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EXPANDING FLEXIBLE PERSONNEL SYSTEMS GOVERNMENTWIDE

HEARING

BEFORE THE

OVERSIGHT OF GOVERNMENT MANAGEMENT, RESTRUCTURING, AND THE DISTRICT OF COLUMBIA SUBCOMMITTEE

OF THE

COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

JULY 17, 2001

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EXPANDING FLEXIBLE PERSONNEL SYSTEMS GOVERNMENTWIDE

TUESDAY, JULY 17, 2001

U.S. SENATE,
OVERSIGHT OF GOVERNMENT MANAGEMENT, RESTRUCTURING,
AND THE DISTRICT OF COLUMBIA SUBCOMMITTEE,
OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:35 p.m., in room SD–342, Dirksen Senate Office Building, Hon. Richard Durbin, Chairman of the Subcommittee, presiding.

Present: Senators Durbin and Voinovich.

OPENING STATEMENT OF SENATOR DURBIN

Senator DURBIN. Welcome everyone. I apologize for my tardiness. The Appropriations Committee is marking up the agriculture bill, which has some consequence to the State of Illinois, and I wanted to be there and cast my vote. So I apologize, but I rushed right over as quickly as I could. Thank you all for being here as the Senate Subcommittee on Oversight holds a hearing entitled, "Expanding Flexible Personnel Systems Governmentwide." I have indicated to Senator Voinovich on several occasions that his dedication to this question of human capital challenge facing Federal Government is one that leads this Subcommittee and will continue to, though there has been a change in some of the titles around here, but I am pleased to have this opportunity, at his request, to delve into another aspect of the issue.

Our focus today will be on some of the various personnel flexibilities and special authorities granted by Congress to specific government agencies to facilitate personnel retention, recruitment, pay and promotion. Senator Voinovich launched a series of Subcommittee hearings in the 106th Congress to probe the issue of the Federal Government's human capital challenges. This hearing builds on that foundation.

In showcasing three agencies today, the General Accounting Office, the Internal Revenue Service, and the Department of Defense, we will examine their experiences in implementing the flexibilities extended to them through congressional enactments. Last year, GAO was accorded an array of flexibilities that were added under the GAO Personnel Flexibility Act of 2000. These include authorizing senior level positions for scientific, technical or professional staff; voluntary early retirement offers to individual employees; separation payments for realignment purposes; and reduction-in-force flexibilities for downsizing, realignment, or correction of skills

and balances. These recent authorities build on authority extended to GAO over 20 years ago to develop its own personnel system. GAO's system includes broad-banding of its pay grades, pay-for-performance, and flexible hiring and promotion practices.

With respect to the Internal Revenue Service, under the Restructuring and Reform Act of 1998, Congress included human capital flexibility provisions covering a wide range of personnel-related functions. These included eliminating the use of enforcement statistics and employee evaluations; authority to terminate employees for committing certain acts or omissions in performance of official duties; providing critical pay to attract senior managers; streamlining hiring, travel and relocation procedures; and implementing a broad-banded pay system.

The Defense Department has also been a beneficiary of congressional authorization to engage in a variety of demonstration projects to test improvements in managing its civilian workforce. For example, in 1980, Congress authorized China Lake and other U.S. Navy facilities, such as science laboratories, to participate in the first personnel demonstration project under Title VI of the Civil Service Reform Act of 1978. The lab sought to improve recruitment and retention of high-quality workers by increasing their control over classification, pay and other personnel matters.

The project was expanded several times and now covers approximately 10,000 employees. It was extended indefinitely in 1994, and in 1995, the Navy was given authority to expand the project throughout the Naval Air Systems Command. In addition to eliciting the insights of key leaders of these three agencies today, we seek to learn more about the plans of the administration to address workforce planning concerns. We are anxious to hear the perspectives on personnel flexibility of representatives of employee labor organizations and interested public administration associations.

I want to particularly explore several questions about the utility of these tools, how useful has these authorities been; what are the strengths and drawbacks; has there been particular impediments to using existing authority; how has the agencies engaged with employees and employee organizations in implementing these authorities. Is it working? Can it be improved?

A key outcome of our inquiry will be identifying the lessons other agencies and Congress ought to apply and the cautions they should be heeding in considering whether to extend any of these authorities more broadly. I want to now yield to the Ranking Minority Member of the Subcommittee, my good friend and a leader on Capitol Hill on this important issue—Senator Voinovich, your opening statement.

OPENING STATEMENT OF SENATOR VOINOVICH

Senator VOINOVICH. Thank you, Mr. Chairman. I am pleased that the Subcommittee is holding this hearing on "Expanding Flexible Personnel Systems Governmentwide," and I would like to welcome our two panels of witnesses.

Mr. Chairman, today's hearing is the ninth that our Subcommittee has held on the Federal Government's human capital crisis since July 1999. I would like to thank you publicly for your partnership in the examination of this issue during my time as

Chairman of the Subcommittee and for your commitment to continue examining these problems and seeking solutions during your chairmanship.

I think we both agree that one of the real crises that we face in the Federal Government today is the human capital crisis. I consider this a key hearing on the Subcommittee's human capital agenda. When examining the Federal Government's human capital problems, some are quick to say that entirely new civil service architecture is needed to address this system's many problems. I am sympathetic to that argument. However, we all know how difficult that overhaul would be. That is why it is critical to explore two other options when considering civil service reform.

The first option is that we simply try to use the authorities available under current law more effectively. I have discussed that approach with both Mr. Walker and Mr. O'Keefe, and we all agree that a great deal can be done through better management and the use of current laws and regulations. I am pleased to note that Kay James was confirmed by the Senate last Wednesday to be the Director of the Office of Personnel Management. Earlier this year, I discussed with her that OPM should do all it can to relax certain rules and regulations that make some aspects of the Civil Service System overly bureaucratic. For example, there are certain elements of the hiring system that should be changed. Lieutenant General Robert Flowers, Chief of the Army Corps of Engineers, recently indicated to me that since the Corp's special hiring authority was rescinded, it takes him 4 months to hire an engineer. This is unacceptable in a competitive field.

Second, we should identify the special personnel flexibilities provided to some agencies, such as the Internal Revenue and General Accounting and the Department of Defense, examine how effectively they have been employed, and determine if those flexibilities should be extended governmentwide. The purpose of today's hearing is to explore the second approach. The primary advantage of that approach is that if it is agreed that a certain flexibility is proved to be worthwhile, extending it to the entire Executive Branch is certainly better than designing a whole new system and can help address the human capital crisis until more comprehensive reforms can be agreed upon and implemented.

The General Accounting Agency, under the leadership of Comptroller General David Walker, has tried to make itself an example of excellence in government. Its personnel system is a great candidate for examination today. The Internal Revenue Service has a relatively newer alternative system, which was authorized in Congress of 1998. The Restructuring and Reform Act directed IRS to establish a performance management system and provided human capital flexibility provisions that covered a wide range of personnel-related functions. Commissioner Rossotti, I look forward to hearing from you about how you think that system is working.

I am especially pleased also that we have Charlie Abell, Assistant Secretary of Defense for Force Management Policy, because the DOD has over 3 million active duty military, reserve, and civilian personnel combined. Managing this enormous workforce is a tremendous challenge. Secretary Abell, I am eager to learn from you what the Bush Administration is doing or what you intend to do

to address the human capital crisis that we have at the Defense Department.

I would also like to mention the fact that my staff and I worked closely with Mr. Abell last year to insert language in the fiscal year 2001 Department of Defense Authorization Act to reshape its workforce by offering voluntary separation incentive payments to 1,000 senior employees in this fiscal year. That provision also authorized another 8,000 slots for the next 2 fiscal years. I am really pleased, Secretary Abell, that the money to fund that is in the President's 2002 budget, and hopefully the money will be there in 2003.

I think we are all familiar also with former Defense Secretary James Schlesinger's testimony before this Subcommittee several months ago, where he indicated that, for all intents and purposes, the Department of Defense, in terms of personnel and the human capital crisis, is in intensive care. You might be interested that I recently had a human capital roundtable in Dayton, Ohio at Sinclair Community College. Dr. Russo, Executive Director of Aeronautical Systems Center at Wright Patterson was there, Colonel Larry Strauser, Vice Commander, Air Force Research Laboratory, Wright Patterson, and local college students were in attendance.

I wanted to find out from those students: Are you interested in going to work for the Federal Government? If you are, why? If you are not, why not? It was interesting, first of all, that many really did not know about the opportunities available to them in the Dayton area, in the Defense Department. Several of them mentioned that they felt that the pay was not competitive with the private sector. The colonel, after one student explained that he was an electrical engineer, said to him, "We have got a job for you now, right now, in a work-study program." I saw a big smile on the youngster's face. Then I asked the colonel, "How long is it going to take for you to have your hiring of this young man approved?" He looked at me with a straight face and he said, "Five months." Well, at that point, you could have heard a pin drop in the room.

I am also pleased today that we have with us Presidents Harnage and Kelly from the American Federation of Government Employees and the National Treasury Employees Union. I have said on numerous occasions we cannot expect to change the Civil Service System unless we closely involve those who will be affected most directly. I look forward to your analysis of these new personnel systems from the unions' point of view.

Last, but certainly not least, I look forward to hearing the perspectives of Ms. Shiplett on behalf of the Human Resources Center at the National Academy of Public Administration. NAPA has studied these issues closely for many years and they have a great deal to offer to this discussion. Again, I thank the witnesses for coming today and I look forward to your testimony. Thank you, Mr. Chairman.

Senator DURBIN. Thank you, Senator Voinovich. I want to welcome the first panel: David Walker, Comptroller General of the U.S. General Accounting Office. Mr. Walker is the Nation's chief accountability officer and the head of GAO, a Legislative Branch agency that assists Congress in insuring the accountability of the Federal Government. Sean O'Keefe, who is the Deputy Director of the Office of Management and Budget. In addition to overseeing

the preparation of the budget, supervision of the administration of Executive Branch agencies, OMB is at the centerpiece of Federal agency management oversight. Charles Rossotti is the Commissioner of the Internal Revenue Service. Almost since the time of his appointment to that post in November 1997, Mr. Rossotti has had the challenging task of overseeing the restructuring of the IRS. Charles Abell joins us from the Department of Defense. A retired Army lieutenant colonel, he is the Assistant Secretary of Defense for Force Management Policy. In that capacity, he is responsible for the policies, plans and programs for military and civilian personnel management, including recruitment, education, career development, equal opportunity compensation, recognition, discipline and a separation of all DOD personnel.

Thank you for coming. We look forward to your testimony. As is customary in the Subcommittee, we swear in all witnesses. So would you please rise and raise your right hand? Do you swear the testimony you are about to give the Subcommittee is the whole truth, and nothing but the truth?

Mr. WALKER. I do.

Mr. O'KEEFE. I do.

Mr. ROSSOTTI. I do.

Mr. ABELL. I do.

Senator DURBIN. Let the record note that the witnesses answered in the affirmative, and so they will be allowed to continue. I would ask that you limit your oral statements to no longer than 5 minutes, and remind you that your entire statement will be entered into and made part of the record.

Mr. Walker, please proceed.

TESTIMONY OF DAVID M. WALKER,[1] COMPTROLLER GENERAL, U.S. GENERAL ACCOUNTING OFFICE

Mr. WALKER. Thank you, Mr. Chairman. It is a pleasure to be here and I will summarize my extensive statement that has been provided for the record. Mr. Chairman, I have tried to make human capital a top priority for GAO ever since I was the Comptroller General of the United States. First, externally, with regard to evaluation work that we are doing, as well as to try to provide tools and methodologies to help agencies help themselves see the way forward in this critically important area.

Second, we have also tried to make human capital, or our people, a top priority within GAO, with the objective to try to lead by example. The way that we do things is not the only way. It is not necessarily the best way, but it is a way. We are not perfect and we never will be. On the other hand, we believe as the leading accountability organization in the United States and possibly the world, we have a responsibility to lead by example in all critical management areas, and we are trying to do that.

As you know, Mr. Chairman, GAO recently designated the lack of strategic human capital in management as a governmentwide high-risk area. Unfortunately, all too frequently, the Federal Government has viewed its employees as a cost to be cut, rather than an asset to be valued. We believe very strongly that this must

[1] The prepared statement of Mr. Walker appears in the Appendix on page 41.

change in the future, because of the fact that we are now in a knowledge-based economy. People are the source of all knowledge. We must be able to attract some of our Mation's best and brightest to run what is arguably the largest, the most complex, the most diverse and the most important entity on the face of the earth, namely the U.S. Government.

We cannot afford to do otherwise. We believe that there is a three-phased approach that is ultimately going to have to be followed in the area of human capital. First, agencies should do everything they can within the context of current law to attract, retain and motivate a skilled and knowledgeable workforce. Second, they should seek, based on a business case analysis, selected additional flexibilities targeted additional changes. In addition, the Congress should consider providing additional flexibilities and to a broader range of Federal agencies, along with appropriate safeguards to prevent abuse. Third, there is going to be a need for broader, more comprehensive civil service reform over time.

However, we must learn from what has worked and what has not worked with regard to the best flexibilities and we must reach out to try to involve all key stakeholders to build a consensus before comprehensive civil service reform will be possible. In my opinion, that is at least 2 years away. Many have shared responsibilities for addressing the human capital challenge, including all agency heads, OMB, OPM and a variety of other players.

As you properly pointed out, Mr. Chairman, GAO has certain additional flexibilities that have been granted to us in past years. For example, in 1980, the GAO Personnel Act was passed. It was passed primarily with two concepts in mind, independence and innovation. It was passed in order to provide GAO reasonable independence from OPM and other entities, since we have the responsibility to review, evaluate and audit certain entities; therefore, we wanted to make sure that there would not be a potential conflict of interest with regard to our activities relating thereto.

Second, it was also passed with the idea to try to use GAO as a potential experiment for certain new and innovative approaches. The three major areas dealt with hiring practices, classification, and compensation practices. In the hiring area, we have streamlined hiring authorities, but it is important to note that we still maintain veterans preference to the extent applicable under current law, under Title V, and in addition to that we also conform with merit principles in all of our practices. We use broad-banding as a classification system for most mission personnel. In addition to that, we have a pay-for-performance system for compensating our mission related employees, the desire being, that to the maximum extent possible, we make decisions on who we hire, who we promote, who we reward and who we discipline based upon skills, knowledge and performance.

The 2000 act that was passed last fall, with the help of both of you Senators and others, provided us with four different authorities. First, the authority to create a new senior-level position going up to the SES level of compensation for certain specialists and technical professionals. We have implemented that authority and we have put about four new people into that category and we have reclassified about four others. We have the authority to use vol-

untary early retirement authority, as well as buyout authorities, to realign GAO, rather than to downsize GAO. We have issued the regulations on voluntary early retirement and we sent out an offer yesterday, as a matter of fact, for a voluntary early retirement authority for our employees to consider during the next 45-day period.

We have not proposed buyouts, nor do we plan to. We do not believe they meet the cost-benefit requirement, at least as they are currently structured. And, we have not promulgated revised reduction in force regulations, even though we have the authority to do that, because these are not issues that are presently before us.

Two more quick things, Mr. Chairman—first, I have outlined in my statement a number of actions that GAO has taken, within the context of current law, within that 80 percent that can be done within the context of current law that we hope will be informative to this Subcommittee as well as other agencies. Second, I have also outlined in my statement a number of legislative actions that we believe Congress should consider that would provide agencies reasonable flexibility to attract, retain, and motivate a qualified workforce, while providing adequate protections to prevent abuse.

Last, let me say, Mr. Chairman, that I believe this is a critically important area. It is one that is going to require the concerted efforts of a variety of parties, including the Congress, to see our way forward. We are more than happy to do what we can to help agencies help themselves, as well as to try to provide additional tools and methodologies and examples of how one can move forward in this area. Thank you, Mr. Chairman.

Senator DURBIN. Thank you very much. Mr. O'Keefe.

TESTIMONY OF HON. SEAN O'KEEFE,[1] DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. O'KEEFE. Thank you, Mr. Chairman and Senator Voinovich. It is a pleasure to be here this afternoon. If you have no objection, Mr. Chairman, I will submit the statement for the record and summarize if briefly.

Mr. DURBIN. Without objection.

Mr. O'KEEFE. First and foremost, the strategic management of human capital is one of the President's five top management priorities. It is a management agenda he has formulated during the course of the last 6 months, quantified in the blueprint to accompany the President's budget that was submitted on February 28 and expanded dramatically in the budget submission that was made in April. We have discussed it and testified about it rather widely, this being one of the primary functions, all of which are interrelated, that of the integration of budget and performance criteria, the strategic management of human capital, competitive sourcing objectives, e-Government initiatives and a range of other factors that are related in that regard. As a result, what we are looking at is all these factors working off each other as a piece, an interrelated effort as part of the President's management agenda.

Workforce planning becomes one of the primary aspects of what is required in achieving this approach. So, even the requesting of the departments and agencies—and they have gone through the

[1] The prepared statement of Mr. O'Keefe appears in the Appendix on page 83.

rather laborious task of preparing all the efforts necessary to achieve, certainly, the first two objectives, which is to look at the implications on the workforce requirements as integrated within the budget criteria, based on some set of performance criteria, to determine exactly and justify exactly what the basis of requirements may be for this particular human resource.

As part of the 2003 objectives, what we were also looking to is, for fiscal year 2003 to be submitted this January, a handful of very interrelated factors with this five point management agenda that the President has prepared. First and foremost is—as David Walker just testified to—is to capitalize on the proposition, that we need to exploit the current flexibilities as they exist today. I will submit to you as an opening proposition, most of the senior leadership of most of the departments in the Federal Government are not even aware of the extent to which those flexibilities exist.

The President's Management Council was just constituted recently, and as a result, the new deputy cabinet officers, have been designated largely as chief operating officers across the Federal agencies and departments. Having convened just a week ago, the first order of business was to walk through from OPM what the current flexibilities are and discuss those extensively. We have just begun that task. Although there is an awful lot that has been accomplished and an awful lot discussed throughout the institutional framework, the leadership of those particular departments and agencies have just become more and more familiar with what the extent of the flexibilities are.

Second, the pilot and test authorities exist not only within the three agencies and departments represented here this afternoon, but also across a range of other Federal agencies. The assessment and evaluation necessary to determine the success or relative utility of each of those particular approaches has yet to be taken on in earnest. As a consequence, that is the effort here over the course of the next couple of months, to look to prepare all the necessary analysis that would support offering to you, as part of a larger fiscal year 2003 legislative initiative to accompany the fiscal year 2003 budget, a proposal to extend those authorities where appropriate and to make them available.

Certainly, equally important is the clarification of a number of different approaches of management criteria as well as objectives that have been usefully put together by the General Accounting Office and summarized in David Walker's testimony today, as a matter-of-fact, that is very widely available, making sure each of the departments and agencies are aware of the extent to which some of those authorities could be utilized, and then building those into the performance criteria that we anticipate will become part of the review for fiscal year 2003, as well as to determine what the performance criteria is and which resources would then become available as part of the integrated effort there.

Last, as each of these performance measures are introduced, to start with a fundamental proposition of what is the outcome or objective, a very familiar theme, certainly, within this Committee, sponsorship of the Government Performance Results Act, having determined what those performance criteria would be for selected programs, it then gives us groundwork and basis for further deter-

mination of precisely the extent to which we need to expand the human capital requirements for training, for education retention programs and a range of other flexibilities across the board in this area. So, for all of those, as part of the fiscal year 2003, our attempt is to corral-up all those points prior to seeking a wider range of reform initiatives, which we anticipate would be after the fiscal year 2003 preparation has been completed, so we can give you a more comprehensive picture therein. But we are about, from a management and administration objective, precisely the same objectives that you enunciated so eloquently in your opening statements. Thank you, Mr. Chairman.

Senator DURBIN. Thank you. Mr. Rossotti.

TESTIMONY OF CHARLES O. ROSSOTTI,[1] COMMISSIONER, INTERNAL REVENUE SERVICE

Mr. ROSSOTTI. Thank you, Mr. Chairman and Senator Voinovich. Just about 3 years ago, the Congress passed the Restructuring and Reform Act, which was a really massive mandate for change in the IRS. One of the keys in delivering on those mandates is to develop and retain a highly skilled and motivated workforce, and a workforce that is organized and managed in line with our mission and our strategic goals as laid out in the act. To this end, we have benefited a great deal from the personnel flexibilities that were incorporated into that act.

As I will just briefly summarize in my opening statement, and describe in more detail in my written statement, they have enabled us to employ a number of management techniques that have made a critical difference in recruitment and in reorganizing the workforce and in performance management. It is important to note, as the other witnesses have mentioned, that these flexibilities complemented existing authorities that were underway, and it was really the combination of the existing authorities plus the new flexibilities that we think has made such a difference in our ability to move forward on the mandates of RRA.

To mention a couple of areas, the IRS modernization program requires a very high level of senior level leadership that is far beyond the capacity of any one or two individuals. Much of that talent was and is available within the IRS, but for certain positions, especially those requiring expertise in business systems modernization, leading organizational change, emulating best practices in the private sector, and communicating more effectively with taxpayers, we looked outside the government to recruit selectively. RRA gave us streamlined critical pay authority to hire up to 40 such individuals. To date, we have used this to hire 32 people, many with very distinguished careers. They are now filling such positions as chief information officer, director of business systems modernization, taxpayer advocate and commissioner of the large and mid-size business division and commissioner of the small-business, self-employed business division.

