EXECUTIVE SUMMARY

In 1995, the Commonwealth offered a package of severance benefits to employees in exchange for voluntary separation from state service. The voluntary separation provisions of the Workforce Transition Act (WTA) of 1995 expired on June 30, 1996, with final payment of expenses by June 30, 1997.

Our audit found that the state implemented WTA with limited guidance and training to participating agencies. We also found inconsistent record keeping. Records at individual agencies differed significantly from those kept by the Department of Personnel and Training. Therefore, we were unable to determine the comprehensive costs and savings of the Workforce Transition Act as of May 30, 1997.

We found that since the beginning of fiscal year 1995, the Commonwealth has reduced the net cost of service delivery by $35,898,897, excluding colleges and universities. Many of these savings are attributable to the WTA program and also reflect the administration's continued hiring freeze and other cost saving measures.

If agencies fill vacant positions, use other employment options, or substitute contractors to deliver services, they will eliminate the workforce position savings of WTA. Therefore, the ultimate effect of WTA on the cost of service delivery will depend on controls that future administrations exercise over filling current vacancies and controlling other service delivery costs.

If the Commonwealth considers implementing the voluntary provisions of WTA or similar major programs in the future it should:

- set clear program objectives considering not just position level reductions, but also permanent comprehensive cost delivery savings. Include other personnel related actions in the objectives such as eliminating unnecessary vacant positions, exercising future control on service contracts, and maintaining strong controls over temporary and part-time workers.

- include as a part of the planning process a review of service delivery options and programs. Further reductions of comprehensive service delivery costs may not be possible without reducing service delivery or programs.

- from the beginning, create a framework to accurately and completely measure and report the total costs and savings of the program.

- create a framework for agencies to record costs and other information in accounting, personnel, and payroll systems so as to accurately accumulate costs and other information.

- begin to draft procedures as a group without regard for the Governor's actions, in order to issue prompt, complete, accurate, and detailed guidance.

- accumulate and provide accurate information to agencies so they can enforce any re-employment restrictions.

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Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

May 30, 1997

The Honorable George F. Allen
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable W. Tayloe Murphy, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

REPORT ON THE STATEWIDE EFFECTS OF THE WORKFORCE TRANSITION ACT

We have audited the **Workforce Transition Act (WTA)** to determine the costs and savings of the WTA to the Commonwealth of Virginia and how the individual agencies and institutions have dealt with the loss of personnel from the WTA.

Audit Approach

Audit Objectives

The objectives of our audit of the WTA and its effect on the Commonwealth of Virginia were to:

- determine the comprehensive cost of the Workforce Transition Act to the Commonwealth of Virginia.
- determine the savings to the Commonwealth of Virginia from the Workforce Transition Act.
- determine the net effect of the cost and savings of the Workforce Transition Act.
- determine how state agencies have continued to provide services after the Workforce Transition Act staff reductions.

Audit Scope

The General Assembly designed the Workforce Transition Act for implementation by Executive Branch agencies only. Non-Executive Branch agencies and the Boards of Visitors of state colleges and universities had the option to participate. Some colleges and universities either continued with workforce reduction programs they had already implemented as a part of their restructuring, or began similar programs. As a result, some of these programs had different recipient benefits from the WTA as implemented for Executive Branch agencies. Our audit excluded colleges and universities because of the differences in implementation policies between the colleges and universities and other Executive Branch agencies, as well as among the colleges and universities themselves.

Audit Procedures

We performed audit procedures to determine the effect of the WTA. These procedures included data retrieval of direct costs from the state's accounting systems, analysis of comprehensive personnel costs before and after WTA, recalculation of a sample of recipient benefits, matching a sample of recipients with a recent payroll, and verification of the Department of Personnel and Training's list of recipients. We have listed our detailed audit procedures in Appendix 1 of this report.

RESPONSE FROM ADMINISTRATION OFFICIALS

We discussed this report with the Secretary of Administration, Secretary of Finance, Directors of the Departments of Planning and Budget, Personnel and Training, Accounts, and the State Internal Auditor on June 12, 1997, and have also incorporated their responses in this report.

AUDITOR OF PUBLIC ACCOUNTS

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Background

On December 1, 1994, the Governor issued Executive Order Number 38 to aid in achieving his goal of reducing the size of the state government through workforce reductions. Executive Order Number 38 employed five methods to reduce the size of the workforce which included:

- an immediate freeze on hiring;
- natural attrition as employees retire or seek job opportunities outside of state government;
- a program to provide employees with an incentive to leave state government service voluntarily;
- layoffs, but only if attrition and incentive-based voluntary departures did not achieve adequate reductions; and
- privatization of various functions and programs currently performed by state government agencies.

Executive Order Number 38 had an incentive-based voluntary separation program. This program included two incentives. The first incentive was a payment of one week of the employee's regular annual salary for each year of continuous salaried state service not to exceed six months of the employee's current annual salary. The second incentive was payment of the Commonwealth's share of the employee's health care premium for twelve months after termination.

On March 1, 1995, the General Assembly enacted the Workforce Transition Act of 1995. WTA provided two transitional severance benefits packages. The first package gave a severance benefit to eligible state employees involuntarily separated from their Commonwealth employment. The second package included an inducement to eligible state employees to voluntarily resign or retire.

WTA required the Department of Planning and Budget to make an appropriate reduction to an agency's maximum employment level. The voluntary separation program of the WTA provided the following benefits to those individuals granted participation in the program.

- **Severance Benefit -** payment of two weeks of the employee's current salary for each year of continuous salaried state service, not to exceed thirty-six weeks.
- **Unemployment Compensation -** one time payment equal to the total maximum unemployment compensation for which the employee would be eligible, not to exceed $5,000.
- **Health Benefits -** payment by the employee's agency of the Commonwealth's share of the employee's health care premium for twelve months after termination.
- **Life Insurance -** coverage by the group life insurance plan for twelve months after termination.
- **Retirement Incentives -** option to use the value of those benefits noted above to convert the severance package to years for retirement credit by adding the years to either the employee's age or creditable service.
- **Annual and Sick Leave Balances -** payment for accumulated annual and sick leave pursuant to current policies.

