



## Testimony

Before the Subcommittee on Oversight of Government Management, Restructuring, and the District of Columbia, Committee on Governmental Affairs, U.S. Senate

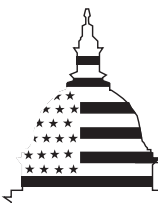
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# HUMAN CAPITAL

## Taking Steps to Meet Current and Emerging Human Capital Challenges

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Comptroller General of the United States



GAO

Accountability \* Integrity \* Reliability

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## **Human Capital: Taking Steps To Meet Current And Emerging Human Capital Challenges**

Mr. Chairman and Members of the Subcommittee:

I appreciate this opportunity to discuss with you and the members of the subcommittee our approaches to managing our most important asset—our people, or human capital. Human capital issues have been a top priority at GAO during my tenure as Comptroller General. We have undertaken a wide array of initiatives in this area and are investing considerable time, energy, and financial resources to make them work. Our reason for doing so lies in a fundamental decision we have made as the new century begins, to focus not just on living for today, but on positioning GAO for the future and investing more in our people. Our goal is to enhance the value of our human capital and thereby enhance the value of GAO to the Congress, the country, and the American people.

Simply stated, the aim of these efforts is to enhance our performance and assure our accountability by attracting, retaining, and motivating a top-quality workforce. The more skilled and capable our workforce, the more capable our organization will be to perform its mission. Our mission is to support the Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the benefit of the American people. Today, GAO conducts a wide range of financial and performance audits, program evaluations, management reviews, investigations, and legal services spanning a broad range of government programs and functions. GAO's work covers everything from the challenges of an aging population and the demands of the information age to emerging national security threats and the complexities of globalization. We are committed to federal management reform—to helping government agencies become organizations that are more results oriented and accountable to the public. We are also committed to leading by example in all major management areas.

No management issue facing federal agencies could be more critical to their ability to serve the American people than their approach to attracting, retaining, and motivating their employees. High-performing organizations in the private and public sectors have long understood the relationship between effective “people management” and organizational success. However, the federal government, which has often acted as if federal employees were costs to be cut rather than assets to be valued, has only recently received its wake-up call. As our January 2001 Performance and Accountability Series reports made clear, serious federal human

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capital shortfalls are now eroding the ability of many federal agencies—and threatening the ability of others—to economically, efficiently, and effectively perform their missions.<sup>1</sup> The problem lies not with federal employees themselves, but with the lack of effective leadership and management, along with the lack of a strategic approach to marshaling, managing, and maintaining the human capital needed for government to discharge its responsibilities and deliver on its promises. To highlight the urgency of this governmentwide challenge, in January 2001 we added strategic human capital management to our list of federal programs and operations identified as high risk.<sup>2</sup>

Ever since we added strategic human capital management to that list, we have been asked what would need to happen for it to be removed. Clearly, we will need to see measurable and sustainable improvements in the economy, efficiency, and effectiveness with which the government as a whole and the individual agencies manage their workforces to achieve their missions and goals. I believe that hearings such as this one demonstrate that the momentum for these improvements is building, but the process will undoubtedly take time.

At GAO, we believe a three-stage approach is appropriate to addressing the federal government's human capital challenges. First, agencies must take all administrative steps available to them under current laws and regulations to manage their people for results. Much of what agencies need to accomplish by way of focussing on human capital management is already available to them. They will, however, need the sustained commitment from top management and the support from both the Office of Management and Budget (OMB) and the Office of Personnel Management (OPM) to do so. Second, the Administration and the Congress should pursue selected legislative opportunities to put new tools and flexibilities in place that will help agencies attract, motivate, and retain employees—both overall and, especially, in connection with critical occupations. Third, all interested parties should work together to determine the nature and extent of more comprehensive human capital (or

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<sup>1</sup> *Performance and Accountability Series—Major Management Challenges and Program Risks: A Governmentwide Perspective* (GAO-01-241, Jan. 2001). In addition, see the accompanying 21 reports, numbered GAO-01-242 through GAO-01-262) on specific agencies.

<sup>2</sup> *High-Risk Series: An Update* (GAO-01-263, Jan. 2001). In addition, see *Human Capital: Meeting the Governmentwide High-Risk Challenge* (GAO-01-357T, Feb. 1, 2001).

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civil service) reforms that should be enacted over time. These reforms should include placing greater emphasis on skills, knowledge, and performance in connection with federal employment and compensation decisions, rather than the passage of time and rate of inflation, as is often the case today.

Today, I will discuss some of the administrative steps GAO has taken under its existing authorities to better manage its people. We have identified and made use of a variety of tools and flexibilities, some of which were made available to us through the GAO Personnel Act of 1980 and our 2000 legislation, but most of which are available across a broad spectrum of federal agencies. I will also discuss our specific mission needs and human capital challenges and how these helped us identify and make a sound business case for additional flexibilities. We feel it is critical to remain alert to further opportunities to improve the federal government's competitiveness in the market for talent, and as a result, I will raise for discussion some additional flexibilities that would require legislation for the Congress to consider.

We believe that every agency should begin assessing its own human capital situation and pursue adoption of prevailing best practices. To this end, we developed our human capital self-assessment checklist for agency leaders, and have studied the private sector for selected human capital principles and practices that may have applicability in the federal government.<sup>3</sup> Since maximizing performance and assuring accountability are at the heart of our mission at GAO, we believe it is our responsibility to lead by example, especially in the human capital area. By managing GAO's workforce strategically, by focusing on results, and by taking opportunities such as the one you are providing today to tell our story, we hope to demonstrate to other federal agencies that if they put their minds to it, they can improve their performance by improving the way they treat and manage their people. However, don't get me wrong. We aren't perfect at GAO and we never will be. In addition, this is a work-in-progress for us as it is for others. Finally, I would add that GAO's approaches are not the only way for agencies to proceed, but they can help others to see their way forward to addressing their individual human capital issues.

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<sup>3</sup> See *Human Capital: A Self-Assessment Checklist for Agency Leaders* (GAO/OCG-00-14G, September 2000) and *Human Capital: Key Principles From Nine Private Sector Organizations* (GAO/GGD-00-28, January 2000).

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Addressing the government's human capital challenges is a responsibility shared by many parties, including the President, department and agency leaders, OMB, OPM, the Congress, and even the press (see attachment I). Agency leaders must commit their organizations to valuing and investing in their employees and focussing their employees' efforts on achieving stated agency missions and goals. The essential ingredients for progress in this area are leadership, vision, commitment, persistence, communication, and accountability.

Our ongoing experiences managing human capital at GAO have yielded a number of guiding principles or "lessons learned" that will frame my remarks this afternoon:

- *Strategic planning, core values, and organizational alignment.* An agency that wishes to design policies and programs to maximize the value of its human capital must have clear expectations for itself, strong core values, and an accurate understanding of its evolving circumstances. Sound strategic planning and proper organizational alignment provide the essential context for making sensible, fact-based choices about designing, implementing, and evaluating human capital approaches.
- *Tailoring human capital approaches.* Agencies' varied missions, core values, and circumstances require custom-tailored approaches to managing people. Agencies must remain constantly alert to emerging mission demands and human capital challenges, and make full use of the management tools and flexibilities available to meet them. If an agency determines that its available tools, flexibilities, and resources do not allow it to pursue needed human capital initiatives, then it must support any proposal for new flexibilities with a sound business case.
- *Employee involvement.* Regardless of the approach an agency takes to "people management," the involvement of employees both directly and through their employee organizations will be crucial to success. Agency leaders need to clearly and consistently tell their people at all levels their agency's mission, core values, goals and objectives, and strategies. Moreover, leaders need to empower employees and work constructively with employee organizations. As in many cases, in the human capital arena, how you do something is as important as what you do. The human capital management tools and flexibilities available to other agencies will differ from ours, and these agencies may need to develop approaches to fit their own situations. However, the need to recognize employees as vital assets for organizational success, and to develop approaches for managing human capital that best support mission accomplishment, should be a consistent focus across the federal government. In this regard and at the subcommittee's request, I will also

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briefly discuss recent human capital management experiences at two other federal entities: the Department of Defense and the Internal Revenue Service.

Before moving on to my three main points, I would like to provide some background on the changing nature of GAO's workforce, its current human capital challenges, and some of the specific tools and flexibilities that we have used in addressing this area.

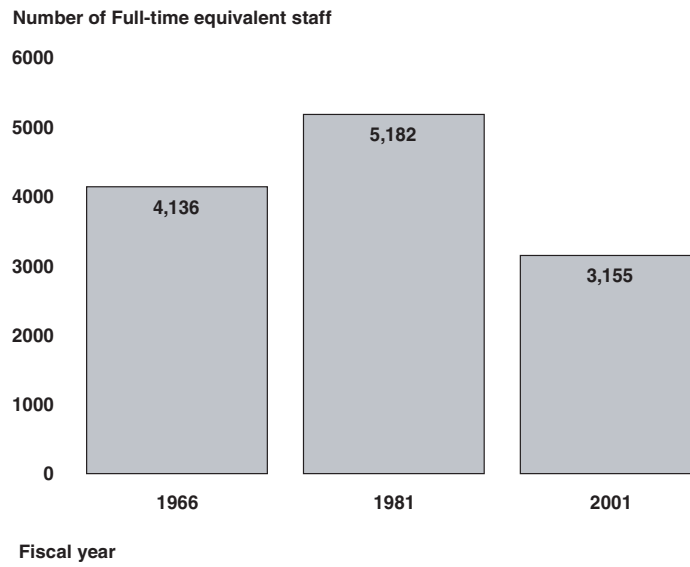
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## Background: Changes In GAO's Mission And Workforce Led To The GAO Personnel Act Of 1980

Today's GAO is far different from the organization that opened its doors in 1921. For the first 3 decades of GAO's existence, its workforce consisted primarily of accounting clerks, whose job was to audit agency vouchers for the legality, propriety, and accuracy of expenditures. In the 1950s, when GAO's statutory role shifted to comprehensive auditing of government agencies, the agency began to hire accountants. Later, GAO's role expanded further, to include program reviews, policy analysis, investigations, and legal adjudications. As a result, today GAO is a multidisciplinary professional services organization, whose staff reflects the diversity of knowledge and competencies needed to deliver a wide array of products and services to support the Congress. Our mission staff—at least 54 percent of whom are Masters or Ph.D. graduates—hold degrees in a variety of academic disciplines, such as accounting, law, engineering, public and business administration, economics, and the social and physical sciences. I am extremely proud of the talent, dedication, and service to our nation that GAO employees—both mission staff and mission support staff alike—exhibit every day. They make GAO the world-class accountability institution that it is, and I think it is fair to say that while they account for about 80 percent of our costs, they constitute 100 percent of our real assets.

