

Letter from Director

This is an exciting time to be an employee with the Federal Government. You should know that your agencies are striving to transform your workplace into one focused on performance and results. The Office of Personnel Management (OPM) is proud to be leading this transformation through the President's Management Agenda which listed human capital management reform as its first priority initiative.

Almost four years ago, President George W. Bush designated OPM to address problems embedded throughout the Federal Government workforce. Many systematic personnel problems resulted from downsizing without sufficiently understanding the effects on an agency's performance capacity. While the Federal Government achieved its lowest level of civilians on payroll since 1950, 1.8 million employees, the alignment between resources and mission became disconnected and misaligned. As a result, the workforce suffered, causing several major imbalances such as: the number of supervisor positions increased while accountability was declining; personnel and compensation policies continued to embrace approaches set in the 1940s; and employee skill and competency gaps widened producing an inability to meet the needs of the public.

In response, OPM created a strategic human capital management framework that provided all agencies direction and guidance in order to transform the Government into a skilled, knowledgeable, diverse, and high performing workforce capable of meeting emerging demands throughout the Government. Through the Executive Branch Management Scorecard, OPM's Human Capital Officers are working to ensure that agencies are achieving results and meeting standards set for them in human capital management. In FY 2001, 22 out of 25 agencies scored by OPM were in the most serious category - status score "red" - which indicated significant problems in their human capital management practices. As of the third quarter FY 2004, only five agencies remain in the status score "red" category. The more important news is that seven agencies scored "green" and are implementing sound human capital management practices and programs in alignment with OPM's strategic framework. Fourteen agencies are just behind with a status score "yellow." These agencies have implemented or are underway in implementing programs that: prepare and provide accountability for leadership; effectively use performance management as a way to focus on mission, make distinctions, and reward results, and target strategic occupations to close skill and competency gaps.

Today over 1.4 million employees are working in organizations that are transforming into citizen-centered, result-oriented workplaces. As workforce reforms evolve, OPM as an agency has been transformed as well with an expanded and increasingly important role in the Federal Government. Through such initiatives as supporting the establishment of new personnel systems in DHS and DOD, conducting background investigations and suitability determinations to grant security clearances, extending emergency hiring flexibilities for temporary appointments and SES, and the development and implementation of emergency preparedness policies, OPM is actively meeting our new Governmentwide responsibilities and the needs of the Federal workforce. OPM is setting the pace for Federal agencies by easing the hardship for those OPM employees who have been called to active duty in the Nation's armed forces. OPM was the first agency to pay 100% of the health benefits premium for those reservists and guardsman called to active duty.

To find out more on how OPM is leading the way, please reference the attached report (<http://apps.opm.gov/HumanCapital/stories/>) that provides an overview of the Federal Government's success in the strategic management of human capital, as well as demonstrating our progress and the agency success stories that are behind them.

Strategic Management of Human Capital

Presidential Management Agenda (PMA)

President George W. Bush set forth a bold plan to reform the management and performance of the Federal Government, holding that Government should not be about making promises, but making good on promises. The President's plan included five Governmentwide initiatives selected to help achieve this reform: *strategic management of human capital, competitive sourcing, improved financial performance, expanded electronic government, and budget and performance integration.*

Advancing the Strategic Management of Human Capital: Office of Personnel Management (OPM)

