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Accountability, Committee on
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Representatives

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SECURITIES AND EXCHANGE COMMISSION

Some Progress Made on Strategic Human Capital Management





Highlights of [GAO-06-86](#), a report to the Subcommittee on Government Management, Finance, and Accountability, Committee on Government Reform, House of Representatives

Why GAO Did This Study

Corporate failures and accounting scandals led to changes in legislation governing U.S. securities markets, which resulted in increased workload demands on the Securities and Exchange Commission (SEC). As a result, Congress provided SEC with substantial budgetary increases to obtain more resources to help fulfill the agency's mission. GAO was asked to review SEC's strategic workforce planning efforts to efficiently and effectively utilize its resources. This report discusses (1) the progress SEC has made toward developing a strategic human capital plan and (2) whether SEC uses effective strategic workforce planning principles for acquiring, developing, and retaining staff.

What GAO Recommends

GAO is not making recommendations because many of SEC's human capital initiatives, including the strategic human capital plan, are currently under development. However, GAO makes observations based on our audit work that highlight areas warranting management attention, such as conducting outreach with congressional stakeholders and the securities industry, obtaining employee feedback on human capital strategies before they are implemented, and taking steps to document existing skills among staff. SEC agreed with these findings and observations.

www.gao.gov/cgi-bin/getrpt?GAO-06-86.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Orice M. Williams at (202) 512-8678 or williamso@gao.gov.

SECURITIES AND EXCHANGE COMMISSION

Some Progress Made on Strategic Human Capital Management

What GAO Found

SEC has taken steps to implement a number of strategic human capital management initiatives, including developing its strategic human capital plan. In 2004, SEC split its Office of Administrative and Personnel Management into the Office of Administrative Services and the Office of Human Resources (OHR), allowing the agency to separate its administrative and personnel functions and hire an associate executive director to focus on assessing, developing, and implementing human capital programs. In April 2005, SEC created a more structured human capital council by expanding the role of the Executive Resources Board (ERB), now called the Human Capital Review Board (HCRB). The HCRB includes senior management from all major divisions and offices, the Chairman's office, the Executive Director, and OHR and follows a more formalized and regular process for reviewing and approving human capital decisions. According to SEC, as of November 2005, the agency was in the process of creating its first strategic human capital plan, which will be based on the Office of Personnel Management's Human Capital Assessment and Accountability Framework, but it has not set a completion date.

GAO also found that many of SEC's efforts related to workforce planning to date have been consistent with five key principles for effective strategic workforce planning; however, some of these efforts were still being developed or could be improved. Specifically,

- SEC has involved top management and a variety of stakeholders during the development of its strategic human capital plan, but only some employees will have the opportunity to provide feedback before the plan is finalized;
- SEC has been taking steps to identify needed critical skills and competencies, but it lacks a formal process for identifying existing skills among staff and linking them to SEC's strategic goals;
- SEC has been using human capital strategies to address workforce needs and skill gaps, but some of these strategies have not been in place long enough to assess results;
- SEC is developing or changing many of the administrative, educational, and other requirements to support workforce strategies, particularly pertaining to the use of human capital flexibilities; and
- SEC is developing additional human capital indicators and a more formal process by which to measure the achievement of its human capital goals. However, SEC currently does not formally evaluate the effectiveness of its human capital strategies in fulfilling SEC's strategic goals.

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Abbreviations

CSE	consolidated supervised entity
ELR	Employee-Labor Relations
ERB	Executive Resources Board
HCAAF	Human Capital Assessment and Accountability Framework
HCRB	Human Capital Review Board
MBA	master of business administration
OCIE	Office of Compliance, Inspections, and Examinations
OHR	Office of Human Resources
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OPUR	Office of Public Utility Regulation
ORA	Office of Risk Assessment
PUHCA	Public Utility Holding Company Act of 1935
SEC	Securities and Exchange Commission
SLR	student loan repayment
SRO	self-regulatory organization

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United States Government Accountability Office
Washington, D.C. 20548

January 10, 2006

The Honorable Todd Russell Platts
Chairman
The Honorable Edolphus Towns
Ranking Minority Member
Subcommittee on Government Management,
Finance, and Accountability
Committee on Government Reform
House of Representatives

Over the past several years, in the wake of corporate failures and accounting scandals, changes in legislation governing U.S. securities markets have resulted in increased demands on the Securities and Exchange Commission's (SEC) regulatory capacity. Through the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley), Congress augmented SEC's responsibilities but also authorized a substantial budget increase for the agency to better address workload challenges. In fiscal year 2003, SEC received \$716 million, or a 39 percent increase over its previous year's budget authority, and has used much of it to fund more than 842 new staff positions. In addition, SEC used a portion of the fiscal year 2003 appropriations to fund its new pay parity authority, which allowed the agency to pay staff commensurate with other federal financial regulators. In fiscal year 2004, SEC received a 13 percent increase over its previous year's budget authority. These increases offered SEC a unique opportunity to obtain the resources and expertise necessary to meet its mission, but the transformation will require a rigorous effort to recruit, hire, and retain the right staff with the right expertise to fulfill agency mission and strategic goals.

In formalizing its strategic direction, on July 9, 2004, SEC approved its 2004-2009 strategic plan, which identifies the vision, mission, values, and goals shaping the agency's activities during the next 5 years. The fourth goal of the strategic plan outlines SEC's commitment to maximize the use of SEC resources. It further states that in an effort to attract, hire, and retain the right staff with the expertise necessary to carry out its mission, the agency plans to use a variety of human capital strategies that will complement the agency's other ongoing activities. To respond to your request to review SEC's strategic workforce planning, our report discusses the following: (1) the progress SEC has made toward developing a strategic human capital plan and (2) whether SEC uses effective strategic workforce planning practices for acquiring, developing, and retaining staff.

To address the first objective, we collected information and data from representatives of SEC's Offices of the Chairman and Executive Director, SEC's Office of Human Resources (OHR), and key divisions and offices on the agency's recent workforce planning activities. To gain insights on SEC's progress in this area, we also reviewed SEC's strategic plan, budget requests, and other relevant documents, and GAO reports. To address the second objective, we compared SEC's workforce planning activities with five key principles for effective strategic workforce planning, which we developed based on our review of studies by leading workforce planning organizations and interviews with officials from the Office of Personnel Management (OPM) and the National Academy of Public Administration.¹ We identified related tasks for each principle (described in our prior work) to provide more specific examples of how each principle may be implemented and we determined whether SEC was undertaking these or similar tasks. In addition, we interviewed representatives from the Office of Management and Budget (OMB) and OPM to discuss SEC's activities and best practices in strategic workforce planning in the federal government. This report primarily focuses on strategic workforce planning efforts under the former Chairman, whose resignation was effective June 30, 2005. We conducted our work in Washington, D.C., from April 2005 through November 2005 in accordance with generally accepted government auditing standards. Appendix I provides additional information on our scope and methodology.

Background

SEC was created by Congress in 1934 primarily to protect investors; maintain fair, honest, and efficient securities markets; and facilitate capital formation. SEC's oversight responsibilities include rule making, surveilling the markets, interpreting laws and regulations, reviewing corporate filings, conducting inspections and examinations, and determining compliance with federal securities laws. In addition, SEC monitors and regulates a variety of key market participants, which as of July 2004 included more than 7,200 broker-dealers, 900 transfer agents, almost 500 municipal and

¹GAO, *Human Capital: Key Principles for Effective Strategic Workforce Planning*, GAO-04-39 (Washington, D.C.: Dec. 11, 2003).