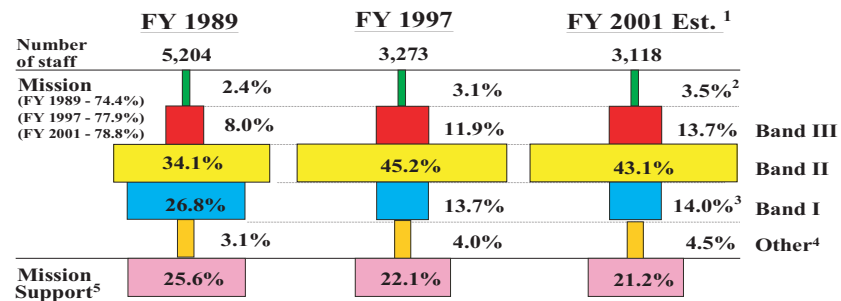
It must be said, however, that the 1990s were a difficult period for ensuring that GAO's workforce would remain appropriately sized, shaped, and skilled to meet its mission demands. Severe downsizing of the workforce (see figure 1), including a suspension of most hiring from 1992 through 1997, and constrained investments in such areas as training, performance incentives and rewards, and enabling technology, left GAO with a range of human capital challenges that we have begun to address.

**Figure 1: GAO Staff Levels**



For example, we face significant structural issues: Our workforce is relatively sparse at the entry levels and relatively large at certain higher levels (see figure 2).

**Figure 2: GAO's Human Capital Profile**



<sup>1</sup>FY 2001 data are as of June 30, 2001.

<sup>2</sup>Eight of 108 mission SES/Senior Level staff in FY 2001 are Senior Level. In October 2000, GAO was granted authority to appoint scientific, technical or professional staff to senior level positions with the same benefits and attributes as members of SES.

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<sup>3</sup>With the additional new hires expected onboard by the end of FY 2001, the number of Band I's as a percentage of all staff is expected to increase to about 17 percent.

<sup>4</sup>Attorneys and criminal investigators

<sup>5</sup>FY 1989 includes 20 SES, or .38 percent of all staff; FY 1997 includes 15 SES, or .46 percent of all staff; and FY 2001 includes 12 SES, or .38 percent of all staff.

**Note:** Total SES and Senior Level staff in mission and mission support represent 2.8 percent, 3.6 percent, and 3.8 percent of all employees in FY 1989, FY 1997, and FY 2001, respectively.

We face certain skills imbalances that include a pressing need for—among other things—accountants, information technology professionals, statisticians, economists, and health care analysts. Further, we face a range of succession planning challenges. Specifically, by fiscal year 2004, 55 percent of our senior executives, 48 percent of our management-level analysts, and 34 percent of our analyst and related staff will be eligible for retirement. Moreover, at a time when a significant percentage of our workforce is nearing retirement age, marketplace, demographic, economic, and technological changes indicate that competition for skilled employees will be greater in the future, making the challenge of attracting and retaining talent even more complex.

These human capital challenges will not be solved overnight. But fortunately, from a structural standpoint, GAO has an advantage that other agencies might envy. Unlike executive branch agencies, where turnover of chief executives and other top managers is commonplace, GAO's chief executive officer—the Comptroller General—is appointed for a 15-year term. This lengthy tenure ensures that governmentwide and internal management challenges such as those involving human capital can receive the sustained and consistent attention from the top that they demand. A good example of how this has worked at GAO is my immediate predecessor, Comptroller General Charles A. Bowsher, who helped lead the federal government's growing emphasis on financial management issues, and whose attention to improving financial management both at GAO and governmentwide was unwavering throughout his 15-year tenure.

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## The GAO Personnel Act of 1980

At GAO, we have certain human capital tools and flexibilities available to us that are broader than those available to most other federal agencies. The main difference has been that we have been able to operate our personnel system with a degree of independence that most agencies in the executive branch do not have. For example, we are excepted from certain provisions of Title 5, which governs the competitive service, and we are not subject to oversight by OPM. The roots of these differences are 2 decades old. Until 1980, our personnel system was indistinguishable from



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those of executive branch agencies—that is, GAO was subject to the same laws, regulations, and policies as they were. But with the growth of GAO’s role in congressional oversight of federal agencies and programs, concerns grew about the potential for conflict of interest. Could GAO conduct independent and objective reviews of executive branch agencies such as OPM when these agencies had the authority to review GAO’s internal personnel activities? As a result of these concerns, GAO worked with the Congress to pass the GAO Personnel Act of 1980, the principal goal of which was to avoid potential conflicts by making GAO’s personnel system more independent of the executive branch.

Along with this independence, the act gave GAO greater flexibility in hiring and managing its workforce. Among other things, it granted the Comptroller General authority to

- appoint, promote, and assign employees without regard to Title 5 requirements in these areas;
- set employees’ pay without regard to the federal government’s General Schedule (GS) classification standards and requirements; and,
- establish a merit pay system for appropriate officers and employees.

Clearly, by excepting our agency from many competitive service requirements, the GAO Personnel Act of 1980 allowed us to pursue some significant innovations in managing our people. However, I must emphasize that in important ways, our human capital policies and programs are very much in the mainstream of the larger federal community since, despite the GAO Personnel Act of 1980, we continue to support certain important national goals. For example, we are philosophically committed and legally subject to federal merit principles. Our employees continue to be protected from prohibited personnel practices; while they do not have access to the more widely applied federal employee administrative redress system, our 1980 legislation created an independent entity, the Personnel Appeals Board, to hear our employees’ complaints. Also, we apply veterans’ preference consistent with the manner in which it is applied in the executive branch for appointments and all appropriate reductions-in-force. Our pay system must be consistent with the statutory principle of equal pay for substantially equal work; we make pay distinctions on the basis of an individual’s responsibilities and performance. We are covered by Title VII of the Civil Rights Act, which forbids employment discrimination. We emphasize opportunity and inclusiveness, and have zero tolerance for discrimination of any kind. We take disciplinary action when it “will promote the efficiency of the service”—which for us includes such things

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as GAO's ability to do its work and accomplish its mission. Further, while we currently do not have any bargaining units at GAO, our employees are free to join employee organizations, including unions. In addition, we engage in a range of ongoing communication and coordination efforts to empower our employees while tapping their ideas.

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## Innovations Under the GAO Personnel Act of 1980

The most prominent change in human capital management that GAO implemented as a result of the GAO Personnel Act of 1980 was a broadbanded pay-for-performance system. I will discuss this below at some length. However, it should be remembered that our authority to introduce broadbanding was only a subset of a body of new authorities that allowed GAO to develop important initiatives in other areas as well. For example:

- *Recruiting and hiring.* The independent appointment and examination authority in the 1980 act allowed us to establish more flexible recruiting and hiring processes. Although many of the recruiting and hiring programs we initiated during the 1980s had to be abandoned during the near-freeze in GAO hiring from 1992 to 1997, today we make significant use of the recruiting and hiring flexibilities that the 1980 legislation provided. For example, our student intern program includes a feature that we—unlike most federal agencies—were able to adapt from federal student cooperative education programs: noncompetitive conversion to permanent status. This provision allows us to offer permanent positions to GAO interns with at least 10 weeks of successful work experience, without the requirement for a job announcement and competition. We are making extensive use of this flexibility as an important element of our aggressive recruiting efforts.
- *Compensation.* Besides allowing us to introduce the broadbanded pay-for-performance system discussed below, our 1980 legislation helped us take additional steps to improve our ability to compete for the multidisciplinary skills we would need to address our increasingly complex and congressionally driven responsibilities. In addition to adopting OPM's governmentwide special pay rates established to address certain significant recruitment and retention problems, we developed [GAO-specific special pay rates to recruit and retain employees in critical occupations](#), such as accountants, auditors, and economists. Further, we established policies to permit paying certain job applicants salaries above the minimum rate of the grade or band level at which they were hired. As other agencies may do, we also now offer recruitment bonuses and retention allowances to help attract or keep employees with specialized skills.

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- *Promotions.* Using the authority contained in our 1980 legislation, in 1983 we instituted an annual merit promotion system for our analysts (known at the time as evaluators) and related occupations. This promotion system is still in place. Each year, GAO's senior management determines the number of promotion opportunities available. Within each home unit, a panel of at least three managers assesses interested staff for promotion opportunities. For each applicant, the panel reviews 3 years of performance appraisals and employee's contributions, and an employee statement of qualifications. Candidates within each home unit are ranked against one another for positions at the next level, based on their knowledge, skills, and abilities. Those designated as "best qualified" are automatically considered for opportunities within the unit. The head of the unit is the selecting official. Employees who are interested in generalist positions outside their home units can apply for them. GAO's mission support staff are not included in the annual promotion system. Instead, we currently operate a conventional competitive promotion process for mission support positions.

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## Broadbanding and Pay-for-Performance

In 1989, GAO converted its analyst and analyst-related staff, as well as its attorneys, to a broadbanded pay-for-performance (PFP) system. This system was implemented following years of study that involved task forces of managers and staff at all levels. The system remains in place today. While it has undergone few changes since its initial implementation, we are currently engaging in a comprehensive review and reassessment of our broadbanded PFP system to identify opportunities for improvement.

The primary goal of PFP is to enable GAO to base employee compensation primarily on knowledge and performance of individual employees. Broadbanding provides certain managers additional flexibility to assign and use employees in a manner that is more suitable to multitasking and full utilization of available staff. Given our unique role in serving the Congress, GAO needed a system with more flexibility—similar to what exists in private sector knowledge-based professional services organizations.