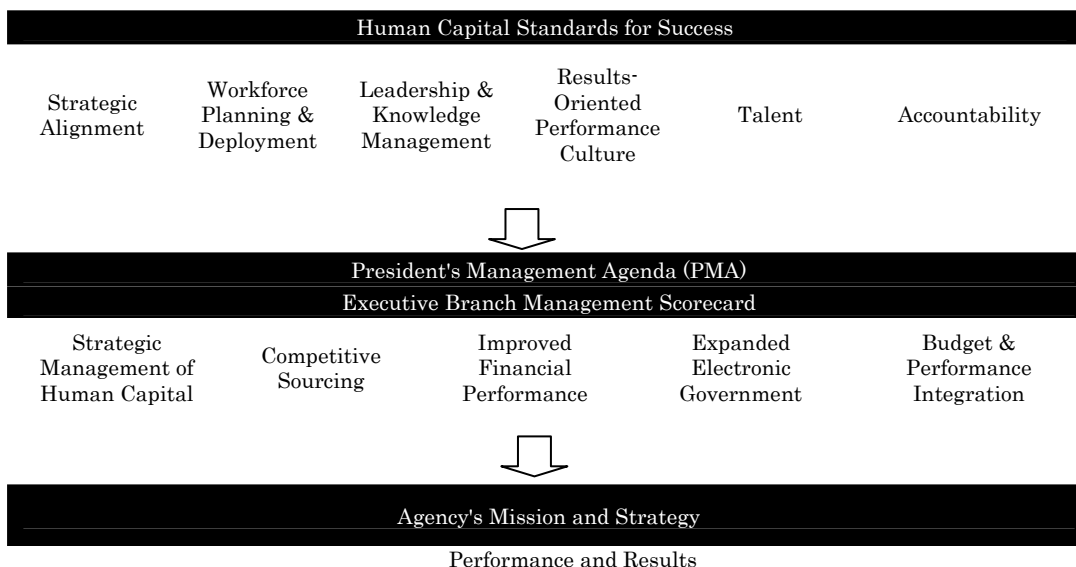
OPM works with the President, Congress, departments and agencies, and other stakeholders to implement human capital

policies that assist Federal agencies in meeting their strategic goals. OPM is proud to accept the President's charge to lead the human capital effort Governmentwide and will lead by providing the best possible tools, resources and expertise available.

Tools

The Strategic Management of Human Capital is the first initiative in the (PMA), and the Government's overarching strategy to transform how agencies manage their staff resources. The Chief Human Capital Officer Act of 2002 requires OPM to develop a set of human capital systems, standards, and metrics that will improve the strategic management of human capital. These requirements are met with the Human Capital Assessment & Accountability Framework (HCAAF), a Governmentwide tool to manage, measure, and evaluate the workforce in accordance with the 6 Standards of Success.

Aligning Human Capital to the President's Management Agenda



Source: Human Capital Assessment and Accountability Framework

Expertise

As the owner of this Governmentwide initiative, OPM is committed not only to providing agencies with the tools for success, but the expertise in utilizing those tools. Integral in this role are the Human Capital Officers (HCO's). HCO's act as both liaisons and consultants to agencies, communicating with the Chief Human Capital Officers (CHCO) and the human resources leadership in each agency.

As liaisons, HCO's and human resource experts are in continuous communication regarding human capital issues, regulations, compliance, and the development of human capital knowledge, tools and resources. As

consultants HCO's interpret technical and administrative information regarding the Human Capital Assessment and Accountability Framework (HCAAF) and assure that agency requests to OPM are handled in accordance with the agency's plan for Strategic Management of Human Capital and are aligned with the six Standards for Success and PMA.

Merging Tools & Expertise

To achieve the envisioned Human Capital transformation, OPM and the HCO's have taken a broad range of actions. Examples of those actions are displayed below in the chart.

Accomplishments

- Assessing the status of each agency's strategic human capital plans quarterly, identifying weaknesses, and suggesting new strategies to make them successful
- Developing methods of evaluating and measuring the results of the HCAAF Governmentwide and using the information to assess the status of human capital in the Federal Government, including the Federal Human Capital Survey
- Assisting with the development and training of new Department of Homeland Security (DHS) and Department of Defense (DOD) personnel system initiatives supported by a rigorous system of accountability and compliance to ensure appropriate implementation
- Amending the Senior Executive Service (SES) pay system (related to the National Defense Authorization Act)
- Creating the Human Capital Performance Fund (HCPF), an important new tool for use by Federal agencies in rewarding high-performing employees
- Requiring OPM certification of performance management plans and administration of agency surveys
- Developing the CHCO Council to advise and assist agencies in selecting, developing, training, and managing a high-quality, productive work force in accordance with merit system principles
- Conducting a series of Professional Development Workshops attended by 340 individuals representing over 30 agencies focusing on enhancing knowledge and skill in the six Human Capital Standards of Success
- Completing over 125 Delegating Examination Reviews to check agency compliance
- Organizing a "Best Practice Showcase" featuring NASA's Human Capital practices as a model for other Federal agencies
- Holding training sessions focusing on HR Hiring Flexibilities, training over 800 Federal workers from more than 50 agencies outlining new hiring flexibilities and how best to apply these tools within the context of a talent management strategy and workforce planning initiative
- Conducting a Veteran Employment Symposium outlining the policies, programs and strategies available to Federal agencies for increasing the number of veterans in the Federal Civil Service
- Producing three emergency guides for Federal managers, employees and their families
- Designing an educational Emergency Preparedness Series informing Federal agencies on the human resources implications of emergency planning
- Creating a special council, Continuity of Operations (COOP), that leads Governmentwide training to ensure that employees are prepared for potential health and safety hazards, and security threats