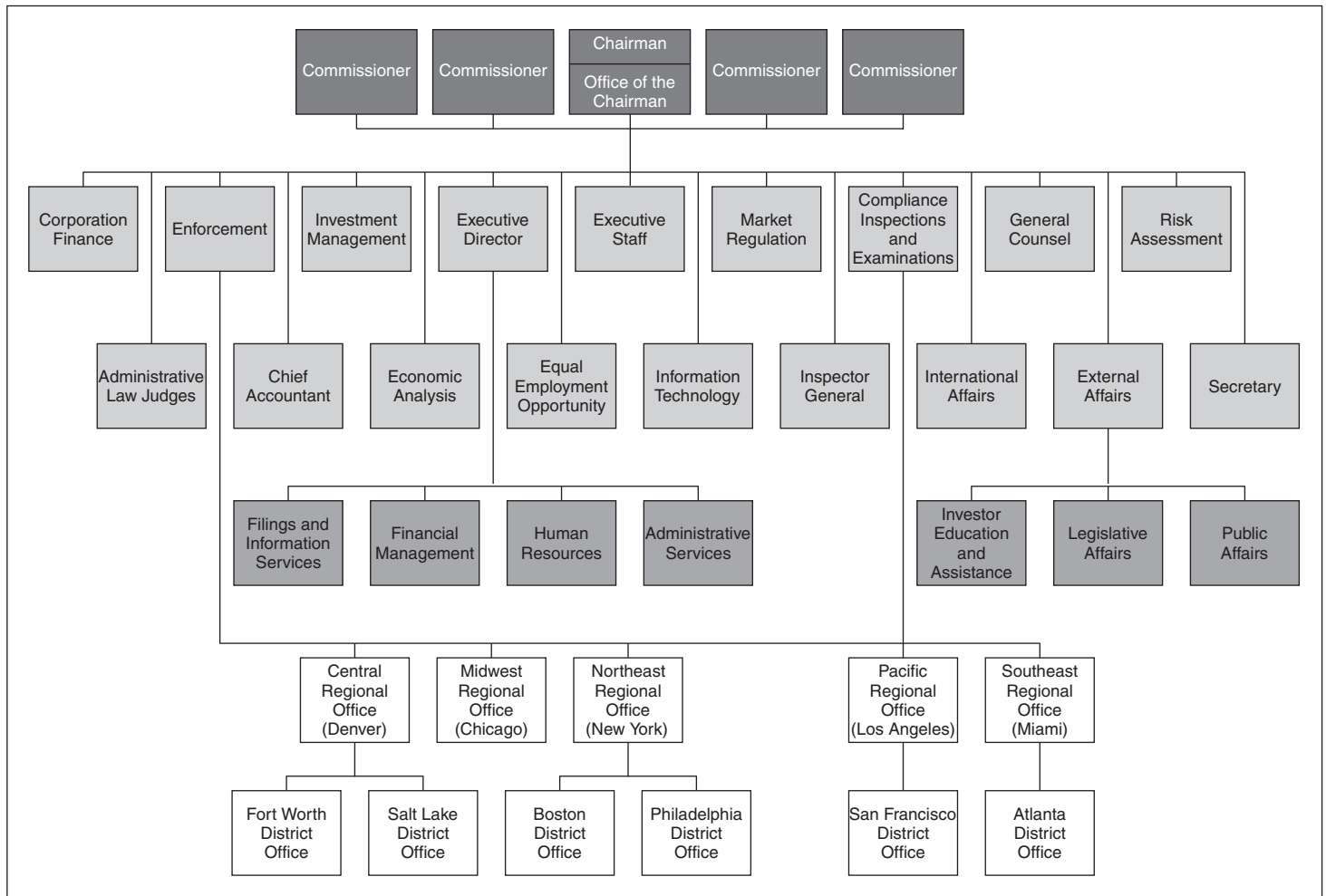
government securities dealers, and self-regulatory organizations (SRO).² However, as we have reported previously, SEC has faced resource and management challenges that affected its ability to achieve its mission. The following sections include a discussion of SEC's organizational structure and its human capital challenges, as well as a discussion of principles for human capital management and planning.

SEC Staff and Organization

As of August 2005, SEC had approximately 3,800 staff working in four divisions and 21 offices in Washington, D.C., and 11 regional and district offices. Approximately 41 percent of staff were attorneys, 25 percent were accountants or financial analysts, and 6 percent were investigators or examiners. The remaining 28 percent were other professional, technical, administrative, and clerical staff. Figure 1 depicts SEC's organizational structure, including the Chairman's office and the agency's key divisions and offices.

²SROs are organizations responsible for regulation of member broker-dealers. Among other things, transfer agents cancel stock certificates presented for transfer, issue new stock certificates, and maintain records reflecting the ownership of securities as agent for the issuers.

Figure 1: Structure of SEC (Divisions and Offices)



Source: SEC.

The Managing Executive for Operations and Management, who works in the Office of the Chairman, is responsible for overseeing all efforts to enhance agency productivity, retain qualified staff, and manage agency resources. In coordination with the Office of the Executive Director, the Managing Executive for Operations and Management has primary responsibility for OHR, which develops, implements, and evaluates SEC's programs for human resource and personnel management.

SEC Human Capital Management and Challenges

Over the past years, we have produced several reports relevant to human capital and workforce planning issues at SEC. In 2001, we recommended that the Chairman of SEC include a strategy for succession planning and develop a comprehensive, coordinated workforce planning effort as part of the agency's annual performance plan.³ In March 2002, we found that SEC had not reviewed its staffing and resource needs independent of the budget process and that SEC generally developed its annual budget request based on the previous year's appropriation, not on what the agency actually needed to fulfill its mission.⁴ We also commented that SEC was making its staffing allocation decisions without the benefit of a strategic plan. We recommended that SEC broaden its strategic planning process to determine its regulatory priorities and the resources needed to fulfill its mission, including identifying the staff skills needed to do so.

In July 2004, we found that although SEC received more flexible pay and hiring authority, it continued to face challenges filling critical vacancies, such as for accountants.⁵ Furthermore, we reported that although SEC's allocation of its newly authorized positions was generally consistent with Sarbanes-Oxley directions, these decisions were made without the benefit of an updated strategic plan that outlined the agency's priorities—a tool that could be used to help ensure that SEC was deploying its resources to maximize organizational effectiveness. Later, in November 2004, we reported the results of a GAO survey of human capital issues at SEC to benchmark employee views following the implementation of pay parity and several work-life programs.⁶ We found that the significant improvement in employee satisfaction with compensation and work-life programs could be attributed to SEC's recent implementation of pay parity and an increased focus on the use of flexible work schedules and telework programs since 2001.

³GAO, *Securities and Exchange Commission: Human Capital Challenges Require Management Attention*, [GAO-01-947](#) (Washington, D.C.: Sept. 17, 2001).

⁴GAO, *SEC Operations: Increased Workload Creates Challenges*, [GAO-02-302](#) (Washington, D.C.: Mar. 5, 2002).

⁵GAO, *Securities and Exchange Commission: Review of Fiscal Year 2003 and 2004 Budget Allocations*, [GAO-04-818](#) (Washington, D.C.: July 23, 2004).

⁶GAO, *Securities and Exchange Commission Human Capital Survey*, [GAO-05-118R](#) (Washington, D.C.: Nov. 10, 2004). Work-life programs help employees balance their work and family lives and include compressed work schedules, alternative work schedules, telecommuting, and part-time work arrangements.

In May 2005, we audited SEC's financial statements for fiscal year 2004 and found that SEC's preparation of its financial statements was manually intensive and consumed significant staff resources.⁷ To address the weaknesses found in the audit, SEC stated that it would increase the number of financial reporting staff. Finally, in August 2005, as a result of our review of SEC's facilities project management and related budget planning, we recommended that SEC complete the hiring of new positions in the Office of Administrative Services and the Office of Financial Management.

Strategic Human Capital Management and Workforce Planning

Studies by several organizations, including GAO, have shown that successful organizations in both the public and private sectors use strategic management approaches to prepare their workforces to meet present and future mission requirements. For example, preparing a strategic human capital plan encourages agency managers and stakeholders to systematically consider what is to be done, how it will be done, and how to gauge progress and results. Federal agencies have used varying frameworks for developing and presenting their strategic human capital plans.⁸ More recently, various agencies have begun using OPM's Human Capital Assessment and Accountability Framework (HCAAF) as the basis for preparing such plans. HCAAF, which OPM developed in conjunction with OMB and us, outlines six standards for success, key questions to consider, and suggested performance indicators for measuring progress and results. These six standards for success and related definitions are as follows:

- **Strategic alignment.** The organization's human capital strategy is aligned with mission, goals, and organizational objectives and integrated into its strategic plans, performance plans, and budgets.

⁷GAO, *Financial Audit: Securities and Exchange Commission's Financial Statements for Fiscal Year 2004*, GAO-05-244 (Washington, D.C.: May 26, 2005).

⁸For example, in a March 2002 exposure draft, we introduced a strategic human capital model designed to help agency leaders effectively use their people and determine how well they integrate human capital considerations into daily decision making and planning for the program results they seek to achieve. This model is built around four cornerstones: (1) leadership; (2) strategic human capital planning; (3) acquiring, developing, and retaining talent; and (4) results-oriented organizational cultures.

-
- **Workforce planning and deployment.** The organization is strategically utilizing staff in order to achieve mission goals in the most efficient ways.
 - **Leadership and knowledge management.** The organization's leaders and managers effectively manage people, ensure continuity of leadership, and sustain a learning environment that drives continuous improvement in performance.
 - **Results-oriented performance culture.** The organization has a diverse, results-oriented, high-performance workforce, and a performance management system that effectively differentiates between high and low performance and links individual, team, or unit performance to organizational goals and desired results.
 - **Talent management.** The organization makes progress toward closing gaps or making up deficiencies in most mission-critical skills, knowledge, and competencies.
 - **Accountability.** The organization's human capital decisions are guided by a data-driven, results-oriented planning and accountability system.

Strategic workforce planning, an integral part of human capital management and the strategic workforce plan, involves systematic assessments of current and future human capital needs and the development of long-term strategies to fill the gaps between an agency's current and future workforce requirements. Agency approaches to such planning can vary with each agency's particular needs and mission; however, our previous work suggests that irrespective of the context in which workforce planning is done, such a process should incorporate five key principles: (1) involve management and employees, (2) analyze workforce gaps, (3) employ workforce strategies to fill the gaps, (4) build the capabilities needed to support workforce strategies, and (5) evaluate and revise strategies. Figure 2 provides a fuller description of each of the five principles.

Figure 2: GAO's Five Key Principles for Effective Strategic Workforce Planning

Principle	Description
(1) Involve top management, employees, and other stakeholders in developing, communicating, and implementing the strategic workforce plan.	Agencies' top program and human capital leaders set the overall direction, pace, tone, and goals, and involve employees and stakeholders in establishing a communication strategy that creates shared expectations for the outcomes of the process.
(2) Determine the critical skills and competencies that will be needed to achieve future programmatic results.	Agencies determine how many personnel have the skills and competencies needed to meet program goals and how many are likely to remain with the agency over time, given retirement and other attrition. Such analysis allows agencies to identify the resources to achieve current and future goals.
(3) Develop strategies that are tailored to address gaps and human capital conditions in critical skills and competencies that need attention.	Agencies use strategies, including programs, policies, and practices, to address how the workforce is acquired, developed and trained, deployed, compensated, motivated, and retained. Such strategies help an agency move from the current to future workforce.
(4) Build the capability needed to address administrative, educational, and other requirements important to support workforce strategies.	Agencies educate managers and employees about available human capital flexibilities, so that the flexibilities are implemented openly, fairly, and effectively.
(5) Monitor and evaluate the agency's progress toward its human capital goals and the contribution that human capital results have made toward achieving programmatic goals.	Agencies use periodic measurement and evaluation to obtain data for identifying shortfalls and revising future workforce planning efforts. Gathering this information helps ensure that human capital strategies work as intended.