The WTA legislation prohibited any state agency from re-employing WTA participants in any capacity, or in an individual capacity as an independent contractor or consultant to perform essentially the same functions as the employee did at the time of his resignation or retirement. The provision had a two year time period from the date of separation from employment.

On March 15, 1995, the Governor issued Executive Order Number 45 rescinding the provisions of Executive Order Number 38 except for the voluntary separation incentive plan. The Executive Order contained the following four directives.

- **Hiring freeze** - Executive Branch agencies should not fill any part-time or full-time position that was vacant or became vacant except for critical public health and safety needs, and seasonal or episodic employment.
- **Workforce Transition Act Incentive Program** - Executive Branch agencies should attempt to achieve workforce reductions through the voluntary separation incentive program created under the Workforce Transition Act of 1995.
- **Executive Order Number 38** - This directive provided state employees a choice between the voluntary separation plan in Executive Order Number 38 and the WTA Incentive Program.
- **Layoffs** - The Departments of Personnel and Training and Planning and Budget should determine the net reduction in Executive Branch employees resulting from the combined effects of the hiring freeze, employee attrition, Executive Order 45, and anticipated WTA reductions. If workforce reductions resulting from the above approaches did not achieve the desired levels by May 1, 1995, agencies should begin reducing staff size through layoffs.

Executive Order Number 45 also set out guidelines for agency heads to grant or deny requests to participate in the WTA program. However, the appropriate Cabinet Secretary and the Director of the Department of Planning and Budget had to approve all denials. Before granting or denying a request, the agency heads were to determine if:

⇒ the applicant’s continued service was critical to the effective and efficient discharge of the agency.

⇒ other personnel within the agency could discharge the functions of the applicant's position.

⇒ the agency could discharge the functions of the applicant's position more efficiently by contracting for services with an entity in the private sector.

Effects of WTA Implementation

State Workforce Effects

The Governor’s stated purpose was to achieve efficiency and economy throughout state government by restricting and reducing the size of the state employee workforce without adversely affecting programs and impairing important governmental functions. One measure of whether the WTA implementation met this objective was its effect on the state workforce.

The Department of Personnel and Training prepared a list of the individuals agencies reported to them as WTA recipients. Considering our review of agency lists of individuals actually accepting WTA benefits, the Personnel and Training list is inaccurate. However, we used this list since it is the only comprehensive accumulation of WTA recipients.

Table 1 below outlines the effects of WTA on filled positions. At January 31, 1997, non-college/university agencies had filled 352 vacant positions, which were directly attributable to WTA.

Concurrently with WTA, the Commonwealth increased the number of enforcement officers in the Departments of Juvenile Justice, Corrections, and State Police. These Departments allowed employees to depart under WTA, but then refilled all enforcement positions and increased the number of officers overall. Excluding these Departments, the state's workforce of filled positions (non-college/university) has actually declined approximately 1,500 more than the decline directly attributable to WTA.

Table 1

	Filled Positions as of 4/30/94	Filled Positions as of 1/31/97	Difference in Filled Positions	Reductions due to WTA[1]
Executive Branch - excluding colleges and universities	60,390	56,266	(4,124)	(4,275)
Legislative Branch	524	517	(7)	(18)
Judicial Branch	2,309	2,506	197	0
Independent Agencies	1,163	1,082	(81)	(74)
Subtotal	64,386	60,371	(4,015)	(4,367)
Less:				
Department of Juvenile Justice	1,709	1,798	89	(33)
Department of Corrections	9,239	10,692	1,453	(78)
Department of State Police	2,290	2,265	(25)	(197)
Total	51,148	45,616	(5,532)	(4,059)

Note 1 - WTA reductions obtained from Personnel and Training's lists of employees who separated under WTA.

There were 5,532 positions vacant at January 31, 1997, which agencies had the authority under the Appropriation Act to fill. This calculation excludes the Departments of Juvenile Justice, Corrections, and State Police, and colleges and universities. Executive Order 45 placed restrictions on filling positions except in the areas of critical public health and safety needs and seasonal or episodic employment.

If agencies fill these vacant positions, they would eliminate the workforce position savings of the WTA. Therefore, the ultimate effect of WTA on the state workforce will depend on controls that future administrations exercise over filling current vacancies.

Comprehensive Service Delivery Costs

A second measure of the effects of WTA implementation is its impact on total service delivery costs. To attempt to provide a measure of the effects of WTA, we developed a base of comprehensive service delivery costs. This base provides the average expenses for all personnel costs including salaries, wages, and benefits, as well as contractual and temporary services for fiscal years 1993 and 1994.

We then compared this average base with the same costs for fiscal years 1995, 1996, and an estimated amount for 1997. We excluded from these amounts one-time project expenses and changes in the level of service delivery. We also made adjustments to consider cost of living increases and inflation. However, we had to include the WTA payouts as part of the comprehensive service delivery costs through June 30, 1997, since a lack of uniform accounting precludes their exclusion.

We found that the statewide comprehensive service delivery costs increased 11 to 18 percent each year over the base period. This analysis initially suggests that actual service delivery costs are increasing for the state.