Progress in Human Capital

How Progress is Measured

OPM's effectiveness in leading the Strategic Management of Human Capital through the provision of tools and experts is measured by agencies' progress in achieving the Standards for Success. Under the Standards for Success, one can assess improvements in human capital management in Federal agencies and thereby gauge OPM's performance. Agencies' achievement toward implementing the Standards for Success are critically evaluated each fiscal quarter, and scorecards showing both their status and progress are published, using a "traffic light" system. Under each PMA initiative, an agency's status is "green" if it meets all the Standards for Success, "yellow" if it has achieved some but not all of the Standards, and "red" if it has serious deficiencies.

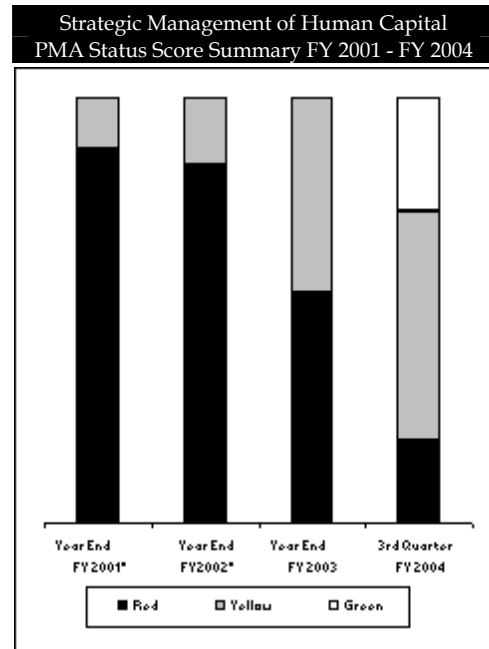
During FY 2003, OPM engaged agencies to transform their human capital management, resulting in improved ratings on their scorecard (also referred to as the Executive Branch Management Scorecard). When the Strategic Management of Human Capital initiative was introduced in 2001, all but three agencies scored "red" on status, indicating serious problems. Most agencies were not strategic about their current and future workforce needs and human capital management was not viewed as a priority related to mission accomplishment. By the end of FY 2003, nearly half of the agencies (12 of 26) scored "yellow" in status.

The successful alignment of the Human Capital Standards for Success with the PMA (as seen in the flowchart on page 1) has proven to be a strong framework from which agencies, along with OPM's Human Capital Officers, have truly transformed organizations.

Governmentwide Progress

The chart reviewing PMA status scores for Federal agencies and the summary data

chart below reflect the progress that has been made over the last four fiscal years in Strategic Management of Human Capital.

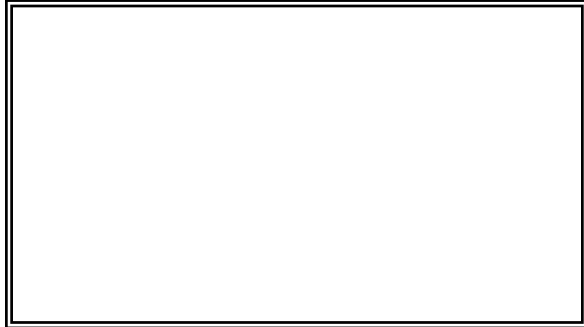


	Year End FY 2001*	Year End FY 2002*	Year End FY 2003	3rd Quarter FY 2004
Score:				
Red	22	21	14	5
Yellow	3	4	12	14
Green	0	0	0	7