We have also effectively used the combination of existing authorities and RRA flexibilities to recruit, at the entry-level, talented, front-line professionals. For over 5 years, budget constraints really

[1] The prepared statement of Mr. Rossotti appears in the Appendix on page 86.

kept the IRS out of the recruiting market while we suffered attrition in our critical occupations. Fortunately, due to congressional funding in fiscal 2001, we were able to get back into the market and to launch a significant recruiting initiative aimed at filling hundreds of entry-level key professional positions, such as criminal special agent, revenue agent, revenue officer, and some new positions in our new structure, tax specialist and tax resolution representative. Many of these positions are going to be filled with people with accounting degrees or other kinds of accounting and business skills, and there is quite an active market out there for those kinds of people.

We developed a focused marketing and recruiting strategy, aimed at both outside employees as well as soliciting current employees and providing support to current employees for advancement. One of the special authorities RRA gave us is called category rating ability for new recruits, which we used to expedite the rating process and hiring process, particularly for revenue agents, which is one of the most difficult occupations to recruit for, yet one of the most important. I am pleased to say that while it is not fully complete, most of the recruiting for this year has been done and has been successful. Overall, we have recruited over 2,000 new people into the IRS in these targeted positions, including about 400 that came in through the category rating process.

The RRA also mandated a major shift in our reorganization. Our whole structure has moved from a geographic structure to one that is based on a customer focus, built around four major taxpayer segments. This required a comprehensive workforce transition strategy because it was a massive change, not only in Washington and headquarters, but across the entire country. This change went from top to bottom across the IRS. I am pleased to say that as of last October—26 months after the Restructuring Act was passed by Congress—the old 50-year-old structure was gone and was replaced with a new, customer-focused structure. As part of this, nearly all of our mid- to upper-level management positions were abolished, and new selections were made to fill these newly defined positions. In this process numerous layers were eliminated, the structure was flattened and about 25 percent of our total number of mid- to top-level positions were eliminated. All this was done in 26 months without any involuntary separations, making active use of existing authorities, together with early out and buyout authorities that were provided in RRA.

Last, let me mention the other key element that was called for in RRA and is a major part of our strategy, which is making sure that all of our managers and employees are focused on achieving our organizational priorities and goals. This was mandated in some special ways because of the special mission of the IRS in terms of tax compliance. We implemented those mandates through what we call our balanced measure system, which identifies a set of performance measures for every organizational unit that balances and quantifies customer satisfaction, business results and employee satisfaction. We then use this performance management system, which measures unit objectives down to individual performance through our new executive and managerial performance appraisal system.

This appraisal system includes a core set of competencies for management responsibilities that are tied to our balanced measure system, with more specific commitments built around our plan for the upcoming year. Complementing this was pay-banding authority that was available to us in RRA, which we have used, so far, for all of our mid- to top-level managers. This allows us to link individual performance assessments to the advancement of senior managers in their pay process. They progress from step to step within the band only if the rating under the performance management system meets or exceeds certain standards.

In conclusion, many of the human resource initiatives that I described are still being implemented and it is too early to make any definitive assessment of their results. Nevertheless, I have to say that the results so far have been very promising. We have used them effectively to do the things that we set out to do. Again, I stress that I think they were effective because they did complement our full use of the existing authorities that existed in the law. We used both of them to achieve our goals and I think together they have been extremely powerful in letting us get to the point that we are. Thank you.

Senator DURBIN. Thank you very much. Mr. Abell.

TESTIMONY OF CHARLES S. ABELL,[1] ASSISTANT SECRETARY OF DEFENSE FOR FORCE MANAGEMENT POLICY, DEPARTMENT OF DEFENSE

Mr. ABELL. Mr. Chairman and Senator Voinovich, Congress has been very generous to the Department of Defense in granting, through the use of demonstration project authorities, certain civilian personnel systems flexibilities. I have provided the Subcommittee with written testimony that provides an overview of these legislative provisions, examines how the Department has used them and discusses their effects on the workforce.

This legislation has encouraged the Department to conduct civilian personnel demonstration projects in our science and technology reinvention laboratories and for our civilian acquisition workforce throughout the Department. We are now conducting eight such projects under two separate legislative provisions. In addition, two pilot programs are authorized for science and technology labs and two test and evaluation centers in each of the military departments. Congress has also granted the Department flexibilities in hiring and compensating scientists and engineers in the Defense Advanced Research Projects Agency, DARPA, the military departments, the National Imagery and Mapping Agency and the National Security Agency.

The hiring and pay innovations of these demonstration programs and pilot programs are outlined in my written statement. While we do not have any formal evaluation of the results of these yet, I believe the flexibilities of the demonstration projects and pilot programs have had a positive effect on civilian human resource management within the Department. Although we have evaluations of the demonstration projects scheduled in fiscal year 2002 and again in fiscal year 2003, the preliminary indications are that broad-

[1] The prepared statement of Mr. Abell appears in the Appendix on page 91.

banding and the other flexibilities we have employed have helped us manage our human capital. We have been able to recruit and retain scientists and engineers through the use of categorical hiring, scholastic achievement appointments, modified term appointments, pay for performance and expanded probationary periods.

We have also used a voluntary emeritus program to permit us to retain the skills and experience of retired civil servants who want to volunteer to remain on the job and help us transition the next generation of leaders. In closing, I would like to thank this Subcommittee and the Congress for the support given to the Department to facilitate our downsizing and transition. We have been able to avoid over 147,000 layoffs since 1993 by using the voluntary separation incentive payment program. In addition, using the voluntary early retirement authority, we have avoided over 67,000 involuntary separations and demotions. This has gone far to support the moral of the workforce and the efficiency of the Department. I look forward to continuing this partnership as we continue our efforts to reshape the workforce in the Department. Thank you, Mr. Chairman.

Senator DURBIN. Thank you, Mr. Abell. Last year, I joined with Senator Voinovich and Senator Akaka in offering an amendment to the defense authorization bill relative to offering student loan repayments as an incentive to attract qualified employees to Federal service. The amendment was adopted by the Senate, part of the final conference package signed into law October 30, 2002. OPM published final regulations and issued them on January 11. The new administration wanted to review them and they became effective on April 12, 2001. Currently, OPM is amending these regulations and some of these amendments I think are positive. I like the way they are headed.

I have been advised that OPM is awaiting approval from OMB at this moment before they publish the final regulations. Meanwhile, agencies have begun to start making plans to implement the student loan repayment program—Commerce, State, Veterans Affairs and others, GSA, for example. Part of my concern last year in putting this language in the DOD authorization bill was the fact that this was not a new idea. This was an idea that was enacted into law in 1990 and OPM never issued rules and the agencies never utilized the authority in the ensuing period of time.

My amendment suggested imposing a specific, but what I thought was a reasonable deadline for rule-making with final rules to be issued by June 30 of this year. I would like to ask Mr. O'Keefe: Are you familiar with this situation and can you tell me when this will be approved and available for all agencies to use, this student loan repayment?

Mr. O'KEEFE. No sir, I am not familiar with it, but I will be by the end of the day and I will be back in touch with you.

Senator DURBIN. Fair enough.

Mr. Abell, one of the things I found interesting was this dual compensation issue, which must have been a disincentive for military retirees to work at the Department of Defense, and last year Congress repealed it. If I understand it correctly, retired military officers coming back into civilian service had to forego 50 percent of their military retirement pay. Has the appeal of working for the

Department of Defense changed, particularly with those who have experience and have served our country?

Mr. ABELL. Yes, sir. There was a fairly complex algorithm, but essentially 50 percent was the forfeiture, and the repeal has allowed not only us, but all Federal agencies, to receive the benefit of the experience, the leadership and the technical knowledge of former military, both enlisted and officers, who would like to continue to serve in a civilian capacity following their military assignment, but thought that the monetary penalty was just too great. We have examples all the time throughout, where it not only assisted the Department of Defense in hiring experienced leaders and technical people, but also in areas such as pilot shortage and so forth, where we were able to put a retired aviator into a staff deposition and put the military aviator back out into the cockpit.

Senator DURBIN. Mr. Rossotti, when we decided a few years back to pass the RRA, the IRS Restructuring and Reform Act, we had Section 1203 in there, which has been characterized as the ten deadly sins, which, as I understand it, are ten acts which proven against an employee of the Department of Treasury and the IRS, would require mandatory termination. I have read through these ten deadly sins and from my religious perspective, I would say to Senator Voinovich, eight or nine are mortal sins and one is a pretty serious venal sin.

I would not argue about any of this in relation to eight or nine of these. There is one that is pretty open-ended, harassing a taxpayer. These are taxpayers that I assume are being audited or investigated for example. There are a lot of complaints from people who are working at your agency about Section 1203, whether it is fair. I think, as I said, some of these things are beyond debate, but when it comes to this whole question of harassment, there is a news article that made the Chicago papers last year, but it said of the first 830 complaints of taxpayer harassment filed under that new law, not one of them was found to be worthy and meritorious. I think the information given later by the representative of NTEU suggests that the percentage of those who are actually found to have violated one of these is very small and yet she raises the point, and I think a valid one, that it has a very chilling effect on the personnel in the Department and in terms of their morale. Could you comment on that?

Mr. ROSSOTTI. Yes, Mr. Chairman, there were over 70 specific provisions in the Restructuring Act, many of them pretty complex to implement. We now have had 3 years of experience with them. I can tell you, having lived through this, that there have been none that have been as difficult to work with as Section 1203. The reason is not that the offenses listed for the most part of Section 1203 are not serious offenses, as you noted, and had always been considered serious offenses. I will come back to a couple of exceptions, but, for the most part, everyone, including most of our employees, acknowledges that. Nor has it been the problem that many people have been terminated unfairly. There was that great fear initially, but we have taken tremendous care to administer this law, and it does provide the commissioner the ability to personally mitigate any termination, which we have taken very seriously.

I think at this point we have enough experience to be able to cling to employees, which we have been able to do. We have not been just terminating people willy-nilly that we should not be. The way it is viewed by our workforce is that under Section 1203, if somebody accuses me of, let's say, harassment of a taxpayer, first, I am put onto death row and sentenced to the death penalty and then a year later I might get a reprieve. In fact, I probably will get a reprieve, but the process of going through that is very difficult for people and very burdensome and cumbersome.

I will also say, any provision of the tax law is a balance and unfortunately, even though it is designed to protect taxpayers, there will be some fringe element of taxpayers who will attempt to abuse that provision and take advantage of it. We have that situation too. We have practitioners out there who make it a practice of simply filing Section 1203 complaints routinely. They have it on a form letter and they file it any time one of their clients is audited or subject to a collection action or something like that.

So, this has been very difficult. Within the last week, we have submitted to our tax writing committees some proposed modifications to RRA, including Section 1203. We had a discussion of this at a hearing earlier this year, the joint hearing where all the six committees come together. Subsequent to that, we have submitted specific legislative suggestions or proposals on a number of provisions that we think would help us to administer Section 1203, administer the whole Restructuring Act, completely in accord with the intent of Congress, but eliminating some burdensome things, including some elements of Section 1203. Specifically, what we have proposed with respect to Section 1203, is that we would keep these offenses on the books, because exactly as you said, Mr. Chairman, we consider them to be serious offenses, and if someone really and truly is found guilty of some of the things that are in there, they should be terminated or at least subject to a penalty.

The key change that we propose is to keep the offenses on the books, but to eliminate the mandatory penalty provision, and simply allow the IRS the ability to terminate someone, but also the flexibility to impose other penalties. We have laid out how we would expect to do this. This is a key change that we have proposed. We have also proposed eliminating one other thing which has been somewhat unfair. Included in the deadly sins is failure to file a timely tax return. It turns out that includes someone who files a refund return. Well, under the tax law, there is no penalty to a taxpayer who fails to file a return in which they are due a refund, other than they do not get the refund.

So, we have had lower grade employees, typically seasonal employees, many of them in the service center, that may not file a return on time even though they are due a refund, and under this provision they would be subject to mandatory termination. We have used our authority to mitigate a lot of those offenses, but that is a rather cumbersome process, to go through the whole thing and mitigate it. We have laid these proposals on the table now. We have sent the letters to the tax-writing committees that would consider them. And my view is that there are some others, which I will not cover here, which I think would help us on other provisions of RRA——

Senator DURBIN. As I am out of time on this round, I would just like to ask one question in closing. I had the unhappy experience 20 years ago of having a small business that I owned back in Springfield, Illinois audited. We did not turn out to have any additional tax liability, he says for the record. I will tell you that the people that came out from the IRS were, I thought, reasonable. They had a tough job, though. They basically said our business had not paid its taxes, and we believed we had and established that fact. That is kind of a contentious relationship to start with though. Most business people are not going to welcome you into their offices and invite you in for coffee to audit them. And to have this looming over their heads, how difficult is it to fill the ranks of those who are involved in these investigations and audits?

Mr. ROSSOTTI. Well, as I said, we have not been filling many until this year because there was not money, but we have been successful in attracting some very qualified people with the help of the flexibilities. I think the real problem is the work environment, the motivation. We have very qualified employees who are doing a very difficult job. They spend all day, every day, out there talking to taxpayers. They do an excellent job. They do a professional job. If there is a taxpayer who has a beef, there are now many different channels that they can follow through RRA to get their side of the story heard. We feel with the proposed modifications of the RRA that we have made, we would still be able to protect taxpayer rights. We would still be able to remove an employee, that rare employee I must say, who really does violate these rules, but we would not have this cumbersome process, as it is viewed by the employees, as first you put me on death row and then you give me a reprieve a year later.

Senator DURBIN. Thank you. Senator Voinovich.

Senator VOINOVICH. Thank you, Mr. Chairman. Mr. Walker, as part of the Legislative Branch, GAO arguably has had a greater degree of flexibility in personnel system more than the Executive Branch agencies; however, I understand that many of the apparent restrictions that exist within the Executive Branch are the result of rules and regulations imposed by the Office of Personnel Management and the simple failure of individual human resource bureaus to use the authorities that they have. What actions do you believe need to be taken in order to remedy that situation? Or, do you agree with that?

Mr. WALKER. First, I think one of first things that needs to be to done is that we need to summarize all the different flexibilities that are available. It is my understanding that OPM has started to do that. They have actually put together a publication with the intended purpose of summarizing all the existing flexibilities. I have a copy of it. There seems to be a significant gap between what OPM believes agencies can do within the context of current law and the understanding of the agencies with regard to what they believe they have the authority to do.

In addition, many of these flexibilities have strings attached to them. They have strings attached such that you must go to OPM for certain types of approvals. I think clearly one of the first things we need to do is to take a hard look at what flexibilities are available. To what extent can you provide what I am going to refer to

as class exemptions? In other words, we are going to delegate authority for you to be able to do things, as long as you meet conditions A, B, C, and D, and that we might have a mechanism to periodically review and find out whether you are complying with them, but to minimize the number of occasions that people have to come back for an individual exemption or individual approval.

I can tell you that having attended at least one of the President's Management Council meetings within the last month, there is a tremendous amount of frustration on behalf of department and agency executives, and this is one of their top priorities, and I expect that it will be one of Kay James' top priorities, now that she has been confirmed.

Senator VOINOVICH. Would you like to comment on that, Mr. O'Keefe?

Mr. O'KEEFE. No, I could not concur more. Thank you, Mr. Walker, because that is an affirmation of precisely the focus we have been after, trying to pull together first an understanding of what everybody believes to be the existing authorities and corral those up. So this is the first comprehensive effort that I have seen that OPM has conducted, and the document Mr. Walker was referring to was just put together here in recent weeks. So, as a consequence, that is the first step in the equation. Next is to determine where the difference is between interpretations, and that, then, as, Senator, we have discussed a few times, forms the basis of some reform initiatives, I think, that will be informed, as opposed to simply calling for variations of what may be existing authorities today.

Senator VOINOVICH. Mr. Rossotti, you dealt with the Office of Personnel Management and you said that the additional authorities and flexibilities you were given were on top of what was already there. What has your experience been in terms of utilizing those flexibilities?

Mr. ROSSOTTI. We have worked very closely with OPM, because of the fact that we do have these new flexibilities and some of the existing ones, and I guess it could be fairly said that we pressed the envelope against probably all of them, given the massive change that we have been going through in the IRS. I think that actually we have also had very good support from our Treasury Department. We have an excellent Human Resource Officer, Mr. Sanders, who knows the ropes on this stuff very, very well, together with Treasury, and they have worked with OPM to make it clear to us what we could do—how we could deal with the existing authorities and what the new authorities provided.

So, by working that process very aggressively with some knowledgeable people, I think we have gotten the benefit of it. I will say that for a person like myself who comes from outside the Federal Government and is certainly not a Federal personnel expert, it is a bewildering set of rules. For any manager that comes in, unless you have someone to advise you—when I came into the tax agency, I was not a tax lawyer and people thought that might be a problem because I did not know anything about taxes. Little did I know that my real problem was that I did not know anything about Federal personnel systems. The tax part of it was relatively not as hard, and this is not an exaggeration really, because you have

some very good tax lawyers and very good resources to figure out what happens, at least in the IRS, on taxes.

I think that the comments that Mr. O'Keefe and Mr. Walker made about just clarifying what you can do and making it simpler to understand what you could do would go a long way, especially if you could find some way to translate it into something that a non-expert, somebody that is a top manager, but not an expert, can do, because figuring this stuff out is a big part of the challenge.

Senator VOINOVICH. It would probably be a good idea, Mr. O'Keefe, if you set up a little group of the customers that deal with OPM, and the ones that have been around for awhile, have them come back and recommend to you how to improve OPM's role as a service provider to Federal agencies. I think, Mr. Walker, you referred to flexibility with strings and how the strings can be eliminated to create a quality management project where the folks who are really using OPM's services can come back with recommendations on how to streamline the current system.

Mr. O'KEEFE. That is precisely what we are after, Senator. Again, a week ago, with the President's Management Council, which was the succeeding meeting to the one that Mr. Walker referred to a few moments ago, OPM went through an exhaustive presentation of the material that the Comptroller General just referred to. But also they have a follow-up requirement to meet every one of the individual departmental inquiries that have been made, to work through the workforce planning documents that we have asked for, that were due to be submitted about 3 weeks ago, to then decide exactly how those flexibilities have been incorporated in meeting those objectives.

So we are trying to pick up on precisely the kind of a theme that you are talking about administratively, to work through each of those steps and then determine what objectives we have to go after across the board, as opposed to simply trying to call for reform initiatives now. So, yes, we are trying to pull those kinds of groups together at the present time.

Senator VOINOVICH. I think one of the alternatives that could be looked at also would be the issue of giving the agencies more authority to do the personnel hirings Mr. Walker suggested. Too often, agencies have been granted such flexibilities only to have OPM take them back. I know you are doing an assessment now of the departments and the skills and experience of their employees. Is an extra effort being made to identify whether or not the departments have a human capital piece to that process?

I know the agency heads are getting familiar with this, but whether or not that process bears fruit depends upon what kind of human capital people you have inside of your shops, and Mr. Rossotti you have a pretty good one, I understand.

Mr. ROSSOTTI. Yes, I think so.

Mr. O'KEEFE. Well, you have to wonder how good he is if it is more complicated than the tax code, the way he has explained it to him.

Mr. ROSSOTTI. It helped cut through it, though. [Laughter.]

Mr. O'KEEFE. I know your expert from a previous incarnation. We will talk later.

Mr. WALKER. I think a key point here is you not only have to have very capable human capital professionals, which I think hopefully all of us do, but you must have committed leadership from the very top. Basically, what we are talking about here is cultural transformation. It is nothing less than that. It is really tough work, and the fact of the matter is that one of the agencies that has to engage in a cultural transformation, is OPM. They do a lot of things that are helpful, but I would say in general they need to become more of a consulting organization rather than a compliance organization, and they need to focus more on tools rather than on rules, and they need to focus more on enabling, rather than inhibiting agencies. They have a lot of good people and I think they can do it, but they need to undergo a huge cultural transformation.

Senator VOINOVICH. Mr. Rossotti, you have been doing a lot of recruiting for your agency, and as I talk to people around the country, they say many agencies recruit at the wrong time. Some do not even recruit at all. Obviously, you have done a fairly good job in that area, but you have had to go out and try to find some high-quality mid-level people. Mr. Abell, you may be doing the same thing with the Defense Department's workforce reshaping provisions. How successful have you been with that and what impediments have you had in terms of bringing people into mid-level positions from the private sector? How receptive are they to coming to work for the Federal Government, and what hurdles do you find?

Mr. ROSSOTTI. Actually, Senator, we really have not brought very many in at the mid-level, interestingly. We brought some in at the top level, and then we have people coming in at the entry-level. At the mid-level, except in very small numbers, we have really not hired many people. For one thing, we have had somewhat of a surplus, as we flattened the management layers. So at this point, we have not brought in too many people at the mid-level.

Senator VOINOVICH. How about the senior managers, then?

Mr. ROSSOTTI. The senior managers, we have the so-called Critical 40, or Critical 32, and I have to thank this Subcommittee, because this Subcommittee was one of the ones who helped us when we went through RRA to get this. It was a little controversial at the time, but it has been absolutely critical. As I mentioned, we brought in 32 people. Many of these are people that have a whole career behind them in the private sector, or a large portion of a career with very distinguished records, and have come in to help us with this massive transformation.

We have people, for example, the Chief Information Officer and Director of Modernization, who are critical, running some of these new operating divisions, which are really the forefront of instituting the change, as well as other positions, for example, the technology management and communications and marketing, which were not strong points at the IRS. So those are people that we have been able to recruit one at a time, to fill very specific positions, and they are not going to be here for 10 or 20 years, in most cases. A few might be. They come in on 4-year term appointments. It can be renewed once. But they have, in our case, made a tremendous difference in the time that they are in the agency.