Table 2
Statewide Comprehensive Service Delivery Costs

FY 1993 & 1994 2 Year Base Average	$2,604,145,761	
FY 1995 Actual Expenditures	2,965,184,809	
Difference	$ 361,039,048	13.86%
FY 1993 & 1994 2 Year Base Average	$2,604,145,761	
FY 1996 Actual Expenditures	2,909,129,702	
Difference	$ 304,983,941	11.71%
FY 1993 & 1994 2 Year Base Average	$2,604,145,761	
FY 1997 Estimated Expenditures	3,095,109,431	
Difference	$ 490,963,670	18.85%

However, a detailed analysis of 22 agencies found mixed results. These agencies had over 85 percent of the WTA recipients, excluding those from colleges and universities, or 62 percent of the total. Four agencies showed an increase in the costs ranging from 2 to 10 percent. Those in Health and Human Resources and Transportation secretariats continued to perform critical functions by filling positions vacated through WTA or had vacancies to fill that existed before WTA. These agencies are also contracting for services, hiring part-time employees, and increasing the amount of overtime. Agencies in the Public Safety secretariat received new law enforcement officers and filled WTA recipient vacancies.

The other 18 agencies remained constant or showed a decrease in comprehensive service delivery costs by as much as 31 percent. Several factors caused the decreases including refilling vacated positions with lower paid individuals either by downgrading the position or simply hiring less experienced service delivery personnel. Some agencies have reorganized duties and services or eliminated services. All of these changes result in reduced costs.

Agencies used the WTA program to attempt to reduce costs without reducing services. Once inefficiencies are eliminated, the only way to reduce comprehensive service delivery costs is to reduce service delivery levels or programs. Changing service delivery processes from full-time classified employees to other means does not always reduce total costs.

As an example, the Department of Transportation, a nongeneral fund agency, has converted its savings into other forms of service delivery costs. This is an appropriate conversion, since nongeneral fund agencies may use savings generated in one activity to fund another activity. General fund agencies could not retain WTA savings. Further, the Department of Motor Vehicles, also a nongeneral fund agency, transferred its WTA savings to Transportation. These savings funded additional construction projects.

The WTA savings reflected in Table 3 for General Fund agencies will be temporary savings if agencies begin filling the vacant positions or substituting other methods of servic e delivery. Retention of any long-term benefit from the WTA reductions will depend on controls that future administrations exercise over filling current vacancies and controlling other service delivery costs.

Accurate and complete information does not exist to compare the effects on comprehensive service delivery costs before and after WTA. The Department of Planning and Budget prepared estimated savings for all Executive Branch agencies and, excluding colleges and universities, they estimated total savings for fiscal year 1997 at $135,210,662. Planning and Budget's estimated savings for fiscal year 1997 for the 22 agencies we reviewed was $110,496,549. Our comparison does indicate that the Commonwealth has had savings for those agencies totaling $59,676,873. However, these savings are less than those projected by the Department of Planning and Budget.

Conclusion

Future programs seeking to reduce the state workforce should set clear program objectives. These objectives should consider setting not only position level reductions, but also consider permanent comprehensive cost delivery savings. Without setting objectives, workforce reduction may lead to only temporarily reducing program delivery costs.

Eliminating unnecessary vacant positions, controlling service contracts, and maintaining strong controls over temporary and part-time workers are essential actions necessary to maintaining the long-term effect of program savings. These actions should be a clear part of any future program to reduce the state workforce and comprehensive personnel costs.

Reducing comprehensive personnel costs also requires reviewing service delivery options and may require reducing service delivery or eliminating programs. If agencies fill vacant positions, use other employment options, or substitute contractors to deliver services, they will eliminate the workforce position savings of WTA. Therefore, the ultimate effect of WTA on the cost of service delivery will depend on controls that future administrations exercise over filling current vacancies and controlling other service delivery costs.

Table 3
Sample Comprehensive Service Delivery Costs

	FY 1993 & 1994 2 Year Base Average	Adjusted FY 1995 Expenditures	Difference Base to FY 1995	Adjusted FY 1996 Expenditures	Difference Base to FY 1996	Adjusted Est. FY 1997 Expenditures	Difference Base to FY 1997
Department of Health	171,084,264	179,877,551	8,793,287	156,643,120	(14,441,144)	143,988,460	(27,095,804)
Department of General Services	39,829,956	41,439,977	1,610,021	36,807,378	(3,022,578)	27,768,936	(12,061,020)
Central Virginia Training Center	57,285,804	55,237,480	(2,048,324)	50,260,156	(7,025,648)	47,985,598	(9,300,206)
Department of Education	24,827,571	21,336,824	(3,490,747)	17,525,424	(7,302,147)	17,114,814	(7,712,757)
Department of Environmental Quality	44,968,475	45,122,991	154,516	39,358,896	(5,609,579)	39,358,896	(5,609,579)
Department of Taxation	36,881,467	39,256,074	2,374,607	32,411,653	(4,469,814)	32,411,653	(4,469,814)
Eastern State Hospital	44,868,085	45,013,183	145,098	39,555,224	(5,312,861)	40,510,243	(4,357,842)
Department of Mental Health	19,035,062	18,508,565	(526,497)	15,653,085	(3,381,977)	15,112,757	(3,922,305)
Woodrow Wilson Rehabilitation Center	18,614,774	18,082,556	(532,218)	15,622,766	(2,992,008)	15,007,738	(3,607,036)
Department of Rehabilitative Services	30,971,588	32,016,660	1,045,072	29,919,868	(1,051,720)	27,694,475	(3,277,113)
Southside Virginia Training Center	41,343,722	42,761,965	1,418,243	39,565,248	(1,778,474)	38,729,051	(2,614,671)
Department of Social Services	60,314,815	63,317,929	3,003,114	59,518,586	(796,229)	57,821,636	(2,493,179)
Department of Agriculture and Consumer Services	25,982,272	27,730,884	1,748,612	25,039,476	(942,796)	23,955,417	(2,026,855)
Western State Hospital	30,891,922	31,627,582	735,660	32,055,767	1,163,845	30,643,414	(248,508)
Southwest Virginia Mental Health Institute	15,194,503	16,277,252	1,082,749	16,767,999	1,573,496	16,059,841	865,338
Department Medical Assistance Services	17,932,945	22,258,022	4,325,077	19,526,819	1,593,874	19,730,898	1,797,953
Department of State Police	99,243,484	103,642,899	4,399,415	100,989,635	1,746,151	101,626,819	2,383,335
Subtotal General Fund Agencies	779,270,709	803,508,394	24,237,685	727,221,100	(52,049,609)	695,520,646	(83,750,063)
Virginia Employment Commission	45,219,699	44,040,197	(1,179,502)	40,398,290	(4,821,409)	37,914,854	(7,304,845)
Department of Alcoholic Beverage Control	42,293,826	44,382,634	2,088,808	38,292,481	(4,001,345)	38,313,340	(3,980,486)
Department of Motor Vehicles	71,401,460	74,240,021	2,838,561	68,528,394	(2,873,066)	67,881,541	(3,519,919)
State Corporation Commission	38,729,873	41,419,695	2,689,822	36,392,824	(2,337,049)	37,046,780	(1,683,093)
Department of Transportation	632,677,814	649,981,099	17,303,285	674,559,609	41,881,795	673,239,347	40,561,533
Subtotal Nongeneral Fund Agencies	830,322,672	854,063,646	23,740,974	858,171,598	27,848,926	854,395,862	24,073,190
Total	1,609,593,381	1,657,572,040	47,978,659	1,585,392,698	(24,200,683)	1,549,916,508	(59,676,873)