*Note: FY2001/2002 does not include the Department of Homeland Security

Of the 22 agencies that had a "red" status score in FY 2001, only 5 agencies (or 19 percent of all agencies) still hold the "red" status score in FY 2004. However, transformation of human capital and the implementation of strategies within the "red" status score agencies is occurring. The Department of Homeland Security (DHS), formed just two years ago in 2002, is undertaking a total transformation that involves comprehensive changes in Human Capital that emphasize pay for performance for all employees, labor-management relations, and the creation of shared services. The Department of Defense ("yellow" status score agency) is initiating a

similar plan called the National Security Personnel System. DHS and DOD employees account for over 45 percent of the Federal workforce, and transforming these two systems has required a significant effort by OPM. Once finalized, these agencies will serve as the model for the future of human capital management in the Federal Government.



OPM is encouraged by the pace at which agencies are meeting the challenge of transforming their workforce. Sixty-eight percent or 1.2 million of the total number of Federal employees in scored agencies are at status score "yellow" and 11 percent or 201,964 are in agencies with a status score "green." Through the hard work of agencies and OPM, human capital management practices in the Federal Government are moving their workforce toward measured commitment to public service with mission accomplishment.

No. Employees in Scored Agencies per PMA Status Score				
Score:	Year End FY 2001*	Year End FY 2002*	Year End FY 2003	3 Quarter FY 2004
Red	1,636,799	1,007,387	905,975	377,786
Yellow	85,299	760,980	892,388	1,214,398
Green	0	0	0	201,964
Total:	1,722,098	1,768,367	1,798,363	1,794,148

***Agency Progress
FY 2004 Third Quarter Report***

OPM also has the duty and privilege to report on agency success in human capital management. Through HCO's, OPM reports on agency progress, shares success stories, and Best Practices with agencies and the

public. These success stories and learning points from agencies are used as the foundation of OPM's Knowledge Management Initiative to educate those involved in the Strategic Management of Human Capital.

For the third quarter FY 2004, OPM can report that agencies continue to progress on the whole. Agency achievements as reported by the HCO's indicate significant accomplishments in producing results in the areas of Human Capital Standards for Success. Notable progress by agencies has been made in the three core Standard areas: *Leadership & Knowledge Management, Results-Oriented Performance Culture, and Talent.* These Standards are the delivery systems of the human capital framework. As the primary delivery systems, they are designed to deliver specific human capital outcomes (e.g. developing future leaders, distributing rewards fairly, recruiting high potential employees).

Leadership and Knowledge Management relates to how agency leaders effectively manage people, ensure continuity of leadership, and sustain a learning environment that drives continuous improvement in performance. Succession planning is a critical component and a practice urgently needed in all agencies due to the projected number of Federal employees eligible for retirement by 2010. The reality of competition within the labor market will make it difficult for agencies to adequately replace the loss of experience and knowledge. Strong succession planning will enable agencies to internally develop promising talent into tomorrow's leaders. This will ensure that agencies retain stability while sustaining business continuity.

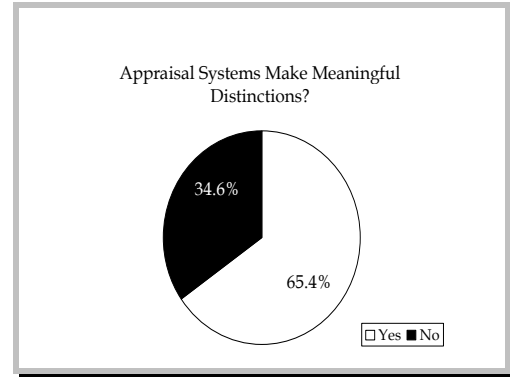
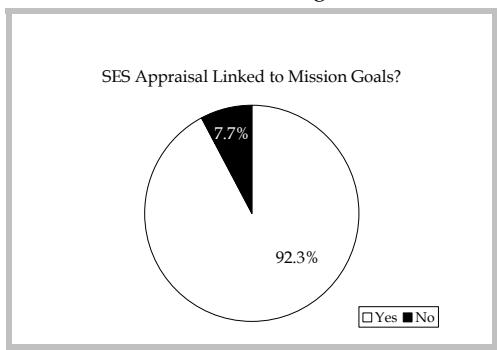
OPM's Human Capital Officers have determined that over 90% of agencies have a succession plan in place. This result is a prime example of the transformation that agencies have made in embracing strategic human capital management.