Under GAO's broadbanded system, analyst and analyst related staff in Grades 7 through 15 in the General Schedule (GS) system, were placed in 3 bands. Staff were converted into bands, as shown in table 1.

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**Table 1: GAO’s Broadbanded Pay-for-Performance System**

General Schedule	GAO Broadbanding
GS-7, GS-9, GS-11	Band ID (Developmental level)
GS-12	Band IF (Full performance)
GS-13, GS-14	Band II
GS-15	Band III

Note: Senior Executive Service (SES) members were not included in this system.

The pay ranges for each band closely approximate the GS-equivalents. For example, Band II ranges from about GS-13, step 1 to GS-14, step 10.

When staff were converted from the GS system to broadbanding, there needed to be a means to move them through the salary ranges in their bands. Under the GS system, movement through the salary range for each GS grade is largely based on the passage of time. For example, assuming satisfactory performance, staff are given within-grade step increases (WGs) after a 1, 2, or 3 year waiting period, depending on how long they have been in grade. The within-grade increase is a fixed amount—3.3 percent of the step 1 salary for the employee’s GS level—and is virtually automatic.

In contrast, GAO wanted a system in which pay increases depend upon the performance and contributions of the individual, rather than the passage of time. Therefore, we chose to adopt a PFP system concurrent with the implementation of the broadbanded classification system. Under PFP, staff members are evaluated each year by a panel of managers from their units who are familiar with the work of the individuals being assessed and the unit as a whole. The panels consider each employee’s performance appraisal, prepared by the supervisor, and an employee-prepared “contributions statement,” in which the employee describes his/her contributions during the year. Finally, the panel discusses the relative performance and contributions of each employee being assessed. Based on the paperwork review and the panel discussion, the panel places each individual into a pay category, ranging from acceptable to commendable, meritorious, and exceptional. It is important to note that this is a relative system under which staff are assessed against each other, rather than against standards.

Under our PFP system, a staff member’s pay category determines the percentage of his/her salary increase. The lowest salary for the employee’s band level (“band base salary”) is used to calculate the actual amount of

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the raise. As required by current law, our employees receive cost of living and locality pay adjustments. Employees in the “acceptable” category receive no incremental raise, while employees in the commendable, meritorious, and exceptional categories receive percentage raises linked to their category, band level, and where they stand in the salary range for their pay bands.

One of the concerns we have encountered with the PFP system is that employees who are at the top of the pay scale for their pay band—that is, those who have reached their salary cap—are not eligible for PFP increases that would put their pay above the cap. This can lead to situations that are not in keeping with the spirit of the PFP system. For example, it is common in GAO for employees who are in the commendable or meritorious categories to receive PFP salary increases while their co-workers in the same or higher categories receive no PFP salary increase, simply because they are already at the salary cap for their band level. At GAO, where many mission staff have been in their band for a long time, many are no longer eligible for PFP salary increases, and therefore cannot be expected to respond to the incentives for which the program was designed. Currently, about 42 percent of our Band III, 12 percent of our Band II, and 26 percent of our Band I analyst and analyst-related staff are at their salary cap.

One solution we are considering to surmount the salary cap problem for employees in the PFP system is to create a more robust performance bonus program. Our PFP system was designed to include performance bonuses, but with the budgetary constraints GAO experienced in the 1990s, performance bonuses for banded staff were discontinued.

*Advantages and disadvantages.* While currently undergoing review and refinement, our broadbanding and PFP systems certainly have had more pros than cons. The salary cap problems notwithstanding, our best performing staff are clearly being rewarded more than before for their performance and contributions. We are able to vary rewards annually rather than granting an “automatic” step increase based on the passage of time. In addition, managers have much greater flexibility to make staffing decisions based on both institutional needs and individual desires. However, in order for broadbanding and PFP to meet current and emerging needs, an organization like ours needs to use its PFP scheme in some combination with a modern, transparent, competency-based performance appraisal system to determine employee pay, promotion, and reward decisions. Further, our broadbanding and PFP system need to be used in conjunction with other mechanisms to let us clearly differentiate

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among employees' varying skills, roles, and levels of responsibility within the bands. Finally, although broadbanding allows for greater flexibility in making staffing assignments, managers should have access to additional tools such as the results of the automated employee knowledge and skills inventory that we recently performed, and should also follow a modern and transparent organizational staffing model.

There are, however, some negatives associated with a PFP system. The annual process is labor intensive and produces stress, both on the managers making the pay decisions and the staff who await them. Staff naturally do not always agree with panel decisions—creating some tensions as well. The panel evaluation process takes a full day or two, and is viewed by some managers as too-time consuming and burdensome. Further, the PFP system has been somewhat more expensive than the General Schedule system. Nonetheless, we believe it is cost beneficial.

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## Strategic Planning, Core Values, And Organizational Alignment Set The Direction For Managing GAO's Human Capital

In early calendar year 2000, GAO issued its first strategic plan for the 21st century. This document is the blueprint for how GAO will support the Congress in addressing an increasing range of complex issues and challenges. It describes our mission, and acknowledges our core values. It recognizes a range of global and domestic trends that are affecting society on every level, and is built on a comprehensive and focused structure of long-term goals and objectives to support the Congress in its legislative, oversight, and investigative roles. We worked closely with legislative and committee leadership, individual members, congressional staff, a range of outside parties, and our own employees in developing our strategic plan. Thus, it not only incorporates congressional views of what constitute important and emerging issues, but establishes a framework for addressing the Congress' constitutional responsibilities in the context of current and emerging challenges in the coming years. (See attachment II.)

Three words sum up the ways in which we serve the Congress and the American people: oversight, insight, and foresight.

- Oversight: reexamining existing federal roles, missions, programs, and processes.
- Insight: providing sound policy analysis and crosscutting perspectives and identifying best practices.
- Foresight: identifying future policy and operational challenges before they reach crisis proportions.

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Our strategic plan also describes our role and mission in the federal government; the core values of accountability, integrity, and reliability that guide our work; the trends, conditions, and external factors underlying the plan; and our goals, objectives, and strategies for serving the Congress. We intend to update the strategic plan every 2 years for each Congress, and have an update of the original plan under way. In addition, we will develop annual performance plans—our fiscal year 2001 plan was our first—as well as annual Accountability Reports to the Congress, which we began with fiscal year 1999. We have combined our annual performance plans and accountability reports into a single document to provide our clients and other readers a more consolidated and user-friendly format.

From a human capital standpoint, our strategic plan and core values are our touchstones for designing, implementing, and evaluating our approaches to managing our people. These two vital elements will also be the foundation for our revised institutional and individual performance measurement systems.

We believe that any agency that wishes to design policies and programs to maximize the value of its human capital must have clear expectations for itself, strong core values, and an accurate understanding of its evolving circumstances. The rigorous self-assessment, outreach to our clients, and broader scan of our external and internal environments that have gone into our strategic planning process provide these kinds of insights. Because we have identified the kind of organization we want to be and where we want to go, we can make informed judgments about our human capital needs and reasoned decisions regarding the choice of human capital strategies.

We are moving toward a balanced scorecard approach to evaluating our performance as an organization. We take into account (1) feedback from our clients, (2) the views of our employees at all levels of the organization, and (3) our results. For the latter, we depend on a variety of key performance indicators. Some of these are quantitative, such as the direct financial benefits produced as a result of our work in such areas reducing unnecessary spending or enhancing asset revenues. Most of our others are qualitative, such as the numerous improvements in government operations and services resulting from our recommendations, including better oversight of nursing homes, more stringent safety standards for high-speed passenger rail service, and enhanced computer security in connection with defense information systems. We also track intermediate indicators, such as the number of times we have testified before the Congress or the percentage of GAO recommendations that agencies have implemented,

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that while not directly indicative of results, nevertheless help us monitor our productivity and ensure accountability for our day-to-day performance.

Not long ago, we developed a tool to help federal agencies integrate their human capital management with their strategic and programmatic planning.<sup>4</sup> Our human capital self-assessment framework, published in draft form in September 1999 and finalized in September 2000, allows agency leaders to perform a quick assessment of their agencies' human capital approaches to see if they conform with widely accepted human capital management practices and align with their agencies' "shared vision"—that is, their mission, vision for the future, core values, goals and objectives, and strategies. The framework lays out five areas for assessment: strategic planning, organizational alignment, leadership, talent, and performance culture. We have used this assessment framework during the past 2 years to scan our own human capital efforts and ensure their linkage to our strategic plan.

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## Organizational Realignment at GAO

In the fall of 2000, we realigned our mission related functions to better support the Congress and prepare ourselves, with current and expected resource levels, to meet the future challenges outlined in our strategic plan. We reorganized both our headquarters and field mission operations. These changes included eliminating a layer of managerial hierarchy, reducing the number of organizational units (from 35 to 13 at headquarters and from 16 to 11 in the field), increasing internal and external coordination activities between GAO units and the Congress and other accountability organizations, clarifying the roles and responsibilities of management, increasing the number of employees who perform rather than manage or review work, and enhancing the critical mass and flexibility of our field resources. (See attachment III.)

As an additional element of our realignment, we are currently reorganizing GAO's mission support functions. As part of this effort, and to more effectively integrate our human capital management with our strategic and program planning, we are reorganizing our human capital office to position resources where they can best support our mission. To help ensure the success of this effort, this year we established and filled the

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<sup>4</sup>*Human Capital: A Self-Assessment Checklist for Agency Leaders* ([GAO/OCG-00-14G](#), September 2000).



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position of Human Capital Officer as a part of our senior management team.

Further, this year we absorbed the functions of our previous civil rights office into our new Office of Opportunity and Inclusiveness. The new office, whose managing director reports directly to me, will play an important role in achieving our strategic goal of being a model employer. The office will take a proactive, rather than reactive, approach to fostering a GAO environment that ensures that applicants for employment and all members of its diverse workforce are treated fairly, their differences are respected, and that reinforces our policy of having zero tolerance for discrimination of any type.