We do not view them as replacing the Senior Executive Service. Most of the talent that we have is from the traditional Senior Exec-

utive Service, but what we have done is complemented our internal Senior Executive Service with people that have a lifetime of experience in something that is a related field, and I really have to say that is one of the gratifying things for me and I think that is one of the critical items that has helped us to get to the point that we are in now.

Senator VOINOVICH. I just want follow-up. You bring them in at fairly high salaries; don't you?

Mr. ROSSOTTI. This is called the critical pay authority. It gave us the ability to go up to the Vice President's salary for total compensation, which is, I think, $183,000 right now, and frankly not all of them have been brought in at that maximum. Some of them have been brought in at somewhat less. But, most of the people we recruited were people who were earning substantially in excess of that in the private sector and they really were coming into the government for public service.

Senator VOINOVICH. Has there been any resentment among the Senior Executive Service to the fact that these folks have come in, they are earning the big bucks, while they remain at the same level? And we also have to consider the severe pay compression now with the Senior Executive Service earning essentially the same salary.

Mr. ROSSOTTI. I think that when we first proposed this idea, it was certainly controversial internally, as well as externally. I think that now that we have this experience where almost all these people are working side-by-side with Senior Executive Service people, they know that they are getting a developmental opportunity, working with most of these folks. They also know that they are not—they do not have some of the other things that the Senior Executive Service might—they have no longevity or seniority or anything like that. They are just there for the time that they are there.

So while it has, obviously, in the early stages especially, raised some of those issues, I would say at this point those are kind of behind us and we really have got these people working as part of a team. I do not know whether this would be something that would work forever, but in the period that we are in at the IRS, where we have been going through this massive change, where we have got modernization, we know this works. The Restructuring Act says you have got to emulate best practices in the private sector, in technology, in customer service, even in terms of things like auditing, all these things. If you can bring in a few people that have that personal experience, having lived that, and have them work directly side-by-side with people that have done it the IRS way, both of them being good people, you really get, in my opinion, if it works right, an equation with the so-called cliche of two-plus-two equals five. I think, in many cases, we have been able to do that.

Senator VOINOVICH. Thank you.

Senator DURBIN. Thank you, Senator. Thanks to your leadership, we have identified this human capital challenge as one of our major priorities in the Subcommittee. The GAO has identified as a high risk across the Federal Government. I do not know that we are the first to acknowledge it. We are trying to focus our attention and resources in dealing with it. Back in 1990, former President Bush signed into law the Federal Employees Pay Comparability

Act, designed to close gradually the gap between the private sector and Federal white collar employee compensation.

In the years that led up to that and ever since, the measured gap between Federal and non-Federal pay has been measured at about 30 percent average, nationwide. I would like to have comments from you in reference to—first Mr. Walker and the others, as well—how big a factor is this disparity between pay in the private and public sector, in terms of recruitment and retention? Second, and this is probably going to be something I will regret asking, how big a problem is Congress in dealing with this? Because if we do not appropriate the funds for pay and do not give adequate increases on an annual basis, it is no wonder that Federal employees cannot keep up. I might also add the President's budget starts the process, so each President since the former President Bush would have some culpability in this situation. Mr. Walker.

Mr. WALKER. Well, several things. First, pay is an issue. There is no question about it. But I think we have to keep in mind that most of the people who come to work for the Federal Government come to work for reasons other than to maximize their net worth. They come for reasons because of the nature of the work, the challenge, the opportunity to make a difference, and the ability to try to achieve a better balance between work and family. Nonetheless, we have to have reasonable compensation for these people. I think at the SES level, compression has gotten to the point that something has to be done about it. A significant majority of all the SES members now making the same amount of money.

Senator DURBIN. Senior Executive Service?

Mr. WALKER. Senior Executive Service, exactly. There is a significant incremental layer of duties and responsibilities that you have, and related obligations and pressures that come with that when you are at the SES level. To the extent that you get a situation where there is very little economic differential, then that serves as a disincentive for people to want to move up to that level or to stay at that level as compared to some of their private-sector options. I do think we have to be careful, however, with regard to the use of averages. Averages can be deceiving. I believe that over time we have to start compensating our people based upon skills, knowledge and performance. We do not do that to a great extent today.

Today, most of the Federal pay system is based more on the passage of time and the rate of inflation, rather than skills, knowledge and performance. As a result, I think that if you did a critical analysis of this, you would find that there are some Federal workers that are significantly underpaid and are very deserving of additional compensation. There are some levels and some occupations where, quite frankly, you might find that they are overpaid as compared to their private sector counterparts. I think we have to be careful when you talk about averages, because averages can be very deceiving.

Senator DURBIN. What about the culpability of administrations and Congress in this?

Mr. WALKER. I think the Congress is part of the problem from the standpoint that——

Senator DURBIN. We will acknowledge that for the record. [Laughter.]

Mr. WALKER. Obviously, there is more than one member of Congress, so we can spread it around. But the fact of the matter is I think there are problems with regard to certain linkages that exist, rightly or wrongly, in compensation. The ripple effect that pay compression has, as well as whether, in certain circumstances, Congress has provided reasonable flexibilities with adequate protections are important issues. Other important issues include whether Congress has, in certain circumstances where a business case has been made, provided resources, for example, to allow agencies to inventory the skills and knowledge of their workers, to go to a new modern performance appraisal system, to be able to have reasonable training and professional development for their workers.

We have some things, quite frankly, that I have just come across, Mr. Chairman, where we are penny wise and pound foolish, where we are saying you cannot spend money for some minor kinds of things that not only do not make any sense, but quite frankly pour salt in the wounds, and I have given several examples in my testimony.

Senator DURBIN. Mr. O'Keefe, let me ask you this, there is another issue that comes up regularly, and that is the whole question of contracting out. OMB, the agency that you work with, issues directives to Federal agencies about percentages of work they want contracted out. I once asked some of my colleagues when I served in the House, on this issue of privatization and contracting out, what is the goal here? What are we trying to achieve? Is it higher quality of service, lower cost to the taxpayers, or just turn out the lights in some Federal agencies and give them the money—the taxpayer dollars to private sectors to perform the work?

I think you would concede—at least I would think we all could concede—that this process of contracting out is not exactly a morale builder for those who are still in. They have to wonder what the value of their work is if there is this constant drumbeat to send it off the farm and let somebody else try and do it. Could you comment on the OMB directives?

Mr. O'KEEFE. Sure. The approach, again, as I mentioned in the opening statement, is part of the five-element plan of the President's management agenda, strategic management of human capital being one, competitive sourcing being one of the others, and that is where I think the distinction is. There has been a drumbeat for outsourcing, privatization, a general focus as if that was the answer, the solution to the problem, when instead the empirical evidence would suggest that the active competitive sourcing, in and of itself, regardless of who wins, which sector, has been the element that has yielded the greatest efficiencies, in terms of cost savings, as well as performance.

Senator DURBIN. Is there real competition?

Mr. O'KEEFE. Yes, sir.

Senator DURBIN. Do the public agencies really have an opportunity to compete with the private-sector alternative?

Mr. O'KEEFE. Based on all the evidence I have seen, the answer to that is positively yes, and as a matter of fact, testimonial to the resilience of public institutions and public servants who are liber-

ated from process rules, to go about the business of competing in a way they think is most efficient to deliver the outcome, the objective, the performance standard that is expected. In almost 60 percent of the occasions, the public entity is successful and the private offer that is made does not work. A lot of the experiences throughout the Defense Department further demonstrate that it is at least on the order of a 20 to 30 percent savings each time you go through that particular effort all by itself.

So, if anything, the focus we have concentrated and the inflection in the Bush Administration now is very much towards competitive sourcing, with little regard for the question of exactly how the sector results may come from that. The other element that is involved here—I am a little bit reticent to advocate specific objectives. We will go from this point forward, beyond that, I think, demonstrated track record of the last few years that has emerged from this general policy focus, Dave Walker is currently chairing and heading up a commission that Congress has required for looking at competitive practices, to look at a range of different issues, of which I and Bobby Harnage and others are all members of, to try to come up with what is the most appropriate means to accomplish this particular task. But, again, I am very much wed to the propositions and objectives that are incorporated in the President's objectives now, of looking at competitive sourcing alternatives to achieve that task without particular bias towards what the outcome might be, as long as there is a performance improvement or a cost savings—hopefully both—attendant to it.

Senator DURBIN. Let me ask you about another item that is often pointed to in terms of compensation and benefits for Federal employees, and that is the Federal Employees Health Benefits Program, basically our health insurance plan, which I hasten to add is the same program that members of Congress are covered by. Some people think we have something else, but we are under the same program, and I think it is one of the better ones in the country. And yet some have said, in comparing it to what is being done in the private sector, it is not that generous.

I am told that 250,000 Federal employees currently do not enroll for health insurance, though they have an option to do so, because it appears, at least for many of them, they cannot afford to pay the employee share on this. I do not know if any people can comment, but I am looking at Mr. Walker. What are your thoughts? I know GAO has looked at this in the past, along with the Congressional Research Service.

Mr. WALKER. Obviously, everything in the world is relative. It depends on who you are comparing the program to. If you are comparing it to a major employer which has a unionized work force, which does not have a whole lot of competition, then in that circumstance you could say that maybe this program is not as competitive as comparing it to a small-business or to an employer that faces a tremendous amount of competition. I think we have to recognize that health benefits are very important benefits, but they are one element of total compensation. You need to look at salary. You need to look at pensions. You need to look at health. You need to look at vacation. You need to look at disability. You need to look at all these various areas, and I think it is important that we start

doing that more in the Federal Government, because there is a tendency to look at each piece by itself, rather than looking at the overall package.

I will say that, quite frankly, the concept that the Federal Government has, which is to offer more choice and to offer employees more options as to the level of the coverage and the provider of that coverage, quite frankly, I think, is probably something that is going to be a trend that you will see the private sector adopting with increasing frequency in the future.

Senator DURBIN. We can only hope so. Open enrollment once a year is an amazing option that people in the private sector never get a chance, many of them never get a chance to see. Let me ask you about the incentives that we use to retain and recruit. The statistics come back and say they are hardly ever used. We are talking about one-tenth of one percent of employees who would perhaps get efforts in the Executive Branch to recruit, retain, and relocate—incentives. Mr. Rossotti, how often do you use them in your agency?

Mr. ROSSOTTI. We have begun to use them more extensively as part of this new recruiting process for our professional occupations. This was something that we had the authority to do, especially where we were doing the so-called category rating. I am getting a little deeper into these personnel details than maybe I know, but we were able to, at least with revenue agents, which is a very competitive occupation, use this new technique, and we did set up a sort of internal set of standards that if we had the highest-rated person, we would be able to provide certain incentives, such as relocation and some starting bonuses. We were also able, for people that were already employed in the workforce, to match their current salary by bringing them in at a higher step. We did use these. I do not have the statistics in my head, but I can get them for you, for the record, as to how many we used.

This is just recently, within the last few months, that we have done this, and I think it certainly was helpful. I will say, with regard to the matter of pay, the problem with having these kind of incentives, of course, is equity. We are bringing in new people, and I think it has been helpful to us, in terms of getting people into the professional occupations, but of course you have the majority of the workforce that is already there, and you run into a little bit of an equity problem when you start to bring in the new people with these special authorities.

So I think it is obviously not my place to comment on the overall pay raise, but I would say within the kind of business that the IRS is in, where we have a significant number of people in professional occupations—I am thinking about people that are basically accountants, auditors, people that are dealing with taxpayer representatives—they do not stay just for the pay. It is important that they have some kind of reasonable progression to look forward to, not just to get them in at the front-end, which we are doing, but to have them stay in and be motivated and realize that that is successful. It takes a couple of years after they get in for them to really be productive, at least a couple years, and then they are at their peak period, and we really want to make sure we hang onto them, not just keep them for the first 2 years.

Senator DURBIN. Your comments remind me of the parable of the prodigal Federal employee, but that is something else we have read about. I literally have 1 minute to go vote, and so if I could ask the panel to just stand at ease until Senator Voinovich returns, to see if he has a follow-up question, if he does not, we will bring up the second panel, and I will be right back.

The Subcommittee stands in recess.

[Recess.]

Senator VOINOVICH [presiding]. I suspect that you exhausted the Federal Employees Pay Comparability Act. But I suspect it probably has not been implemented because of the cost and perhaps because the Clinton Administration felt that the Bureau of Labor Statistics may not have been the best place to determine the basis of comparability. We have not really looked at the Federal Government's classification system since 1978. I would like your response to the point that I think both of our union witnesses are going to make, and that is if we did something about that, many of the problems we are faced with, in terms of retaining people and bringing them on board, would disappear. I would like your views on it. How do you go about determining an objective way of determining pay comparability?

Mr. O'KEEFE. Mr. Chairman, if I could offer, I am of a mind that pay compression and comparability certainly are contributors to the challenges we are facing, in terms of overall personnel recruitment and retention for the right skill mix and for the skill mix you need at the present time and the present capabilities to do so. Having said that, I think by comparison to some of the other factors that are extant today, that is but one of many different impediments or issues within this personnel system that exists, because the larger problem, I think, is captured quite nicely by the Comptroller General's reference to the culture transformation that is necessary.

Right now, the focus of the system is towards a very career oriented objective. All the incentives, all the motivations, the idea is to come in at entry-level and stay until you retire, and all the motivations are built on that proposition. So the issues of comparability and compression and so forth are a growth from that, as opposed to what has become generationally represented by many of the folks sitting behind you, is a set of interests that is quite different from the kind of motivation that was designed and built around the personnel system that exists today within the Federal career force, and that is opportunities to move around to lots of circumstances, mobility, lateral entry, a range of incentives to enjoy different experiences, to try different alternatives, those are sorely lacking within the system.

The movement between and among departments for entry-level, junior-to-mid-grade kinds of opportunities is one you really must aggressively push if you want to have those opportunities availed to you, and that has little to do with pay compression, little to do with comparability. It has to do with the erection of a series of impediments that make this particular process so hard to do, unless you consciously set about it.

Senator VOINOVICH. If you are running General Motors or any other major corporation, you have people working for you at a sala-

ried level. And you know very well, that you have to pay a competitive wage if you intend to retain good people. Isn't there kind of a floor that you must have in terms of pay? From my experience, and it goes way back when I overhauled the classification system when I was mayor of Cleveland—you have to pay your staff a competitive wage. In Cleveland, we found that people from the entry levels to mid levels were fairly competitive, but the salaries of our senior staff were not competitive. And then, on the other hand, after we completed our study, we found that some people were overpaid. In fact, many people remained in their salaries and positions for 3 years because they were being overpaid.

The point is that there were people who were way underpaid, and we had the self-discipline to go through the exercise. Don't you think it is about time we got to that in the Federal Government, and if we do get to it, who would do it?

Mr. WALKER. One of the things I mentioned, Senator, when you were voting is that I think, over time, we have to move to a system that is focused more on skills, knowledge and performance, and that ties back into classification to a certain extent, because I think what you have right now is you have a circumstance where you have some people who are significantly underpaid, you have some people that are reasonably paid, given some things the government has to offer that the private sector does not, and you have some people that are overpaid, as you found out in your red-lining positions.

I think, at least based on my experience, I was a global partner with Arthur Andersen. I headed our human capital services practices worldwide. Typically, when you are looking at these issues, you want to do it with the people that are on the front line, actually engaging in the competition on a day-in and day-out basis. In other words, you need to have OMB and OPM play some coordinating role and try to ensure a reasonable degree of consistency so everybody is not doing their own thing.

On the other hand, the people that have to be at the forefront are the people who are in the war for talent, the people who are on the front line, trying to attract, retain and motivate a quality workforce. So I think part of it has to be is we need to have their involvement more in this process, with OMB and OPM maybe providing a facilitation and a coordination role, rather than saying it has all got to come down from above and one size fits all, I think, which has been one of our problems in the past. We have tended to look at things that way, and the world is just not that way.

Senator VOINOVICH. But I am still getting at what does the new Secretary of Transportation do, for example, in terms of looking at the people that are there, and how does he determine——

Mr. WALKER. I will tell you some things that we have done and they can think of it as a guideline. First, we did our strategic plan. We looked at what we are trying to accomplish, how we measure success. We realigned the organization based upon that strategic plan, eliminated a layer of hierarchy. We did not fire the people. We just eliminated a layer of hierarchy, reduced the number of silos, had more people focused cross-organizationally and externally. We then ended up looking at our performance measurement and reward systems, to be able to link those to that strategic plan.

We inventoried the skills and knowledge of the people within the organization. We compared that against what we think we need. That told us where we were long, where we were short, and where we had gaps. We analyzed where we were having increasing difficulty in attracting people and retaining people. We try to understand the reasons for that through polling existing employees, prior employees, and potential recruits. We took all that information and figured out what we thought we needed to do in order to try to address those problems.

Senator VOINOVICH. In other words, you created a new classification system for the General Accounting Office.

Mr. WALKER. We already have a new classification system. But I think these are things you can do and you should do whether you have a new classification system or not, although I will tell you that I think over time you may find that the concept of broad-banding and pay-for-performance, which we have, is something that may well have broader application throughout government. But you have to make sure that you have the support systems to make them work. You have to have a good performance appraisal system. You have to know what skills and knowledge you are looking for. You have to have a good recruiting and college relations program. You have to have a good training and development program. As Mr. O'Keefe said before, these things are linked. They have to be linked with each other.

Senator VOINOVICH. But the fact is you re-did your classification system. You had the flexibility. But a lot of these other agencies do not have such flexibility. How much flexibility do you have, Mr. Abell, in your operation, for instance, to change it around? Aren't you locked in with certain classifications? I know you are locked into classifications, because I have a nurse in the Hart Building, who just got her master's degree in nursing and she is a GS–11. She wants to get a job that is a GS–13. She cannot get a job that is a GS–13 because she has never been a GS–12.

Mr. ABELL. We have not been blessed with that level of flexibility yet.

Senator VOINOVICH. Don't you think we need to look at the classification system?

Mr. ABELL. I think the points you make are valid, Senator, and I agree with Mr. O'Keefe, as well, that we have some flexibilities we have not used. This is not among them, as it turns out, but there are many factors that have to be included, and I will tell you that many of the things that we have discussed here today, the Department has explored and continues to explore. I am struck by the parallels between the challenges of managing the military force and the challenges in managing the civilian force, and the impact and the ability to move between the two, and the impact of the generational effect, as Mr. O'Keefe has laid out, the impact of pay gaps, if there are any, and how that affects, and my view is the pay gap is not as important as the behavior that results from that pay gap.

So we have to watch all those things, and again back to the fact that people serve in government, both the military and civilian side, for reasons other than compensatory.

Mr. WALKER. Sir, I think you are going to need to look at the classification system, yes. [Laughter.]

Senator VOINOVICH. OK. Charlie, I am sorry you did not get many of the questions today, but I would be interested in any further information that you have. I would like to sit down with you to talk about the flexibilities that other parts of the Defense Department have had, for example, the China Lake demonstration project and how that is working out.

Senator Durbin is not back yet. Do you want to give me a couple minutes? Have you had a chance yet to really look at those flexibilities, to compare them and see whether or not they are working—be candid with me if you have not.

Mr. ABELL. No, I will, Senator. From the time between our discussions in April and today, I have tried to spin up rather quickly on the flexibilities that were provided by the Congress and what we have done to implement them, and I will tell you that I am fairly proud, and I got an "'Atta boy" from my friends on Armed Services for moving forward on several provisions of legislative authority that were given to us in 2000 and 2001 defense bills, because when I got to the Department and said, "Where are we on this," we where essentially nowhere.

So my experience is learning about them and trying to get them implemented in a way that makes sense, and as some of the other witnesses pointed out, when you implement these flexibilities you also have to do a fair amount of training at the manager levels, supervisors. They have to learn how to deal with these flexibilities. It requires sort of new skill sets for them. They have to exercise judgment. They have to exercise a certain amount of courage in some cases, in pay banding and pay performance and so forth. So we are, on those flexibilities, at the neophyte level. On the China Lake, the permanent authorities, I think those are ingrained in those laboratories and reinvention labs and S&T centers that function under those authorities. It has become a way of life and I think they are better for it.

Senator VOINOVICH. They are working?

Mr. ABELL. Yes, sir.

Senator VOINOVICH. Remember I talked to you about the daisy chain process. I would be interested to see if that has been changed, because that is one of the things that our people are still complaining about.

Mr. ABELL. Yes, sir. We are working on it.

Senator VOINOVICH. Good. I have a lot of other questions, but our second panel has been very patient. I really appreciate the fact that you have been here today and again I want to publicly acknowledge the fact that Senator Durbin has been wonderful in terms of going forward with this agenda. He is on board and supportive, and I want to say I am grateful to him and I look forward to continuing to work with you on this big challenge we have. Thank you. We will stand in recess until Senator Durbin gets here.

[Recess.]

Senator DURBIN [presiding]. I would like to introduce our second panel of witnesses: Bobby Harnage is the President of the American Federation of Government Employees, of the AFL–CIO, 600,000 Federal and D.C. Government employees, the largest union

for government employees, some 1,100 locals here in the United States and Chicago and overseas. Thanks for being here; Susan Shaw is the Deputy Director for Legislation with the National Treasury Employees Union, and she will be delivering the testimony of Colleen Kelly, NTEU's President, whom I understand had a last-minute scheduling conflict. NTEU represents more than 155,000 Federal employees across the government, including those who work for the Internal Revenue Service. Myra Howze Shiplett joins us from the National Academy of Public Administration. Director of the Center for Human Resources Management, she has 30 years of experience in public service, including managing the State Department's Civil Service Personnel Program. Thank you for coming. It is customary now to swear you in. If you would please rise and raise your right hand. Do you swear the testimony you are about to give to the Subcommittee is the truth, the whole truth, and nothing but the truth?