Source: GAO.

Note: In broad terms, human capital flexibilities represent the policies and practices that an agency has the authority to implement in managing its workforce to accomplish its mission and achieve its goals in areas such as recruitment, retention, compensation, incentive awards, training and development, performance management, work arrangements, and work-life policies.

Results in Brief

SEC has made progress on a number of human capital initiatives and is in the process of developing a strategic human capital plan. In 2003, SEC completed a comprehensive workforce and work-flow review of the agency, subsequent to which it split its Office of Administrative and Personnel Management into the Office of Administrative Services and OHR. This change allowed SEC to separate and thereby increase its attention to its administrative and personnel functions, as well as hire an associate executive director of OHR to focus on assessing, developing, and implementing human resources programs. In addition, in April 2005, SEC created a more structured human capital council by expanding the role of the Executive Resources Board (ERB), now called the Human Capital Review Board (HCRB). In contrast to the ERB, the HCRB follows a more formalized and regular process for reviewing and approving all human capital decisions. Senior management from SEC's major divisions and offices, the Chairman's office, the Executive Director, and OHR compose the HCRB and regularly meet to discuss staffing allocations and alignment of their human capital resources and strategies to achieve strategic planning goals. Finally, as of November 2005, SEC was in the process of creating its first strategic human capital plan, which according to OHR officials, will be based on OPM's HCAAF. However, SEC has not set a completion date.

Overall, many of SEC's efforts related to workforce planning have been consistent with our five key principles for effective strategic workforce planning; however, some of these efforts were still being developed or could be improved. We found the following:

- SEC has been making a concerted effort to include various stakeholders in the strategic workforce planning process, as noted in our first principle. For instance, OHR has been working with some internal and external stakeholders as it develops its strategic human capital plan. However, SEC may also benefit from conducting outreach with congressional stakeholders and the securities industry. In addition, not all SEC employees will be given the opportunity to provide feedback during the development of the plan, but may be more involved in related initiatives. Additional employee input, which SEC plans to obtain in the future, could provide SEC with more information to determine whether workforce planning efforts are understood and supported by staff.
- Although SEC has been taking steps to identify needed critical skills and competencies, as outlined in our second principle, SEC could benefit

from a formal process for identifying existing skills among staff and linking them to SEC's strategic goals. Specifically, although managers can determine knowledge and abilities possessed or needed within their divisions, SEC has not systematically collected and maintained information on employees' current skills and competencies across the agency. As a result, SEC may incorrectly estimate workforce needs and skill gaps, information that helps agencies determine appropriate human capital strategies.

- As related in our third principle, SEC has been developing and using human capital strategies to address workforce needs and skill gaps, but some of these strategies have not been in place long enough to assess results. For example, SEC recognized that the agency would benefit from the knowledge and skills possessed by individuals with business degrees. Therefore, in addition to a Summer Honors Business Program that was implemented in 2001 to attract future master of business administration (MBA) graduates, OHR in September 2005 implemented a 2-year program where MBA graduates rotate through various SEC divisions as associates before being permanently placed in a division. However, it is too soon to assess the overall effectiveness of the 2-year MBA program.
- SEC is developing or changing many of the administrative, educational, and other requirements to support workforce strategies that are discussed in our fourth principle. In particular, SEC has provided some training on human capital flexibilities, considered potential improvements to the administration of these programs, and has procedures in place to promote transparency and accountability in its administration of these programs.
- SEC is developing additional human capital measures and a more formal process by which to link the achievement of its human capital and strategic goals, the importance of which are underscored in our fifth principle. Currently, SEC informally links its human capital and strategic goals during HCRB meetings. A formal linkage could help SEC to better evaluate how effectively human capital strategies are fulfilling strategic goals.

This report includes no recommendations because many of SEC's human capital initiatives, including the strategic human capital plan, are currently under development. However, we made observations based on our audit work that highlight areas warranting management attention or possible

enhancements in SEC's current strategic workforce planning efforts. In commenting on a draft of this report, SEC agreed with our findings and stated that the areas of concern cited in our report would be addressed once SEC's strategic human capital planning process is fully implemented. SEC's written comments are reprinted in appendix II and discussed near the end of this report.

SEC Has Made Progress on Strategic Human Capital Initiatives and Is Developing a Strategic Human Capital Plan

SEC has shown progress on a number of strategic human capital management initiatives that could help strengthen SEC's efforts in workforce planning and is developing its strategic human capital plan. These initiatives include splitting its Office of Administrative and Personnel Management into the Office of Administrative Services and OHR in order to improve efficiency and effectiveness in both and creating a more structured and institutionalized human capital council by expanding the role of the ERB, now called the HCRB. Furthermore, SEC is in the process of creating its first strategic human capital plan. According to SEC, this plan is to be based on OPM's HCAAF.

SEC Has Developed More Formalized Process for Strategic Human Capital Management

In 2003, after the passage of Sarbanes-Oxley, SEC undertook an extensive workforce and work-flow review, and the ERB became the vehicle through which SEC leadership met to align its programmatic goals and new responsibilities with its human capital approaches and existing and new resources. The ERB—composed of senior division managers, the Managing Executive for Operations, and the head of OHR (after the creation of that office)—met monthly and on an ad hoc basis to deal with special issues, and produced recommendations for the Chairman's approval. The 2003 workforce and work-flow review process required division and office directors to present justifications for resource requests to the ERB for the board's approval. One outcome of the 2003 review was the decision to split SEC's Office of Administrative and Personnel Management into two offices—the Office of Administrative Services and OHR. According to OHR, the separation of the office's administrative and personnel functions was made to improve efficiency and effectiveness in these functions, which was necessitated by the agency's growth of approximately 1,000 individuals after the implementation of Sarbanes-Oxley. In addition, the split created an opportunity for SEC to hire an Associate Executive Director for OHR, who is tasked with assessing, developing, and implementing human resources programs.

Following the creation of OHR, SEC broadened the role of the ERB—renamed the HCRB in April 2005—to include a senior executive review of all human capital issues. SEC staff said that the HCRB has a standing 2- to 3-hour biweekly meeting and is composed of (1) directors from the major divisions and offices—Divisions of Corporation Finance; Investment Management; Market Regulation; Enforcement; and the Office of Compliance, Inspections, and Examinations (OCIE); (2) a designee representing the interests of the field offices; (3) the Executive Director (who serves as Chair); (4) a representative from the Chairman’s office; and (5) the Associate Executive Director of OHR. According to SEC, although smaller offices do not regularly participate in the HCRB, the Executive Director is responsible for representing the interests of these offices. In addition, these offices make presentations to the HCRB on an as-needed basis.

The HCRB approves all human capital decisions, including staffing allocations. Specifically, staffing allocations and current structures for each division and office can now only be amended with the approval of the HCRB. According to SEC officials, HCRB’s staffing decisions are made on a consensus rather than formal voting basis. SEC staff also said that although the commission does not directly participate in the agency’s human capital planning process, a representative from the Chairman’s office attends HCRB meetings. Furthermore, while the HCRB has the ability to approve staffing requests, larger allocations of staff slots and staff reorganizations are subject to final review and approval by the Chairman.

Representatives from SEC’s key divisions and offices said they felt that the migration from the ERB to the HCRB was much more than a name change. Specifically, the HCRB has a greater focus on SEC’s strategic needs. Management staff from several SEC divisions attributed this change to the hiring of the new Associate Executive Director of OHR, who was formerly employed at OPM and who, they felt, is aware of what OPM and OMB expect from agencies in their strategic planning and human capital management processes. One division staff representative added that whereas they felt that the ERB met more “sporadically” and many did not feel compelled to gain board approval of staffing allocations, the HCRB now meets regularly and has more “rigor and structure.”

SEC Is Developing a Strategic Human Capital Plan

SEC has been developing its human capital plan to address its strategic planning goal of maximizing the use of agency resources. Specifically, OHR officials told us that the plan will address how SEC will implement and align its human capital strategies to achieve agency mission, goals, and outcomes. OHR officials also told us that they are in the process of developing a human capital plan based on OPM's HCAAF (previously discussed in the report), which identifies six standards for success: (1) strategic alignment, (2) workforce planning and deployment, (3) leadership and knowledge management, (4) results-oriented performance culture, (5) talent management, and (6) accountability. A major component of the human capital plan, according to OHR officials, will be a strategy map and balanced scorecard to delineate and determine whether its strategies and action plans are meeting each of HCAAF's six standards. A strategy map defines the strategic objectives and associated initiatives that support the organization's vision and mission. A balanced scorecard is a management system that provides metrics and feedback about agency actions.⁹ The actual scorecard uses indicators to measure the relative success of each initiative. Following this approach, SEC plans to use some indicators suggested by HCAAF to measure the success of each of the initiatives. OHR officials told us that the balanced scorecard will also focus on OHR's internal operations and the agency human capital outcomes for which it will be accountable. In early November 2005, OHR officials provided us with a draft strategy map and possible draft objectives and indicators for how OHR is planning to achieve SEC's strategic planning goal of maximizing the efficient and effective delivery of human resource services.