As with strategic planning, organizational alignment is crucial if an agency is to maximize its performance and assure its accountability. The choices that go into aligning an organization to support its strategic and programmatic goals have enormous implications for further decisions about human capital management, such as what kinds of leaders the agency should have and how it will best ensure leadership continuity, how skill needs will be identified and filled, and what strategies the agency will use to steer the organizational culture to maximize its results. As our ongoing experiences have demonstrated, sound strategic planning and proper organizational alignment provide the essential context for making sensible, fact-based choices about designing, implementing, and evaluating human capital approaches.

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## GAO Tailors Its Human Capital Approaches To Its Mission And Emerging Circumstances

Our choices about human capital management have all been made to support our strategic plan, core values, and recent organizational realignment. These efforts also reflect the fact that we have made strategic human capital management a top-priority management issue at GAO, one that we know will require our sustained attention and commitment over an extended period of time.

Other agencies have different missions to pursue and alternative sets of management tools and flexibilities available to them. However, we believe that the vast majority of actions that federal agencies need to take in order to maximize the value of their human capital can be taken as administrative actions under current law. There is no single approach to strategic human capital management that would work in every federal entity. Clearly, agencies must custom-tailor their human capital efforts to focus on their specific strategic and programmatic goals and core values. But most of the steps that we have taken to strengthen human capital at

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GAO since I became Comptroller General in November 1998 can be taken by agencies across the federal government. The following is a description of some of the initiatives and targeted investments we have made, all of which link back to our strategic plan, core values, and organizational realignment.

First, it should be noted that as we assessed GAO's human capital challenges at the start of the new century, we recognized that some of the steps needed to meet these challenges would require additional statutory authorities. I will discuss the new tools and flexibilities that the Congress provided GAO in calendar year 2000. The point worth making now is that our strategic, results-oriented, fact-based approach to human capital management is what allowed us to make a sound business case for these new tools and flexibilities. I believe there is a lesson here for other agencies. Namely, in the absence of comprehensive legislative human capital reform, agencies must first do everything they can administratively to address their human capital issues, and seek new legislative flexibilities only when necessary and based on a sound business case.

- *Human Capital Profile/Needs Assessment.* Sound data are critical to making fact-based human capital management decisions. Working with GAO's senior managers, our Human Capital Officer reviewed the data that in aggregate constitute our human capital profile, covering such indicators as the distribution of employees by band level, the ratio of managers to employees, projected retirement and attrition rates, and the diversity of our workforce. This information, coupled with our knowledge of the kinds and numbers of resources needed to achieve our strategic and program goals, has helped us assess our human capital needs and create revitalized strategies for filling them—particularly in the area of recruiting and hiring. Our senior leaders regularly review management analyses of these data to track trends and guide GAO's human capital decisionmaking.
- *Employee Survey.* It is important to the health of any high-performing organization that its senior leaders hear the concerns and suggestions of employees at all levels. Later this calendar year, we intend to conduct a new, confidential and automated employee feedback survey. This will be a follow-up to our initial 1999 survey where 87 percent of our employees participated and 80 percent of respondents provided at least one narrative response. The survey highlighted our strengths and those areas in which we need to improve. We have used the survey results as a tool in our human capital improvement efforts and we will continue to do so.
- *Skills/Knowledge Inventory.* An important tool for determining how well our human capital can be expected to meet our mission requirements is our knowledge and skills inventory. In the summer of 2000, we

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administered an automated knowledge and skills survey that was completed by all GAO managers and staff. Developed jointly by a GAO team and an outside contractor, the inventory provided an automated database medium for determining where we are long or short on the knowledge, skills, and experience needed to accomplish our strategic and program plans. Additionally, the knowledge and skills inventory is one of several management tools that will help us to effectively implement the “early out” programs that we will be using to better align our workforce with our organizational needs and improve our engagement staffing model.

- *Employee Preference Survey.* We believe that, to the extent possible, our employees should be given the opportunity to work in the areas that interest and energize them most. Last fall, we instituted an automated and confidential employee preference survey. About 11 percent of our mission staff expressed interest in changing assignments within GAO. Our Chief Operating and Chief Mission Support Officers, in partnership with our other senior managers, are using this information to help make redeployment decisions. As GAO’s program challenges and human capital needs change, this initiative provides the agency with a flexible tool for identifying employee preferences and better aligning our human capital with ongoing and emerging organizational needs. We anticipate administering additional preference surveys to refresh our database every 2 years.
- *Executive Development/Succession Planning.* After a hiatus in the 1990s, we have reinstated our Executive Candidate Development Program, through which candidates selected through a rigorous competitive process are prepared for assignments at the SES level. During their time in the program, candidates pursue varied developmental assignments and graduate-level academic training at institutions such as the John F. Kennedy School of Government at Harvard University. We also make a point of giving our executive candidates exposure to the workings of GAO’s executive team, since many of these candidates may someday join it.

Because candidates are drawn primarily from GAO’s own Band III (Assistant Director) ranks, it is important for us to ensure continuity as they leave to take their new assignments. This is where our recent employee preference survey gives us an additional tool; the survey results can help us fill the gaps in knowledge and experience that may be created as our mid-level managers move into senior executive positions.

- *Recruiting and College Relations.* After a 6-year hiatus, GAO began hiring entry-level professional staff again in 1998. This year, we will bring on

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board more than 300 new hires (224 entry-level analysts and 135 interns) that will join GAO at our headquarters and in our field offices. Recruiting the best talent from the broad array of disciplines we need to meet our mission is one of our highest priorities. Although the job market for these professionals has made recruiting and hiring highly competitive, we feel we have a competitive advantage in some important areas. Foremost is our mission. Simply stated, we offer the opportunity to make a difference. In fact, when we surveyed our new hires to ask why they joined GAO, the top three reasons given were (1) the opportunity to make a difference, (2) the nature of GAO's work, and (3) GAO's people. We are taking every opportunity to market the GAO brand name on campuses across the country. Further, to increase our competitiveness on campus, we recently began recruiting and making job offers during the fall semester to new employees who will actually come on board the following spring and summer—an action that allows us to better compete with the private sector for students who are anticipating spring graduations. Moreover, we are building and maintaining an active and extensive campus presence of both senior-level GAO executives and recent graduates. We have a new recruiting video and accompanying recruiting materials. With the importance of a diverse and inclusive workplace in mind, we have made special efforts—myself included—to visit and build ongoing relationships with historically black and Hispanic colleges and universities, and other universities with large minority populations. Additionally, we are awaiting OPM's revisions of its regulations regarding the repayment of student loans in order to develop our own student loan repayment program, for which we hope to receive sufficient funding to allow us to better compete with the private sector for highly qualified recruits.

Additionally, we are fortunate to have the participation of our Educators Advisory Panel (EAP), whose members include some 20 leading deans and professors from key public and private academic institutions and representatives of related professional organizations. EAP gives us advice on making GAO a model for the federal government, including strategies, best practices, operations, and emerging human capital issues and trends related to recruitment, hiring, development, and retention of a diverse, talented, dedicated, and results-oriented workforce. In particular, EAP members can be valuable resources in our recruiting efforts, working with our campus coordinators to increase the effectiveness of our presence on campuses.

Further, the student intern program we began in the 1980s has resumed in full swing. The student intern program allows our hiring officials a chance to closely observe these students to see how they perform in the GAO

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environment. Our managers work hard to encourage the most promising interns to apply for entry-level positions upon completion of their academic careers, and today many of our recent interns are returning to GAO as permanent hires. As I mentioned earlier, our independent appointment and examination authority has allowed us to offer permanent positions to successful interns with at least 10 weeks of work experience, without the requirement of a job announcement and competition. We have found that the intern program contributes to our recruiting efforts in another way as well. Those interns returning to campus after an interesting and challenging GAO assignment make excellent “goodwill ambassadors” for the agency, and their on-campus relationships often lead to additional interns and other recruits for GAO.

- *Professional Development and Mentoring Programs for Entry-Level Staff.* GAO’s new employees constitute a crucial human capital investment. Recognizing this, we developed a comprehensive professional development program for newly hired Band ID staff. The program includes a combination of formal and on-the-job training, individual development plans, rotational assignments, periodic consultations with senior GAO managers, and periodic formal assessments and clearly defined and consistently applied criteria for Band IF certification and program completion. We also make every effort to provide rich and challenging experiences to our newly hired staff, who typically join new or ongoing engagements and become active team members as soon as they come onboard.

We have instituted a mentoring program for our newly hired staff. GAO’s senior managers are directly involved in and responsible for the mentoring program for staff in their units. Further, mentoring training is offered to managers to help make the program work. In addition to a mentor, a “peer buddy” is arranged for each newly hired Band I to help make the transition to GAO easier and more rewarding.

- *Employee-Friendly Workplace.* To further enhance our productivity and our competitiveness as an employer, we have taken many steps to help our employees balance their personal and professional lives. One example is our extensive alternative work-scheduling program, or flexitime. Employees may complete their biweekly work requirement in less than 10 working days, vary their times of arrival and departure, and vary the number of hours worked each day. All GAO employees, including members of the SES, may participate in the program. Further, some 112 career GAO employees spanning a wide range of grades and occupations participate in our part-time employment program. Moreover, in 1993 we

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implemented a permanent flexiplace program (now commonly called telecommuting or telework), under which our employees may arrange to work at approved locations away from the regular office. Flexiplace may be used to help attract and retain employees in critical occupations such as those in the information technology area. However, I must emphasize that, as advantageous as telecommuting may be under some circumstances, it is not appropriate for every employee or every job. As we do, agencies need to consider whether telecommuting is in the best interests of both the employee and the agency.

About 995 GAO employees who take public transportation or authorized vanpools to work, both at headquarters and our field offices, currently have access to a pre-tax benefit plan to help cover the costs. Along with other agencies, we are authorized to pay direct benefits through vouchers to encourage employees' use of public transportation. However, funding constraints have forced us to choose among the benefits we can provide, and thus far we have had to forego this one. We have included a request in our fiscal year 2002 budget request for the funds to enable us to offer the direct public transportation benefits.