Leadership and Knowledge Management - Succession Planning



Results-Oriented Performance Culture involves an agency's efforts to achieve a diverse, results-oriented, high performance workforce through a performance management system that differentiates between high and low performance, and links individual, team, and unit performance to organizational goals and desired results. Agencies have made recognizable changes in their performance management systems. Examples of these changes include linking Senior Executive Service (SES) performance appraisal with their agency's mission, goals, and objectives. Furthermore, a majority of agencies (65.4%) have enhanced their appraisal systems to make meaningful distinctions.

Results-Oriented Performance Culture - Performance Management



Talent is associated with efforts to identify mission-critical occupations and competencies needed in the current and future workforce, as well as to develop strategies to identify, recruit, and retain a high performance workforce.

The immediate focus by agencies and OPM's Human Capital Officers has been in identifying skill and competency gaps for occupations considered mission critical to the day-to-day demands of agency operations. As part of this effort, agencies have been tasked to identify these occupations and to track how well their workforce meets necessary requirements through reducing or eliminating competency gaps.

OPM's Human Capital Officers report that 92.3% of agencies have identified their mission critical occupations. Furthermore, HCO's found that nine mission critical occupational areas, as identified by agencies, are crosscutting among several agencies and that three occupational areas are sector specific to national security agencies and VA/HHS/DOD.

HCO's also found that 34.6% of agencies have reduced or eliminated competency gaps for mission critical occupations, and 42.3% have a program underway.

Agency Success Stories

OPM is proud to share some significant accomplishments in three areas of our Human Capital Standards for Success – Leadership & Knowledge Management, Results-Oriented Performance Culture, and Talent. Agencies discussed as a human capital story have met all the criteria for a “green” status score

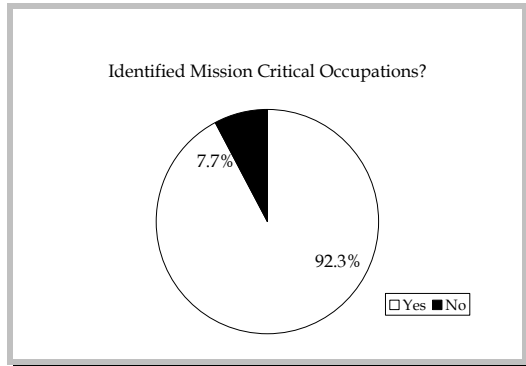
Leadership & Knowledge Management - Succession Planning

Department of Energy (DOE)

To ensure continuity of leadership, DOE’s overall approach focused on developing high, mid, and lower-level employees who are high-potential leaders. DOE has several department-wide leadership succession programs. The result of these programs is to feed DOE’s leadership pipeline with a ready pool of leaders. Major programs include:

- An SES Career Development Program in which two participants have already been selected for DOE SES positions.
- An Executive Coaching Program with 19 participants who will receive tailored coaching to enable them to be future candidates for the SES Career Development Program.
- A Mentoring Program in which SES members serve as mentors to high potential GS-13 through GS-15 protégés. The 2002-2003 pilot program resulted in over 250 mentoring pairs department-wide.
- A Leadership Transition Program for GS-11 through GS-13 high potential employees who are ready to transition to leadership positions. In the 2002 pilot, there were 16 participants and 10 have since been promoted to leadership positions.