OHR has hired a contractor to help implement the balanced scorecard approach and plans to involve a number of internal stakeholders in developing the human capital plan, including the Executive Director, the HCRB, and a cross section of division and office managers. According to OHR officials, the contractor will interview branch chiefs and assistant directors within OHR to discuss how to apply the balanced scorecard to SEC, and will also interview managers from the divisions, but does not plan to obtain input from employees below the supervisory level. As of

⁹A balanced scorecard provides feedback for both internal organizational processes and external outcomes in order to continuously improve strategic performance and results. Generally, the balanced scorecard approach suggests that the agency view its organization from four perspectives and develop metrics, collect data, and analyze itself relative to each perspective: (1) learning and growth, (2) business process, (3) customer perspective, and (4) financial perspective.

November 2005, OHR officials, working with the contractor, have identified a list of human capital initiatives and indicators to measure the success of these initiatives. OHR officials said that the next step is to communicate with division staff to determine the appropriate targets for these indicators. Once the development work is complete, the Executive Director will approve a presentation of the human capital plan to the HCRB. After receiving HCRB's approval, OHR will disseminate the human capital plan throughout the agency. We discuss stakeholder involvement in developing the human capital plan and SEC's communication strategy in greater detail later in the report.

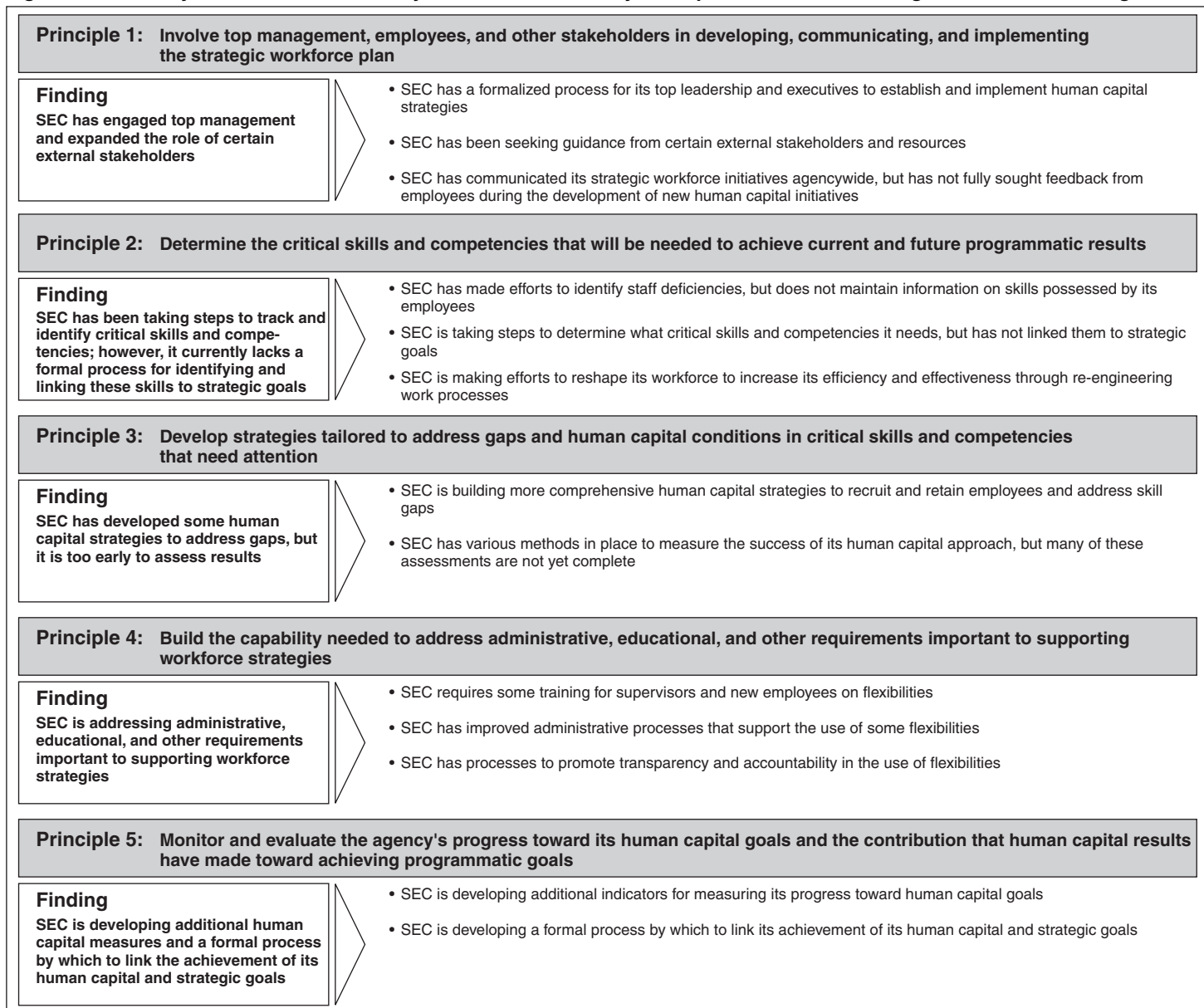
Once the strategic human capital plan is implemented, SEC officials intend to update the plan quarterly and annually. The process will begin with an evaluation of the results of the balanced scorecard measures. OHR management said that the quarterly assessments of the plan will focus on SEC's ability to implement initiatives and demonstrate results in both leading and lagging indicators. OHR officials said that the office plans to conduct the quarterly review and present results to the Executive Director and then to the HCRB. OHR also stated that it plans to conduct an annual review to ensure that the human capital plan remains linked to the agency's strategic plan and to correct any gaps between the plan's human capital initiatives and the ability to meet the agency's strategic goals. In addition to data used in the quarterly reviews, annual reviews are to include input from the HCRB and use performance management data and employee focus groups to determine gaps.

Although the anticipated human capital plan should allow SEC to more consistently plan for its staffing needs and adjust staffing or program priorities, it does not appear to formally link resource needs to the budgeting process. As we have previously reported, the absence of this linkage results in reactive rather than proactive activities and planning that tends to be tactical rather than strategic. According to OHR, divisions and offices are not currently required to provide OHR with annual resource allocation information such as number of planned promotions because SEC's divisions and offices do not have staff with the expertise to do strategic human capital planning. Although OHR can provide some minimal assistance to the divisions on long-term workforce planning and linking these efforts to the budget, OHR recognizes the benefit to increasing such assistance and plans to improve its capacity to provide this guidance.

**Components of SEC
Workforce Planning
Efforts Are Consistent
with Established
Principles, but Some
Efforts Could Be
Improved**

We found that many of SEC's efforts related to workforce planning were consistent with our five key principles for effective strategic workforce planning; however, some of these efforts are still being developed or could be improved. Figure 3 summarizes how SEC had incorporated GAO's key principles into its strategic workforce planning.

Figure 3: Summary of SEC Actions As They Relate to the Five Key Principles of Effective Strategic Workforce Planning



Source: GAO.

Principle 1: SEC Has Engaged Top Management and Expanded the Role of Certain External Stakeholders

In surveying SEC activities related to our first workforce planning principle, we found that the creation of the HCRB expanded the role of top management in strategic workforce decision making at SEC. As previously discussed, HCRB meetings create a forum for regular dialogue between OHR, key executives, and division leaders, and the HCRB now reviews and approves all human capital decisions. Moreover, during the ongoing development of its strategic human capital plan and other strategies, OHR officials said that it has also sought the assistance and guidance of various external stakeholders. In particular, SEC staff have been meeting regularly with OPM and using several of OPM's key tools to assist the development of its strategic human capital plan. According to OHR officials, they have researched best practices in government, academia, and the private sector. However, SEC may have missed opportunities to conduct outreach with congressional stakeholders and the securities industry. In addition, SEC has not fully sought employee feedback during the development of human capital initiatives and, specifically, during the development of the strategic human capital plan.

SEC Has a Formalized Process for Its Top Leadership and Executives to Establish and Implement Human Capital Strategies

In our prior work, we have found that top management clearly and personally involved in workforce planning can provide the organizational vision that is important in times of change and generate cooperation within the agency to ensure that planning strategies are thoroughly implemented and sustained. Specifically, we have found that a key action in integrating human capital approaches with strategies for achieving programmatic results is the establishment of an entity, such as a human capital council, that is held accountable for linking human capital management and obtaining strategic goals.¹⁰ As demonstrated by their new responsibilities and participation in the HCRB, SEC's key executives and top management have been actively engaged in SEC's workforce planning efforts. As discussed previously, biweekly HCRB meetings are chaired by the Executive Director. This gathering of top leadership and executives helps determine and respond to current and changing workforce needs at SEC. For example, division managers we interviewed said that during HCRB meetings, senior managers representing SEC's major divisions and offices make consensus-based determinations of staffing decisions at the agency.

¹⁰GAO, *Human Capital: Selected Agency Actions to Integrate Human Capital Approaches to Attain Mission Results*, [GAO-03-446](#) (Washington, D.C.: Apr. 11, 2003).

In addition, the HCRB is to have a role in the development of the strategic human capital plan. For example, OHR officials said it has presented status reports to the HCRB on the development of the human capital plan. According to OHR officials, once the plan's proposed indicators and related targets are developed, some HCRB representatives will review and approve them for inclusion in the plan. Although a completion date for the plan has not been established, OHR officials said that HCRB will continue to work with OHR to make revisions and approve the strategic human capital plan.

