to these locations. In addition, we examined the results of the Navy's efforts to assess the program, which included attitudinal surveys, demographic studies, and a review of the program's implementation. Our review did not include an independent assessment of the accuracy or consistency of classifications made since MTP's implementation.

During our review, we learned that the Department of the Army and Department of the Air Force were operating programs similar to MTP. To determine the extent of these similarities, we visited the headquarters