A cost-free benefit we offer our employees is business-casual dress, which we phased in over a year-long period and has been a great success. Another low-cost benefit we provide our mission staff is business cards, which prominently feature GAO's core values of accountability, integrity, and reliability and include a professional title chosen by each staff member—from among a list of approved titles—to convey his or her unique role or area of expertise in GAO.

We are particularly proud of two of the facilities we offer our headquarters employees. "Tiny Findings," GAO's on-site childcare center, was one of the first such facilities in the federal government when it opened in 1990. A year earlier, the GAO Wellness and Fitness Center was opened after we renovated space and purchased the original equipment for the facility. Currently, some 807 employees are members of the GAO Wellness and Fitness Center. These and other efforts to create an employee-friendly workplace were recognized in 1998, when we received the OPM Director's Award for Outstanding Work and Family Programs.

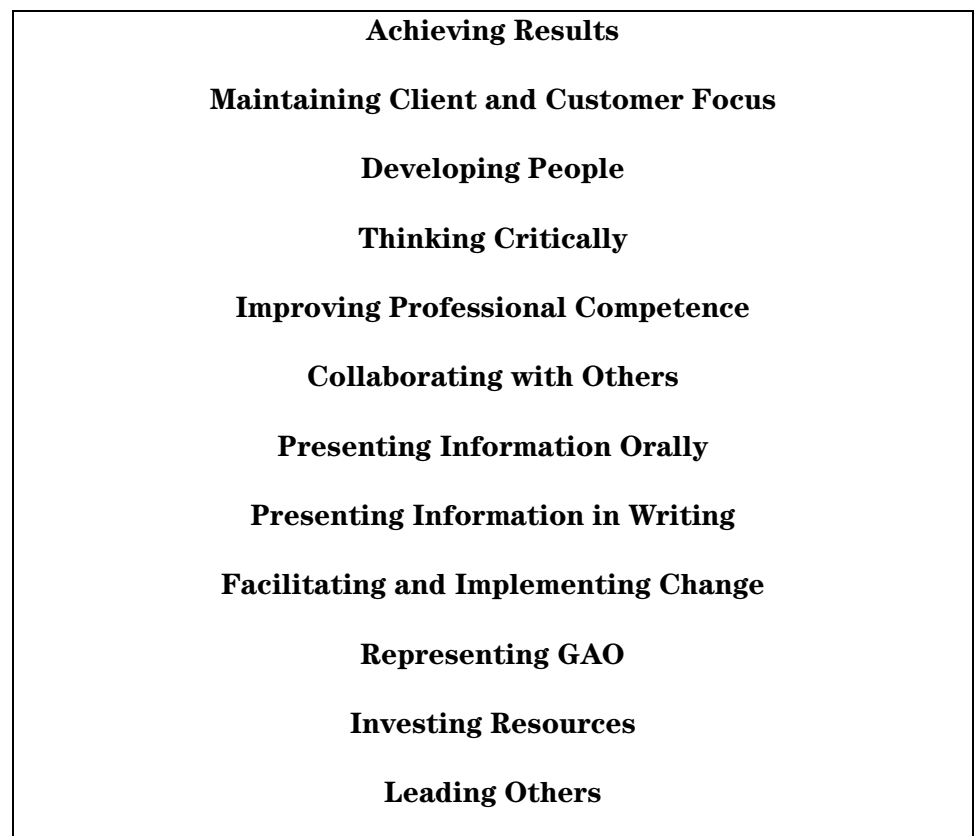
- *Competency-Based Performance Appraisal System.* Early in my tenure, it was apparent that GAO's performance appraisal system—first implemented in the mid-1980s—no longer met our organizational needs. We needed a performance appraisal system that would create a clearer linkage between employee performance and GAO's strategic plan and core

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values. Further, it would need to meet three objectives: (1) give staff candid and constructive feedback designed to help them maximize their potential and contributions to the agency, (2) provide management with the information needed to recognize and reward top performers, and (3) provide the information and documentation needed to deal with poor performers. Working with an outside contractor, we are developing a new competency-based performance appraisal system, which will be implemented for GAO analysts beginning October 1, 2001. It includes from 9 to 12 competencies that our employees have validated as the keys to meaningful performance at GAO. The important thing to note is that when we surveyed GAO employees in the course of development, they overwhelmingly validated these competencies as important. In short, this is their system. (See figure 3.)

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**Figure 3: GAO's Competency-Based Model**



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The new competency-based performance appraisal system should help us across a range of human capital considerations. It is keyed to results and creates a clear linkage between employee performance and GAO's strategic and programmatic goals. It will help us achieve important cultural changes, such as a needed shift from a hierarchical, process-oriented, "siloed" and internally focussed culture toward a flatter, more partnerial, results-oriented, matrix management-oriented, integrated and externally focussed culture. It will promote open and constructive dialogue between employees and supervisors, and discussions that encourage and reward multidimensional team building. It will help us achieve a better balance between people and products. Further, it will promote honest and constructive feedback to individuals and managers on performance expectations and results.

To support this new competency-based performance appraisal approach, we intend to reexamine our incentives system, through which we hope to provide meaningful, performance-based rewards to both individuals and teams who make important contributions to GAO's mission.

- *Training Programs.* Our competency-based performance appraisal/management system will also be closely linked to our training and professional development efforts. We recently reinvigorated our agencywide training efforts through our Center for Performance and Learning (P&L). P&L is instituting, among other things, an extensive curriculum update. P&L's goal is to move to a needs-based, demand-driven learning system that blends both e-learning and facilitated classroom training and that is informed by data from the performance management process and employees' individual development plans. In the next 6 to 12 months, P&L will focus on three priority areas: (1) implementing our new competency-based performance management system for analysts and analyst-related staff, (2) supporting 6 of the 12 competencies that represent the most significant changes in GAO's historical culture (e.g., developing people, collaborating with others, facilitating and implementing change, leading others, improving professional competence, and investing resources) and, (3) enhancing selected client and external relations efforts.

Another recent step we have taken is to make training for new hires more effective. We have developed a streamlined training program on GAO work processes and resources for newly hired staff, reducing nearly 2 weeks of classroom training to a 4-day interactive case study with other new staff, preceded by 12 hours of online training.



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- *Retention and Reward Programs.* As I mentioned earlier, we offer recruitment bonuses and retention allowances, similar to those offered by executive branch agencies, to attract and retain employees with specialized skills. We also make every effort to recognize in both tangible and intangible ways employees who make special contributions to the organization. These awards range from individual and team cash spot awards, time off, and training opportunities, to yearly unitwide awards, to agencywide recognition of sustained contributions to GAO—Meritorious Service Awards and Distinguished Service Awards—presented at an annual agencywide Honor Awards ceremony in Washington, D.C.
  - *Employee Suggestion Program.* An important tool for us to tap into the ideas and ingenuity of our staff has been our employee suggestion program. Since the inception of the employee suggestion program in October 1999, we have received approximately 1,300 suggestions. A number of these suggestions have been adopted and many are still under consideration. Using GAO's Intranet, employees can e-mail their suggestions to my office, after which they are reviewed and analyzed by the appropriate program staff. We encourage employees to focus on ways to improve the quality of GAO's products and services and on ways to improve the economy, efficiency, and effectiveness of our job and administrative processes. Employees whose suggestions are adopted receive some tangible reward for their time and effort, but the biggest payoff in a program such as this is not the award, but rather the satisfaction of seeing an idea put to use in a way that improves GAO.

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## GAO's New Human Capital Authorities Will Help It Address Current and Emerging Challenges

What makes all the initiatives I have just discussed important is that we are getting results. The performance of our organization, as reflected in our first two Accountability Reports to the Congress, is the best indicator of our effectiveness in maximizing the value of our people. We have found that many of the management tools and flexibilities we needed to pursue these modern human capital management approaches are already available to us, and we are committed to using them, subject to the overall limit in our financial resources. But clearly, we have also found that we have to stay alert—to think strategically and proactively—in order to identify additional authorities that may be needed to prepare our organization for the challenges of the new century. For example, as I discussed earlier, our organization faces significant human capital challenges in such areas as its size, shape, skills imbalances, and succession planning challenges. The past decade's dramatic downsizing (approximately 40 percent from 1992 through 1997) and the accompanying inability to hire the new talent we needed combined with the demographics of an increasingly retirement-eligible workforce threaten

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our ability to perform our mission in the years ahead. We found that our preexisting personnel authorities would not let us address these challenges effectively. Therefore, using the comprehensive workforce data we gathered and analyzed to make a coherent business case, we worked with the Congress last year to obtain several narrowly tailored flexibilities to help us reshape our workforce and establish senior-level technical positions in certain critical areas.

The legislation, passed in October 2000, gave us additional tools to realign GAO's workforce in light of overall budgetary constraints and mission needs; to correct skills imbalances; and to reduce high-grade, managerial, or supervisory positions without reducing the overall number of GAO employees. To address any or all of these three situations, we now have authority to offer voluntary early retirement (VER) to up to 10 percent of our employees each fiscal year until December 31, 2003. We also have the authority to offer voluntary separation incentive (VSI) payments to up to 5 percent of our employees during each fiscal year until December 31, 2003. Further, in the case of a reduction-in-force (RIF), we have the authority to place a much greater emphasis in our decisionmaking on our employees' knowledge, skills, and performance, while retaining veterans' preference and length of service as factors to consider in connection with applicable RIFs.

Since the legislation was enacted, we have established agency regulations for implementing the VER program. We are in the process of analyzing workforce data in preparation for offering voluntary early retirements later this summer and into fiscal year 2002. The development of regulations to cover VSIs and RIFs is still in progress. We have no plans to offer VSIs, nor do we intend to pursue any involuntary layoffs during this or the next fiscal year.

Another provision of the legislation was the authority to establish Senior Level positions to meet critical scientific, technical, or professional needs and to extend to those positions the rights and benefits of SES employees. This authority will help us address positions in such highly competitive areas as economics and information technology.

We believe that three of the authorities provided in our 2000 legislation may have broader applicability for other agencies and are worth congressional consideration at this time. The first two—voluntary early retirement and voluntary separation incentives—could give agencies additional flexibilities with which to realign their workforces; correct skills imbalances; and reduce high-grade, managerial, or supervisory

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positions without reducing their overall number of employees. The third authority—to establish Senior Level positions—could help agencies become more competitive in the job market, particularly in critical scientific, technical, or professional areas.