SEC Has Been Seeking Guidance from Certain External Stakeholders and Resources

In prior work, we found that agencies should engage various stakeholders to identify ways to streamline processes, improve human capital strategies, and help the agency recognize and deal with the potential impact that the organization's culture can have on the implementation of such improvements. Further, involvement of key congressional and other stakeholders during the strategic planning process also helps ensure that workforce planning efforts are clearly linked to the agency's mission and long-term goals.

In developing its strategic human capital plan, SEC has been using various methods to obtain the assistance and viewpoints of external resources. According to OHR officials, staff researched and identified a number of best practice studies from government, academia, and the private sector. For instance, OHR said that it is working with a private human capital consulting company to obtain information on best practices for integrating human capital functions at SEC. The human capital functions SEC plans to integrate are (1) selection (hiring), (2) performance management, (3) training, and (4) succession planning. These functions will be linked by a common competency platform—meaning all four functions will be linked to agencywide skills and competencies, which SEC is currently in the process of identifying. As part of the integrated human capital functions initiative, officials said SEC is planning to (1) implement the performance management system within OHR by the end of 2005 and then throughout the agency, (2) begin integrating performance management with its hiring or “selection” system in May 2006, (3) offer training that develops employee competencies used for selection and performance management, and (4) use performance management, selection, and training to help institute succession planning. OHR plans to completely implement these integrated functions by May 2007.

SEC also plans to use written guidance developed by other government agencies, including OMB, OPM, and us. Specifically, OHR plans to incorporate measures outlined in HCAAF—and developed by OPM in

conjunction with OMB and us—into the balanced scorecard being developed for SEC. OHR officials said that the office has consulted with OPM staff and hired a specialist from OPM to help implement its new human capital strategies, including the development of SEC University—one of the agency’s new initiatives that focuses on staff training. Furthermore, according to OHR officials, SEC formally and informally communicates with other financial regulators through networking events like the Small Agency Council, and also regularly receives operational information and survey data from other regulators, including compensation and benefit comparisons, labor relations discussions, and recruiting strategies.¹¹

Although SEC has collected useful information and perspectives from various external parties, SEC has not met with congressional and industry stakeholders during the development of its strategic human capital plan. OHR officials said that SEC had not met with congressional staff to obtain their input on human capital planning at SEC and did not indicate any plans to do so since SEC has communicated human capital issues to Congress through congressional hearings and during the budget process. In addition, OHR officials told us they have collected best practice data from the private sector through a consulting firm, but they did not state that SEC has had discussion with industry stakeholders on how the evolving securities market may affect SEC’s resource needs.

SEC Has Communicated Its Strategic Workforce Initiatives Agencywide but Has Not Fully Sought Feedback from Employees during the Development of New Human Capital Initiatives

We have found that an effective communication strategy will create shared expectations, promote transparency, and report progress. In general, communication about the goals, approach, and results of strategic workforce planning is most effective when done early and clearly. Effective strategies also allow for a variety of two-way communication and are not limited to top-down dissemination. Efforts that address key organizational issues, like strategic workforce planning, are most likely to succeed if, at their outset, agencies’ top program and human capital leaders set the overall direction, pace, tone, and goals of the effort, and involve employees and other stakeholders in establishing a communication strategy that creates shared expectations for the outcome of the process.

¹¹The Small Agency Council is the voluntary management association of independent sub-Cabinet federal agencies. Established in 1986, the council represents about 80 small agencies. Members have diverse program responsibilities that include public- and private-sector employment, commerce and trade, energy and science, transportation, national defense, and finance and cultural issues. Almost half of the council’s members are regulatory or enforcement agencies.

SEC communicates relevant information on human capital issues to its employees not only through SEC's intranet and e-mail sent to administrative contacts within divisions and offices, but also through other forums such as staff meetings. In some cases, issues are communicated top-down from executives to managers and supervisors, and sometimes from managers and supervisors to nonmanagerial employees. For example, OHR officials said that the presentation of SEC's new human capital plan is to be authorized by the Executive Director and then approved by the HCRB. Following HCRB approval, other top-level executives (those who are not on the HCRB), managers, and supervisors are to participate in group meetings to discuss the plan. Finally, OHR officials said that all SEC employees are to receive electronic presentations of the plan from OHR but will not have the opportunity to provide feedback prior to the approval of the plan. In general, informal methods of communicating human capital issues include performance discussions that occur during the employee evaluation process and impromptu communications between staff and liaisons from OHR assigned to each division.

Overall, division officials said that OHR has been sensitive about the need to communicate about human capital issues, programs, and policies. However, one division manager noted that written agency communications sometimes assume that the reader has adequate knowledge of policies and procedures. For example, while SEC provides comprehensive new employee orientation training, such training could be enhanced by providing more basic information on federal government employment. This additional training may help ensure that when there are changes or new training opportunities, employees have a better understanding of the context in which changes occur. Another division manager said that OHR should e-mail employees directly regarding training opportunities instead of delegating this responsibility to the division's OHR liaison.

Although OHR has communicated with SEC staff on some human capital matters, it has not sought feedback from all employees in the development of SEC's strategic human capital plan. Without such feedback, it is difficult to determine employees' awareness of issues and fully determine the effectiveness of such human capital approaches. As previously discussed, participation in the development of this plan will not take place below the supervisory level. Nevertheless, OHR has indicated that it plans to use some employees to help with the development of some of its integrated human capital functions, such as performance management. Furthermore, OHR officials said it plans to seek feedback from employees and to use focus groups to evaluate the success of its strategic human capital plan.

Principle 2: SEC Has Been Taking Steps to Track and Identify Critical Skills and Competencies; However, It Currently Lacks a Formal Process for Identifying and Linking These Skills to Strategic Goals

SEC has been developing tools to measure needed skills and training for its employees, but currently relies on management's informal knowledge of the skills and competencies possessed and needed within agency divisions. OHR has started interviewing division management to identify agencywide and position-specific competencies. As previously discussed, SEC also has begun to integrate its human capital functions with agencywide skills and competencies. Despite these efforts to identify and minimize gaps in workforce skills, SEC currently lacks a formal process to link critical skills and competencies to the goals and objectives outlined in its strategic plan. As a result, SEC may incorrectly estimate workforce gaps, information that helps agencies determine appropriate human capital strategies.

SEC Has Made Efforts to Identify Staff Deficiencies but Does Not Maintain Information on Skills Possessed by Its Employees

Our prior work suggests that maintaining information on the critical skills and competencies that an organization's staff possess is especially important as the environment in which federal agencies operate changes. Shifts in priorities, advances in technology, budget constraints, and other factors all affect what sort of staff agencies will need to fulfill their missions. For SEC, such information is particularly useful for determining and addressing gaps in critical workforce skills or staff and making efficient resource allocations, because SEC must respond to changing regulatory conditions requiring its attention. For example, after the Energy Policy Act of 2005 (P.L. 109-58) repealed the Public Utility Holding Company Act of 1935 (PUHCA), the statute under which SEC is responsible for regulating public utility holding companies, SEC had to assess the skills of the 24 employees assigned to work in the Office of Public Utility Regulation (OPUR) to determine where they might be reassigned.¹²

Although SEC managers indicated that they were aware of the current knowledge, skills, and abilities of staff in their divisions, OHR officials stated that the agency does not currently maintain any formal inventory of the staff's skills and competencies. Documentation of staff experience and skills may help management and OHR more effectively identify hiring strategies and training and developmental opportunities for current staff that would help eliminate skills gaps. In the OPUR case, OHR officials said it has been somewhat difficult to identify the skills of employees in this office. Nevertheless, during our interviews with divisions, senior staff indicated that, in general, they have informal knowledge, mainly through

¹²As a result of PUHCA being repealed, SEC will transfer responsibility for regulating these entities to the Federal Energy Regulatory Commission in February 2006.

experience, of the skills and competencies of supervised staff. Also, division management said that it draws upon staff knowledge when hiring; in particular, this occurs when divisions work with OHR to write position descriptions.

Despite lacking documentation of current skills, SEC has made efforts to identify deficiencies in staff skills. For example, OHR officials indicated that its office has interviewed directors and deputy directors at the agency to identify where knowledge and skills could be improved at the agency. The interviewees identified areas needing improvement, and branch chiefs ranked them in order of importance: (1) research and analysis; (2) knowledge of SEC process, rules, and regulations; (3) decision making; (4) writing; (5) oral communication; (6) information technology knowledge and skills; (7) management/supervisory skills; and (8) institutional knowledge. In another instance, in July 2004, OCIE completed a survey of examiners with higher degrees (e.g., MBA) to determine what skills were possessed and needed in the office. Further, division staff said they contact OHR when they need to identify persons with special skills and abilities. Division staff explained that OHR helps locate staff to complete work requiring special resources. Division staff interviewed generally agreed that these liaisons have proved to be an adequate resource for locating specialized skills and abilities on an as-needed basis.

Although SEC currently does not document and centrally compile skills possessed by employees, OHR plans to use the skills and competencies needed for SEC positions as the basis for integrating the four human capital functions of selection (hiring), performance management, training, and succession planning. Furthermore, SEC plans to identify competencies that will be needed agencywide as well as for specific occupations. With the aid of a private contractor, OHR plans to conduct a competency-based job analysis for each occupation at SEC. OHR expects that, in consultation with its contractor, it will determine two or three competencies that may be applied agencywide, while other technical competencies will pertain to specific positions at the agency. According to OHR officials, the core competencies will be linked to broader agencywide strategic goals, and job-specific competencies may be linked to programmatic goals listed in the strategic plan. Eventually, all SEC employees will be evaluated through a competency-based performance management system. As part of its wider strategic human capital planning efforts, OHR is in the process of linking all of its human capital functions. These functions will be linked to the critical skills and competencies identified by the agency and provide information that can be used in all personnel-related functions. For instance, skills gaps

identified by the performance management system may be remedied by hiring or training initiatives.