Mr. HARNAGE. I do.

Ms. SHAW. I do.

Ms. SHIPLETT. I do.

Senator DURBIN. Thank you. Let the record reflect that they answered in the affirmative, and I will ask you to limit your oral statements to 5 minutes. We will put your entire written statement in the record. I have read several of them and am prepared to ask a few questions, and Mr. Harnage why don't you proceed first?

TESTIMONY OF BOBBY L. HARNAGE, SR.,[1] NATIONAL PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL–CIO (AFGE)

Mr. HARNAGE. Thank you, Mr. Chairman, and I want to thank you for the opportunity to testify today on the issue of flexibility in the Federal personnel system. The government is in the midst of a serious personnel crisis that is self-inflicted and as a result of more than a decade of downsizing, contracting out and failure to match either private or public sector standards for pay and benefits. In addition, political leaders have criticized and demeaned Federal employees, cynically feeding public misperceptions of government and the people who work for it.

Congress and the last three administrations have failed to invest in improvements in the government's infrastructure, training of its workforce, or invest in more modern tools and equipment. This refusal to make the necessary capital investment has been penny wise and pound foolish, with predictable results. This crisis is not only self-inflicted, it was planned. A good example of this planned crisis is while some agencies are now attempting to hire and train the next generation of Federal employees, their efforts are thwarted by the administration's orders to put an additional 425,000 jobs on the chopping block as they begin to comply with OMB's directive to convert or compete 10 percent of the FAIR Act list each year.

Another example is the arbitrary number of management positions targeted by the administration to be eliminated. We continue to downsize rather than to rightsize the government. Management by competition or quotas is a disservice to the taxpayers. It drives

[1] The prepared statement of Mr. Harnage appears in the Appendix on page 110.

costs up, not down. There is no proverbial silver bullet answer to the personnel crisis, but certainly it is not rational to publicly malign Federal employees or rational to undermine their morale, standard of living, or valuation by refusing to pay competitive salaries. It is not rational to withdraw or withhold training or deprive them of resources and equipment necessary to high-quality performance.

None of these personnel practices is consistent with the human capital approach to personnel management. I have been asked whether expanding the use of flexibilities in Federal personnel systems will be a useful way to address the human capital crisis. In short, management flexibilities alone will not solve this problem. In fact, exercise of some of the flexibilities which have been proposed are more likely to worsen the problem. AFGE's opposition to unilateral increases in management's authority on flexibility is not a defense of inflexibility or a challenge to the rights and responsibilities of management. In principle, we believe that any expansion of Federal management authority or flexibility must be counterbalanced with an expansion of the rights of Federal employees to bargain collectively over the terms of change.

Pay and benefits and a process for determining their level are written into Federal statute. Because of the statutory framework, Federal employees can inform their elected representatives on their views on the adequacy and fairness of these statutory items. We can lobby Congress for advantageous changes. We can lobby Congress to defend against harmful changes. If statutory protections are eliminated in order to make Federal compensation flexibility so change can be implemented unilaterally by management, the absence of collective bargaining rights would deprive Federal employees of any democratic process through which to make our voice heard.

An expansion in collective bargaining rights would be a necessary component of any expansion in management rights. One example is DOD's effort to replace the current pay-setting process with a management-design process called Contribution-based Compensation and Appraisal System, CCAS, which is a version of pay-banding. DOD excluded any meaningful role for the union and grants enormous discretion to management. Managers are able to make unilateral decisions regarding the pay of individual employees. Pay matters that under Title V are covered by government-wide laws and regulations which ensure at least some measure of consistency and fairness are, in DOD's CCAS system, controlled by local managers who are able to operate with extremely broad authority.

The system was designed for and by management. Pay decisions are made by a management panel, and bargaining unit employees have no right to challenge them. AFGE suggests four broad policy changes which could help resolve the Federal Government's human capital crisis in a way that would help taxpayers and Federal employees. First, provide Federal employees with compensation that is comparable and competitive with that paid by large public and private-sector employers. Congress and the administration should fully implement the Federal Employees Pay Comparability Act of 1990 and also increase the government's contribution to the Fed-

eral Employee's Health Benefit Program from an average of 72 percent of premium to 80 percent.

Second, the administration should eliminate arbitrary FTE ceilings and hire according to agency mission needs. The fact that Federal employee agencies are prohibited from hiring above these ceilings is a critical component of the human capital crisis. In view of many reports of the government losing out on desirable job candidates who are instead hired by employers able to make on-the-spot offers, many people are focusing on the question of how to speed up the hiring process. AFGE supports any attempt to speed up the hiring process, as long as merit principles and veteran preferences and internal candidates' rights are preserved.

Third, the government should end the practice of contracting out all new Federal work and privatizing work presently being performed by dedicated public employees.

Mr. Chairman, I have submitted my statement, my full statement, and I appreciate your consideration of that, and that concludes my oral testimony. I would be glad to answer any questions.

Senator DURBIN. Thanks, Mr. Harnage, and I have read your statement. I appreciate that much.

Susan Shaw, if you would proceed.

TESTIMONY OF SUSAN L. SHAW,[1] DEPUTY DIRECTOR OF LEGISLATION, NATIONAL TREASURY EMPLOYEES UNION

Ms. SHAW. Thank you, Mr. Chairman. My name is Susan Shaw. I am the Deputy Director of Legislation for NTEU. President Kelley very much regrets that she is unable to be here today. NTEU believes that for too long, too little attention and too few resources have been spent on the Federal Government and its employees, which is why we face the crisis we do today. According to the Bureau of Labor Statistics, in some parts of the country, the gap between private and public sector pay is as high as 30 percent.

The Federal Employees Pay Comparability Act has never been fully implemented, even in this time of record budget surpluses. For most prospective employees, the most critical element in deciding whether or not to accept a job is salary. The administration's response has been to propose only a 3.6 percent pay raise next year. Although the House and Senate Budget Committees adopted bipartisan language as part of the fiscal year 2002 budget resolution, making clear that Federal employees should receive identical pay raises to their military counterparts next year, at least 4.6 percent, the administration continues to press for only a 3.6 percent raise. This is not reflective of an administration that takes the human capital crisis seriously.

NTEU believes that a decision to fully implement FEPCA would do more to address recruitment and retention in the Federal Government than all of the other incentive programs the government has, combined. Acquiring and retaining employees with the best skills is a particular challenge for the Federal Government. Agencies are so often hamstrung by inadequate funding levels and forced to shuffle resources between competing priorities, that they

[1] The prepared statement of Ms. Colleen M. Kelley, National President, National Treasury Employees Union, submitted by Ms. Shaw appears in the Appendix on page 128.

are never able to adequately fund the range of programs they need to become an employer of choice. This is a situation agencies face for fiscal year 2002.

Discretionary funding levels in the budget resolution are not adequate to meet current needs, never mind the challenges of 2002. Federal agencies currently have a wealth of flexibilities available to them. There are programs for retention allowances, bonuses, performance awards, student loan repayment incentives, even bilingual awards. However, according to OPM, less than one-quarter of one percent of the Federal workforce received any form of recruitment, retention or relocation incentive in fiscal year 1998. Why? Because agencies are not being given the resources to fund the very programs that might help them solve their human capital crisis.

Adequate and stable agency funding, coupled with appropriate pay, benefits and incentives, are the keys to ensuring that the Federal Government is able to attract, hire and keep the best employees. There is a Federal pay law on the books, but it is not funded. There are flexibilities and demonstration project authority and a virtual laundry list of programs available to Federal agencies, but they, too, are not funded. The problem is not a lack of options, it is a lack of resources.

Mr. Chairman, I also want to take this opportunity to thank you for your leadership in introducing S. 1152. More dollars are doled out to contractors each year than are spent on the Federal workforce, yet there is little or no oversight of these contracts once they are awarded. No one knows if any real cost savings have been achieved or services have been improved. What we do know, however, is that contracting out quotas, such as the 5 percent and 10 percent quotas for 2002 and 2003 that OMB recently issued send an unmistakable message to Federal employees that they are not valued.

We cannot continue to arbitrarily award contracts to private companies while simultaneously letting our Federal employees walk out the door. S. 1152 will bring a measure of accountability to this process. With regard to personnel flexibilities in the IRS Restructuring and Reform Act, one of the major disincentives, as this Subcommittee heard today, is Section 1203. The mandatory firing provision has had a chilling effect on collections and morale. No other employee in the Executive, Judicial or Legislative branch, not to mention any other taxpayer, must be fired for filing a tax return 1 day late.

We are working closely with the IRS to try to make these penalties less than mandatory termination and look forward to working with the Subcommittee on this matter. As you also know, the IRS is preparing to implement a pay band for its senior managers, allowing greater flexibility when setting salaries. However, it, too, will require additional resources to work. Pay-for-performance has also been suggested as a step towards improving the Federal workplace. NTEU is not opposed to pay-for-performance or pay-banding. However, we believe that they must be accomplished in the context of collective bargaining.

Current performance evaluations are widely viewed by our members as subjective, susceptible to favoritism, and in some cases dis-

criminatory. By collectively bargaining the design and implementation of a new system, we believe employees will have faith in the process. Here again, though, additional resources are going to be required to make such a system work. Finally, I want to note that Mr. Walker commented that the FEHB program is perhaps not as competitive if you compare it to programs offered by major unionized employers. That is precisely what we believe the Federal Government is, and I think that we need to do a better job with the FEHB program as well.

Senator DURBIN. Thank you, Ms. Shaw. Ms. Shiplett.

TESTIMONY OF MYRA HOWZE SHIPLETT,[1] DIRECTOR, CENTER FOR HUMAN RESOURCES MANAGEMENT, NATIONAL ACADEMY OF PUBLIC ADMINISTRATION

Ms. SHIPLETT. Thank you. Thank you, Mr. Chairman and Senator Voinovich. The National Academy of Public Administration appreciates the opportunity to share its views with you, and we certainly applaud the efforts of the Subcommittee to look at additional flexibilities. There are, as you know, approximately 100 Federal agencies that carry out a wide variety of missions and responsibilities, and yet despite this diversity, they are all required to live under the same personnel system that was developed on 19th-century principles, and essentially has the notion that one size fits all.

In this area of dramatic change, this very standardized approach is detrimental to the government's ability to recruit and retain an effective workforce. Work is changing rapidly. Organizations need to be able to change rapidly, also, and that requires additional system flexibility. There are three concepts which have been tested for a number of years in several different agencies that we suggest for the Subcommittee's consideration. The first of those is broad-banding. This technique was approved in 1980 for use in the Navy's China Lake and San Diego weapons laboratories. It involves grouping Federal pay grades into several pay bands and permitting greater flexibility in setting pay and making promotion decisions and reassignments within the broader pay ban.

The Office of Personnel Management has monitored this demonstration project very closely for the last 20 years, and reports consistently that the laboratories are able to recruit and retain quality employees at higher rates than a traditional system allows.

Since cost is always an issue in these matters, it is useful to note that the overall salary costs for the China Lake demonstration project have increased only 3 percent over what would be in the traditional system, over this 20-year period. We suggest that broadbanding be made available to those agencies who see a value in its use, not that it be mandated for government-wide applications. The second flexibility we would suggest for your consideration is performance-based reduction-in-force procedures.

Earlier this year, the academy was asked to review the reduction-in-force system at China Lake. We were particularly interested in their approach to structuring the RIF competitive levels, since the paramount criterion in determining retention credit in their system was performance, rather than tenure. The installations con-

[1] The prepared statement of Ms. Shiplett appears in the Appendix on page 137.

ducted two reductions in force simultaneously, one for their employees in the demonstration system and one where the employees were in the traditional system. The RIFs conducted were conducted at the same time, by the same management team, in the same facilities, using the same management controls, and both of the systems used a five-level performance rating system.

In the traditional system, of those terminated, 65 percent had been rated either outstanding or highly successful for their performance. In the demonstration system, only 14 percent of those rated outstanding or highly satisfactory were, in fact, terminated. If our goal is to recruit and to retain highly-qualified employees in the Federal service, broad-banding and performance-based reduction-in-force systems lend themselves strongly, we believe, to your consideration.

The third flexibility we would suggest is that of quality categories to replace the rule of three. The academy and the Merit Systems Protection Board have recommended that the rule of three be eliminated. In 1990, Congress authorized a demonstration project for the Department of Agriculture's Forest Service and the Agricultural Research Service. Rather than requiring job applicants to be listed by absolute score and selections made from the top three, which is a process that we have seen in our research is time-consuming, litigious, and creating a false sense of precision, these agencies were permitted to place candidates in one of several quality categories—for example, highly-qualified, qualified, or unqualified.

Selecting officials could then make their selections from the top group or from the second group, if there were not sufficient numbers in the top-rated group. Veterans placed in one of the categories are put at the top of that category and are the first selected. This project was so successful in the Department of Agriculture that in 1995, Congress approved this approach for the entire Department. The National Academy of Public Administration believes that these three flexibilities have been extensively tested and have proven to be successful. They should be made available as alternatives under the overall structure of Title V for all Federal agencies. Enacting these flexibilities would in no way alter fundamental merit principles.

Thank you, Mr. Chairman and Senator Voinovich. We appreciate the opportunity.

Senator DURBIN. Thank you for your testimony. Mr. Harnage and Ms. Shaw, if a labor organization is going to succeed, it has to represent the wishes of its members, and when we talk about issues of retention, when your members suggest to you what they would like to see in their work arrangement with the Federal Government, what is their highest priority? Mr. Harnage.

Mr. HARNAGE. Right now, I think their highest priority—it is hard to distinguish between compensation and the job security, but I think right now the job security—they see this issue of driving privatization regardless of cost, jeopardizing them even having a job, regardless of what the pay is. So I would say that is their highest priority.

Senator DURBIN. Ms. Shaw.

Ms. SHAW. I would agree with Mr. Harnage and just add for the employees we represent at IRS, Section 1203 and fixing that section of the law is right up at the top, too.

Senator DURBIN. So you heard the testimony earlier from Mr. Walker and others—Mr. O'Keefe, I think it was—relative to outsourcing, contracting out, and privatizing. The suggestion was that it was truly a competition between the public agency and the private sector. The competition led to more productivity. In 60 percent of the cases, I believe he testified—still stayed with the government and did not end up being outsourced. Could you tell me your experience and the experience of your employees on this outsourcing approach and what their reaction has been?

Mr. HARNAGE. Well, first we need to understand that the competition is for Federal jobs and the competition that he is talking about is only 2 percent of all the privatization that takes place in the Federal Government. There is an indication that there is a projected 20-percent savings with the competition, and that is one of the reasons this union has not faulted competition. We embrace competition, fair competition, but the problem is the competition is one-sided.

New work for Federal Government is—Federal employees are not allowed to compete for that, even though it could be done in-house more economically, more efficiently, more effectively, no consideration. It is automatically privatized.

Senator DURBIN. Excuse me. Can you give me an example of that? Can you think of one where so-called new work was not—the Federal agency did not have the chance to compete for it?

Mr. HARNAGE. I cannot think of an example right now. It is not a matter of not having a chance. They are not allowed. It is just not done. The same way with once it is privatized, there are only very rare occasions where it is looked at bringing it back in-house, even though it is more economical, more effective. The only examples that are available of bringing it back in-house is where the contractor defaulted and there was not anybody to replace them, rather than competing it to make sure there was that savings.

The part that bothers me the most about what seems to be driving what we are doing is—my position is—it is referred to as the most efficient organization, the MEO, and that is our everyday job. We ought to be at the MEO right now, but we are allowing——

Senator DURBIN. Could you say what MEO is, for the record?

Mr. HARNAGE. Most efficient organization.

Senator DURBIN. Thank you.

Mr. HARNAGE. We are allowing that inefficiency to continue until we put everybody's jobs in jeopardy by saying we are going to compete it. We ought to be holding these people accountable for having the MEO every day, not just for competition purposes. But that figure that was given to you today has gone from 10 percent to 60 percent. We have gotten better at it. That figure of 20 percent is going to go down, simply because we are getting more efficient, more effective every day. So that 20 percent is not going to hold true forever, and that has to be taken into consideration.

But the biggest problem that we have is that most of these are projections and nobody is looking behind to see if they were actually realized, and that is the reason we strongly support the act,

and Mr. Chairman, I appreciate not only you are a co-sponsor of it, but also your support for it.

Senator DURBIN. May I ask Ms. Shaw, if I can, on this Section 1203, when I read the 10 deadly sins that results in termination for employees from their union, who work for the IRS, as I said to Senator Voinovich, some of these are outrageous. No one would want to defend them if you could prove that a person had done them. The two that struck me as arbitrary—one you have already mentioned, and that was failure to file an income tax return in a timely fashion. I believe there is some additional language there, as well. The second was so open-ended, this harassment question. I would imagine, as Mr. Rossotti testified, it almost becomes an automatic motion filed by the attorney for someone being audited.

When you look at it, are those the two that stand out as being particularly onerous from the employees' point of view?

Ms. SHAW. Yes. In general, I would say yes. The problem with the harassment statute, as you have already pointed out, is that it is so broad. There have been 1,300 charges filed to date; seven of them have been found to have merit. But the year it takes to get from, as I think the commissioner said, OK, now you are on death row, and eventually you had been reprieved, you can imagine not a lot gets done. Certainly you are not going to want to take on any case that you are going to have to put yourself in a position of having even more problems of this nature.

Of the 10 deadly sins, there are others that—they are not black and white. There are gray areas in there, and that is why one of the provisions we have worked with the IRS on—and I believe the commissioner referred to the language they submitted to the Finance and Ways and Means Committee—would allow the IRS more discretion, in general. It would not have to be mandatory termination. They would have an opportunity to look into the situation first, which seems reasonable to us.

Senator DURBIN. Ms. Shiplett, one of the observations from Ms. Shaw about the banding approach, which I think creates more flexibility for compensation, is the funding question. If the funds are not there to finance this banding approach, then it really does not offer too much. What has been your observation in terms of the actual funding of that type of program?

Ms. SHIPLETT. She is absolutely correct. It is important to have sufficient funding, so that reasonable decisions can be made.

Senator DURBIN. And, in the instance that you cited in your testimony, I take it that the funding was there?

Ms. SHIPLETT. Right.

Senator DURBIN. Fine. Senator Voinovich.

Senator VOINOVICH. You heard the comments of the other witnesses, in terms of the Federal Employees Pay Comparability Act. From looking at your testimony, you believe that pay comparability is fundamental to any kind of a new system in terms of attracting and keeping people. The issue here is that this law, which was enacted in 1990 has not been implemented, and as they mentioned, it is probably because of the fact that previous administrations determined that they did not have the money to implement it. And then there was some question about whether or not the Bureau of

Labor Statistics was the correct place to determine how severe the pay gap was with the private sector.

If we were going to go forward with this law and create this kind of an underpinning for the whole Federal pay system, what would be your advice in terms of how you would go about getting data that people could agree to, assuming Congress would come up with the money that is necessary to implement it?

Mr. HARNAGE. Senator, the problem is not that we cannot agree. The problem is that we make no effort to agree. NTEU and AFGE in 1997 asked the past administration to sit down and let's talk about fixing FEPCA. If you have a problem with it, let's look for the fix. But we did not see a problem with it, except the implementation side of it. But we have not had those meetings yet. Each year, we talked about the next year's pay increase.

Senator VOINOVICH. Who are you meeting with?

Mr. HARNAGE. We were meeting with OPM, OMB, and a representative of the White House in these discussions, trying to—we cannot agree on the gap. We say it is 30. You say it is less. Let's sit down and figure out what it is. You think it is 12? Fine, you win. Pay me. So I think nobody wanted to talk about it, simply because they did not want that last result. Once they reached an agreement, then they have no defense but to pay it. Where we have these enormous surpluses, there is little justification for there to be any gaps in the Federal pay.

I recognize, as I believe Comptroller Walker said, that there are people that are overpaid and there are a lot of people underpaid, but that is fewer than it was simply because we have continued not to close that gap, and that is part of what locality pay was for, was to help reduce that to where nobody was overpaid and nobody was underpaid, but the locality pay has been extremely limited, and there was a question asked earlier about was Congress responsible—yes, to some degree, but I do not totally blame it all on them, either, because the administration set the mark by submitting their numbers, and thank you very much, every year you have exceeded that.

So we managed that the gap not get any bigger in the last 4 years, but we have not done anything about closing it.

Senator VOINOVICH. What were your suggestions on how to resolve this difference?

Mr. HARNAGE. We never got that far. We offered to sit down and do that, but we never had those meetings. The meetings that we had each year was simply to talk about what the next year's pay would be, not about FEPCA.

Senator VOINOVICH. We have heard some testimony that people do not come to work for the Federal Government because they want to get rich, but because they want to contribute. I always felt people come to work for the Federal Government because it is a way to support their family and make a contribution to society. But there is a certain base salary that needs to be paid to individuals so that they can support themselves, and when you pay them less than that, I think you basically tell them that you do not think very much of the job you are asking them to do.