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## Further legislative reforms should be explored

The Administration and the Congress should consider other legislative actions that would help federal employers address their human capital challenges. As demographics change, as the marketplace continues to evolve, we will continue to think strategically and proactively to identify areas in which new innovations would make good business sense. In this regard, we believe it is worth exploring selective legislative proposals to enhance the federal government's ability to attract, retain, and motivate skilled employees, particularly in connection with critical occupations, on a governmentwide basis. The following represent areas in which opportunities exist to better equip federal employers to meet their human capital needs:

- *Critical occupations.* Although agencies generally have more hiring and pay flexibilities today than in the past, further innovations might be explored to help federal agencies recruit, retain, and reward employees in such critical fields as information technology, where there is severe competition for talent with other sectors.
- *Recruiting funds.* In order to help attract and retain employees, consideration should be given to authorizing agencies to use appropriated funds for selective recruiting, recognition, and team building activities.
- *Professional development.* To encourage federal employees in their professional development efforts, consideration should be given to authorizing agencies to use appropriated funds to pay for selected professional certifications, licensing, and professional association costs.
- *Pay compression relief.* Executive compensation is a serious challenge for federal agencies, which to an increasing extent must compete with other governmental organizations, and with not-for-profit and private sector organizations, to attract and retain executive talent. In this regard, the existing cap on SES pay has increased pay compression between the maximum and lower SES pay levels, resulting in an increasing number of federal executives at different levels of responsibility receiving identical salaries. Further, pay compression can create situations in which the difference between executive and nonexecutive pay is so small that the financial incentive for managers to apply for positions of greater responsibility may disappear. Congress needs to address this increasing pay compression problem. It could do so, perhaps, by delinking federal

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executive compensation from congressional pay, or by raising the cap on executive performance bonuses.

- *Cafeteria benefits.* Federal employees could be provided with flexible benefits like many private sector workers under Section 125 of the Internal Revenue Service Code. This would give federal employees the ability to pay for such things as childcare or eldercare with pre-tax rather than after-tax dollars.
- *Frequent flyer miles.* Employees who travel on government business should be allowed to keep their “frequent flyer” miles—a small benefit but one that private sector employers commonly provide their people as part of a mosaic of competitive employee benefits. Let’s face it, flying is not fun anymore. Allowing federal workers to keep these miles, as employees elsewhere can, is a small price to pay. In addition, federal agencies could still use gainsharing programs to reward employees and save the government travel costs.
- *Phased retirement.* It may be prudent to address some of the succession planning issues associated with the rise in retirement eligibilities by pursuing phased retirement approaches, whereby federal employees with needed skills could change from full-time to part-time employment and receive a portion of their federal pension while still earning pension credits.
- *Fellowships.* Congress should explore greater flexibilities to allow federal agencies to enhance their skills mix by leveraging the expertise of private and not-for-profit sector employees through innovative fellowship programs, particularly in critical occupations. Through such fellowships, private and not-for-profit professionals could gain federal experience without fully disassociating themselves from their positions, while federal agencies could gain from the knowledge and expertise that these professionals would bring during their participation in the program. Obviously, appropriate steps would have to be taken to address any potential conflicts.

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## Employee Involvement Is Critical To Successful Human Capital Management

Successful human capital approaches require the involvement of employees at all levels of the organization. Agency leaders need to communicate clearly and consistently to their people at all levels their agency’s mission, core values, goals and objectives, and strategies. They need to empower employees and work in a constructive manner with employee organizations. Moreover, leaders need to provide plentiful opportunities for employees throughout the organization to give feedback and make their suggestions. In the human capital arena, how you do something is as important as what you do.

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I hold “CG chats” over our closed-circuit television network for both our headquarters and field staff, at least quarterly and as events dictate, to address particularly current and emerging issues affecting our employees, such as our organizational realignment or voluntary early-out program. In addition, members of our Executive Committee and I give numerous presentations, hold employee forums, and visit field offices to exchange views on a regular basis. Many of my CG chats have featured Q&As from members of our Employee Advisory Council, with the opportunity for staff around GAO to e-mail their questions for on-air answers. In addition, each week our Office of Public Affairs produces our comprehensive newsletter, Management News, which is made available online to all our employees.

We have made sure to follow an approach to “change management” that is transparent and highly participatory. Recently, we have taken additional, far-reaching steps to formalize the involvement of our employees and have used technology to make it easier for them to participate in the process. One of our key steps has been the creation of our Employee Advisory Council (EAC). Comprising employees who represent a cross-section of the agency, the EAC meets quarterly with me and members of our senior executive team. The EAC’s participation is an important source of front-end input, and feedback on, our human capital and other management initiatives. Specifically, EAC members convey the views and concerns of the groups they represent, while remaining sensitive to the collective best interests of all GAO employees; propose solutions to concerns raised by employees; provide input to and comment on GAO policies, procedures, plans, and practices; and communicate agency issues and concerns to employees.

Creating transparency is a key element of our employee involvement efforts. We typically get extensive front-end input, issue straw proposals, and make extensive use of surveys and focus groups to obtain feedback. For example, before we finalize any major human capital proposal or other significant agency policy, we notify all of our employees via e-mail that a new GAO order or policy is out for comment. We post these materials on our Intranet in a format that allows our employees to comment online. After due consideration of the comments, many of which may lead to changes in the original proposal, we inform the staff of the results of the process. Recent materials that have been provided for comment in this fashion include our strategic plan; our congressional protocols; the procedures for our Professional Development Program; proposals for new titles for mission positions; and all of our GAO orders, including those on the reasonable use of computers and other equipment,

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our employee parking program, adverse actions, Voluntary Early Retirement offers, and Senior Level positions.

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## Use Of Management Tools And Flexibilities At DOD And IRS

We have noted in the past that there is no single recipe for successful human capital management.<sup>5</sup> At GAO, we are making significant progress by using the management tools and flexibilities available to us and tailoring our human capital approaches to support our mission and other evolving needs. However, the tools and flexibilities available to other agencies will differ from ours, and so will the specific human capital approaches these agencies may develop to fit their own situations. The important point to remember is that the principles of modern strategic human capital management, drawn from high-performing organizations in the public, not-for-profit, and private sectors alike, are widely known and widely applicable. Every agency needs to recognize that its people are vital assets for organizational success and, to develop approaches for managing human capital that best support the agency's mission, vision, core values, goals and objectives, and business strategies.

While I have focused so far on GAO's experience, I would like to remark briefly on those of two other federal entities, the Department of Defense (DOD) and the Internal Revenue Service (IRS).

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### Department of Defense

The human capital issues facing the Department of Defense are not fundamentally different from those facing other federal agencies today. In the wake of extensive downsizing over the last decade, DOD is experiencing significant workforce imbalances in terms of shape, skills, and retirement eligibility, with the likelihood of a significant loss of experienced personnel to retirement over the next few years and a resulting decline in the ability to accomplish agency missions. Yet, until recently, there has been very little action taken to address these problems, especially on the civilian (or non-uniformed) side of DOD.

The last few decades have seen a dramatic decrease in the size of the DOD workforce. However, while it has come down considerably in size, it is still by far the largest employer in the government. Because it is the largest employer of federal employees in the competitive civil service, how DOD

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<sup>5</sup> *Human Capital: A Self-Assessment Checklist for Agency Leaders* (GAO/OCG-00-14G, September 2000).

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approaches human capital management sends important signals about trends and expectations for federal employment across government.

Last year, the Defense Science Board task force<sup>6</sup> identified several key issues now evident across the total defense force. Within the civilian workforce, it cited an insufficient number of properly trained candidates in the pipeline, an aging workforce with little turnover, and limited professional development opportunities.

*DOD's Human Capital Challenges.* Many of the human capital problems that DOD is dealing with today are the result of its approach to downsizing in the early 1990s. While DOD had tools available to manage its civilian downsizing and mitigate the adverse effects of force reductions, its approach to civilian force reductions was not really oriented toward shaping the makeup of the workforce for the future. In contrast, DOD did a much better job managing active-duty military force reductions because it followed a policy of trying to achieve and maintain a degree of balance between its accessions and losses in order to shape its forces with regard to rank, specialties, and years of service.<sup>7</sup>

The consequences of the lack of attention to force shaping can be seen in the current age distribution of the DOD civilian workforce in comparison to the distribution at the start of the drawdown. Specifically:

- As of September 1999, only 6.4 percent of DOD's civilian workforce was under the age of 31, compared to about 17 percent in 1989.
- Since 1989, there has been a 69 percent drop in the number of civilians with less than 5 years of service, but only a 4 percent drop in the number of civilians with 11–30 years of service.

The net effect is a workforce that is not balanced by cohort group or experience and that puts at risk the orderly transfer of institutional knowledge. Although we cannot say what the ideal balance of employees should be, the continuing increase in the number of retirement-age employees could make it difficult for DOD to infuse its workforce with

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<sup>6</sup> *Final Report of the Defense Science Board Task Force on Human Resources Strategy* (Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, February 28, 2000).

<sup>7</sup> *Human Capital: Strategic Approach Should Guide DOD Civilian Workforce Management* (GAO/T-GGD/NSIAD-00-120, March 9, 2000).

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new and creative ideas and develop the skilled civilian workers, managers, and leaders it will need to meet future mission requirements. These problems are even more severe in certain areas such as acquisition and depot maintenance, where the proportional reduction in the size of the workforce has been 47 percent and 59 percent, respectively, compared to a 37 percent decrease in the DOD total civilian workforce. In addition, in both of these areas, more than half of the current workforce will be eligible to retire within the next 5 years.

Perhaps one of the more serious cases is the example that Senator Voinovich cited in his recent Report to the President.<sup>8</sup> That case involved Wright-Patterson Air Force Base in Dayton, Ohio, headquarters of the Air Force Material Command, which employs over 10,000 civilian federal workers. It is an excellent example of the age and skills imbalance currently affecting the defense workforce. Demographically, 60 percent of Wright-Patterson's civilian employees will be eligible for either early or regular retirement by 2005. Over and above the problem of continuity and succession, the Wright-Patterson example also demonstrates a growing imbalance in DOD's engineering workforce as the need for new skills emerges in areas such as space operations, lasers, optics, advanced materials, and directed energy fields.