8

Measuring the Effectiveness of WTA Implementation

Forecasting Costs and Savings

At the onset of the WTA, the Department of Planning and Budget prepared an estimate of the costs and savings for the program. Planning and Budget prepared its reported estimates from valid available information. However, no one has prepared a current update of this data to reflect actual costs or savings.

Planning and Budget's calculations provide estimates of cost using individuals who applied for WTA benefits, their salaries, service years, cost of health care premiums, and leave balance information as of May 1, 1995. After the preparation of this estimate, some individuals had requests denied, withdrew their requests, or delayed their separation date. All of these variables affect both the cost and the savings. For example, delaying a separation date until after December 1, 1995, increased cost and reduced the savings by cost of living increases.

Planning and Budget's savings calculation also does not take into consideration the cost of how the agency dealt with the vacant positions. The savings calculation does not consider costs of refilling positions, increased training or overtime, or cost of contractors to perform the work. Any increases in service delivery costs are an essential component in calculating net savings for the program.

Accumulating Costs and Other Information

The Department of Planning and Budget decided not to establish a framework to accumulate WTA costs and other information. The Department of Planning and Budget designates separate coding within the state's systems to accumulate cost information to track budget activities.

Planning and Budget considered WTA a one-time program for budgetary purposes and decided not to track these one-time program costs. Additionally, Planning and Budget stated that its policy only permits changes to the state's coding structure at the beginning of a biennium, and this program occurred in the middle of a biennium.

In addition, there is no accurate comprehensive list of individuals who left the state workforce under the WTA. The Department of Personnel and Training has responsibility for monitoring WTA and compiling a comprehensive record of all state employees who departed under the provisions of WTA. When we compared Personnel and Training's list to records provided by agencies, we found many differences.

Summary

Future programs must consider creating a framework from the beginning to accurately and completely measure the total costs and savings of the program. This framework should include updating estimated costs, considering any alternative costs, and reporting actual costs and savings. This framework is essential to objectively measuring the effectiveness of any program.

Measuring the total costs and savings requires the ability to accurately record costs in accounting and payroll systems. The implementation of future programs should include creating the framework for agencies to accumulate costs and report savings. While the opportunity exists to obtain better information about the cost of WTA for individuals, we did not find any agency that gathered the other cost or net savings information about the effects of WTA implementation.

As of May 30, 1997, the only way to compile an accurate, comprehensive list of WTA recipients is to obtain and consolidate lists from each individual agency in the state. Coding in the state's personnel system could have provided a simple mechanism to compile a comprehensive list.

Recently, the Executive Branch became aware of problems with the calculation of severance benefits and the inconsistent lists. On May 8, 1997, the Governor's Office ordered a recalculation of all WTA benefits. Upon completion, the state should have a complete list of WTA recipients and the cost of the benefits.

WTA Benefit Calculations

Agency Guidance and Program Procedures

State agencies executed the WTA within short deadlines and with limited guidance and training and, therefore, encountered a variety of difficulties. The legislation, enacted on March 1, 1995, and signed on March 10, 1995, had a deadline of March 31, 1995, for requests to participate, and allowed the first individuals to leave state service on May 1, 1995.

The legislation explained that the severance benefits and Executive Order Number 45 provided guidance to agency heads for granting or denying voluntary separation requests. However, neither document supplied the detailed instructions necessary for the agencies to consistently approve WTA participation requests or accurately calculate WTA benefits.

The Departments of Planning and Budget, Personnel and Training, and Accounts, and the Virginia Retirement System began to develop detailed instructions for agencies during the legislative session. However, some agencies were hesitant to participate, pending the Governor's signing of the legislation. The detailed instructions had guidance for calculating severance benefits, processing payments on the state's accounting and payroll systems, and recording the costs on the state's accounting systems. However, the instructions did not address many concerns agencies had on issues such as calculating continuous service or pay increases before severance.

The state employees who prepared the calculations received conflicting answers to their questions depending on whom they called for guidance. Many preparers used their own judgment to interpret the instructions and focused their efforts on consistent, accurate calculations within their agency. Although this approach was the only one available, the result was different interpretations of the same issue between agencies.

Accuracy of Benefit Calculations

Agencies did not properly calculate all severance and retirement benefits under WTA. We tested 240 calculations and found 14 with errors, an error rate of six percent. The errors included:

- overpayments of leave balances totaling $1,739;
- underpayments to the Virginia Retirement System for purchase of service years totaling $46,602;
- overpayments to the Virginia Retirement System for purchase of service years totaling $6,139; and
- underpayments of severance benefits to WTA recipients totaling $3,575.