I would really appreciate it if you would send me a one-pager on the negotiations that you have had, and see if we can start talking

once again about how to deal with this problem. I want to clear up one thing, Mr. Harnage, in your testimony. You said, "AFGE believes that the idea is based upon a zero sum model of Federal pay, taking away from one person or group in order to fund an increase for another is bound to exacerbate the human capital crisis, not improve it. In this category, AFGE would place ideas such as contingent pay, payment of one-time bonuses, incentive pay, and merit pay."

I interpret that to mean that you are not opposed to these things, but that they should be available only after you pay a sufficient base. Maybe you want to clarify that for me.

Mr. HARNAGE. That is correct. There need to be two things. One is that it ought to be additional money. In the past, some of the reasons the agencies did not implement or use the flexibilities that they had was because they had to use current money. In other words, if I give four employees a retention bonus, I have got to do away with one of them, because it is coming out of salary money. So there was a disincentive to use those flexibilities, because it was an additional money. It needs to be a pool of money that is additional money than what it takes to close the gap.

The second ingredient is the employees themselves are to have a voice in that process. They should not be left out, and that was our problem with DOD. We met in 1998 with DOD for about 6 months on five working groups, trying to work out a lot of the personnel flexibilities that we are talking about today. But where that ran into a roadblock was once DOD realized that we were talking about we will give you flexibilities, but there have got to be checks and balances down at the work site, that the employees have an opportunity or their representatives have an opportunity for input into that. That is when they threw up their hands and said, "We don't want any part of that." So now they are piecemealing all those things we discussed in those 6 months a little bit at a time each year, which is a lot less productive than what it would have been if we went ahead and reached an agreement.

Senator VOINOVICH. I would like to change the subject to a degree to the issue of privatizing. I just wonder, has NAPA had a chance to look at that issue? I know Paul Light has some written work about the government's shadow workforce. You have not looked at that?

Ms. SHIPLETT. No.

Senator VOINOVICH. The impression that I get is that, when new work comes along, rather than give the union an opportunity to compete for it, agencies just farm it out automatically, without any consideration?

Ms. SHAW. It is my understanding that, yes, under the current rules, there is an opportunity to do just that. Under the administration's new directive, they have issued a 5 percent directive for 2002, that agencies contract out 5 percent of their workforce, 10 percent in 2003. Aside from the obvious concerns we have about that, the agencies do not necessarily have the people in place to handle these competitions. So if they are going to be forced to meet an arbitrary number of jobs to contract out, we are concerned that they are going to be forced into a situation of not even doing a competition, simply because they will not have the manpower to do it.

Senator VOINOVICH. They are talking about farming out 5 percent of the current workforce; correct?

Ms. SHAW. Yes.

Senator VOINOVICH. That 5 percent would compete with the private sector, and then the agency would decide whether they are going to outsource the work or not?

Ms. SHAW. The way it is stated is that they will be competed, 5 percent of the jobs will be competed. But for some agencies that do not have contracting staff, as many of them do not, as evidenced by the lack of oversight over current contracts, what is going to happen to those agencies when they bump up against the October 1 deadline that they have got to have these jobs contracted out? Are they simply going to contract them out?

Senator VOINOVICH. One of the things that I would be interested in—and it may be in the Light study on the shadow workforce—is whether you have any statistics on the amount of privatization that has already occurred. It has been my impression from doing some reading that it has been enormous, and that by downsizing the actual number of Federal employees it looks as if the Federal Government is smaller. But if you look at the number of outside contractors that have been hired, in effect, the actual size has not changed very much, except that people are no longer working for the Federal Government. They are working for the private sector.

I am not even sure that they really understand. But it has been enormous, I think, and the issue is that, if you farm out that work, do you have the people inside the departments to make sure that you are not getting ripped off?

Ms. SHAW. That is exactly our concern, and I would be happy to send you some material.

Mr. HARNAGE. Senator, it is enormous, and that is one of the items in the TRAC Act. Nobody really knows how much it is, but we know it is somewhere about four times of what the civilian workforce is. Nobody knows exactly what it costs, and although we talk about these savings that are supposed to take place, nobody can really prove they took place because nobody is looking back to ensure that this did, in fact, happen. That is one of our main problems, but also these quotas are driving a lot of it.

Make sure you get what is being said by NTEU. The instructions by OMB are to convert or compete 5 percent, and she is saying that the agencies do not have the time, the money, the expertise. So come October 1, they are going to simply convert them—that is without competition—in order to get the job done. The other thing is these manpower ceilings, the FTEs, controls, although everybody says they do not manage by FTEs, in private, they will admit they do, in a lot of cases the agencies do not have the manpower to do the job any more and they have no option but to privatize it, regardless of cost, and that is not to the benefit of the taxpayers.

So one of the things we are saying is part of the human capital crisis is brought about by these quotas that are arbitrarily plucked out of the air and implemented for the sole purpose of driving the privatization, not saving the taxpayer money.

Senator DURBIN. Senator Voinovich, I might just follow-up from information that was printed in the *Washington Post* on June 8, in an article written by Ellen Nakashima. She said that the Bush Ad-

ministration has ordered more than 40,000 Federal workers to compete for their jobs with the private sector, a first step toward the President's goal of making about 425,000 government jobs eligible for private contracting. The current civilian Federal workforce is approximately 1.8 million. So that would suggest about 25 percent, if my calculations are correct, not quite 25 percent would be outsourced, of the current Federal workforce.

The best estimate that they can provide in this article related to your question comes from the Brookings study by Mr. Light in 1999, where he estimated 5.6 million contract employees working for the Federal Government in various capacities, which is a little more than three times the size of the civilian workforce of the Federal Government. It strikes me as difficult to attract people to the Federal workforce when you are telling them that over the next few years, one out of four jobs will disappear into the private sector. That does not give you one of the elements that you raised, Mr. Harnage, the job security issue, any attention at all.

I think what I am going to do, and I do not know if Senator Voinovich wants to join me, is to ask the GAO to give us a study on this shadow workforce. I would like to know if we can get a more updated number on the total involved in it, and I would like to have a profile of several things: What are they paid? What kind of benefits do they receive? Then, if there is any way to measure their performance, my impression was that some of my colleagues, at least in the House, were just hidebound to privatize and outsource, regardless of cost, regardless of performance. Their idea was to reduce the size of the Federal workforce, the civilian Federal workforce, at any cost.

When I suggested amendments, arguing that we had to save money in the process, they rejected them. They said that is not the point; we are not here to save money; we are here to turn out some lights in some Federal buildings. I hope that is not what is still driving the outsourcing fervor, and we are going to ask the GAO to help us prepare some information for that.

I do not have any further questions. Senator Voinovich, do you?

Senator VOINOVICH. No, but I would be more than happy to join you on that request. I would like to find out more about the size of the shadow workforce. I would like to know in what capacity they serve and what kind of a job they are doing, because obviously the budgets are not going down.

Senator DURBIN. No, they are not.

Senator VOINOVICH. I think that, from my experience, it hurts the esprit de corps of the workforce for this kind of thing to happen, and I have been personally involved in reversing that process. At the State level, if something new came along, the unions were able to compete for it. Then there were some areas, quite frankly, that we found we were not doing as well as we should. I went to the unions and said, "Look, here is the deal, security people and some others, you could be doing better," then we genuinely put it out for competition, and there was a real, honest-to-goodness, objective evaluation. Sometimes the unions won and sometimes they lost. But it was not arbitrary or automatic. And so I think that a GAO report would be a great way of getting a real sense of this at the Federal level.

Senator DURBIN. I would like to invite the three panelists, if they would like, to suggest to us questions that the GAO might look into in reference to this workforce. If, in the next few days, you can contact the staff of the Subcommittee and give us some ideas that you think are legitimate inquiries that we can include in this request to the GAO, that would be helpful. I thank you for your testimony.

Senator VOINOVICH. Could I just ask one last question?

Senator DURBIN. Of course.

Senator VOINOVICH. Ms. Shiplett, you are really strong about your three recommendation, and Mr. Harnage, you heard NAPA's recommendations. What is your reaction?

Mr. HARNAGE. My reaction is to be very cautious about it. I would be glad to get with them and talk about what their experiences are and compare it with ours, and see if we can come up with a consensus.

Senator VOINOVICH. We are interested in looking at some of these innovations, in terms of short-term and long-term legislation and so forth. You seem to be really sold on this, and I would like to know a bit more. I think you said that broad-banding ought not to be federalized, but that agencies should be given the opportunity to ask for that flexibility; is that what you are saying?

Ms. SHIPLETT. Right, but we would say that for all three of the flexibilities. It is our belief that Federal agencies' missions and strategic objectives and needs are sufficiently different that we ought not to be mandating any of these in saying every Federal agency must use them, but saying instead that Federal agencies ought to have them as an option if they believe their particular set of circumstances requires it.

If I could add just one more thing, and I believe it echoes some of the comments that were made, not only in this panel, but in the earlier panel; whatever changes are made, one of the things that is really essentially is to make an investment in seeing that the managers and the supervisors have the skills to exercise these authorities appropriately, and that employees are knowledgeable enough that they understand what the changes are, and have the opportunity to learn about them well before they are actually applied.

Senator VOINOVICH. Thank you. Mr. Chairman, I have no other questions.

Senator DURBIN. Let me just ask you this for the record, Ms. Shiplett. I was just speaking to Ms. Upton on my staff. You are congressionally chartered?

Ms. SHIPLETT. Yes, sir.

Senator DURBIN. But you are not congressionally funded?

Ms. SHIPLETT. That is also correct. We are funded through the contracts that we have with Federal agencies or our various consortiums.

Senator DURBIN. I am going to invite all of the panel that are interested to give us some ideas about this investigation by the GAO, and I thank you all for your testimony. We may have some other follow-up questions, but I appreciate your patience and thank you for being here today.

With that, this hearing stands adjourned.

[Whereupon, at 5 p.m., the Subcommittee was adjourned.]

APPENDIX

United States General Accounting Office

GAO

Testimony

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

For Release on Delivery
Expected at 2:30 p.m., EST
Tuesday July 17, 2001

HUMAN CAPITAL

Taking Steps to Meet Current and Emerging Human Capital Challenges

Statement of David M. Walker
Comptroller General of the United States





GAO-01-965T

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

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.[1] 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.[2]

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

[1] *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.

[2] *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).

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.[3] 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.

[3] 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).

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

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

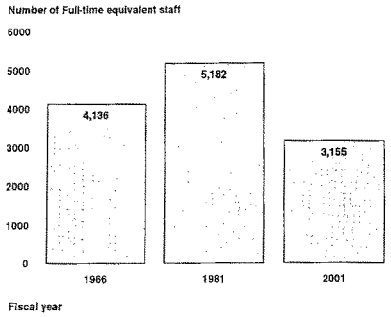
Before moving on to my three main points, I would like to provide some background on the changing nature of GAO's workforce, its current human capital challenges, and some of the specific tools and flexibilities that we have used in addressing this area.

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.

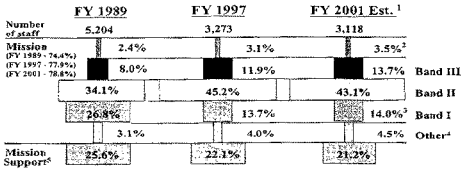
It must be said, however, that the 1990s were a difficult period for ensuring that GAO's workforce would remain appropriately sized, shaped, and skilled to meet its mission demands. Severe downsizing of the workforce (see figure 1), including a suspension of most hiring from 1992 through 1997, and constrained 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



[1]FY 2001 data are as of June 30, 2001.

[2]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.

[3]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.

[4]Attorneys and criminal investigators

[5]FY 1989 includes 20 SES, or .36 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.

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

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

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.

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.

- *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.

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.

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 (WGIs) 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

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

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.

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.

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,

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.[4] 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.

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

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

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.

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

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 lease 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

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

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

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 II 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

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.

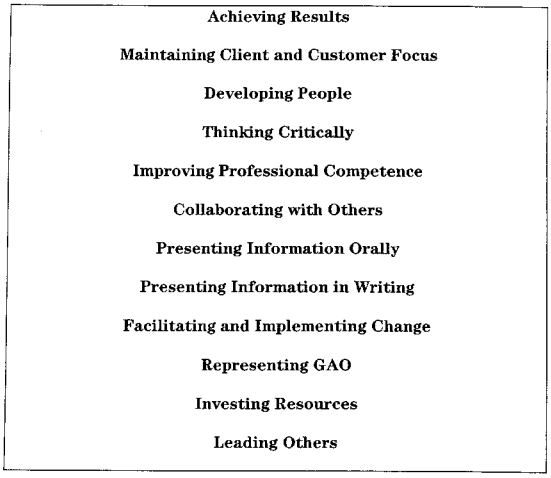
A cost-free benefit we offer our employees is business-casual dress, which we phased in over a year-long period and has been a great success. Another low-cost benefit we provide our mission staff is business cards, which prominently feature GAO's core values of accountability, integrity, and reliability 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

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.)

Figure 3: GAO's Competency-Based Model



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.

- *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.

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

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

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.

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

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.

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.

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,

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

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.[5] 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).

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

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

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

Last year, the Defense Science Board task force[6] 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.[7]

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

[6] *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).

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

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.[8] 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,[9] finding a viable source of experienced civilians to

[8] *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.

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

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

regulation.[10] 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.[11] 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:

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

[11] For details on this demonstration project, see *Federal Register*, Vol.64, No. 5, pp.1426-1432.

- "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)" [12]

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.[13] This report was aimed at understanding the effect of Joint Vision 2010[14] 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.

[12] *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).

[13] 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).

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

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

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

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.

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

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

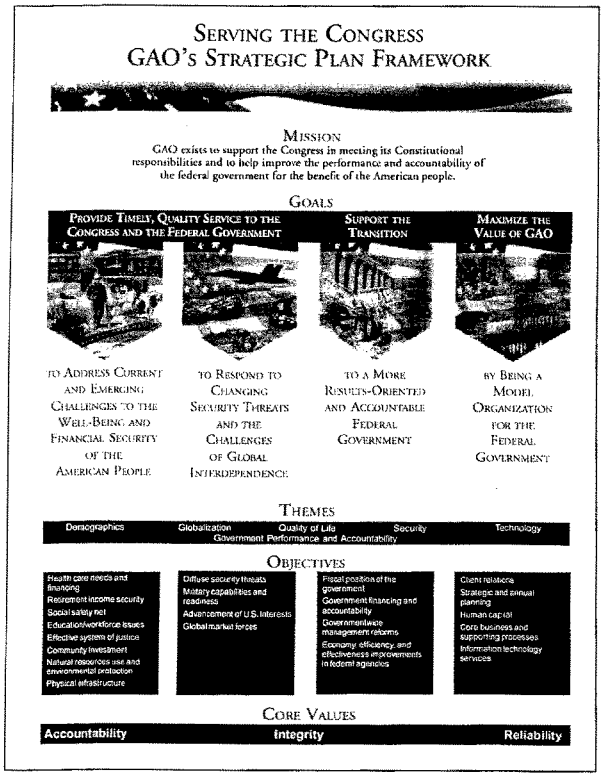
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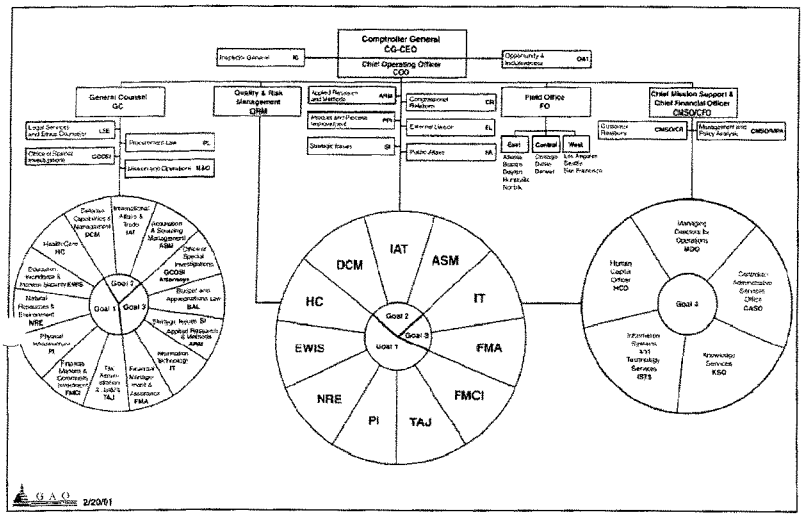
Attachment I: Addressing the Human Capital Challenge: Shared Responsibilities

- **President**
  - Lead
  - Promote
  - Recognize
- **OMB**
  - Lead
  - Coordinate
  - Link
- **OPM**
  - Lead
  - Advise/Assist
  - Review
- **Departments/ Agencies**
  - Lead
  - Design
  - Implement
- **Congress**
  - Confirm
  - Oversee
  - Legislate
- **GAO**
  - Review
  - Recommend
  - Share
- **Private Sector**
  - Partner
  - Recognize
  - Support
- **Foundations**
  - Partner
  - Research
  - Integrate
- **Academia**
  - Partner
  - Revise
  - Promote
- **Media**
  - Learn
  - Investigate
  - Report

Attachment II



Attachement III



STATEMENT OF THE HONORABLE SEAN O'KEEFE
DEPUTY DIRECTOR
OFFICE OF MANAGEMENT AND BUDGET
BEFORE THE
UNITED STATES SENATE
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT,
RESTRUCTURING AND THE DISTRICT OF COLUMBIA

JULY 17, 2001

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear before the Committee to discuss the Administration's views on expanding flexible personnel systems government-wide. We welcome your interest and the continued opportunity to work with you to strengthen the quality of the Federal workforce so it can effectively serve the American people, both now and in the future.

I am pleased that the Senate confirmed Kay Cole James last week. We are anxious to work with her and the U.S. Office of Personnel Management (OPM) to jointly develop a plan for the strategic management of human capital.

The President's Management and Performance Plan

Strategic management of human capital is one of the key elements of the President's Management and Performance Plan. The Administration's effort to strengthen the quality of the workforce is being undertaken as part of a coordinated and coherent plan of Government reform to improve Federal management and deliver results that matter to the American people. The other government-wide elements of that plan include budget and performance integration, competitive sourcing, improving financial performance, and expanding e-government. These five initiatives not only work together, but also are mutually reinforcing. The combination of all of these initiatives pursued concurrently is far greater than the mere sum of the parts. Each is dependent on the others to assure maximum advantage.

Strategic Management of Human Capital

The President has proposed to make the Government more citizen-centered. This means ensuring that there is as little distance as possible between the citizens and decision-makers by flatting the Federal hierarchy, reducing the numbers of layers in Government, and using workforce planning to help agencies redistribute higher-level positions to front-line, service-delivery positions that provide value for citizens.

To accomplish this important goal, the Administration has asked each department and agency to prepare a five-year restructuring plan, based upon a workforce analysis, as part of the FY 2003 budget request and annual performance plan. This restructuring plan will outline how the agency will restructure its organizations and its workforce to get the job done as effectively and efficiently as possible. Agencies will reshape their organizations to meet a standard of excellence in attaining the outcomes important to the Nation.

Near-term strategy

Agencies must make better use of the flexiblities currently in place to acquire and develop (through recruitment, teaming, and reward strategies) excellent talent and leadership. Just last week, in the course of the first meeting of the President's Management Council, OPM discussed the flexiblities currently available to departments and agencies under current law. Most of the deputies, who function as the agencies' chief operating officers, were unfamiliar with these flexiblities, as well as the tools and resources available to them. Given that, there are now plans to disseminate best practices to allow agencies to take advantage of strategies available under current law.

There also are many human resources flexiblities that have been successfully tested through existing demonstration authorities. These flexiblities include broadbanding, pay for performance systems and simplified hiring processes. OPM is convening a workgroup to assess the successes and failures achieved under the demonstration projects and other exemptions from Title 5 to determine how well existing human resources strategies support agency mission, goals and other organizational needs.

Only when departments and agencies better understand and fully exercise the flexiblities currently available to them can we determine what works. Then it will become opportune to determine which demonstration projects should be considered for availability government-wide and what statutory changes are needed to enhance management flexibility, permit more performance-oriented compensation, correct skills imbalances, and provide other tools to recruit, retain, and reward a high-quality workforce.

The remaining challenge

The nature of the challenge we are facing is a civil service system that perpetrates a 20th century hierarchical and process-driven culture. Federal personnel policies and compensation tend to take a "one-size-fits-all" approach. Excellence goes unrewarded, while pay raises tend to be diluted across the entire Federal workforce. Federal pay systems do not reflect current labor market realities, and rewards are not strategically targeted to attract and retain a high performing Federal workforce. For example, under current law, the entire General Schedule

that covers almost every kind of white-collar occupation must be adjusted by a single percentage in each of the 32 localities in the contiguous 48 States. Furthermore, procedures for removing unproductive employees are too cumbersome, often taking months to complete.

High performance must become a way of life that defines the culture of the Federal service. The civil service system should demand and deliver sustained excellence and high levels of performance. It must use clear and carefully aligned performance incentives for its individual employees, for its teams, and for its leadership which are tied clearly to reaching their agency's mission objectives. The civil service system must comprise talented people who are attracted and retained by emphasizing the rewards of public service. Accountability for results must be clear and meaningful, with positive rewards of success and real consequences for failure.

Conclusion

I look forward to working with the Committee and Congress to reach our shared goal of building, sustaining and effectively deploying the skilled, knowledgeable, diverse, and high-performing workforce needed to meet the current and emerging needs of the Government and its citizens.