SEC Is Taking Steps to Determine What Critical Skills and Competencies It Needs but Has Not Linked Them to Strategic Goals

In our prior agencywide work, we have found that the scope of agencies' efforts to identify the skills and competencies needed for their future workforces varies considerably, depending on the environment and responsibilities of a particular agency. The most important consideration is that the skills and competencies identified are clearly linked to the agency's mission and long-term goals, as developed with stakeholders during the strategic planning process.

SEC has already taken some steps to identify the type of knowledge and skills that would be beneficial. As discussed previously, OHR interviewed division directors and deputy directors to identify areas where staff knowledge and skills could be improved. According to OHR officials, these interviews also led to the conclusion that management should (1) create a career development plan, (2) develop an individualized training curriculum, (3) mitigate or prevent loss of institutional knowledge, and (4) promote knowledge transfer among its employees to strategically address its future workforce needs. In addition, SEC has been conducting the triennial needs assessment required by OPM. SEC has completed the first two phases of the assessment, which gathered information from executives and supervisors at the agency. According to officials, the assessment results will form the basis for questions to ask subject matter experts. Following interviews with subject matter experts, SEC anticipates that it will distribute a survey to all employees asking them to identify the skills needed to perform their jobs. The results of this assessment are to be used by OHR to determine if SEC's existing training programs should be refocused and to identify additional courses or programs that should be developed.

Although SEC has completed its 2004-2009 strategic plan, OHR officials stated that goals and objectives outlined in the plan have not been linked to specific skills or competencies. While the strategic plan lists potential performance indicators, they are not directly linked to particular critical skills or competencies. As it develops its integrated human capital functions and determines workforce gaps, SEC plans to link the critical skills and competencies it identifies to the strategic plan. According to OHR officials, this linkage will occur eventually as competencies are determined.

SEC Is Making Efforts to Reshape Its Workforce to Increase Its Efficiency and Effectiveness through Re-engineering Work Processes

When estimating the number of employees needed with specific skills and competencies, we found, based on prior work, it is also important to consider opportunities for reshaping the workforce by re-engineering current work processes or sharing work among offices and divisions within an agency. This is particularly important to SEC as it responds to changes in legislation affecting its responsibilities and substantial growth in the size of its workforce. Re-engineering processes have been particularly helpful as SEC considers more strategically how to use employees to perform a wider variety of functions at the agency, or seeks persons with differing skills to perform certain functions. According to OHR officials, the office is trying to improve employee versatility at the agency and is currently developing a “versatility index” to measure how well employees may perform a variety of tasks at the agency.

Changes in the structure and responsibilities of SEC have contributed to some changes in workforce processes. SEC executives said that in an effort to more proactively regulate the securities industry, they are taking initiatives to identify emerging risks in securities markets and are working on creating more coordination among divisions. For example, the recently created Office of Risk Assessment (ORA) works with various divisions and offices to develop methodologies to address identified risk. ORA consults with risk-assessment committees that consist of staff from various divisions. Committees currently exist for the following areas: (1) full disclosure, (2) investment management and regulation, and (3) SEC infrastructure. ORA also uses software in coordination with divisions to identify how emerging risks have affected SEC’s workload and responsibilities. However, according to SEC management, ORA is not directly involved in workforce planning efforts at the agency.

Various divisions have also modified work processes to respond to changing responsibilities and workload and identified skill gaps. For example, SEC’s Enforcement staff attorneys were responsible for collecting disgorgement, as well as investigating potential violations of securities law.¹³ Partly in response to the new Fair Fund provision under Sarbanes-Oxley, the Division of Enforcement hired attorneys dedicated to collections, as well as case management specialists, to assist with

¹³Section 308(a) of Sarbanes-Oxley, the Federal Account for Investor Restitution provision, commonly known as the Fair Fund provision, allows SEC to combine civil monetary penalties and disgorgement amounts collected in enforcement cases to establish a fund for the benefit of victims of securities law violations. Disgorgement is a remedy designed to deprive defendants of their ill-gotten gains derived from their illegal activities.

maximizing collections and addressing competing priorities and the growing workload of the Enforcement attorneys. Enforcement also stated that it is working with technology staff to improve systems, so that collection information is tracked in one system rather than captured in multiple systems. Furthermore, the Division of Investment Management is now conducting integrated disclosure reviews and participates in cross-divisional task forces, such as the Investor Education and Soft Dollar task forces, to leverage skills across divisions.¹⁴ In addition, as a result of using a risk-based approach to more proactively identify and address compliance risks, OCIE recently gained the approval of the HCRB to create 20 additional staff positions, to be filled by individuals with data analysis skills to collect surveillance data. SEC is also now responsible for overseeing investment firms that want to become a consolidated supervised entity (CSE).¹⁵ Because such oversight requires a combination of specialized technical and auditing skills currently not found within the agency, OCIE recently created a new unit to oversee CSEs.

Principle 3: SEC Has Developed Some Human Capital Strategies to Address Gaps, but It Is Too Early to Assess Results

SEC is using a variety of methods to address skill gaps and improve employee benefits and work life. For example, SEC uses its student loan repayment (SLR) program and teleworking opportunities to attract and retain employees. In addition, SEC is linking its human capital functions and focusing on developing skills and competencies to use for hiring, performance management, training, and succession planning. SEC also has been developing SEC University to expand employee training opportunities and minimize critical skills gaps. Recently, OHR has used hiring and retention data, focus groups, and surveys to assess the use of many of SEC's work-life programs. However, because many of the human capital strategies have only recently been implemented, it is too soon to assess the effectiveness of these strategies.

¹⁴Broker-dealers typically provide a bundle of services, including research and execution of transactions, that are paid for by broker-dealers' commissions. "Soft dollars" are commission dollars that broker-dealers allocate to pay for the research component.

¹⁵GAO, *Financial Regulation: Industry Changes Prompt Need to Reconsider U.S. Regulatory Structure*, GAO-05-61 (Washington, D.C.: Oct. 6, 2004). Many of the largest financial legal entities are part of holding company structures—companies that hold stock in one or more subsidiaries. Holding companies that own large broker-dealers can elect to be supervised by SEC as consolidated supervised entities. SEC would provide groupwide oversight of these entities unless they are determined to already be subject to "comprehensive, consolidated supervision" by another principal regulator.

SEC Is Building More Comprehensive Human Capital Strategies to Recruit and Retain Employees and Address Skill Gaps

In our prior work, we have found that much of the authority that allows agencies to tailor human capital strategies to their needs is already available under current laws and regulations. Therefore, in setting goals for their human capital programs and developing tailored workforce planning strategies to achieve these goals, agencies should identify and use all appropriate administrative authorities to build and maintain an effective workforce for the future.

As mentioned earlier, SEC has been developing integrated human capital functions to better recruit and retain the right staff with the right expertise to help achieve its strategic goals and objectives. SEC indicated that selection, or hiring, is a critical tool to meet its changing needs, particularly following the increase in SEC's responsibilities under Sarbanes-Oxley. SEC made several changes to its hiring process to fill accountant positions within Corporation Finance, which had been a challenging task for the agency partly due to the slowness of the hiring process and the reluctance of some candidates to relocate to Washington, D.C. First, SEC retained an executive recruiting firm to carry out some of the recruitment. Second, to expedite the hiring process, OHR introduced an automated hiring system to accelerate the review of applications by automatically disseminating information on job candidates to Corporation Finance. Third, to accommodate qualified applicants who might not want to relocate to SEC headquarters, Corporation Finance instituted a "virtual workforce" pilot where several of its employees can work from an alternate site and physically report to an SEC location on a limited basis. OHR staff indicated that the pilot phase of the program would be useful in helping managers learn how to manage off-site employees. However, it is unclear to what extent the program will be expanded, or whether it will be continued. Finally, OHR said that category rating will be introduced to the agency during 2006.¹⁶

In addition to exploring ways to improve the hiring processes, SEC also has tried to more strategically allocate skills and experience when creating or filling existing vacancies. For example, recognizing the need for more administrative support for its collection program, the Division of Enforcement recently filled a number of positions with paralegals and

¹⁶Category rating allows agencies to place job candidates in broad quality groupings rather than assigning candidates actual numerical ratings. This approach may give the selecting officials more candidates from whom to select rather than limiting agency officials to just the top three, as is the case with the traditional federal hiring system.

administrative personnel instead of attorneys. SEC also recognized that as an agency, it would benefit from the knowledge and skills possessed by individuals with business degrees. Therefore, as mentioned earlier, SEC developed a Summer Honors Business Program in 2001 to attract future MBA graduates to SEC. In September 2005, OHR implemented a 2-year program where MBA graduates rotate through various SEC divisions as associates before being permanently placed in a division.

To increase employee retention, SEC has increased the use of its SLR program and telework arrangements. SEC began using the SLR program in the last half of fiscal year 2003 and reported making 384 student loan repayments totaling approximately \$3.3 million in fiscal year 2004. This is an increase from fiscal year 2003, in which 257 employees received payments.¹⁷ To receive loan repayment, enrollees agree to work for an additional 3 years at SEC. According to SEC officials, few employees leave before the 3-year employment agreement terminates. SEC is also expanding the use of telework arrangements for its employees, with approximately 20 percent of its workforce now participating in the program. As of August 2005, SEC reported having 813 approved teleworking employees, an increase from March 2005, when it had 648 employees approved for telework. SEC also found that strategic use of recruitment and retention bonuses for employees with qualifications critical to SEC's mission has been an effective way to achieve its hiring goals and an efficient use of funding.

