

Statement of Jeffery K. Nulf
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Before the
Subcommittee on Oversight of Government Management,
the Federal Workforce and the District of Columbia
Committee on Homeland Security and Governmental Affairs
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Introduction

Good morning, Mr. Chairman and members of the subcommittee. My name is Jeffery Nulf and I have the pleasure to serve President Bush as the Deputy Assistant Secretary for Administration at the Department of Commerce. Otto Wolff, our Chief Financial Officer and Assistant Secretary for Administration, has asked me to convey his regrets at being unable to appear today due to a scheduling conflict. On behalf of Secretary Gutierrez and Assistant Secretary Wolff, I would like to thank you and this committee for the leadership provided in seeking solutions to human capital issues affecting the entire federal workforce. I appreciate this opportunity to discuss one of the most significant challenges facing Executive Branch agencies today – how to compete successfully to recruit and retain a skilled and motivated workforce through human capital flexibilities. The potential benefits that these flexibilities offer have significant promise, and we welcome the chance to share our experiences and learn from those of our colleagues here today.

Challenges Facing Commerce

The Department of Commerce consists of thirteen operating units with diverse and often highly technical portfolios that – together – foster economic opportunity both domestically and abroad for all Americans. Commerce faces dynamic challenges in recruiting and retaining individuals with the combination of skills and abilities needed to carry out its various missions. This is particularly true of individuals in highly technical fields such as physicists, chemists, statisticians and economists, as well as Senior Executive Service managers. We, like many other federal agencies, must operate in a highly competitive labor market to fill increasingly specialized positions. This situation is exacerbated by the knowledge that -- over the next five years – roughly one-half of the Commerce workforce will become eligible for retirement. The potential impact that such a loss of experience and institutional memory would have on program operations is staggering. Also during the next five years, the Department faces the daunting challenge of recruiting and training upwards of 500,000 employees needed to conduct the 2010 Census.

Within the context of recently enacted human resources flexibilities and the President's Management Agenda (PMA), Commerce employs a cohesive strategy in meeting these many challenges. In 2001, in collaboration with our operating units, we conducted a first-ever workforce assessment across the Department. Through this effort, we identified the three most significant human capital challenges facing us:

- (1) high turnover rates in mission-critical occupations,

- (2) a projected surge in retirement among Senior Executive Service (SES) managers, and
- (3) the need to strengthen competencies to address mission changes, technological innovations resulting from E-government, and workforce changes caused by various factors such as business reengineering and competitive sourcing.

To help us respond to these needs, a five-year workforce restructuring plan was prepared -- with input from all Commerce operating units -- and adopted. Regular meetings with our Principal Human Resources Managers Council, Chief Financial Officers Council, Chief Information Officers Council, as well as working groups at the staff level provide opportunities to track progress in implementing initiatives, share experiences, and obtain feedback on our common interests.

Human Resources Flexibilities

Within this framework, Commerce employs a wide range of human resources flexibilities to meet the challenges it faces.

- For example, we continue to reshape the Department's workforce and correct skill imbalances using the new voluntary early retirement and separation incentives authority provisions. To date, approximately 250 employees in seven operating units have taken advantage of these incentives. We are also in the process of

identifying critical occupations where we will need to request direct hire authority under the Federal Workforce Improvement of Homeland Security Act of 2002.

Additionally, our bureaus are using the expanded authority to pay for academic degrees as an effective tool to retain quality employees and close skill-gaps.

- We have implemented the Federal Employee Student Loan Repayment Program. Commerce managers use this authority, as appropriate, to compete more effectively to recruit and retain high quality employees.
- The Department of Commerce has implemented several provisions of the Federal Workforce Flexibility Act of 2004, which also assist managers in recruiting and retaining the best and brightest candidates. By allowing the Department to grant 8 hours of annual leave, in lieu of 4 hours of annual leave, we believe our efforts to attract an elite executive corps will be greatly enhanced.

In addition to these tools, the Commerce Demonstration Project plays a critical role in our efforts to effectively address current human resources challenges.

Alternative Personnel Management Systems

Commerce has been managing pay-for-performance systems for 17 years – first under a demonstration project at the National Institute of Standards and Technology (NIST) beginning in 1988. Following the success of the China Lake experiment, this alternative

personnel system was made permanent at NIST in 1996 and served as a model for the Commerce Demonstration (Demo) Project. Currently, 4,200 employees in five of our operating units are managed through the Demo Project.

The Demo Project provides pay-for-performance in a broadbanding framework, performance-based salary increases and bonuses, and supervisory pay differentials. Additionally, managers have authority to establish pay levels, classify positions, and utilize recruitment and retention allowances. The success of this initiative depends on accountability, training and communication, and ensuring that the fundamental precept of this initiative – linking pay to performance – is a reality.