TESTIMONY OF
COMMISSIONER OF INTERNAL REVENUE
CHARLES O. ROSSOTTI
BEFORE THE
SENATE GOVERNMENTAL AFFAIRS
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT,
RESTRUCTURING AND THE DISTRICT OF COLUMBIA
HEARING ON EXPANDING FLEXIBLE
PERSONNEL SYSTEMS GOVERNMENT-WIDE
JULY 17, 2001

INTRODUCTION

Mr. Chairman, three years ago next week, the Internal Revenue Service Restructuring and Reform Act of 1998 was enacted. One of the keys and strategies to delivering on RRA 98's mandates is to develop and retain a highly skilled and motivated workforce. Our employees are our single most important asset.

In devising our human resources management strategy, we greatly benefited from RRA 98's personnel flexibilities. They enabled the IRS to employ a number of important personnel management techniques that made and will continue to make a critical difference in recruitment, reshaping the workforce and performance management.

It is important to note that these flexibilities made an enormous difference because they complement the many other initiatives and innovations already underway. Much of what we are doing required no special authorization. But having the flexibilities added some essential tools and greatly enhances our ability to achieve RRA 98's broader goals and our critical mission.

BACKGROUND

The flexibilities can be divided into three broad groups. The first consists of authorities available to other agencies but for which special approvals are generally required. Under RRA 98, the IRS was authorized to implement these changes either directly, or with Treasury Department approval, without having to get outside clearance. In this category are the "critical pay" authority, the authority to offer recruitment and retention bonuses up to 25 percent of an employee's base pay, and the authority to offer "buy-outs" to employees.

A second group of RRA 98 flexibilities include human resources practices tested in other agencies, but which are not generally available. The most important innovations in this category are paybanding and category rating. A third category includes the streamlined personnel demonstration project authority that exempts the IRS from many of the constraints that generally accompany personnel demonstration projects.

APPLICATION AND EXPERIENCE TO DATE

Our human resources management strategy is directed at meeting four major challenges; developing a new leadership cadre, renewing the work force, transitioning employees to a new organizational structure, and consistently inducing high levels of individual performance. I will discuss each of these challenges separately.

Developing a New Leadership Cadre

The modernization program currently underway at the IRS is exceptionally large and complex. Its successful completion will require a very high level of leadership at all levels. Much of that talent is available from within the agency. For certain positions, however, particularly those that require a high level of expertise in systems modernization, leading large-scale organizational change, or improving our ability to communicate effectively with our stakeholders, we have looked outside the federal government.

RRA '98 gives us a unique flexibility in this regard, authorizing the IRS to hire up to 40 individuals, each at an annual rate of pay not to exceed that of the Vice President. The IRS' "streamlined critical pay" authority is subject only to Treasury approval, with appointees serving on limited-term performance contracts (some with additional financial incentives) of up to four years in duration.

To date, we have hired 32 individuals under this authority (24 are currently on-board) to fill such key positions as our Chief Information Officer, the Director of Business System Modernization, the Taxpayer Advocate, and the Commissioners of the Large and Mid-Size Business and Small Business/Self Employed Divisions.

Each of these individuals is top-notch, and it is clear that we would not have been able to attract leaders of such caliber to the IRS (and to public service generally) without this authority. However, it is just as clear that they must also be complemented by a career senior executive corps of comparable excellence. The IRS is fortunate in this regard. We have such a corps of career executives, and using a combination of existing authorities, including performance bonuses and relocation and retention allowances, and RRA '98 flexibilities (in this case, our streamlined demonstration project authority), we will be able to create and sustain an excellent leadership team.

Renewing the Workforce

We were also able to effectively employ a combination of existing authorities and RRA '98 personnel flexibilities to recruit the most talented front-line professionals. In recent years, budget constraints prevented the IRS from replenishing critical losses among its most mission-critical occupations. For example, the IRS suffered a net loss of over 2,500 Revenue Agents over the last five years, with potentially adverse consequences to the fairness of our tax administration system. However, thanks to congressional funding for FY 2001, the IRS was able to launch a major recruiting initiative targeted at filling hundreds of entry-level CI Special Agent, Revenue Agent and

Revenue Officer positions, as well as hundreds of positions in our newly-established Tax Specialist occupations (including Tax Resolution Representatives and Tax Compliance Officers).

Competition is keen for the accounting graduates who comprise the candidate pool for these positions. In our case, we typically go head-to-head with the big accounting and consulting firms for top graduates. To maximize our chances of attracting qualified recruits, we developed a focused marketing strategy. Through focus groups with IRS employees, students and professors, we identified those elements that could serve as the basis for an advertising campaign. Both print and Internet media have been employed to convey to prospective employees the opportunities available at the IRS for challenging work and personal growth. After a 10-year hiatus, we renewed our recruitment presence on college campuses. Twenty full-time recruiters now attend job fairs and make recruiting visits.

Through the category rating authority provided in RRA 98, the IRS was able to greatly expedite the hiring process. Under the new approach, candidates are assigned to one of three categories: "superior," "exceptional," or "qualified," based on a review of qualifications and an interview. The testing process is completed expeditiously and offers can be made quickly to top-ranked candidates. The new process is faster, places fewer burdens on the applicant, and allows more discretion on the part of the selecting official.

Consistent with the human capital philosophy, we also targeted current employees for advancement within the agency. Several hundred employees are among those selected for the positions of Revenue Officer and Revenue Agent and for the new Tax Specialist, Tax Resolution Representative, and Tax Compliance Officer positions.

The new recruitment and selection processes worked well with over 700 high-quality new employees hired this year into these targeted positions. The results are in part attributable to the category rating authority provided in RRA 98, but also to many accompanying innovations.

Transitioning Employees to the New Organization

The shift from a decades-old geographic structure to one based on major taxpayer segments required a comprehensive workforce transition strategy. Two key objectives were to match employee skills with the requirements of new positions, and to ensure productive employment for all workers.

Positions in the new structure were identified for all but approximately 4,000 employees. An aggressive workforce management effort incorporating the use of buy-out authority, relocation bonuses and early retirement flexibilities provided by the Office of Personnel Management was employed to reduce this to fewer than 500 transition employees. I want to stress two things; first, there have been no involuntary separations, and transition employees seeking to upgrade their skills were provided training assistance

through a Human Resources Investment Fund created in partnership with the National Treasury Employees Union. Second, the remaining transition employees are being assigned meaningful work appropriate to their series and grade.

The transition strategy worked because we were able to couple existing authorities with the important new ones provided in RRA 98. For example, Congress made buy-out authority available to other agencies primarily for downsizing purposes. Our purpose was not to downsize, but to reshape the workforce in accordance with the new structure and concept of operations. It was important to have the authority to buy out employees in positions where staffing levels were being reduced, and to use those positions elsewhere in the organization where needed. At the same time, the buy-out authority was only one piece of a strategy that included many other elements

Rewarding High Levels of Individual Performance

A fourth challenge we confronted was to create systems that keep employees focused on organizational priorities. The new Balanced Measurement System identifies a set of measures for each organizational unit that balances customer satisfaction, employee satisfaction and business results. The Performance Management System links unit objectives to individual performance. There is a direct link between the elements of each manager's performance agreement and the agency's and unit's performance goals.

In this regard, we developed a new executive and managerial performance appraisal system that includes a core set of competency-based management responsibilities that are tied directly to our balanced measures. These responsibilities are tied to an individualized annual "performance contract" that commits our executives and managers to achieving their part of our overall program plan. This insures a "line of sight" between the IRS' strategic goals and performance measures, and the commitments and contributions of individual managers. This appraisal system for our executives and managers began in FY 2000. We are also establishing these linkages to our front-line employees as well. Working closely with our union, we will completely revise the performance standards for every IRS employee, specifically aligning those standards with our balanced measures system; these go into effect in FY 2002.

I would also note that these efforts did not require any special flexibility or authority, just organizational commitment. And given time and the right level of management attention, they will insure that high performance is visible and valued. However, the real leverage comes when we complement these initiatives with one of the key personnel flexibilities provided by RRA '98: paybanding.

As you may know, we already established a Senior Manager payband that covers former GS-14 and 15 mid- and top-level managers, eliminating an entire management layer in the process. Under that payband, base salary adjustments, except for government-wide annual comparability increases, and bonuses will be specifically linked to an individual manager's performance appraisal rating, with salary reviews conducted every two years. Tenure and longevity no longer play a role in these pay determinations.

Indeed, as an individual's salary increases, even higher performance ratings are required for further pay raises. We will extend this paybanding concept to our Service Center management structure later this year (again, eliminating a layer of management in the process), with additional paybands in the works for our front-line managers and Criminal Investigation Division Special Agents.

The paybanding authority made available in RRA 98 enabled us to link the results of the individual performance assessments to senior managers' pay. The senior manager payband consolidates two salary grades. Managers progress from step to step within the band only if their rating under the Performance Management System meets or exceeds certain standards. Further, the standard for moving up a step increases the higher a manager is within the band. Increasing the performance "bar" in this way will ensure that only outstanding managers advance to the top of the pay band.

To date, the paybanding authority was invoked only for management employees. As a first step toward pay banding for bargaining unit employees, the critical job elements for all front-line employees must be rewritten to reflect the strategic goals set forth in the new Balanced Measurement System.

CONCLUSIONS AND RECOMMENDATIONS

Many of the human resources management initiatives that I described are still being implemented. It is too early, therefore, to make any definitive assessment of their effectiveness. Nevertheless, the results so far are promising. We were aggressive in identifying human resources practices and ideas that worked in other successful organizations and tailored those to our organization. In some areas, such as the transition strategy, our approach clearly worked, because we eliminated a 50-year old structure of districts, service centers, regions and a large national operational office within 26 months of RRA 98's passage. This occurred with no disruption of service and with effective placement or separation of nearly all employees whose positions were eliminated. And again, the remaining transition employees have meaningful work assignments.

The key point with regard to the flexibilities is that they were effective because they complement other elements of our human resources strategy. Category rating authority, in the absence of an aggressive recruitment initiative would not have brought needed results. Paybanding without an effective performance management system is unlikely to induce higher levels of performance.

Most of the authority needed to execute the human resources strategy existed prior to RRA 98. Many of the elements of our program represent practices already in use at other agencies or in the private sector for which no special authorization was required. However, the part of program that relies on the flexibilities made a critical difference in overall performance. Without the flexibilities, we are competitive within the government; with the flexibilities, we are also competitive with the private sector. Thank you.

Statement of Charles S. Abell

Assistant Secretary of Defense (Force Management Policy)
Department of Defense

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

Expanding Flexible Personnel Systems Government-Wide
July 17, 2001

Mr. Chairman and members of the subcommittee, I am pleased to be here today to provide testimony about civilian personnel systems flexibilities granted by Congress to the Department of Defense (DoD) in recent years. I will provide an overview of those legislative provisions, examine how DoD has used them, and finally discuss their impact to date on the workforce.

LEGISLATION TO GIVE DoD PERSONNEL SYSTEMS FLEXIBILITIES

Demonstration Project Authority

Congress gave the Department legislation that encouraged DoD to conduct civilian personnel demonstration projects in DoD's science and technology reinvention laboratories (S&T reinvention labs) and for the civilian acquisition

workforce DoD-wide. Initially authorized by the Civil Service Reform Act of 1978, personnel demonstration projects allow Federal agencies to waive parts of title 5, United States Code, to test innovative human resources policies. DoD is now conducting such projects under two separate legislative provisions:

- For the S&T reinvention labs, section 342 of the National Defense Authorization Act (NDAA) for FY95, as amended; and
- For the civilian acquisition workforce, section 4308 of the NDAA for FY96, as amended.

Section 342 of the NDAA for FY95, as Amended. Section 342 of the NDAA for FY95 permitted DoD to establish and operate demonstrations in the S&T reinvention labs. Section 342 has been amended twice, as follows.

- Section 1109 of the NDAA for FY00 exempted employees of a laboratory covered by an S&T reinvention lab demonstration from any statutory or regulatory constraints in terms of supervisory ratios or maximum numbers of employees in any specific employment category.

- Section 1114 of the NDAA for FY01 shifted approval authority for S&T reinvention lab demonstrations to DoD from the Office of Personnel Management (OPM) which retains oversight authority pursuant to 5 U.S.C.

1103(a)(5) and 1104(b)(2). Additionally, the Conference Report to accompany the NDAA for FY01 "urges" DoD "to provide the laboratory directors with direct hiring authority, as authorized by this section."

Section 4308 of the NDAA for FY96, as Amended. Section 4308 permitted DoD, with the approval of OPM, to conduct a demonstration within the Department's civilian acquisition workforce. Section 845 of the NDAA for FY98 expanded this demonstration authority to allow participation by supporting personnel assigned to work directly with the acquisition workforce in teams composed mostly of acquisition workforce members.

Pilot Program for S&T Labs and Test and Evaluation Centers

Two recent laws authorized pilot programs for two S&T labs and two test and evaluation centers for each Military Department.

Section 246 of the NDAA for FY99. Section 246 allows to DoD explore cooperative relationships with academia and the private sector to perform research and development functions. It included authority to waive DoD policies, procedures, and regulations, not required by law, in order to achieve program objectives.

Section 245 of the NDAA for FY00. An additional pilot under section 245 allows DoD to explore ways to improve operational efficiency. The purpose was to enable participating organizations to attract a workforce with the appropriate mix of skills and experience, and to compete effectively in hiring the finest scientific talent. This section specifies that the covered pilot program "is in addition to, but may be carried out in conjunction with," the program authorized by section 246. This provision contains the same waiver authority as section 246.

Hiring and Pay Program for Scientists and Engineers

Section 1101 of the NDAA for FY99. This provision allowed the Defense Advanced Research Projects Agency (DARPA) to appoint up to 20 scientists and engineers from outside the civil service and the uniformed services and set their basic pay up to level IV of the Executive Schedule (EX-IV) without regard to any provisions of title 5, United States Code. Appointments may initially be made for up to 4 years, with an optional 2-year extension. Thus, the maximum length of a given appointment is 6 years. Those appointed may receive additional payments in a 12-month period of up to $25,000, 25 percent of basic pay, or EX-I, whichever amount is least. DARPA calls this program the Experimental Personnel Management Program for Technical Personnel.

Section 1113 of the NDAA for FY01. The current National Defense Authorization Act modified the DARPA authority in order to—

- Extend the program for 2 years (through October 16, 2005);
- Expand to 40 the number of positions DARPA may fill under this authority;
- Extend similar authority to the Military Departments for use in designated labs (up to 40 scientists and engineers per Department) and to the National Imagery and Mapping Agency and the National Security Agency (up to a total of 10 such positions); and
- Clarify that employees may earn up to the maximum rate for EX-IV plus locality pay.

We are in the process of delegating authority to fill the new positions to the DoD Components involved.

DoD's USE OF RECENT LEGISLATIVE PROVISIONS

Demonstrations

The S&T reinvention lab demonstrations are similar in nature to the Department of the Navy's successful China Lake demonstration. (The China Lake

demonstration began in 1980; Congress made it a permanent, alternative personnel system in 1994.)

Implementation and Operations. The current Acquisition and S&T reinvention lab demonstrations are key to DoD's effort to recruit, develop, and retain technology leaders and support a high-quality Acquisition workforce for the 21st Century. DoD initiated eight demonstrations between March 1997 and February 1999 (seven S&T reinvention lab demonstrations and the Acquisition demonstration).

DoD has already begun to use the authority granted by section 1114 of the NDAA for FY01 by publishing the proposed plan for a new demonstration in the June 19 issue of the *Federal Register*. A total of three new S&T reinvention lab demonstrations are slated to begin during FY02, and the Acquisition demonstration will expand its coverage, as well. Approximately 29,000 employees are now covered by demonstrations, with an estimated 10,000 more projected for coverage in FY02.

The staff of the Office of the Secretary of Defense is actively involved in designing and conducting demonstrations. The Military Departments handle their day-to-day operations.

Results evaluation by a party outside DoD is an integral part of these demonstrations. Under contract with the Director, Defense Research and Engineering, OPM's Personnel Resources and Development Center will issue an evaluation report on S&T reinvention lab demonstrations during FY02. For the Acquisition demonstration, Cubic Applications, Inc., will submit a report during FY03.

Flexibilities of Current Demonstrations. The hiring and pay innovations of these demonstrations include broadbanding; performance-based pay; simplified, accelerated hiring; scholastic achievement appointments; modified term appointments; extended probationary periods; and a voluntary emeritus program.

Broadbanding. Broadbanding increases organizational flexibility while reducing paperwork for classification actions and promotions. Fifteen General Schedule grades were grouped to form three, four, or five broadbands in a given career path, depending on the occupations involved. Additionally, the Army and Navy projects feature an "above GS-15" broadband covering the pay level from the top of GS-15 to SES Level 4. Up to 40 positions DoD-wide may be established at this broadband level, which was designed for senior scientific and technical managers who have both high-level technical and supervisory duty requirements.

Performance-Based Pay. The projects test various performance-based pay systems. All projects link within-band, basic pay increases and bonuses to performance assessments that translate into specific payouts from a pay pool. Typically, high performers can advance within their broadbands faster than those with lower ratings, while those rated unsatisfactory receive no payout from the pay pools.

Pay pools are funded based on the pay increments previously used, under the traditional personnel system, for within-grade increases, career ladder promotions, quality salary increases, performance awards, and, in three projects, the annual General Schedule pay increase.

Locality pay has not been incorporated into any project pay pool; it is not a component of the pay for performance provisions. Thus, all project employees continue to receive locality pay as they did under the General Schedule system.

Simplified, Accelerated Hiring. Most demonstrations waive the "rule of three," observe veterans' preference, and assess candidates by means of hiring categories—basically qualified (70 points), highly qualified (80), or superior (90). This eliminates the need to rank candidates from one to "n," a time-consuming process that adds little value.

Scholastic Achievement Appointments. This feature lets management appoint candidates with degrees to positions with positive education requirements. With up-front planning and coordination with the servicing human resources office, management can make a job offer within 5 days of the announcement using this appointment authority and an open-continuous vacancy announcement. Generally, for positions at a pay level lower than GS-7, step 10, candidates must have a 3.5 or better grade point average on a 4.0 scale in the field of study the occupation requires; meet minimum qualifications of the OPM qualifications standards; and meet any selective factors stated in the vacancy announcement. Appointments may also be made at the equivalent of GS-9 through GS-12 based on graduate education and experience. For these appointments, candidates must have a grade point average of at least 3.5 on a 4.0 scale for graduate courses in the field of study required for the occupation. Veterans' preference eligibles meeting these criteria are considered ahead of other applicants.

Modified Term Appointments. Under demonstration authority, modified term appointments may be used when there is no permanent need for the employee's services (e.g., when an activity is under review for reduction or closure, or work is of a project nature). Management may make modified term appointments for a period longer than 1 year, but not to exceed 5 years (with an option for 1 additional

year at local discretion). Employees hired under the modified term appointment authority are eligible for conversion to career-conditional appointments if they meet the following criteria:

- They must have been selected under competitive procedures, with the vacancy announcement specifying that the person selected may later be eligible for conversion;
- They must have 2 years of continuous service in the term position;
- They must be selected under merit promotion procedures for the permanent position; and
- In the Army projects, they must have a current performance rating at a specified level.

Extended Probationary Period. The projects typically extend the probationary period beyond 1 year for professional series employees and those who, under the traditional system, were in two-grade-interval series. For instance, in most S&T reinvention lab demonstrations, scientists and engineers serve 2 or 3 years of probation.

Voluntary Emeritus Program. Most demonstrations permit managers offer retired or separated individuals voluntary assignments in their organizations and let

them accept the gratuitous services of those individuals. Voluntary emeritus assignments are not considered employment by the Federal Government, except for purposes of work-related injury compensation, tort claims procedures, individual records, and conflicts of interest. Buy-outs or severance pay based on prior separation are not affected. This program may not be used to replace civilian employees who occupy positions required to perform the mission.

Section 245 (and section 246) Pilot Program

On June 21, 2001, a memo implementing section 245 of the NDAA for FY00 was jointly signed by the Under Secretary of Defense for Acquisition, Logistics, and Technology; the Under Secretary of Defense for Personnel and Readiness; and the Acting Director, Operational Test and Evaluation Agency.

The purpose of the memo was to remove, to the extent permitted by law, any existing DoD and Component impediments to the exercise of expedited hiring authority by the directors of the laboratories and test and evaluation centers participating in the pilot. Expedited hiring authority is the authority of the laboratories and test and evaluation centers, consistent with applicable law, to make tentative job offers (subject to security clearance, drug testing, and similar requirements) in real time or near real time directly to individuals with high quality scientific and engineering talent, using traditional and innovative recruiting

methods (such as job fairs and internet searches). The memo asked the Military Departments to identify and waive any of their policies, procedures, practices, and regulations not specifically required by law that restrict or otherwise impede expedited hiring within the pilot program.

The scope of the pilot program was extended to all science and technology labs and test and evaluation centers designated to participate in the pilot program under section 246 of the NDAA for FY99. (Section 245 specified that its pilot program "may be carried out in conjunction with" the program authorized by section 246.)

Hiring and Pay Program for Scientists and Engineers

The implementation of the provisions of section 1101, NDAA for FY99 fully support the hiring and retention goals of DARPA, a small, highly specialized, and talented group of approximately 120 program managers, military and civilian. DARPA is the central advanced scientific and technical research and development organization within the DoD. It manages and directs high-risk, high-return research and development projects to avoid technological surprise from military adversaries and promotes scientific and technological innovation in support of National Security. The DARPA Experimental Personnel Management Program

for Technical Personnel is critical to this mission, particularly for recruiting and hiring program managers from private industry.