In addition, SEC has been expanding its training programs to eliminate gaps and maximize employee contributions. Training efforts at SEC previously focused on specific division and office needs, and division managers told us they have training units within their divisions. With the development of SEC University, OHR hopes to bring about a cultural change within the agency and encourage cross-divisional and agencywide training. Although OHR plans to consolidate various training programs at SEC through the university, some divisions indicated that they found in-house training on technical issues performed by division staff critical to meeting agency goals and felt such training should remain outside the main training center at SEC. To date, OHR has taken no action to discontinue training offered within divisions. In September 2005, SEC placed a new

¹⁷GAO, *Federal Student Loan Repayment Program: OPM Could Build on Its Efforts to Help Agencies Administer the Program and Measure Results*, GAO-05-762 (Washington, D.C.: July 22, 2005).

position announcement to hire a person from within SEC who would be devoted exclusively to directing SEC University. OHR officials expect this position to be filled by the end of November 2005. As part of the current SEC University plan, OHR is assessing employee training interests and relevancy to programmatic functions, and is exploring establishing training partnerships with government, public and private entities, and five or six law and business schools. According to OHR, SEC University also plans to provide supervisory training and help the agency maintain quality leadership, which will be particularly important because 14 percent of SEC managers will be eligible to retire by the end of 2005.

In addition to developing a curriculum for SEC University, OHR is also working to automate and centralize employees' training and skills information. OHR has proposed that SEC develop a learning management system to centrally track employees' work experiences and training, as well as provide a forum to share work experiences among employees.¹⁸ OHR has produced a project plan outlining the business needs for the learning management system, including key deliverable dates for implementation and cost estimates.

SEC Has Various Methods in Place to Measure the Success of Its Human Capital Approach, but Many of These Assessments Are Not Yet Complete

Our previous agencywide work suggests that agencies could benefit by assessing key aspects of their human capital approach to identify possible obstacles and opportunities that may occur in meeting critical workforce needs. Specifically, an agency can use HCAAF to create indicators to measure the effectiveness of human capital approaches.

According to OHR officials, the office has used various methods to assess recruitment, retention, and work-life issues at SEC, including (1) focus group research, (2) employee satisfaction surveys on human capital flexibilities, and (3) entrance and exit interviews. OHR has conducted focus groups of employees on recruitment effectiveness, as well as retention and job satisfaction. According to OHR officials, it has used the findings from its research studies and OPM's Federal Human Capital

¹⁸According to SEC, a learning management system automates the administration of learning processes to plan, register, deliver, and measure courseware. It provides the ability to create, store, access, and reuse learning content. Such a system can provide collaboration and communication tools for participants and instructors to interact and share information from different locations, as well as provide access to information, tools, and processes on the job, where it is most used.

Survey in developing SEC's strategic human capital plan.¹⁹ For example, focus group results showed that SEC employees were most concerned about being recognized for good performance and agency procedures for dealing with poor performance. Consequently, OHR determined that performance management and training needed to be enhanced. OHR also determined that SEC needed to integrate the four human capital functions of selection (hiring), performance management, training, and succession planning. Specifically, OHR plans to enhance its performance management by using individual development plans for employees that include more comprehensive and targeted training and development opportunities.

As indicated above, SEC is using results from various surveys and informal assessments to improve human capital management. However, many of its human capital strategies are new or under development, and it is too soon to gauge their effectiveness. As part of developing and implementing its human capital plan, SEC plans to use a balanced scorecard to more comprehensively assess the effectiveness of its human capital strategies and workforce planning efforts. As of November 2005, OHR has worked with a contractor to develop a list of indicators that SEC could use to measure the progress the agency has made on its human capital strategies.

Principle 4: SEC Is Addressing Administrative, Educational, and Other Requirements Important to Supporting Workforce Strategies

Overall, SEC has been addressing many of the administrative, educational, and other requirements to support human capital programs and workforce strategies, including (1) educating managers and employees on the use of flexibilities, (2) streamlining and improving administrative processes, and (3) building transparency and accountability into its human capital system. To this end, SEC requires some training for supervisors and new employees on the use of human capital flexibilities. OHR told us that it informally reviews its administrative processes and has been working to improve the administration of some human capital flexibilities. In addition, we found that SEC has promoted transparency and accountability in the use of these flexibilities.

¹⁹The Federal Human Capital Survey is a biennial survey of federal employees that measures employees' perceptions of whether, and to what extent, conditions characterizing successful organizations are present in their agencies.

SEC Requires Some Training for Supervisors and New Employees on Flexibilities

As discussed in prior GAO work, managers and supervisors can be much more effective in using human capital strategies that involve flexibilities if they are properly trained to identify when they can be used and how they can be administered. In addition, to avoid confusion and misunderstandings, it is also important to educate employees about how the agency uses human capital flexibilities and what rights employees have under policies and procedures related to human capital.

According to OHR officials, supervisors are usually required to attend training on policies and practices related to newly implemented human capital programs. For example, SEC has focused on strengthening its telework program. In the spring of 2005, the agency hired a consultant to develop and deliver a comprehensive training program designed to better equip supervisors to manage remote workers. SEC management said that while the training was not mandatory, supervisors were strongly encouraged to participate. In addition, management from several divisions confirmed that all of their supervisors and managers had been briefed on available human capital flexibilities at SEC, especially alternative work schedules and telework.

SEC also has disseminated information on human capital programs to new and current employees. New employees receive such information at a required orientation session. OHR officials told us that current employees can receive information concerning human capital flexibilities through administrative notices, technical training, daily consultation with OHR staff, and postings of human capital information on the agency's intranet. SEC has also been finalizing an SEC employee handbook that provides information on human capital flexibilities.

SEC Has Improved Administrative Processes That Support the Use of Some Flexibilities

As suggested in our prior work, it is important that agency officials look for instances in which administrative processes can be re-engineered to more effectively administer flexibilities. OHR officials told us that while they do not conduct a formal evaluation of the effectiveness of existing administrative processes, they do solicit feedback from divisions and agencies and adjust processes to meet their needs. For example, to expedite the hiring process for a division that had a substantial number of positions to fill, SEC delegated authority to grant recruitment bonuses to the division's director, allowing the division to more quickly and readily recruit highly desirable candidates. In another example, OHR officials told us they plan to develop and implement recommendations based on SEC managers' suggestions provided in our 2005 study of SLR programs

implemented by various federal agencies.²⁰ Specifically, we recommended that SEC build on current efforts to measure the impact of the repayment program by determining now what indicators SEC will use to track program success, what baseline SEC will use to measure resulting program changes, what data SEC needs to collect, and whether SEC could use periodic surveys to track employee attitudes about the program.

Additionally, OHR officials said that their office has surveyed managers and employees to gauge the ease of administering policies and procedures. Similarly, OHR has asked employees hired using flexibilities (such as recruitment bonuses) and employees who participate in the telework and student loan repayment programs for suggestions to improve administrative processes. According to OHR officials, OHR plans to continue to refine collection and analysis of this information as the office develops and implements the balanced scorecard.

SEC Has Processes to Promote Transparency and Accountability in the Use of Flexibilities

In our prior agencywide work, we found that clear guidelines for using specific flexibilities and holding managers and supervisors accountable for their fair and effective use are essential for successfully implementing workforce strategies. SEC has some processes in place to promote transparency and accountability in the use of flexibilities. According to SEC management, key stakeholders—OHR staff, Employee-Labor Relations (ELR) specialists, managers, and senior management officials—have assisted in developing guidelines for using flexibilities. In addition, OHR officials told us that the National Treasury Employees Union, the labor organization that represents SEC employees, is involved in all matters affecting employees in the union.²¹

In using human capital flexibilities, SEC generally requires employees to prepare and submit a written request that must then receive managerial approval and, in some cases, input from ELR as well as OHR. To help ensure accountability in the use of flexibilities, employees' requests go through more than one level for approval or disapproval. For example, to telework, employees first submit a written request to their immediate supervisor, who then forwards it to a second-level supervisor for final approval or disapproval. If the request is denied, the second-level supervisor must document why. If there is a "close call" in approving or

²⁰GAO-05-762.

²¹SEC officials estimate that two-thirds of SEC's 4,000 employees are members of the union.

denying a telework request, ELR or OHR staff may be consulted. SEC officials told us that ELR usually gets involved when a request is denied. According to SEC officials, the agency requires written justification for denials of employee application for most types of flexibilities, not just telework.

Outside agencies also play a role in ensuring accountability in SEC's use of human capital policies, programs, and options. SEC's use of flexibilities is subject to review by OPM, OMB, the Merit Systems Protection Board, Congress, and us. Specifically, OPM monitors SEC's use of direct hire authority, as well as student loan repayment. Moreover, according to SEC, unionized employees can file a grievance under the provisions of the collective bargaining agreement, and there is an administrative grievance process in place for nonunionized employees.