Accountability hinges on continual monitoring and evaluation. An oversight committee – the Departmental Demonstration Project Board – provides overall program and policy oversight to bureau-specific boards and ensures that annual evaluations -- conducted by an independent contractor -- meet OPM requirements.

Continual training and communication between supervisors and employees on all aspects of this initiative is crucial, particularly with respect to performance feedback and the mechanics of the pay-for-performance system.

Our experience indicates that any changes to employee management structures, be they for pay or performance, are often met with a degree of apprehension by the effected workforce, including minorities. Concerns were expressed by some minority employees

that the pay-for-performance system would result in disparate treatment. To address these concerns, management fully engaged in discussions with the employees voicing this concern as well as with the affinity groups which represented their interests. To that end, we have enhanced monitoring mechanisms in place to track the actual results of the Demo Project across all effected demographics. The conversation with employees and affinity groups continues, and will do so as we collectively receive more detailed operational results.

As a result of our most recent annual program evaluations, we have found that salary levels and bonuses are directly tied to performance, and that the Demo Project has had a positive effect on retaining good performers. Our data shows that:

- 63 percent of Demo Project supervisors believe that the demo pay system provides the ability to raise pay for good performers compared to 35 percent of supervisors under the General Schedule.
- 71 percent of Demo Project supervisors find that they can offer competitive salaries to use in attracting high performing applicants compared to 43 percent of supervisors under the General Schedule.
- 64 percent of Demo Project supervisors believe that they can identify good performers compared to 46 percent under the General Schedule.
- 53 percent of Demo Project employees believe that pay raises depend on how well they perform compared to 37 percent of employees under the General Schedule.

Senior Executive Service Pay-for-Performance

We are also involved in the government-wide effort to implement pay-for-performance for our SES managers. On November 17, 2004, the Department received provisional certification of its Senior Executive Service Performance Management System from OPM, with OMB concurrence, for the last calendar year. In March 2005, we received provisional certification for this calendar year.

As part of our SES pay-for-performance initiative, we have instituted a rigorous performance monitoring system. At the end of fiscal year 2004, the Department adopted a new approach to assessing the performance of its SES managers in relation to the performance measures established under our annual performance plan. In meetings with the Deputy Secretary, each bureau was called on to provide a self-assessment of their performance during the year in relation to program objectives and performance measures. Bureau input was coupled with input from Departmental staff offices. The results were used to ensure that meaningful distinctions in performance were made and that performance awards and salary increases reflected those distinctions.

For FY 2004, the Department rated 49 percent of its SES managers at the outstanding level, down from 81 percent in 2003, 44 percent at the commendable level, up from 15 percent in 2003, and 7 percent at the fully successful level, also up from 3 percent in 2003, and one executive was rated marginal.

During FY 2005, we are broadening the Department's corporate focus on performance by holding quarterly reviews with senior managers from each of the bureaus. During these sessions, which are conducted by our Deputy Secretary, each bureau briefs on their progress relative to implementing management reforms under the PMA as well as achieving their annual performance targets and priorities. The resulting dialog is helping us to track performance and results on a routine basis, allowing adjustments as may be needed throughout the year, and assuring that there are no surprises about organizational performance at year's end.

Succession Planning

Commerce has an aggressive, innovative, and comprehensive strategy to meet the needs identified in our workforce succession plan. We implemented three formal developmental programs to cultivate potential leaders, including:

- the Aspiring Leaders Development Program for employees in grades 9 through 12, or the equivalent;
- the Executive Leadership Development Program for employees in grades 13 and 14, or the equivalent; and
- the SES Candidate Development Program for employees in grades 14 and 15, or the equivalent.

Additionally, we are offering an Administrative Professional Certification Program for employees in grades 2 through 8, or the equivalent.

These developmental programs include formal training courses as well as mentoring relationships, and focus on meeting requirements for succession planning in our mission-critical occupations. We are rounding out our comprehensive succession management program by launching continuous learning programs for our senior executives.

Closing

These represent some of the management tools we are employing to meet human capital challenges that the Department is currently facing. Through these and other efforts, I am pleased to report that Commerce recently achieved a green score for the Strategic Human Capital Management initiative under the PMA. This accomplishment – which is the result of a lot of hard work by the human resources management team and top level managers throughout the Department – is very rewarding. We recognize, however, that this rating is clearly not an end in and of itself, and that continued improvement is not only possible but essential to ensuring that we are able to carry out our evolving missions through a skilled, knowledgeable and dedicated workforce.

Again, I would like to thank the Chairman and this subcommittee for their leadership in developing flexible and workable solutions for addressing current human capital concerns. I would be glad to answer any questions which you may have.