The individual errors arise from preparers using wrong hourly rates, paying individuals with less than five years service for sick leave, using the May 1, 1995 salary without considering increases and leave, and improperly determining years of service. Other errors resulted from agencies paying amounts billed by the Virginia Retirement System and not questioning their calculation.

Summary

The lack of detailed guidance and related misinterpretation of WTA procedures is the direct cause of most of the calculation errors. Should the Commonwealth consider a similar program in the future, the Departments of Planning and Budget, Personnel and Training, and Accounts, and the Virginia Retirement System should draft procedures as a group, without regard to the Governor's actions, so they can issue prompt, complete, accurate, and detailed guidance.

The Administration is undertaking a complete review of these calculations and plans to complete this work by June 20, 1997. Considering our comments concerning the amount of guidance, training and deadlines, this program had a risk for these types of errors.

Considering the nature and types of errors found in our sample and similar work done by the Virginia Retirement System, we suggest that the Governor, Secretary of Administration, and the Retirement System work with the Attorney General's Office to develop policies to resolve the disposition of these errors. The General Assembly may wish to review this suggested resolution before the Administration takes any action.

WTA Implementation Issue

Inadequate Procedures to Prevent Re-employment of WTA Participants

The Commonwealth does not have adequate procedures to prevent agencies from re-employing WTA participants. The Department of Personnel and Training administers the only statewide control in place through the Commonwealth's Personnel Management Information System (PMIS). When a hiring agency enters a WTA participant as a new hire, the control blocks the further processing of the individual and warns the agency that the individual is not eligible for employment due to WTA separation. This control only works for agencies using PMIS and for individuals that separated from agencies using PMIS.

In addition, there is no statewide control to monitor individuals returning as consultants. Individual agencies may have their own procedures to monitor this requirement through inquiry of potential employees or consultants, but without a complete and accurate list of WTA participants, it is impossible to ensure that WTA participants are not re-employed. We are unable to determine whether WTA participants have returned as consultants with the Commonwealth due to the many variations in consultant titles and company names.

Conclusions and Recommendations

As of May 30, 1997, we are unable to determine the comprehensive costs and savings of the Workforce Transition Act. The quick implementation of the program created difficulties for many agencies. Central service agencies provided participating agencies with limited guidance and training to process applications, calculate benefits, and process payments on the state's accounting and payroll systems. The program was administered under adverse conditions.

As noted earlier, agencies are currently recalculating benefits for all Executive Branch WTA recipients. We support this endeavor and encourage the Administration to compile actual costs for the program and an accurate, comprehensive list of recipients once the recalculations are complete. Considering the nature and types of errors found in our sample and similar work done by the Virginia Retirement System, we suggest that the Governor, Secretary of Administration, and the Retirement System work with the Attorney General's Office to develop policies to resolve the disposition of these errors. The General Assembly may wish to review this suggested resolution before the Administration takes any action.

If the Commonwealth considers implementing the voluntary provisions of WTA or similar major programs in the future it should:

- set clear program objectives considering not just position level reductions, but also permanent comprehensive cost delivery savings. Include other personnel related actions in the objectives such as eliminating unnecessary vacant positions, exercising future control on service contracts, and maintaining strong controls over temporary and part-time workers.

- include as a part of the planning process a review of service delivery options and programs. Further reductions of comprehensive service delivery costs may not be possible without reducing service delivery or programs.

- from the beginning, create a framework to accurately and completely measure and report the total costs and savings of the program.

- create a framework for agencies to record costs and other information in accounting, personnel, and payroll systems so as to accurately accumulate costs and other information.

- begin to draft procedures as a group without regard to the Governor's actions, in order to issue prompt, complete, accurate, and detailed guidance.

- accumulate and provide accurate information to agencies so they may be able to enforce any re-employment restrictions.

AUDIT PROCEDURES FOLLOWED

Data Retrieval of Costs:

⇒ To determine the cost of the Workforce Transition Act to the Commonwealth, we contacted the Department of Accounts to determine how the costs had been recorded in the state's accounting and payroll systems.

⇒ We selected a pilot agency and attempted to obtain the costs for that agency through data retrieval from these systems.

⇒ We then performed the same retrieval statewide.

Analysis of Comprehensive Service Delivery Costs:

⇒ To determine the effect of the Workforce Transition Act on the cost of service delivery, we developed an expenditure base of comprehensive service delivery costs including salaries, wages, benefits, and contractual and temporary services.

⇒ We calculated this base for fiscal years 1993 and 1994, prior to the implementation of the Act, and averaged the two years together to come up with an average base of comprehensive service delivery costs.

⇒ We compared the base to the same costs for fiscal years 1995, 1996, and an estimated 1997. We estimated 1997 expenditures by doubling actual expenditures for the first six months of the fiscal year. From this comparison, we identified fluctuations in personnel costs and contractual and temporary services. (We performed these calculations on a statewide basis, excluding colleges and universities, and individually for 22 agencies that constitute over 80 percent of the WTA recipients.)

⇒ We investigated the fluctuations in costs through discussions with agency personnel.

⇒ We then adjusted the calculations for increases that were unrelated to WTA, such as one-time expenditures, changes in the level of service delivery, and inflation. This process deflated the costs so that they were comparable to 1994 costs. For expenditures unrelated to WTA, we reduced the expenditures for that year by the amount of the increase of that expenditure over the base. One example of this is contracts for new or expanded services. We also adjusted for factors that invalidated our estimate of 1997 expenditures, such as expenditures that only happen in the first half of the fiscal year which over-estimate total expenditures when doubled. The adjustment for inflation was based on the change in the Consumer Price Index between June 1994 and June 1995, June 1996, and December 1996.