Talent – Competency Gaps



Crosscutting Mission Critical Occupations Governmentwide

Contracting
Accounting
Finance
Information Technology
Science
Legal
Engineering
Management/Program Analysts
Program/Project Manager

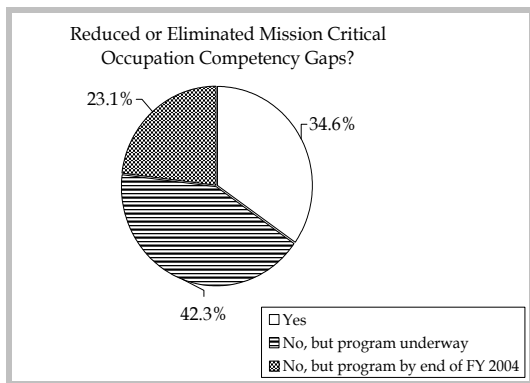
National Security Agencies

Intelligence
Law Enforcement

VA/HHS/DOD

Medical

Source: July 2004 agency progress report



- A Corporate Supervisory and Managerial Training Curriculum program designed to develop capable managerial leadership at all levels within the Department. There are 207 DOE employees who participated in the program during the last 1½ years.

Results-Oriented Performance Culture – Making Distinctions

Social Security Administration (SSA)

SSA implemented a five-tier performance management system for SES and GS 15 employees in 2002 and 2003. Reported results of the first SES rating cycle indicated that SSA is making distinctions in levels of performance with 10% rated as Fully Successful, 47% rated as Excellent, and 41% rated as Outstanding. Fifty-four eligible employees, or 47%, received an award.

SSA rewards its top performers with their Recognition of Contribution (ROC) awards. In FY 2003, only 37% of the workforce received an ROC award in any amount demonstrating that only the top performers in the agency received the highest level of award.

Department of Transportation (DOT)

DOT is striving to achieve a results-based performance culture. More than 80% of managers and employees are covered by multilevel performance plans or pay for performance plans which distinguish performance achievements above the level of Fully Successful.

Department of Energy (DOE)

In FY 2002, DOE instituted a new SES performance management system. This system: 1) links individual SES plans to the organization's strategic plan, mission, and goals; 2) emphasizes the evaluation of two critical elements – program accomplishment and managerial attributes; 3) uses four rating levels; and 4) grants top performers awards. In FY 2003 and 2004, this performance system was cascaded to

managers and supervisors, and used to link individual employees to organizational mission and goals. DOE has validated that 74% of DOE employee performance plans are linked to organizational missions, goals, and objectives. In addition, DOE reports that 100% of SES plans are linked and 77% of the entire workforce has linked performance plans.

Furthermore, approximately 61% of the DOE workforce is covered by multi-tiered performance appraisal systems. Only 39% of DOE employees are covered by a Pass/Fail performance appraisal systems.

Talent – Mission Critical Occupations and Recruitment

Social Security Administration (SSA)

SSA has identified and addressed skills gaps in four mission critical direct service positions representing 42% of its workforce. SSA actions included: identifying competencies necessary for the direct service positions; creating a Competency Assessment Process for applicants; and delivering a redesigned entry-level training program around required competencies. SSA is replicating the same process for other mission critical positions.

SSA is redesigned training program is also benefiting existing employees in mission critical positions through the use of a variety of training formats: classroom, interactive, and on-the-job training. SSA also has made good use of interactive video training and Internet training in over 1,400 field office locations. This has enhanced timeliness and efficiency in the delivery of training.

SSA showed further achievement by meeting annual recruitment goals of approximately 4,000 new hires over the last several years.

Department of State (DOS)

DOS's organizational structure is optimized and a process is in place to address future challenges including progress on

rightsizing, regionalization, restructuring of a worldwide financial system, and Embassy staffing. All FY 2003 hiring targets in mission critical occupations were met due to the implementation of DOS's Diplomatic Readiness Initiative (DRI). The DRI is a human resource strategy that involves a three year effort to hire 1,158 employees. DOS closed key skill deficits in Foreign Service hiring through aggressive outreach and recruiting campaigns to attract a diverse pool of candidates, as well as programs such as the Critical Needs Language Program, Student Loan Repayment Program, Language Incentive Pay Program, and Science Fellows Program. The agency also is reengineering its internal staffing processes to attain a 45 day model for its civil service hiring.

Office of Personnel Management

OPM has focused its efforts towards achieving results in the Talent area of human capital management. OPM has implemented aggressive recruitment strategies to produce as broad a range as possible of potential candidates in order to address under-representation. OPM has significantly reduced gaps in mission critical competencies for mission critical roles and occupations. Finally, the agency's accountability system demonstrates results, informs human capital decisions, and drives improvements.