The extended period of downsizing in these and other segments of its workforce has put DOD on the verge of a retirement-driven talent drain. DOD is facing potential shortages of experienced personnel in a variety of areas, including active duty flight-rated personnel and other skill areas in addition to the acquisitions and depot maintenance areas already mentioned. Retired military personnel are one potential source of experienced personnel. For example, in late 1999, the Air Force's Air Education and Training Command announced plans to fill 30 flight-rated staff positions with civilian employees. This initiative was aimed at freeing up active duty pilots to return to flying positions. Since, as we have pointed out in the past, a civilian employee costs less than a comparably-graded military person,<sup>9</sup> finding a viable source of experienced civilians to

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<sup>8</sup> *Report to the President: The Crisis in Human Capital*, report prepared by Senator George V. Voinovich, Chairman, Subcommittee on Oversight of Government Management, Restructuring, and the District of Columbia, Committee on Governmental Affairs, United States Senate, December 2000.

<sup>9</sup> *DOD Force Mix Issues: Greater Reliance on Civilians in Support Roles Could Provide Significant Benefits* (GAO/NSIAD-95-5, October 19, 1994).



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replace active duty personnel in support roles could also yield significant budgetary savings for DOD.

Military retirees have considerable knowledge, skills, abilities, and experience that they can bring to some of these highly specialized defense jobs. They could be a great source of employees that would offset the expected loss of personnel to retirement while minimizing the loss of personnel in whom a substantial investment has been made and who still have valuable contributions to make. However, until recently, many military retirees who took federal civilian jobs incurred significant economic penalties. A recent change in law, however, may improve the Department's ability to fill specialized positions with highly skilled, experienced military retirees. The National Defense Authorization Act for Fiscal Year 2000 repealed the dual-compensation limit that required retired military officers and some enlisted retirees to forego 50 percent of their military retired pay in excess of about \$10,450 if they went to work for the federal government. A pay cap also placed a limitation on the combined military retiree pay and civilian employee salary an individual could receive. The recent repeal of these limitations should make civilian jobs in DOD more appealing to retired military personnel, allowing the Department to continue to benefit from the experience and knowledge of retirees after they leave active duty.

A byproduct of the downsizing of the DOD workforce has been a shift in composition away from clerical and blue-collar occupations with an increasing percentage of professional, technical, and administrative occupations. One of the implications of this trend is the need for additional programs for training and development. In 1997, in response to recommendations from the Commission on Roles and Missions of the Armed Forces, DOD created its Defense Leadership and Management Program (DLAMP). This is a succession-planning program aimed at preparing civilian employees for key leadership positions throughout the Department. Since its inception, nearly 1,500 DOD civilians have participated in the program, and the first graduates completed the program in late fall 2000.

*The Search for Personnel Management Flexibilities.* As we have previously reported, not all barriers to more effective strategic human capital management in the federal government stem from law or

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regulation.<sup>10</sup> Some arise out of long-standing perceptions about the limitations placed on agency officials' managerial prerogatives or basic philosophies about how people should be managed. Over the last couple of decades, DOD has considered a number of approaches to gaining additional flexibility with which to manage its civilian workforce. This has ranged from considering proposing its own personnel system (independent from government-wide personnel rules) to the development of various personnel demonstration projects involving particular units or segments of the workforce.

Defense, like other federal agencies, is authorized by the 1978 Civil Service Reform Act (5 U.S.C. 4703) to conduct personnel demonstration projects with the approval of OPM. Over the years, Defense organizations have sought and received permission to engage in a variety of projects aimed at demonstrating the potential to improve the management of civil service employees. Most of these demonstration projects have experimented with changing various civil service policies or procedures, such as broadbanding grade levels and implementing various pay-for-performance or contributions-based compensation systems. For example, a recent demonstration project approved by OPM is intended to enhance the quality, professionalism, and management of the Department's civilian acquisition workforce.<sup>11</sup> This demonstration project is designed to provide an encouraging environment that promotes the growth of all employees and improves the local acquisition managers' ability and authority to manage the workforce effectively. It involves streamlined hiring processes, broadbanding, simplified job classification, a contribution-based compensation and appraisal system, revised reduction-in-force procedures, expanded training opportunities, and sabbaticals.

*The Need For Strategic Workforce Planning.* Seeking additional flexibilities and developing demonstration projects, however, is likely to do little to solve DOD's long-term human capital problems unless it first engages in a concerted strategic workforce planning effort. As the Defense Science Board task force reported in February 2000:

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<sup>10</sup> *Transforming the Civil Service: Building the Workforce of the Future—Results of a GAO-Sponsored Symposium* (GAO/GGD-96-35, December 20, 1995).

<sup>11</sup> For details on this demonstration project, see *Federal Register*, Vol.64, No. 5, pp.1426-1432.

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- “Today there is no overarching framework within which the future DOD workforce is being planned aside from the planning conducted within the military services and ad hoc forums in the Office of the Secretary of Defense. An overarching strategic vision is needed that identifies the kind of capabilities, and the changes in human resources planning and programs that will be required. (p. viii)”<sup>12</sup>

This brings us to the crucial foundation that DOD needs to put in place if it is to solve its long-term human capital challenges—strategic workforce planning. The Department needs to:

- determine its current and future workforce needs,
  - assess how its current and anticipated future workforce compares to these needs, and
- develop effective strategies to fill the gaps.

Some work has recently begun in this area. The RAND Corporation recently issued the results of a study conducted for DOD.<sup>13</sup> This report was aimed at understanding the effect of Joint Vision 2010<sup>14</sup> on the defense workforce. The researchers focused on three key questions to facilitate workforce planning for the year 2010:

- What changes in military missions, organizations, and technology are anticipated by 2010?
  - To what extent will changes in military missions, organizations, and technology affect defense work context and activities?
- How will changes in work affect the desired characteristics of workers?

Efforts such as this need to be continued and expanded beyond the first decade of the new century if DOD is to develop the workforce it will need to fulfill our strategic national defense requirements.

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<sup>12</sup> *Final Report of the Defense Science Board Task Force on Human Resources Strategy* (Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, February 28, 2000).

<sup>13</sup> Levy, D.G., Thie, H.J., Robbert, A.A., Naftel, S., Cannon, C., Ehrenberg, R., and Gershwin, M. *Characterizing the Future Defense Workforce* (RAND, MR-1304-OSD, 2001).

<sup>14</sup> A document published in 1996 by Chairman of the Joint Chiefs, General Shalikashvili, outlining his vision for joint warfighting in the early 21st century.

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## Internal Revenue Service

IRS is revamping its human capital policies to help achieve its congressionally mandated transformation to an agency that better balances service to the taxpayers with enforcement of the tax laws. The massive modernization required by the IRS Restructuring and Reform Act (the Reform Act) is virtually unprecedented for IRS and will require many years to implement.

*Strategic planning.* Before using the full range of personnel flexibilities available to it under current law and as made available by the Reform Act, IRS first needed to develop an agencywide strategic plan that established a framework for meeting its revised responsibilities. High-performing organizations develop strategic plans that shape the human capital policies and practices needed to align all employees toward achieving organizational goals and objectives. Such a plan was particularly important for IRS because, given the breadth of changes the Congress expected it to make, the agency needed to thoroughly reconsider its strategic direction. Further, at the same time that IRS was developing a strategic plan pursuant to the Reform Act, it was also reorganizing into four customer-focused operating divisions and aligning the division's efforts with its new strategic plan. Not surprisingly, developing a new strategic approach and reorganizing in concert with it were time-consuming tasks.

As part of its annual strategic planning and budgeting process, IRS revised its strategic plans at the agencywide, division, and field office levels in October 2000. We found the plan to be well developed at the IRS-wide level, reflecting the balance the Congress sought between taxpayer service and tax compliance. However, the plans, developed by divisions and field offices needed to be more specific, measurable and outcome oriented to provide a road map for each employee's daily activities. IRS is improving its strategic planning process and is currently deploying operational balanced measures to the field office level.

Concurrent with developing its strategic plan, IRS began changing its employee evaluation systems to better reflect the agency's strategic goals and objectives. Such change was needed because, as we reported in October 1999, front-line employee evaluations were more heavily focused on revenue production and efficiency than on customer service. IRS first revised the evaluation system for managers because these changes could be made without negotiating with the National Treasury Employees Union (NTEU), which represents front-line employees. Effective February 2000, the new evaluation system for managers includes critical job elements that reflect IRS' strategic goals of balancing its customer service and

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compliance responsibilities while promoting employee satisfaction. Managers are also required to develop specific commitments about the actions they will take to contribute to IRS' goals and objectives. IRS is currently revising the evaluation system for the remainder of the workforce so that their critical job elements also reflect IRS' strategic goals. IRS is discussing these proposed changes with NTEU and hopes to have this system in place by fiscal year 2002. We are currently assessing how effective these new employee evaluation systems are in cascading strategic goals and objectives down to managers and front-line employees.

*Tailoring human capital approaches.* IRS has used personnel flexibilities authorized by the Reform Act and flexibilities within existing personnel systems to better tailor its human capital policies and practices to its needs. For example, the Reform Act authorized IRS to establish up to 40 critical pay positions to attract senior managers with special knowledge and skills that IRS would otherwise have been unable to attract. As of early July 2001, IRS had about 24 positions filled under its new critical pay authority. IRS also created a broadbanded personnel classification and pay system to increase its flexibility in rewarding and utilizing managers. In March 2001, IRS collapsed over 1,500 GS-14s and GS-15s into a single pay band.

In addition to the personnel flexibilities provided under the Reform Act, IRS used its existing personnel authority to foster employee behavior that supports its new strategic goals. For example, IRS has provided training to its employees on the new definition of customer service and how customer service should be integrated into their daily activities. In addition, IRS has put into place personnel practices that the Congress tailored to IRS' circumstances when it passed the Restructuring Act. These include, for instance, a prohibition on using tax enforcement statistics in employee evaluations and termination procedures for employees engaging in specific types of misconduct.