⇒ For several expenditures of the Department of Transportation, we estimated the increase in expenditures not related to WTA based on the increase in revenues. Since Transportation is a nongeneral fund agency, they expend all revenues they collect. Transportation has received an increase in revenues through bond issuances, taxes, federal grants and contracts, and receipt of WTA savings from the Department of Motor Vehicles. To adjust for these expenditures, we reduced expenditures for architectural, engineering, and skilled labor services by the percent of the increase in revenues for each fiscal year. This assumes that the increase in expenditures is caused by the increase in revenue, not by WTA.

⇒ From these adjustments, we calculated a net increase or decrease in the service delivery cost. Table 3 illustrates the results of these calculations.

Recalculation of WTA benefits:

⇒ To determine whether WTA benefits for voluntary separations and retirements had been properly calculated, we selected a statewide random sample, excluding colleges and universities, of 240 recipients which resulted in testing individuals at 47 agencies.

⇒ We then recalculated the benefits for each individual based on original documentation and compared it to the agency calculations and actual payments to the recipients and the Virginia Retirement System.

Match of Recipients to Current Payroll:

⇒ To determine whether WTA recipients had returned to work for the Commonwealth during the ineligibility period of two years, we selected a statewide random sample, excluding colleges and universities, of 240 recipients and matched them to the April 30, 1997 statewide payroll.

⇒ We investigated all individuals that received a check for the April 30, 1997 pay period to determine (1) if they were WTA recipients and (2) if so, whether it was appropriate for them to be working for the Commonwealth.

Verification of WTA recipients:

⇒ The Department of Personnel and Training had responsibility for maintaining a list of WTA recipients.

⇒ We compared this list to lists obtained from 15 agencies that constituted over 70 percent of the WTA recipients, excluding colleges and universities, and investigated all discrepancies.

RESPONSE TO REPORT

This appendix includes the written responses of the Secretary of Administration, the Director of the Department of Planning and Budget, and the Commonwealth Transportation Commissioner. We met with the Secretaries of Administration and Finance, Assistant Secretary of Finance, State Controller, Directors of the Department of Planning and Budget and Personnel and Training and their staff on June 19, 1997, and considered their comments and those comments repeated in these responses in finalizing our report.

These responses include several claims about the WTA program for which we have no comment. Both the responses of the Director of the Department of Planning and Budget, and the Commonwealth Transportation Commissioner raise issues about the methods we used in calculating the cost of service delivery. We considered these comments earlier in finalizing the report.

COMMONWEALTH of VIRGINIA

Office of the Governor

George Allen
Governor

Michael E. Thomas
Secretary of Administration

June 23, 2997

The Honorable Walter J. Kucharski
Auditor of Public Accounts
Post Office Box 1295
Richmond, Virginia 23218

Dear Walt:

Thank you for the opportunity to comment in writing on the final draft report on the Workforce Transition Act (WTA) of 1995.

About a week and a half ago, we met with you and your staff to discuss preliminary findings on the Workforce Transition Act. At the outset, we acknowledge that your office made changes or modifications to some of your findings based on this discussion. I appreciate your willingness to incorporate these changes into the final draft of your written report.

It is clear that implementation of the WTA by the Allen Administration resulted in substantial savings which are being applied to other priority areas of state government. While we continue to believe that the savings are even greater than stated in the report, those savings alone amount to **over one half billion dollars over the next ten years!** It should be noted that legislation allowed colleges and universities to retain WTA savings. If not for that, savings would be substantially higher.

Some additional comments which the appropriate agencies have made, as agreed, are being coordinated through this one response.

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The Virginia Department of Transportation notes the following:

- The report's primary methodology to analyze the impact of WTA is to adjust program expenditures so they remained constant from the 1994 Base year through estimated 1997. However, each year there are a number of actions, many outside of our control, that impact the maintenance and construction expenditures. The attached table shows VDOT's major concern with the consistent application of the use of the factor for recognizing the growth in revenue. Table 3 in the APA report shows a difference to the Base 1994 average for 1995, 1996, and an estimate for 1997. The use of the annual incremental change in revenues, and not the change from the base, is inconsistent with the methodology used for the other calculations, particularly with the consumer price index.

- Also, the estimated 1997 revenue figure correctly contained bond proceeds, as well as the regular federal and State funding sources. The years of 1995 and 1996 apparently do not reflect any bond proceeds. The correct percent change figures to adjust the 1994 base to each year's figures for the report's methodology are provided on the attached table. The use of these revenue figures and percentages will represent more accurately VDOT's comparison to the base year.

- The recalculation of the table utilizing this data will more accurately show that VDOT has also demonstrated savings as other agencies have from the WTA. VDOT's Fiscal Division is willing to assist and help provide for a valid comparison to the base year.

Department of Planning and Budget's comments include the following:

- There is a factual error in the Audit Report which states that "general fund agencies could not retain WTA savings" (see second paragraph, page 7 of the Audit Report). WTA legislation allowed <u>all</u> agencies to retain savings resulting from privatizing functions or activities, or contracting them out (Section 2.1-391, paragraph 3, *Code of Virginia).*

- DPB estimates of $110.5 million in savings in the twenty-two sample agencies represented gross savings from eliminated positions prior to any add-backs of any kind. The APA data is net of such add-backs. The comparison of calculated savings is misleading.

- DPB acknowledges that it did not establish separate accounting codes to capture WTA data. However, such codes would have only captured WTA costs, not savings, since the latter are not expensed.

Thank you, again, for the opportunity to comment on the draft WTA Audit Report. More complete comments from VDOT and DPB are enclosed for your information.