The scientific and engineering personnel hired under the program represent an array of skilled and talented experts. The program enables DARPA to maintain a desirable level of diversity among program managers by recruiting from non-traditional industry sources. All appointees hold advanced degrees. All held senior positions in the private sector in companies of various sizes in differing industrial segments (for example, in the biology, technology, information technology, engineering, consulting, and research industrial segments). All appointees were senior scientists, managers, or directors holding positions up to the president of the company before coming to DARPA. The companies represented range from small businesses to larger, traditional, defense-based companies. The ability to recruit and hire this caliber of employee has driven need reform.

IMPACT OF DoD's RECENT FLEXIBILITIES AND PATH FORWARD

Demonstrations

Overall, I believe the flexibilities of S&T reinvention lab demonstrations and the Acquisition demonstration have had a positive effect on civilian human resources management in DoD. Broadbanding, the most dramatic innovation, coupled with performance-based pay progression has the potential to support a culture of improved performance in the DoD workforce.

External evaluation reports are due in FY02 for S&T reinvention lab demonstrations and in FY03 for the Acquisition demonstration. The expected results will certainly clarify the full benefits of broadbanding and other innovations.

Pilot Program for S&T Labs and Test and Evaluation Centers

The waivers DoD granted under this program will remain in effect for one year. The benefits of these waivers are to reduce fill time by reducing upfront

activity, to eliminate higher level approval of specific waivers, and to identify and remove unnecessary personnel regulations not required by law or Government-wide regulations.

Hiring and Pay Program for Scientists and Engineers

Based on the Department's experience to date, the DARPA Experimental Personnel Management Program for Technical Personnel, established under section 1101 of the NDAA for FY99, has been very successful. This authority is essential to DARPA's ability to recruit and hire highly qualified science and engineering personnel who would otherwise be unavailable to DoD. It allows DARPA to continue to maintain the leading edge with highly skilled personnel while contributing to the technological transformation of the Military Services and National Security.

The program has been in operation at DARPA for over two years. From October 1998 through October 2000, a total of 18 employment offers, approximately 30 percent of all offers to scientists and engineers at DARPA were made under the provisions of this program. Three offers were declined. One declined because the salary cap would not meet the candidate's requirements. Another declined in order to accept what the candidate considered a more

challenging offer from industry. The final declination was based on family issues related to the timing of the required relocation to the Agency.

The candidates' private sector compensation ranged from a low of $85,000 to more than $240,000. The base salaries that DARPA was able to offer under the program ranged from $82,500 to $125,900. DARPA also provided acceptance bonuses of between $3,000 and $25,000.

The average time to complete the hiring process under the program, from acceptance to report-for-duty date, averaged 34 days. This contrasts sharply with the 3.5 to 10 month time-span DARPA had experienced during the 2 to 3 years prior to implementing the program.

The scientific and engineering personnel hired under the program represent an array of skilled and talented experts. The program enables DARPA to maintain a desirable level of diversity among program managers by recruiting from non-traditional industry sources. All appointees hold advanced degrees. All held senior positions in the private sector in companies of various sizes in differing industrial segments.

It is essential that DARPA reward these employees in an appropriate manner.

All ten employees hired during the first year of program who were eligible to receive an annual performance rating were rated "outstanding" and received monetary bonuses ranging from $5,000 to $25,000.

Section 1113 of the NDAA for FY01 expanded the provisions of this program to the Military Services, NIMA, and NSA. I am confident that the results of this expansion will likewise yield great improvements in DoD's ability to recruit cutting-edge scientific and technical experts.

There are other legislative provisions provided by Congress that improved our ability to effectively manage our workforce. For example, Section 1121 of the FY01 NDDA provided DoD more flexibility in paying for degrees. Previous law, covering all federal employees, limited degrees to those in hard to recruit or retain positions. The new law allows DoD civilians to obtain degrees at our expense, if the degree is part of a systematic program of professional development. The Department is now issuing final policy to implement this legislation. In addition, section 922 of the FY01 NDAA authorized up to $15M for Information Assurance scholarships for both current students and DoD personnel. The Department is launching a pilot one-year program to fund some two dozen scholarships starting with the Fall 2001 semester.

Before concluding my remarks and on a related matter, I must express my appreciation for the exceptional support provided by Congress to our downsizing effort during the last decade. Congress has provided the Department with several tools that were critical to our downsizing and transition. Likewise, I am particularly grateful for the extension of our most important transition tools through Fiscal Year 2003. By far the most effective of these has been the Voluntary Separation Incentive Payment, or buyout, which has enabled us to avoid more than 147,000 layoffs, since 1993. Its companion piece, the Voluntary Early Retirement Authority, which allows retirement under reduced age and service requirements, has allowed us to avoid almost 67,000 involuntary separations and demotions since 1993. Beginning in Fiscal Year 2001, largely due to the work of Senator George V. Voinovich, the Department used the new workforce shaping buyout authority to overcome one of it biggest challenges—reshaping the workforce to correct skill imbalances. Hopefully, this authority will be reaffirmed by the 107th Congress for fiscal years 2002 and 2003, and the Department will continue use of the new shaping buyout in combination with early retirements to meet this challenge and to accomplish our traditional civilian employment reduction targets.

CONCLUSION

This testimony has been designed to provide a DoD perspective on the personnel systems flexibilities recently provided to the Department by Congress. This concludes my remarks. Thank you again for this opportunity to present our experiences and express our views. I will be pleased to answer any questions you may have.



STATEMENT BY

BOBBY L. HARNAGE, SR.
NATIONAL PRESIDENT
AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL-CIO

BEFORE

THE SUBCOMMITTEE ON
OVERSIGHT OF GOVERNMENT MANAGEMENT, RESTRUCTURING, AND
THE DISTRICT OF COLUMBIA

SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

REGARDING

EXPANDING FLEXIBLE PERSONNEL SYSTEMS GOVERNMENTWIDE

JULY 17, 2001

Mr. Chairman and Subcommittee Members: My name is Bobby L. Harnage Sr., and I am the National President of the American Federation of Government Employees, AFL-CIO (AFGE). On behalf of the more than 600,000 federal and District of Columbia employees our union represents, I thank you for the opportunity to testify before this Committee on the controversial issue of flexible personnel systems in the federal government.

Introduction

As the members of the committee no doubt are aware, the federal government is in the midst of a serious personnel crisis. This self-inflicted crisis is the result of more than a decade of downsizing, privatization, contracting out, and failure to match either private or public sector standards for pay and benefits. In addition, political leaders have criticized, ridiculed, and demeaned federal employees and the work they do, cynically feeding public misperceptions of government and the people who make it work.

The statistics are grim. More than half of the career federal workforce will be eligible for retirement within the next five years, and while some agencies are attempting, with difficulty, to hire and train the next generation of federal employees, their efforts are mocked by the administration's orders to put an additional 425,000 federal jobs on the chopping block as they begin to comply with OMB's directive to "convert or compete" 10 percent of FAIR Act lists each year.

In the meantime, others are asking what can be done to attract a new generation of federal employees and retain the many who are being wooed by generous offers in the private sector. In AFGE's view, there is no proverbial "silver bullet" answer to the government's personnel crisis. The Comptroller General of the United States, Mr. David Walker, has used the term "human capital crisis" to describe the situation. He argues that modern management and economic

theory has encouraged us to consider employees not as costs to be minimized, but assets whose value is to be cultivated in order that they produce the highest possible return. In the same way that it would not be rational to malign publicly the quality or desirability of a purchased asset like a stock or piece of real estate, it is not rational to vilify federal employees, it is not rational to undermine their morale, standard of living, or valuation by refusing to pay competitive salaries; it is not rational to withhold training, deprive them of resources and equipment necessary to high quality performance – none of these personnel practices is consistent with a "human capital" approach to personnel management.

Some might object to the term human capital in the sense that it treats humans as commodities to be bought and sold. But the value of the approach is that it makes an economic argument against poor treatment of employees. And that is why I believe it is a useful way to look at the federal government's personnel crisis.

Expanded Flexibility Without Collective Bargaining Rights: The Case of DoD's Contribution-Based Compensation and Appraisal System

I have been asked to address the question of whether expanding the use of "flexibilities" in federal personnel systems will be a useful way to address the human capital crisis. In short, I can answer that management flexibilities alone will not solve the problems that comprise this crisis. In fact, exercise of some of the flexibilities which have been proposed are more likely to exacerbate current and future problems than to solve them.

AFGE's opposition to unilateral increases in management's authority or "flexibility" is not a defense of inflexibility, rigidity or a challenge to the rights or responsibilities of management. In principle, AFGE believes that any expansion of federal management authority or flexibility must be counterbalanced with an expansion in the rights of federal employees to negotiate or bargain collectively

over the terms of change. Most unionized federal employees are currently prohibited from bargaining over pay and benefits. These compensation items, and the processes for determining their level and value, are written into federal statute.

With federal pay and benefits written in statue, federal employees are able, through the democratic process, to inform their elected political representatives of their views on the adequacy and fairness of these statutory terms. We can lobby the Congress for advantageous change; we can lobby to defend against harmful change. If statutory protections are eliminated in order to make aspects of federal compensation "flexible" in the sense of being susceptible to change implemented unilaterally by management, the absence of collective bargaining rights would deprive federal workers of any democratic process through which to make our voices heard. An expansion in collective bargaining rights, then, would be a necessary component of any expansion in management rights.

Indeed, it is difficult to understand why management would want to impose terms on federal employees that they would not accept if given the opportunity to resist. For example, the unilateral exercise of management flexibility could take the form of implementing a new pay setting system. If employees consider it unfair, inadequate, or disadvantageous, its chance of achieving desired management results would be questionable at best.

One illustrative example is the Department of Defense's (DoD) effort to replace the current pay setting process for federal white collar pay with a management-designed process called "Contribution-Based Compensation and Appraisal System" (CCAS) which is a version of pay-banding. DoD designed this system to exclude a meaningful role for the union and grant enormous discretion to management. In CCAS, managers are able to make unilateral decisions regarding the pay of individual employees. Pay matters that under Title 5 are covered by government-wide laws and regulations which ensure at least some

measure of consistency and fairness are, in the DoD's CCAS-system, controlled by local managers who are able to operate with extremely broad authority.

The system was designed by and for management. Pay decisions under CCAS are made by a management panel, and bargaining unit employees have no right to challenge their determinations through grievance or arbitration. The traditional General Schedule within-grade increases do not exist in CCAS. Instead, the funding meant for such pay adjustments is used to create a pool of money for management to distribute at will.

One of the main ideas behind this "flexible" pay-setting system was to foster teamwork and improve performance. However, with its overemphasis on the contribution "scores" of individuals, and its "best to worst" ranking of employee performance, the CCAS crudely pits one employee against another for a finite amount of money. One co-worker's loss is another's gain – and an "each man for himself" environment is created.

AFGE's Approach to Solving the Human Capital Crisis

AFGE believes that there are four broad policy changes which together would resolve the federal government's human capital crisis in a way that would be advantageous to both taxpayers and federal agencies. Please note that they do not preclude expansions in flexibilities for management or expansions in collective bargaining rights for unionized federal employees.

1. Provide federal employees with compensation that is comparable to and competitive with that paid by other large private and public sector employers.
2. Eliminate arbitrary Full Time Equivalent (FTE) ceilings and hire according to agency mission needs.

3. End the practice of contracting out all new federal work and privatizing work that has been performed efficiently and competently by skilled and dedicated public employees.
4. Restore the good reputation of public service by praising the quality and challenging nature of federal employees' work; the patriotism, dedication, importance of their mission; and the value of the public sector in protecting and promoting the public interest and our society's general prosperity.

1. Federal Employee Compensation

No one engaged in the discussion over how to solve the federal government's human capital crisis disputes the fact that the pay and benefits package provided by the federal government needs improvement. Indeed, AFGE believes that the single most important step that Congress and the Administration could take to solve its problems with recruitment and retention would be to implement the Federal Employees Pay Comparability Act of 1990 (FEPCA). Signed into law by the first President Bush, FEPCA was designed to close gradually the gap between private sector pay and that of federal white collar employees. In the years leading up to the enactment of FEPCA and in every year since, the measured gap between federal and non-federal pay has measured 30 percent on average nationwide. Although there are large variations in the size of the pay gap from region to region, FEPCA set forth an affordable and fair method for bringing federal salaries in line with both national trends in private sector pay, and the disparate trends of local labor markets.

The pay-setting mechanism embodied in FEPCA represents a balance between the twin goals of treating all employees fairly and following the dictates of the market. It provides for an annual across-the-board salary adjustment equal to the Bureau of Labor Statistics' (BLS) Employment Cost Index (ECI), a measure of changes in private sector wages and salaries, minus one half of one percent. In addition, FEPCA was supposed to have closed the measured gap between

federal and non-federal pay in 33 localities in increments over a nine-year period so that by 2003, federal pay would be, in the aggregate and on average, 90 percent of non-federal pay. But the Congress and two consecutive Administrations have chosen to ignore FEPCA.

While federal employees have experienced modest improvements in pay during the FEPCA period, they have made virtually no progress toward the goal of private sector comparability in pay levels. Under these circumstances, it is little wonder that the federal government has experienced difficulties in recruitment and retention of skilled federal employees.

Numerous ideas for addressing the federal government's inferior pay scales have emerged in the course of debate over the human capital crisis. They are all offered in good faith, and should be considered earnest efforts to address what has always been a difficult political issue. AFGE believes that ideas based upon a zero-sum model of federal pay – taking away from one person or group in order to fund an increase for another – are bound to exacerbate the crisis, not improve it. Into this category AFGE would place ideas such as contingent pay, payment of one-time bonuses, incentive pay, and merit pay.

AFGE agrees that the provision of financial rewards for extraordinary performance or to encourage certain types of employee behaviors, such as relocation, retention, or initial recruitment can be a useful to federal agencies in numerous circumstances. But these types of contingent pay schemes must exist *as supplements* to the basic federal pay-setting system. In addition, they must be funded separately and on a supplemental basis, apart from the regular pay system designed to bring federal salaries in general up to private sector comparability.

Funding is at the heart of this debate over how to use pay to resolve the government's human capital crisis. The proponents of contingent pay believe

that it is possible to reallocate existing federal salary funding in ways that will lessen or eliminate the crisis. On the contrary, such a "beggar thy neighbor" policy not only will fail to solve the crisis, it will exacerbate it. Using pay as a punishment for some and a reward for others is not a recipe for success in an organization as large and complex as the federal government. This is especially true if the starting point for implementation of such a system finds the entire group underpaid relative to their counterparts in the private sector and resenting that fact daily.

Contingent pay as a solution to the human capital crisis is often presented in the context of the more innocuous-sounding term "management flexibility." The argument of those in favor of the "management flexibility as the key to solving the human capital crisis" appears to be that the most pressing comparability gap between the federal government and the private sector is that federal managers lack the flexibility that managers in the non-union private sector enjoy – a managerial-comparability gap.

The proponents of enhanced management flexibility regarding federal pay suggest pay banding and incentive pay that would not affect base pay as examples of the kind of reforms which could help solve the government's recruitment and retention problems. In fact, there is nothing in current law or regulation that prohibits implementation of either of these changes, except the requirement that they not be implemented unilaterally in cases where affected employees have an exclusive representative. The only real obstacle to implementation of these types of schemes is funding.

Federal managers should be using the broad flexibility granted them under FEPCA that evidence shows they use only rarely. Under FEPCA, managers have authority retention allowances of up to 25% of base pay. Another provision of the law gives managers the authority to offer one-time bonuses of up to 25%

of basic pay to recruit employees and/or relocate employees to less desirable locations.

In spite of the existence of such pay incentive flexibility under FEPCA, the Office of Personnel Management (OPM) reported in December, 1999 that the special pay incentives have only been received by less than 1% of federal employees. Further, when these incentives are implemented, they have been most often paid at a rate of 10% of basic pay, or less.

Although management has the flexibility to decide this issue under FEPCA, AFGE believes that special pay incentives should be provided to groups of employees, not to specific individuals. The first problem with individual-specific incentives is favoritism. Favoritism and the suspicion of corruption have bedeviled the majority of performance-based award systems that focus exclusively on individual contributions. Especially in the context of a workforce that considers itself underpaid generally, the temptation of managers to overestimate the contributions of favored employees and underestimate the contributions of others may be overwhelming.

A second problem with individual-specific incentives is that productivity improvements are rarely, if ever, the result of one individual's efforts. Government work is more often collaborative than solitary, and rewards need to be shared among an entire group. Sometimes the contributions of an entire work group are obvious; sometimes the fact that positive results were the product of a group effort is less easily perceived. Granting an award to only one or a few individuals from a group violates the standard of equal pay for equal work and weakens morale by overlooking the many in order to reward the lucky few.

In this context, it is important to note that the federal government's pay problems are not confined to specific occupational categories. While recruitment and retention in information technology fields has received the most attention

recently, the inadequacy of federal pay is felt across virtually all occupations, from blue collar skilled trades to the highest managerial ranks. Again, although FEPCA's special rate authority allows the government to respond to market forces affecting particular occupations, inadequate funding of federal pay generally hampers even these mechanisms for addressing pay problems.

As previously stated, AFGE understands that the motivation behind proposals for alternative federal pay systems is to facilitate improved recruitment and retention of highly skilled federal employees. That goal cannot be met without adequate funding of FEPCA. FEPCA's special pay incentives, either in the form of one-time bonuses or merit-based improvements in base pay, are properly viewed in the law as supplements to the existing pay and benefits package. We continue to believe that a full funding of the entire range of pay adjustments – including those based upon labor market data and those based upon productivity data, is the first step toward solving the human capital crisis.

Wages and salaries are not the only aspect of federal compensation that is inferior to private sector standards. While periodic studies by the General Accounting Office and the Congressional Research Service confirm that the value of federal employee retirement benefits is roughly comparable to that offered by large private and public employers, the health insurance benefit under the Federal Employees Health Benefits Program (FEHBP) remains substantially inferior. While premiums in the FEHBP have risen by an average of 36 percent over the last four years (although premiums for Blue Cross/Blue Shield Standard Option, which enrolls more than 50 percent of all program participants, have risen 42% in the past four years), the measure of inferiority of FEHBP compared to the programs of other employers has worsened.

The government's financing of FEHBP is based upon a complex formula which results in its paying an average of 72% of premiums, with a 75% maximum and no minimum. In recent years, the formula has yielded a contribution as low as

55% of the premiums of some plans. Large employers in both the public and private sector pay anywhere from 80% to 100% of premiums for their employees. Another telling measure of the inadequacy of the government's financing of employee health insurance benefits is the fact that as many as 250,000 federal employees who are eligible to participate in FEHBP decline to do so in spite of the fact that they do not have coverage from another source. The last time a serious study was undertaken was in 1989, when the Congressional Research Service found that large private employers spent on average $1,100 more per employee per year than the federal government spent on health insurance. As the foregoing implies, that dollar figure reflects both that the government pays too small a portion of FEHBP premiums and that it fails to cover a substantial portion of its workforce. The fact that 250,000 of the federal government's own workforce are without health insurance because of inability to afford the employee share of premiums suggests that FEHBP's shortcomings are an important part of the story of the government's human capital crisis.

2. The Persistence of Arbitrary Personnel Ceilings

The fact that federal agencies are prohibited from hiring above Full Time Equivalent (FTE) ceilings, as dictated and enforced by the Office of Management and Budget (OMB) is a crucial component of the federal government's human capital crisis. It is difficult to say whether the imposition of FTE ceilings which are entirely unrelated to agency workloads or missions is a cause of the human capital crisis, or whether the FTE ceilings themselves *are* the human capital crisis. Nevertheless, lifting the FTE ceilings would go a long way toward making the crisis disappear.

The current situation forces agencies to contract out federal government work that could be performed more efficiently in-house, under the direct supervision of agency management. When an agency reaches its FTE limit, however, it is forced to contract out work it is obligated to provide, regardless of the financial

cost. Taxpayer dollars are not the only thing that is wasted in FTE-ceiling-driven contracting out. In agencies throughout the government, but most particularly the Department of Defense, whole functions are privatized (such as electronic communication) which create grave vulnerabilities in terms of national security, and the ability to monitor contract compliance.

Further, as agencies acquiesce to the existence of the FTE ceilings, they capitulate by contracting out the work that would otherwise become the responsibility of federal employees entering the most productive years of their careers. This is the story AFGE members tell again and again: Young graduates enter the federal service, gain skill and experience at federal agencies, and when they reach a "journeyman" level of professional competence, the positions for which the agency has prepared them are no longer available in house – they have been contracted out. The former federal employee then goes to work for the contractor, taking his taxpayer-funded expertise with him. His new employer, a private contractor, then "sells" this expertise back to the government at a much higher price than it would have cost if the work and the position had remained in-house. The taxpayer pays a salary to the employee that the federal agency could have paid (sometimes higher, sometimes lower) but also pays the contractor a fee for "providing" this experienced worker, as well as a profit to the owner of the firm.

The difficulty federal agencies experience in hiring is often raised in the context of civil service reforms which could alleviate the government's human capital crisis. In many cases, the focus is upon the question of how to speed up the hiring process in view of reports of the government's losing out on the hiring of desirable job candidates who accept offers from employers able to make on-the-spot hiring decisions. AFGE supports any attempt to accelerate the speed of hiring decisions, as long as merit principles, veterans' preference, and internal candidates' rights are preserved.

We believe that the focus on the speed of hiring decisions is misplaced. The existence of FTE ceilings is the most significant bar to hiring, regardless of whether agencies' decisions on particular candidates are slow or fast. Potential federal employees know that these ceilings can be lowered at any time, and are thus reluctant to risk embarking on a federal career for fear that their position may be eliminated at any time.