*Employee involvement.* To get employee buy-in, IRS has continued to involve NTEU in developing and implementing organizational changes. For example, IRS and NTEU have partnered through efforts such as formally structured partnering councils, business process improvement teams, and cross unit committees. NTEU has also been involved since the beginning in IRS' reorganization. For example, over 500 front-line employees worked on reorganization teams. NTEU's President said that because the union has been involved in the reorganization since the beginning, NTEU has been willing to expedite union negotiations on certain mission critical

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items. For example, NTEU has expedited the development of new career paths and position descriptions for IRS employees.

IRS has also involved NTEU and employees in developing the new front-line employee evaluation system. However, IRS has been less successful in obtaining employee buy-in to these changes. IRS has had difficulty in obtaining NTEU agreement to the implementation of the employees' new critical job elements.

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## Summary

An agency's people are its most valuable organizational asset in managing for results. After years of inattentiveness to human capital as a critical management issue, and now that strategic human capital management has earned GAO's governmentwide high-risk designation, the federal government must take steps to meaningfully address its many human capital challenges. In this regard, the federal government must take a more strategic approach to human capital management. This area must be linked to each entity's strategic plan, core values, and organizational realignment.

Fundamental human capital legislative reform will eventually become a reality. However, agencies must first take the steps available to them under current laws and regulations to better manage their people. Second, agencies and The Congress alike should explore several legislative opportunities to help attract, motivate, and retain employees, both overall and especially in connection with critical occupations. Finally, all interested parties should work together to determine the nature and extent of more comprehensive human capital (or civil service) reforms that should be enacted over time. These reforms should include placing greater emphasis on skills, knowledge, and performance in connection with federal employment and compensation decisions.

I believe that if the government is to maximize its performance and assure accountability, then a fundamental shift is needed in the performance management paradigm. Decisions regarding hiring, compensation, promotion, and disciplinary actions must be driven more by employee skills, knowledge, and performance, and less by the passage of time and the rate of inflation, as they are today. The message we will send by moving away from tenure-based decisionmaking and toward decisions based on skills, knowledge, and performance, is simple: results count. Federal employees and managers alike will get the message, but so will prospective federal employees and members of the general public. They will understand that the federal government is holding its people to the

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highest standards of accountability, and that understanding will make the federal government a more prestigious, respected, and attractive employer.

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## Contact and Acknowledgments

For further information regarding this testimony, please contact Victor S. Rezendes, Managing Director, Strategic Issues, on (202) 512-6806 or at rezendesv@gao.gov. For information specific to the DOD-related portion of this testimony, please contact Henry L. Hinton, Jr., Managing Director, Defense Capabilities and Management, on (202) 512-4300 or at hintonth@gao.gov. For further information specific to the IRS-related portion of this testimony, please contact Michael Brostek, Director, Tax Administration and Justice, on (202) 512-9110 or at brostekm@gao.gov. Individuals making key contributions to this testimony included Stephen Altman, William Beusse, Ralph Block, Margaret Braley, Benjamin Crawford, Charlie Daniel, Gilbert Fitzhugh, John Pendleton, Joseph Santiago, and Jonda Van Pelt.

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# Attachment I: Addressing the Human Capital Challenge: Shared Responsibilities

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| <ul style="list-style-type: none"><li>• <b>President</b><ul style="list-style-type: none"><li>• Lead</li><li>• Promote</li><li>• Recognize</li></ul></li><li>• <b>OMB</b><ul style="list-style-type: none"><li>• Lead</li><li>• Coordinate</li><li>• Link</li></ul></li><li>• <b>OPM</b><ul style="list-style-type: none"><li>• Lead</li><li>• Advise/Assist</li><li>• Review</li></ul></li><li>• <b>Departments/<br/>Agencies</b><ul style="list-style-type: none"><li>• Lead</li><li>• Design</li><li>• Implement</li></ul></li></ul> | <ul style="list-style-type: none"><li>• <b>Congress</b><ul style="list-style-type: none"><li>• Confirm</li><li>• Oversee</li><li>• Legislate</li></ul></li><li>• <b>GAO</b><ul style="list-style-type: none"><li>• Review</li><li>• Recommend</li><li>• Share</li></ul></li></ul> | <ul style="list-style-type: none"><li>• <b>Private Sector</b><ul style="list-style-type: none"><li>• Partner</li><li>• Recognize</li><li>• Support</li></ul></li><li>• <b>Foundations</b><ul style="list-style-type: none"><li>• Partner</li><li>• Research</li><li>• Integrate</li></ul></li><li>• <b>Academia</b><ul style="list-style-type: none"><li>• Partner</li><li>• Revise</li><li>• Promote</li></ul></li><li>• <b>Media</b><ul style="list-style-type: none"><li>• Learn</li><li>• Investigate</li><li>• Report</li></ul></li></ul> |
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# Attachment II

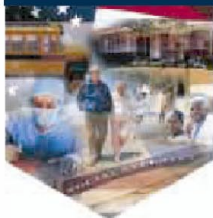
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### GOALS

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TO ADDRESS CURRENT AND EMERGING CHALLENGES TO THE WELL-BEING AND FINANCIAL SECURITY OF THE AMERICAN PEOPLE

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TO RESPOND TO CHANGING SECURITY THREATS AND THE CHALLENGES OF GLOBAL INTERDEPENDENCE

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BY BEING A MODEL ORGANIZATION FOR THE FEDERAL GOVERNMENT

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Demographics

Globalization

Quality of Life  
Government Performance and Accountability

Security

Technology

### OBJECTIVES

Health care needs and financing  
Retirement income security  
Social safety net  
Education/workforce issues  
Effective system of justice  
Community investment  
Natural resources use and environmental protection  
Physical infrastructure

Diffuse security threats  
Military capabilities and readiness  
Advancement of U.S. interests  
Global market forces

Fiscal position of the government  
Government financing and accountability  
Governmentwide management reforms  
Economy, efficiency, and effectiveness improvements in federal agencies

Client relations  
Strategic and annual planning  
Human capital  
Core business and supporting processes  
Information technology services

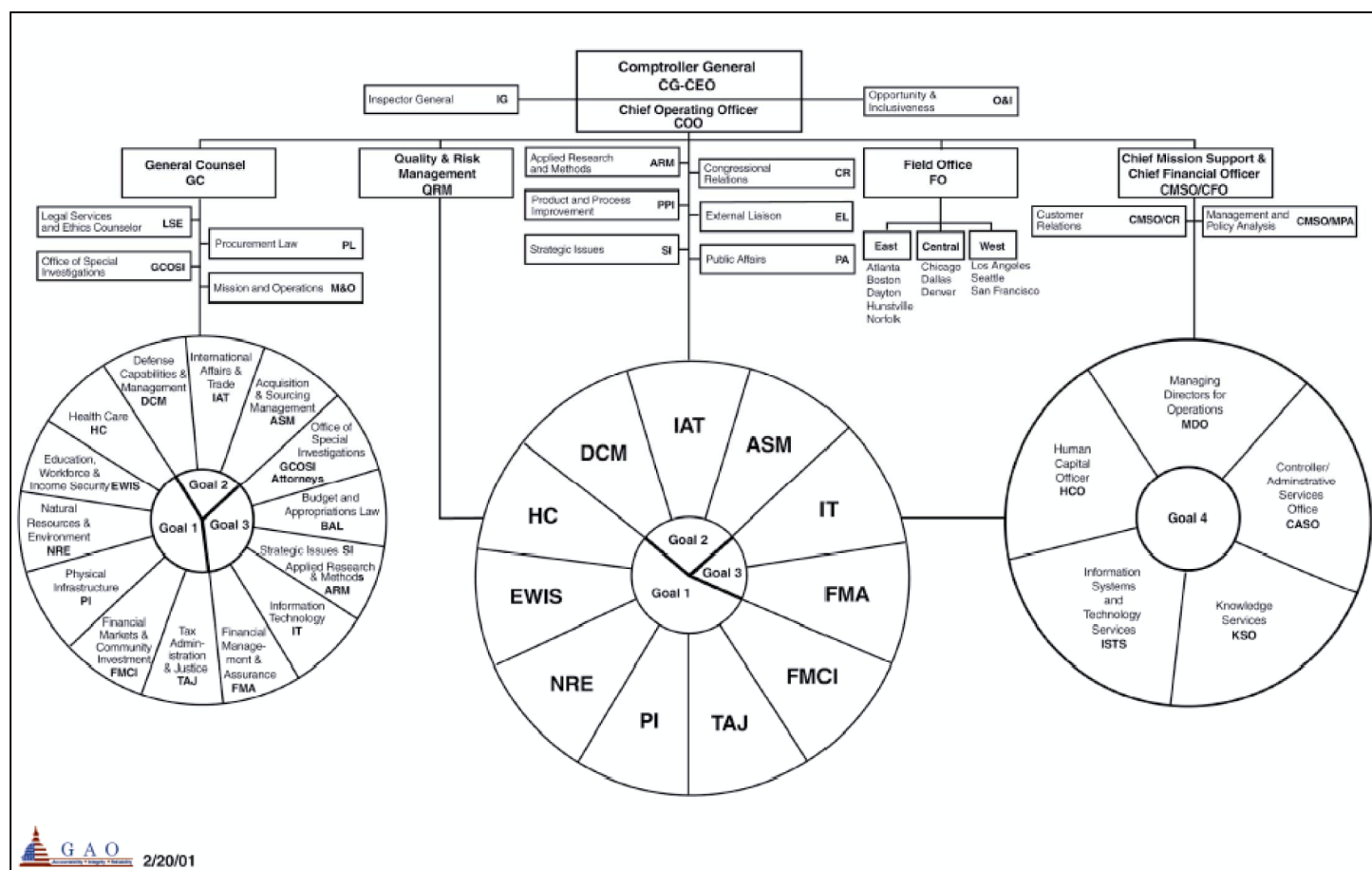
### CORE VALUES

Accountability

Integrity

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# Attachment III





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