Sincerely,

Mike

Michael E. Thomas

Attachment
Enclosures: 2

APA Draft Report
Virginia Department of Transportation
Comparison of Revenues

	APA Revenue Amount	APA Change Percentage	Bond Proceeds	Revenue Plus Bond Proceeds	Amount Change From Base	Percentage Change From Base
FY94 Base (a)	***1,865,279,288***	n/a				
FY95 Revenue (b)	***2,041,683,182***	9.46%	92,512,291	2,134,195,473	268,916,185	14.42%
FY96 Revenue (b)	***2,043,025,326***	9.53%	45,170,000	2,088,195,326	222,916,038	11.95%
FY97 Twice Actual December Revenue, and Bond Proceeds	***2,271,407,653***	***6.84%***		2,271,407,653	406,128,365	21.77%

(a) APA FY94 Base equals FY93 plus FY94 divided by 2.

(b) Actual Revenue as shown in APA FY95 and FY96 VDOT Audit Reports.

Numbers used by APA

6/20/97

COMMONWEALTH *of* VIRGINIA

Robert W. Lauterberg
Director

Department of Planning and Budget

200 N. Ninth St., Room 418
Richmond, VA 23219

June 23, 1997

MEMORANDUM

TO: The Honorable Ronald L. Tillett

FROM: Robert W. Lauterberg RWL

SUBJECT: Comments on WTA Audit Report

About a week and a half ago, we met with the Auditor of Public Accounts (APA) and his staff to discuss his preliminary finding on the Workforce Transition Act (WTA). At the outset, I acknowledge that the APA made changes or modifications to some of his findings based on this discussion. I appreciate his willingness to incorporate these changes into the final draft of his written report.

However, DPB remains concerned about the methodology used by the APA to measure the savings of WTA and his comparison of those savings to data previously released by DPB. The APA attempts to measure the effects of WTA on total service delivery costs by comparing trends in salaries, wages, benefits, contractual expenses and temporary services between fiscal years 1993 and 1997. In our discussions, we pointed out that the trends in these personnel costs are the result of many variables and that the implementation of WTA was but one of these variables. A more appropriate methodology at getting at the savings of WTA would have looked at the duties of each position eliminated through the program and identified where positions have been subsequently hired to carry out similar duties.

For example, personnel costs as examined by the APA could have increased because WTA savings were used to contract for the provision of services. The APA acknowledges that this happened in nongeneral fund agencies such as the Department of Transportation, but wrongly asserts "general fund agencies could not retain WTA savings" (see second paragraph page 7 of the Audit Report). The fact of the matter is the WTA legislation allowed <u>all</u> agencies to retain savings, resulting from privatizing

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functions or activities or contracting them out. Section 2.1-391, paragraph 3, Code of Virginia states "In the event an agency reduces its workforce through privatization of certain functions, the funds associated with such functions shall remain with the agency to the extent of the savings resulting from the privatization of such functions." (emphasis added). The provision applied equally to general fund as well as nongeneral fund agencies.

Accordingly, the implication by the APA that a change in contractual services is an unintended consequence counter to the intent of WTA is inaccurate. The WTA legislation actually encouraged privatization by allowing agencies to retain funds for that purpose. This provision is not properly addressed in the APA's analysis.

We also noted in our discussions that the comparison of calculated savings to previously released data by DPB was misleading. The DPB estimates of $110.5 million in savings in the twenty-two sample agencies represented gross savings from eliminated positions prior to any add-backs of any kind. The APA data is net of such add-backs.

The APA report also infers that there should have been better planning prior to the implementation of the 1995 Workforce Transition Act. In this context, it cites DPB for not establishing separate subobjects to account for actual WTA costs and savings.

DPB acknowledges that we did not establish separate accounting codes to capture WTA data. However, such codes would have only captured WTA costs not savings, since the latter are not expensed. Moreover, it is our policy to create new codes only when such data is needed for budgetary purposes or when such action is requested by an agency for a justifiable purpose. In this case, DPB created separate instructions to obtain the WTA data our agency needed to fulfill its assigned responsibilities and had no apparent need to create new subobject (accounting) codes. In addition, DPB received no request from any agency to establish such codes. It was indicated to us that no special accounting treatment was needed (other than what DPB had already developed) to properly account for WTA in the financial reports of the Commonwealth.

Finally, it is noteworthy that the APA report verifies that there were significant savings in costs and numbers of employees resulting from the WTA program. Although the data differ in magnitude from DPB's estimate, this difference should not detract from the success of the program. Both sets of data clearly indicate that significant savings were achieved and the WTA program met its basic objectives.

I appreciate the opportunity to comment on the audit report. For your information, I am attaching copies of various guidance and instructions that were provided to agencies and the General Assembly concerning the implementation of WTA and the Governor's earlier separation plan. The attachments include:

- DPB memo of December 22, 1994, "Workforce Reduction Policies and Hiring Freeze";
- VRS MEMO to Members of March 1995, "Special Edition on Workforce Transition Act of 1995";
- Executive Order Number Forty-five of March 15, 1995, "Workforce Reduction";
- DPB Memo of March 17, 1995, "Workforce Transition Act of 1995 – Requirements for Agency Submissions";
- DPB Memo of March 31, 1995, "Workforce Transition Act – Institutions of Higher Education";
- DOA Memo of April 26, 1995, "Workforce Transition Act of 1995 – Nongeneral Fund Treasury Loan Requests";
- Secretary of Administration and DPB response to questions from House Appropriations Committee, May 2, 1995;
- Department of Employee Relations Counselors Memo of May 10, 1995, "Workforce Transition Act and Incentive Plan Appeals";
- Secretary of Administration Presentation to House Appropriations Committee, "Workforce Transaction Act Process & Employee Participation", May 15, 1995;

- Director of Department of Planning and Budget Presentation to House Appropriations Committee, "Workforce Transaction Act Financial Implications", May 15, 1995;

- Secretary of Health and Human Resources and DPB Director Memo of May 30, 1995, "Workforce Transition Act – Replacement Positions"; and

- DPB Memo of August 10, 1995, "Verification of Workforce Transition (WTA) Data".