Principle 5: SEC Is Developing Additional Human Capital Measures and a Formal Process by Which to Link the Achievement of Its Human Capital and Strategic Goals

Our prior agencywide work found that agencies should develop appropriate performance measures to link human capital measures with strategic goals. Performance measures, appropriately designed, can be used to gauge success and evaluate the contribution of human capital activities toward achieving programmatic goals. SEC management said that SEC has informally monitored the agency's progress toward achieving some human capital goals using a few performance measures. SEC mainly has monitored hiring, attrition, and retention rates. These indicators, along with other indicators compiled by the divisions and offices to measure performance related to programmatic goals, compose SEC's management "dashboards." The "dashboards" are indicators compiled monthly by the Executive Director's office and are designed to present regular snapshots of the divisions' and offices' progress in meeting budget, staffing, and performance objectives. One division official said that the turnover rates and measures of supervisors' tenure included in the dashboards were particularly useful. Division managers said they consulted with OHR when the human capital indicators identified potential issues. For example, a division manager we interviewed noted that one human capital measure indicated few women in the division were applying for branch chief jobs, and the division has been working with OHR to determine the reasons why.

Although SEC uses some human capital indicators, OHR officials acknowledged that they needed to develop additional measures because their current indicators capture output measures for overall human capital strategies, such as turnover, but do not directly link to specific human capital initiatives. OHR officials explained that the balanced scorecard,

discussed earlier, will link human capital initiatives to outcomes. Identifying performance measures and discussing how the agency will use them to evaluate the human capital strategies—before it starts to implement the strategies—can help agency officials think through the scope, timing, and possible barriers to evaluating the workforce plan. However, as we have found in prior work, developing meaningful outcome-oriented performance measures for both human capital and programmatic goals, and collecting performance data to measure achievement of these goals are major challenges for many federal agencies.

Further, one SEC division official said it was particularly difficult to develop performance measures in areas dealing with the enforcement of laws and regulations. For example, in 2002 we reported that SEC strategic and annual performance plans did not clearly indicate the priority that disgorgement collections should receive in relation to SEC's other goals and did not include collection-related performance measures.²² In our 2005 report, we found that SEC needed to make further progress in establishing performance measures to better track the effectiveness of its collection efforts, and track both receivers' fees and the amounts distributed to harmed investors.²³

Finally, SEC said that evaluations of the linkage between human capital and strategic goals currently take place informally during various meetings, including HCRB meetings, and the results of these evaluations are addressed through periodic adjustments made to deal with short-term problems. More specifically, SEC management said that HCRB members used the management "dashboards" to help make staffing decisions, but noted that the dashboards were not tightly linked to the HCRB process. However, OHR anticipates that the implementation of the balanced scorecard and its indicators will strengthen and formalize the linkage between human capital activities and strategic goals.

²²GAO, *SEC Enforcement: More Actions Needed to Improve Oversight of Disgorgement Collections*, [GAO-02-771](#) (Washington, D.C.: July 12, 2002).

²³GAO, *SEC and CFTC Penalties: Continued Progress Made in Collection Efforts, but Greater SEC Management Attention Is Needed*, [GAO-05-670](#) (Washington, D.C.: Aug. 31, 2005).

Observations

With the enhancements being made to its human capital management, SEC has begun to use a planning and management approach that ensures ongoing attention to human capital issues. SEC has been making changes to ensure management focuses not only on traditional personnel functions, but also on the broader issues of human capital management. Further, senior managers are beginning to focus on strategic issues in decision making. In particular, SEC has undertaken a number of initiatives that demonstrate its commitment to human capital planning. When enacted, these initiatives should begin to help address the agency's human capital challenges, some of which are long-standing and cannot be quickly or easily overcome, such as succession planning. To ensure the success of SEC's strategic goals, it is critical that SEC complete its human capital initiatives—in particular, its strategic human capital plan. A well-documented plan is an essential tool that can serve as a guide for SEC in workforce management and direct an effective, ongoing communications strategy that genuinely engages employees and other stakeholders in the creation and administration of human capital programs.

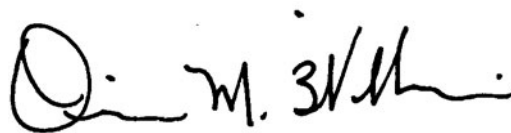
Based on our discussions with OHR, SEC is in the process of creating a human capital plan. SEC's finalized human capital plan is to include many of the best practices outlined in our five principles for workforce planning. While we are encouraged by SEC's progress, three areas may warrant management attention as SEC continues to develop its human capital plan: conducting outreach with congressional stakeholders and the securities industry on strategic workforce planning, obtaining employee feedback on human capital strategies before they are implemented, and taking steps to better identify, understand, and document existing skills among staff. Obtaining feedback from congressional stakeholders and the securities industry could enhance SEC's ability to gain feedback from these important groups. Further, employee input prior to implementation may increase SEC's ability to determine whether its human capital strategies are understood and supported by the staff. In addition, by formally identifying and documenting existing skills among staff, SEC may more accurately estimate workforce needs and skill gaps, which is information that helps agencies determine appropriate human capital strategies. Finally, we want to stress the importance of ensuring that the plan formally links human capital activities with the goals in SEC's strategic plan. This linkage will help SEC to use its workforce to increase the agency's operational effectiveness and responsiveness.

Agency Comments and Our Evaluation

SEC, in written comments on a draft of this report that are reprinted in appendix II, stated that it agreed with our findings. SEC commented that its strategic human capital plan will soon be completed and that it will provide the long-term infrastructure to ensure that the progress SEC has made in human capital initiatives are institutionalized. SEC stated that its strategic human capital plan will include a rigorous strategic planning system that, once implemented, will address our concerns regarding the alignment of SEC's human capital and strategic goals. SEC also commented that the work being done on integrating its human capital systems will more formally capture SEC's institutional knowledge, which was another concern cited in the report.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time we will provide copies to the Chairman and Ranking Minority Member of the House Committee on Government Reform; the Chairman and Ranking Minority Member of the House Committee on Financial Services; the Chairman and Ranking Minority Member of the Senate Committee on Homeland Security and Governmental Affairs; and the Chairman and Ranking Minority Member of the Senate Committee on Banking, Housing and Urban Affairs. We will also send copies to the Chairman of the SEC and other interested parties, and we will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or williamso@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix III.



Orice M. Williams
Director, Financial Markets
and Community Investment

Scope and Methodology

In order to describe the progress the Securities and Exchange Commission (SEC) made in developing a strategic human capital plan, we gathered and analyzed data from a variety of sources. We reviewed GAO's recent prior work on human capital issues at SEC. We also obtained information on SEC's operations and strategic planning efforts, recent budget requests, human capital plans and strategies, workforce data, milestones and timelines, and performance measures. To collect data not identified through prior work, we contacted and conducted interviews with SEC, the Office of Management and Budget (OMB), and Office of Personnel Management (OPM) to obtain relevant information.

To evaluate how SEC was developing its long-term strategies for acquiring, developing, and retaining staff to achieve the agency's mission, we used the key principles for effective strategic workforce planning developed in *Human Capital: Key Principles for Effective Strategic Workforce Planning* as our criteria for identifying workforce planning practices that SEC planned or had under way.¹ Using these five principles, we also identified related tasks associated with each principle to provide more specific examples of how each principle might be implemented.

Additionally, we met with SEC, OPM, and OMB to discuss and collect information on the agency's former and current practices and future plans to address human capital issues. After these initial meetings, we held follow-up meetings with SEC's Office of Human Resources and other key offices and divisions to gather relevant information.

We conducted our work in Washington, D.C., from April 2005 through November 2005 in accordance with generally accepted government auditing standards.

¹[GAO-04-39](#).

Comments from the Securities and Exchange Commission



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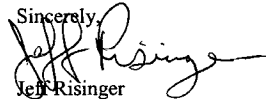
Orice M. Williams
Director
Financial Markets and Community Investment
United States Government Accountability Office
441 G St. NW
Washington, DC 20548

Dear Ms. Williams:

The Securities and Exchange Commission (SEC) has received the Government Accountability Office (GAO) draft report, "Securities and Exchange Commission – Some Progress Made on Strategic Human Capital Management," (GAO-06-86) prepared for the Subcommittee on Government Management, Finance and Accountability, Committee on Government Reform, House of Representatives. The SEC is in agreement with the findings of this report and offers the following comments.

The SEC has recently faced significant changes to its mission, budget and human capital requirements creating the need for stronger strategic human capital practices. As indicated in the report, many of the efforts taken to date have been successful and delivered strong results but much work remains to be done. The SEC Strategic Human Capital Plan, which will soon be completed, will provide the long-term infrastructure to ensure that recent successes are institutionalized and built upon. This plan, designed to incorporate the Office of Personnel Management's (OPM) Human Capital Assessment and Accountability Framework (HCAAF), includes a rigorous strategic planning system which ensures long-term accountability. Once implemented, this system will specifically address the concerns cited in the report regarding alignment of human capital practices to SEC strategic goals. Also, the work being done regarding integrated human capital systems will more formally capture the institutional knowledge of the SEC and address a related concern cited in the report.

The SEC is very confident in the strategic human capital planning process underway and believes that once completely implemented this planning will strengthen the areas of concern cited in the report as well as provide a foundation to continue to provide results in the areas of success that were cited.

Sincerely,

Jeff Risinger
Associate Executive Director

GAO Contact and Staff Acknowledgments

GAO Contact

Orice M. Williams, (202) 512-8678 or williamso@gao.gov

Staff Acknowledgments

In addition to the contact named above, Karen Tremba, Assistant Director; Allison Abrams; Marianne Anderson; William R. Chatlos; Kenneth Scott Derrick; Marc Molino; and Barbara Roesmann made key contributions to this report.

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