The FTE ceilings serve no useful management purpose; their use is entirely political in the most crass sense of that term. No private business or organization would pluck an arbitrary number from the air and adhere rigidly to it, workforce planning, mission, and cost be damned. Yet that is precisely what the federal government has done, and with the predictable "human capital crisis" as its result. As Paul Light of the Brookings Institution remarked recently in his testimony to GAO's Commercial Activities Panel, the "headcount" straightjacket serves only "to disguise the true size of government," not restrain its growth.

3. Outsourcing and Privatization Only Worsen the Human Capital Crisis

The facts that comprise the federal government's human capital crisis are in part a result of the political decision to contract out work which federal employees have traditionally performed. While the government has always contracted with private firms for some services, the past decade has seen a shift in orientation as contractors have organized to demand that the government turn over an increasing portion of its work to the for-profit sector, arguing that the government should not compete with the private sector.

Private firms have taken over a tremendous number of government services and obligations over the past decade, with federal agencies signing contracts for such traditional government services as the Navy-Marine Corps internal

communications system, HCFA's 800-number Medicare Information Hot Line, and even contract oversight itself in the Department of Defense.

The issues described above – inadequate federal pay and benefits combined with arbitrary FTE ceilings – have put the federal government in a weak bargaining position *vis a vis* private contractors. While the Department of Defense downsizing has meant a decline in agency workload, other agency missions have either remained stable or, in cases such as the Social Security Administration and the former HCFA, expanded as the portion of elderly in the population has grown. Yet the number of workers on direct federal payrolls declined by more than 300,000 by Presidential edict.

The government has thus been in a vulnerable position which contractors have exploited. Agencies must carry out their missions, but they cannot hire according to workload. They have no choice but to pay what the contractors demand, even if the work can be done more cheaply and more effectively by federal employees, and even if the work *should* be done by federal employees, for reasons of national security, public interest, or public safety.

In this context, private contractors are eager to profit from the human capital crisis by taking over federal government work. They are not bound by FTE ceilings; they are not bound by the inadequate pay set forth under the General Schedule or the Federal Wage System (FWS). Although their contracts are paid from the same source – tax revenue – as federal agencies, unlike agencies hiring federal employees, the contractors are able to pay competitive salaries and benefits when they choose to do so. They are also able to pay very low wages and no benefits when the market permits.

AFGE has proposed a legislative solution to some of the problems associated with contracting out, S.1152, The Truthfulness, Responsibility, and Accountability in Contracting Act or TRAC Act, and I would like to thank the Chairman, for his

leadership and sponsorship. In addition, I would like to invite the Senators on the Committee to sponsor the legislation as well. TRAC would require public-private competitions prior to contracting out of new federal work, and at the time of contract renewals. It would prohibit contracting out in cases where the only cost advantage of the private firm is the payment of inferior wages and benefits.

Does the government face a human capital crisis in its "shadow" private contractor workforce? If not, why not? Accessing the data to answer these questions would take us a long way toward understanding the solution to the government's human capital problems with its "on the books" workforce. Passage of TRAC would allow the government to gather and analyze data on the contractor workforce, including its size, cost, productivity, salaries, benefits, age, experience, and skill.

The passage of TRAC would not preclude the use of further privatization or contracting out as a means of evading the true causes of the government's human capital crisis. TRAC would merely force the government to begin making contracting decisions on the basis of objective cost criteria, and provide the public with a more accurate picture of the size and cost of the government workforce.

5. Restoring the Status of Career Federal Service

Federal employees bear the brunt of sarcastic criticism from politicians of both political parties. They are abused, ridiculed, and accused of being underworked and overpaid. They are routinely vilified as the enemies of freedom, democracy and American values. Their work is described as shoddy, their abilities constantly questioned. It is no wonder that federal agencies encounter reluctance on the part of job seekers to accept employment with the government.

The constant disparagement of our government and of government employees may be expedient for politicians, but it is a disservice to our nation. Public service has for generations been considered an honorable and respected career, and there is no reason that its status cannot be restored. Federal employees are rightly proud of the work they do protecting our borders, the safety of our food supply, our medications, our transportation systems, the air we breathe, and the water we drink. Federal employees make sure our nation's veterans receive the benefits and health care they have earned, and maintain our military readiness. They make sure survivors and seniors receive their Social Security checks and that college students receive their loans. They help low-income Americans obtain housing, health care, and job training. Federal employees protect the stability of the banking system, the stock market, and America's role in international markets. They engage in medical, scientific, and technological research that lay the groundwork for economic growth and the improvement in living standards for all Americans.

And yet in spite of these important roles, and in spite of the fact that this work is performed in a highly effective and efficient way by loyal, dedicated, and skilled federal workforce, federal employees often get no respect.

There is much evidence that the generation of workers now entering the labor market places a high value on the opportunity to make a positive social contribution. Polling data indicate that this generation is community- and family-oriented, and wants careers that allow them a sustainable balance between career and family. In order to appeal to this group, the bureaucrat bashing must come to an end. It is important to get the true message out – that federal service is a worthy career. Public service and the desire to do worthwhile work are a natural fit.

While the inadequacy of federal salaries and health insurance benefits are the most pressing compensation issues, the federal government should do all it can

to supplement the existing salary and benefit package with additional benefits to attract newcomers. The benefits most likely to achieve these goals include payment of student loans, alternative work schedules, telecommuting opportunities, child care and transportation subsidies, and paid time off to meet family needs.

The government's recruitment efforts must convey a positive message about the value of public service. Potential employees must be given realistic assurance that a career in the federal government will provide opportunity for growth and advancement, both professionally and financially. Employers may try to delude themselves that workers want temporary employment; AFGE contends that workers want economic security, and the knowledge that their employer will continue to value them as they develop their skills. In this context, I urge the Committee to reject proposals to address the human capital crisis with a program of hiring temporary or contingent employees. This approach is not much more effective than contracting out, and merely prolongs the crisis.

Conclusion

AFGE is ready to work together on any and all serious initiatives designed to rebuild the federal service. We have struggled to maintain the quality and integrity of federal agencies in spite of decades of inadequate budgets and confused and conflicting managerial initiatives. As one generation of federal employees prepares for its retirement, a new generation of federal employees must be hired, trained, and provided with career opportunities that measure up to alternatives in both the private and public sectors.

We understand that those who offer up management flexibility are responding to the human capital crisis under the assumption that no additional funding will be made available to resolve it. Enhanced flexibilities can play a constructive role even under such constraints, but they must include enhancements in collective

bargaining rights for unionized federal employees in order not to make today's enormous problems even worse.

Adequate pay, adequate staffing, a reasonable expectation of job security, and public respect -- these are the four components which are necessary conditions for the federal government to recruit and retain the workforce it needs for the 21st century. This concludes my statement, and I will be happy to answer any questions Members of the Committee may have.



TESTIMONY

OF

COLLEEN M. KELLEY

NATIONAL PRESIDENT
NATIONAL TREASURY EMPLOYEES UNION

ON

EXPANDING FLEXIBLE PERSONNEL SYSTEMS GOVERNMENTWIDE

JULY 17, 2001

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT

SENATE COMMITTEE ON GOVERNMENT REFORM

2:30 pm

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Chairman Durbin, Ranking Member Voinovich, Members of the Subcommittee, my name is Colleen Kelley and I am the National President of the National Treasury Employees Union (NTEU). NTEU represents more than 150,000 federal employees across 25 agencies and departments of the federal government.

Thank you for the invitation to appear today to discuss the flexibilities available to the federal government and examine whether or not these flexibilities may hold the answer to the government's increasingly severe recruitment and retention difficulties. As the President of the Nation's largest independent federal employee union, I very much share your interest in solving the human capital crisis the federal government faces.

The General Accounting Office's (GAO) action in placing Human Capital Management on its High Risk List underscored NTEU's own long-held views. For too long, too little attention and too few resources have been spent on the federal government and its employees. There's little question why we face the crisis we do today.

According to the Bureau of Labor Statistics, in some parts

of the country, the gap between private and public sector pay is as much as 30%. The Federal Employees Pay Comparability Act, which was designed to close this gap between private and public sector pay, has been on the books for 10 years now. It has never been fully implemented; even in this time of record budget surpluses, it has not been implemented. Yet, for most prospective employees, the most critical element in deciding whether or not to accept a job is salary.

Unfortunately, the Administration's response to this crisis has been to propose only a 3.6% federal employee pay raise next year. Although the House and Senate Budget Committees adopted bipartisan language as part of the FY 2002 Budget Resolution making clear that federal employees should receive identical pay raises to their military counterparts next year, at least 4.6%, the Administration continues to press for only a 3.6% raise for federal employees while suggesting that the military pay raise should be as high as 5%. This is not reflective of an Administration that takes the human capital crisis seriously.

Frankly, Mr. Chairman, a decision to fully implement FEPCA and provide federal employees with compensation that mirrors that received by their private sector counterparts would do more to address recruitment and retention in the federal government than all of the federal government's other incentive programs combined.

Acquiring and retaining employees with the best skills is a challenge for all employers. It is particularly so for the federal government. Federal agencies are so often hamstrung by restrictive funding levels and forced to shuffle resources between competing priorities and from one account to another, that they are never able to adequately fund the range of programs they need to become an employer of choice. This is precisely the situation agencies face once again for Fiscal Year 2002. Discretionary funding levels provided in the Budget Resolution are inadequate to meet current needs; never mind the challenges of 2002.

As the Committee knows, federal agencies currently have a wealth of flexibilities available to them. There are programs on the books that permit agencies to offer retention allowances of up to 25% of salary, bonuses of up to 25% of basic pay, performance awards, student loan repayment awards, incentive awards and even bilingual awards.

In December of 1999, the Office of Personnel Management reported that overall, only 0.14% of all Executive Branch employees received recruitment, retention or relocation incentives (3Rs) in Fiscal Year 1998. Recruitment bonuses were given 0.3% of the time. Relocation bonuses were given to 1.0 percent of employees and 0.09% of employees received retention allowances. Less than 1/4 of 1% of the federal workforce

received any form of recruitment, retention or relocation incentive in Fiscal Year 1998.

When asked what the most common impediments were to greater use of these types of incentives, agencies cited budgetary constraints. (See: The Three R's - Lessons Learned From Recruitment, Retention, and Relocation Incentives) Agencies simply are not being given the resources necessary to fund the very programs and incentives that might actually help them solve the human capital crisis. It makes little sense to offer this range of incentives to agencies, encourage them to use them to solve their human capital crises, yet provide them with no money or resources to accomplish the goal.

Adequate and stable agency funding coupled with appropriate pay, benefits and incentives are the keys to insuring that the federal government is able to attract, hire and keep the best employees. There is a federal pay law on the books, but it is not funded. There are flexibilities and demonstration project authority and a virtual laundry list of programs available to federal agencies to deal with the recruitment and retention problems they face, but they, too, are not funded. The problem, Mr. Chairman, is not a lack of options, it is a lack of resources. What is needed is a willingness on the part of the Administration and Congress to provide the resources necessary to get the job done. Until a decision is made to provide federal

agencies with funding levels that reflect their missions and their needs, the federal government's recruitment and retention problems will remain in crisis.

As critical as I believe stable and sufficient funding levels are to solving the human capital crisis, there are other steps we should also be taking to address these serious resource management problems.

Mr. Chairman, I want to take this opportunity to thank you for your leadership in introducing S.1152, legislation designed to bring fairness to the federal government's contracting out decisions. More dollars are doled out to contractors each year than are spent on the federal workforce, yet there is little or no oversight of these contracts once they are awarded. No one can be sure if any real cost savings has been achieved, or even if government services for taxpayers have been improved. What we do know, however, is that directives to meet contracting out quotas, such as those recently issued by OMB, send an unmistakable message to federal employees that they are not valued.

The Administration's misguided directive calls on agencies to put up for competition, or directly convert to the private sector without any competition, at least 5% of the jobs on their FAIR Act inventories during FY 2002. For FY 2003, the directive

continues, 10% of agency jobs should be arbitrarily opened to the private sector. These arbitrary quotas are being pronounced with no evaluation of the potential impact on the agency's delivery of services or mission, and clearly with no concern as to the impact these directives are likely to have on the federal government's already severe recruitment and retention crisis.

We cannot continue to allow agencies to arbitrarily award contracts to private companies while simultaneously letting valuable resources - our federal employees - slip away. That is what S.1152 is designed to prevent. It will bring a measure of accountability to the federal government's contracting practices. Too, I believe, its enactment will provide another tool to help us better address the government-wide human capital crisis.

With regard to personnel flexibilities in the IRS Restructuring and Reform Act of 1998 (RRA 98), a major disincentive for the employees we represent at the IRS is Section 1203 of RRA 98. Section 1203 lists ten infractions for which IRS employees face mandatory termination. The infractions range from extremely serious - harassment of a taxpayer - to failure to file an income tax return on time. The broad scope and vague nature of the "10 Deadly Sins" has created nothing but anxiety and confusion in the workplace.

IRS employees have always faced discipline, up to and

including dismissal, for these same violations. However, adoption of the mandatory firing provision by Congress has had a chilling effect on collections as well as morale at the IRS. No other government employee in the executive, judicial or legislative branch - and in fact, no other taxpayer - **must** be fired solely on the basis of filing their tax return one day late. The law applies even when the late filing employee is due a tax refund.

Of the approximately 1,300 charges that have been filed against IRS employees for harassment, or retaliation against a taxpayer since the law was enacted, only 7 of the charges have been substantiated by the Inspector General for Tax Administration. Making a minor change in the law allowing penalties less than mandatory termination in these situations seems to be not only a reasonable step, but a positive step toward addressing a serious disincentive to federal employment. NTEU seeks this Committee's help in this endeavor.

Lastly, I want to comment on proposals that have been made to institute "pay for performance" or "pay banding" in an effort to address the human capital crisis. The IRS is preparing to implement a payband for its senior managers. It will allow greater flexibility when setting salaries, however, it, too will require adequate resources to work. Without funding, it will be just another effort to address the crisis that exists only on

paper.

Pay for performance has also been suggested as a step toward improving the federal workplace. NTEU is not opposed to pay for performance, however, we strongly believe that pay for performance, as well as pay banding, must be accomplished in the context of collective bargaining. Current performance evaluations are widely viewed as subjective, susceptible to favoritism and in some cases discriminatory. Only by allowing for collective bargaining in the design and implementation of a performance management system will employees have faith in, and respect for, the system.

Here again, however, without additional resources to make such a system work, the only way some employees would receive raises is if others did not. If all the employees in the pay for performance setting performed admirably, would the system provide for all of them to receive the appropriate raise? This, too, will require adequate resources and the potential exists to make the crisis worse if a pay for performance proposal were not properly funded.

Thank you again, Mr. Chairman for this opportunity to appear before your Subcommittee. I look forward to working with you on these and other issues and am pleased to answer any questions.

Hearing on Expanding Flexible Personnel Systems Governmentwide
July 17, 2001

Testimony of Myra Shiplett,
Director, Center for Human Resources Management
National Academy of Public Administration
Before the Senate Subcommittee on Oversight of Government Management, Restructuring and the District of Columbia

Good afternoon, Mr. Chairman and members of the Committee. The National Academy of Public Administration appreciates this opportunity to provide information to the Subcommittee regarding the extension of flexible personnel systems governmentwide.

The Academy applauds the Subcommittee's interest in providing additional flexibility to federal agencies. Approximately 100 independent agencies carry out unique missions within the United Stated government structure. Their functions and responsibilities require them to interact in various ways with private and public institutions and businesses operating in a wide array of fields of endeavor. In spite of this diversity they are required to operate within the same personnel system built upon 19th century principles of centralized policy development, selection from precisely numbered lists of job candidates, uniform pay scales, and a "one-size-fits-all" philosophy. In today's competitive environment for talent such a system is a detriment to the recruitment and retention of an effective workforce.

Additional flexibility is needed to accommodate the rapidly changing nature of work and the corresponding adjustments needed within organizations. The Academy believes that the current civil service system needs to be reformed to allow it to operate in this modern environment. Such reform will take time to effectively structure and to legislate. In the meantime, certain flexibilities that are currently unavailable to most agencies have been tested for years and have proven to be useful tools in improving agency effectiveness. In the 1978 civil service reform Congress established a process for structuring "demonstration projects" to permit agencies to test new approaches to personnel management. The concept was to extend successful approaches governmentwide. The Academy believes that the extension of successful approaches makes good sense and is in keeping with Congressional intention in the last civil service reform.

With that in mind, three concepts particularly recommend themselves for consideration. All three have been tested for at least 10 years and one for over 20 years. The first in "length of service" is broadbanding. The technique was approved in 1980 for use at the Navy's China Lake and San Diego weapons laboratories. It involves grouping federal pay grades into several pay bands and permitting greater flexibility in setting pay, promotion, and reassignment within the broader pay band. The approach has been extensively monitored and evaluated by the U.S. Office of Personnel Management, which has reported in numerous studies over the last two decades that the laboratories have been able to recruit and retain quality employees at higher rates than the traditional system. Overall salary costs have increased by only 3 percent over that 20-year period. Congress has extended the authority to nine additional agencies since then including GAO, CIA, FAA, FDIC, and IRS to name a few. We are not suggesting broadbanding

should be the new single system governmentwide, rather agencies that would like to use this flexibility should be permitted to do so.

Earlier this year the Academy was asked to review the Reduction-in-Force (RIF) system at China Lake -- at both its Mojave Desert and Point Mugu locations. We were particularly interested in their approach to structuring their RIF competitive levels since the paramount criteria in determining retention credit in their system is performance rather than career tenure as in the regular federal system. The installations had conducted 2 RIFs simultaneously – one for employees in the Demo system and one for those in the traditional system. The RIFs were conducted at the same time, by the same management, in the same facilities, using the same management controls. The results were illuminating. Both systems used five performance levels ranging from Unsatisfactory to Outstanding. In the traditional system, of those terminated or downgraded, 65 percent were in the top 2 performance levels – Outstanding and Highly Successful. In the Demo system, only 14 percent of those similarly impacted were Outstanding or Highly Successful. If our goal is to recruit high quality employees into the federal service and retain them, broadbanding and the RIF approach described previously strongly lend themselves for your consideration.

The third approach has been used by the Agriculture Department for over 10 years. It is an alternative to the "rule-of-three" which has been recommended for elimination many times, including by both the National Academy of Public Administration and the Merit Systems Protection Board (MSPB). A demonstration project was structured for the Forest Service and the Agriculture Research Service in 1990 and authorized by Congress. Rather than requiring job applicants to be listed in absolute score order and selections made from the top three (a process that is time consuming, litigious, and creates a false appearance of valid precision), they were permitted to place candidates into one of several quality categories (e.g. highly qualified, qualified, unqualified). Selecting officials could select anyone from the top group and then from the next group if there were insufficient candidates. Veterans were placed at the top of each category and were selected first. The demonstration project was so successful that Congress approved it for permanent use for Agriculture in 1995. Since then several agencies have been authorized to use the approach.

The National Academy of Public Administration believes that these three approaches have been extensively tested and have proven to be effective. They should be made available as alternative personnel systems, under the overall structure of Title 5, to all federal agencies. The U.S. Office of Personnel Management (OPM) can provide guidance on their appropriate use for those agencies wishing to adopt them as they did during the initial crafting of the demonstration projects. Enacting these changes would not alter fundamental merit principles, leaving an established tenet of the current system completely intact.

Thank you Mr. Chairman for the opportunity to testify.

Attachment

National Academy of Public Administration's Related Publications and Studies

Publications

Modernizing Federal Classification: An Opportunity for Excellence (1991)
A report suggesting objectives and criteria for a new federal classification system, offers a model for such a system, and outlines steps and issues for design and implementation.

Effective Downsizing: A Compendium of Lessons Learned for Government Organizations (1995)
A practical resource to help organizations formulate action plans for downsizing, showcasing best practices for managing workforce reduction.

Strategies and Alternatives for Transforming Human Resources Management (1995)
A reference for developing a mission driven value added approach to managing people.

Modernizing Federal Classification: Operational Broad Banding System Alternatives (1995)
A report on broad banding models designed to improve work and organizational management, classification and pay administration.

Innovations & Flexibilities: Overcoming HR System Barriers (1997)
A reference to help identify barriers to the implementation of innovation and system flexibilities.

Entry Level Hiring and Development for the 21st Century: Professional and Administrative Positions (1999) This resource outlines a comprehensive set of changes to entry-level hiring methods to improve the quality of candidates, increase candidate knowledge of agency programs, uphold merit principles, improve process timeliness, reduce complexity and burden, and contribute to the government's goal of having a diverse workforce.

Studies

Naval Research Lab (1999): Analyzes Naval Research Lab (NRL) position management program in the context of NRL's future implementation of a revised personnel system.

Federal Aviation Administration(1999): Review of the effectiveness of FAA new human resources management system reform, including design and implementation, and gives specific recommendations as to how the reform objectives can be better achieved.

Peace Corps (1999): Recruitment and Retention of IT Employees: Identifies approaches and techniques most relevant to helping the agency compete in today's rapidly changing IT labor market.

Department of the Navy (2000): Civilian Workforce 2020: Strategies for Modernizing Human Resources Management in the Department of the Navy: Examines both external and internal trends in employment and makes recommendations on strategies to shape the future force to meet mission goals.

Department of the Navy Naval Air Warfare Center Weapons Division (2001): Review of Demonstration Project Reduction in Force Procedures implemented in November 1999.