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Attachments

COMMONWEALTH of VIRGINIA

DEPARTMENT OF TRANSPORTATION
1401 EAST BROAD STREET
RICHMOND 23219-1939

DAVID R. GEHR
COMMISSIONER

June 23, 1997

Mr. John Mahone
Deputy Secretary of Finance
Ninth Street Office Building
Richmond, Virginia 23219

Dear Mr. Mahone:

This is to respond to your request for review and to provide information regarding the Auditor of Public Account's (APA) final draft report on the Workforce Transition Act (WTA). The following summary presents comments on the APA report as well as program increases and impacts that occurred to the Department of Transportation over the period of fiscal years 1993 to 1997 and projected for FY 98. More detailed information follows this summary.

This point is the major comment and issue we have with the calculation of the numbers on Table 3.

- The APA Report's primary methodology to analyze the impact of WTA is to adjust program expenditures so they remained constant from the 1994 Base year thru estimated 1997. However, each year there are a number of actions, many outside of our control, that impact the maintenance and construction expenditures. The attached table shows VDOT's major concern with the consistent application of the use of the factor for recognizing the growth in revenue. Table 3 in the APA report shows a difference to the Base 1994 average for 1995, 1996, and an estimate for 1997. The use of the annual incremental change in revenues, and not the change from the base, is inconsistent with the methodology used for the other calculations, particularly with the consumer price index. Also, the estimated 1997 revenue figure correctly contained bond proceeds, as well as the regular federal and State funding sources. The years of 1995 and 1996 apparently do not reflect any bond proceeds. The correct percent change figures to adjust the 1994 base to each year's figures for the report's methodology are provided on the attached table. The use of these revenue figures and percentages will represent more accurately VDOT's comparison to the base year.

Other general information that should be stated to provide context on VDOT and the WTA follows.

- VDOT has aggressively looked at reengineering major maintenance and construction activities. Also, the amount of funds for maintenance and construction programs for these years have increased due to various implemented administrative efficiencies as well as from revenue increases and specific transportation programs enacted by the General Assembly. VDOT's personnel, maintenance and construction program costs are variable. There appears to be no full recognition of the differences between the maintenance or construction program cost indices that are typically higher than the standard consumer price index.

- During the period of 1993 thru 1997, as well as for 1998, revenues to VDOT from federal and State sources have increased. The delivery of services and the programs for VDOT have not remained constant since 1995, but in fact increased. As has occurred in the past with increased revenues, VDOT utilizes additional engineering consultants and other contract services to deliver additional construction projects and maintenance activities. This supplements the use of State employees to accomplish the work. Also, during this period there were a number of legislatively enacted programs requiring action, such as the U.S. Route 58 Program, Northern Virginia Transportation Bond Program, 1-81 Corridor, 1-73 Corridor, Coalfields Expressway, I-64 Corridor, Third Crossing at Hampton Roads and many other specific projects. This many projects would require the use of consultant engineers regardless of the number of VDOT employees available to perform the work.

The following provides specific information for the points stated above.

◆ The MEL for VDOT in 1993 and 1994 was 11,570. The current MEL for 1997 and 1998 is 10,262, which is an 11% decrease. During this time period the General Assembly granted pay increases totaling 8%.

♦ For 1993, VDOT's total budget was $1.8 billion. For 1997, it is $2.1 billion, a 17% increase. For 1998, VDOT's budget is $2.4 billion. This is a 33% increase since 1993.

♦ VDOT's maintenance program expended $478 million in 1993, with 40% contracted. In 1996, $663 million was spent with 50% contracted. The projection for 1997 is between $680-$690 million to be expended, with approximately 60% contracted. This is a 42% increase in total expenditures in the maintenance program since 1993.

During this time period the Department had to respond to several severe weather emergencies. These were the floods from heavy continuous rains, three hurricanes and two severe winters. These weather events caused additional expenditures of over $250 million. A large portion of this work was performed by contractors that are paid from the personnel services portion of VDOT's accounts. This explains a major part of the increase in the costs. The temporary and permanent repairs, as well as a majority of the work, required at the time to open the roadways were contracted. The General Assembly noted the work of all involved with commending resolutions for these efforts.

♦ The construction program for VDOT is contained in the six year improvement program approved by the Commonwealth Transportation Board each year. In 1993, there were 891 projects in the program, with 123 of those new projects. For 1998, the total number of projects is 1,056 with 168 new additions. This represents an increase of 19% in the total number of projects in the program and a 37% increase in new projects.

The amount of funds allocated to these projects was $810 million for 1993. The amount for 1998 is $1 billion. This is an increase of 25% in funding available for construction.

These figures do not include the specific corridor programs named above. These specific projects and corridor programs have provided additional funding in excess of $750 million and several dozen more projects to be administered. However, the expenditures for consultant and contractors are included in VDOT's accounts.

The use of engineering consultants and A/E firms for this work is necessary for the construction, maintenance and capital outlay programs of VDOT. The increase in VDOT's total budget is 17% and the construction program up by 19%. The increased revenue provides the additional demand for services which in turn requires the use of consultants as part of the means to deliver an expanding program.

I hope you review this revenue and percentages data to request that the APA report be revised to incorporate the more accurate calculations for the consistent application of the methodology in the WTA analysis in Table 3 of the final draft report. We believe that the recalculation of the table utilizing this data will more accurately show that VDOT has also demonstrated savings as other agencies have from the WTA. VDOT's Fiscal Division is willing to assist and help provide for a valid comparison to the base year.

Please let me know if there needs to be further explanation of this information or if there are any questions.

Very truly yours,

David R. Gehr

David R. Gehr
Commissioner

cc: The Honorable Robert E. Martinez
The Honorable Michael Thomas
The Honorable Ronald L. Tillett
Mr. Robert Lauterburg

APA Draft Report
Virginia Department of Transportation
Comparison of Revenues

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Numbers used by APA

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