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Comptroller General
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May 10, 2002

The Honorable Daniel K. Akaka
Chairman, Subcommittee on
International Security, Proliferation,
and Federal Services
Committee on Governmental Affairs
United States Senate

The Honorable George V. Voinovich
Subcommittee on
International Security, Proliferation,
and Federal Services
Committee on Governmental Affairs
United States Senate

Subject: *Post-Hearing Questions Related to Federal Human Capital Issues*

Dear Mr. Chairman and Senator Voinovich:

On March 18, we testified before your Subcommittee at a hearing on “The Federal Workforce: Legislative Proposals for Change.” In that testimony we (1) discussed the major components of our new Model of Strategic Human Capital Management (GAO-02-373SP), (2) identified key practices that agencies need to have in place to effectively use human capital authorities, and (3) highlighted provisions of amendments to S. 1603, The Federal Human Capital Act of 2001.

This letter responds to your request that we provide answers to follow-up questions relating to our March 18, 2002 testimony. Your questions, along with our responses, follow.

Questions from Chairman Akaka

1. At the hearing on March 18, 2002, witnesses reviewed proposals in the Substitute Manager’s Amendment and S. 1612 to offer early retirement and early separation incentives from the federal government. As you know, over half the federal workforce will be eligible for retirement in the next several years. In your testimony, you recommended that Congress consider adding employee performance as a factor in deciding who should receive these incentives. What other factors would you recommend when offering early retirement and early separation incentives?

Early retirement and early separation incentives, in addition to other human capital approaches, should be designed, implemented, and assessed by the standard of how well they help agencies achieve results and pursue their missions. In light of this, agencies should have the opportunity to consider using these two authorities for the purposes of realigning the workforce to meet mission needs, correcting a skills imbalance, and realigning the workforce to meet budget constraints. Performance is just one factor agencies should consider using when taking advantage of early retirement or early separation incentive programs. Performance should not be used to target certain individuals, but it can be a factor when deciding which employees will be allowed to receive the incentives. When offering employees an opportunity to take advantage of these incentives, we also suggest that agencies consider factors such as skills, knowledge, and competencies; the organizational unit or subunit in which an employee works; an employee's occupational series, grade, or band level, as appropriate; or the geographic location of the employee. These criteria should be weighed in light of the mission needs of the agency to ensure that the appropriate people are on board to serve the public and accomplish programmatic results. Whatever criteria are used for offering these options to employees, the approach used should be clearly defined, well-documented, transparent, and consistently applied. These guidelines have proved useful in our own implementation of a Voluntary Early Retirement program.

2. One of the questions from the hearing on March 18, 2002 explored why agencies would be more likely to use the expanded management flexibilities offered in the Substitute Managers Amendment and S. 1612 considering the fact that agencies currently use these flexibilities sparingly. You noted that managers need to be more aware of how to effectively use existing management flexibilities and better manage agency resources. OPM has testified that it trains federal managers on the use of these flexibilities. Why are agencies unaware of these flexibilities? What additional efforts are needed to draw attention to existing flexibilities?

We have noted that a critical first step in strategic human capital management is for agencies to make concerted efforts in identifying and maximizing personnel authorities (flexibilities) already available under existing personnel laws, rules, and regulations.¹ The U.S. Office of Personnel Management (OPM) has published and put on its Web site *Human Resources Flexibilities and Authorities in the Federal Government*, a handbook listing personnel flexibilities available to agencies. In addition, OPM and OMB included information on personnel authorities available to managers as a part of training for senior managers on the President's Management Initiatives. This information was presented in a half day of training on flexibilities as a part of transition training for new political appointees. Despite these initiatives many agencies have not made extensive use of flexibilities.

Part of the reason for this limited use of flexibilities is that some agencies may continue to not be fully aware of the flexibilities; however the key reason may be that agencies have not systematically assessed their strategic human capital needs and then developed programs and initiatives to address those needs. Using flexibilities is then part of the solution to address an agency's human capital challenges. For example, many supervisors and managers cite noncompetitive pay as a major reason why it is difficult to recruit and retain employees with critical skills. Yet very few agencies have made more than a modest use of recruiting

¹We are currently studying agencies' use of human capital flexibilities at the request of this subcommittee and others.

bonuses and retention allowances. Agencies need to conduct a systematic analysis to determine how best to recruit and retain the talent they need; this analysis should then be used to determine which flexibilities, if any, are to be used. When considering these opportunities, agencies must also consider the competing demands confronting them, the limited resources available, and how those demands and resources require careful balancing and prioritization.

3. Financial transparency is an issue that was raised in GAO’s “High Risk Update.” According to the report, “without good financial information . . . government cannot make timely and informed decisions about allocating limited resources.” Do you believe federal managers have the tools they require to more effectively manage agency resources, including those resources used for contracting out? If not, how can managers be expected to use existing personnel flexibilities?

Many agencies do not have timely, accurate, and useful financial information, including cost data, and do not have sound controls with which to make informed decisions and ensure accountability on an ongoing basis. Cost data is essential for budgeting, controlling cost, measuring performance, determining cost reimbursements, setting fees and prices, evaluating programs, and choosing between alternative actions. Also, accurately knowing the cost for providing goods and services in-house for comparison with private sector performance will be important in making sound sourcing decisions and analyzing the budgetary implication of contracted services. Although agencies have started to make progress in their efforts to modernize their financial management systems, much work remains.

We have consistently reported that effective organizations use complete, valid, reliable, and current data to inform decisions regarding human capital management approaches and that they integrate investments in human capital approaches with needs identified through strategic planning. Routinely having timely, accurate, and useful financial management information will enable agencies to use this information when analyzing the budgetary implication of contracted services, when looking to fund an administrative human capital flexibility, and when attempting to understand the relationship between the cost and effectiveness of a particular human capital flexibility.² However, other tools are available to assist agencies in implementing available human capital flexibilities, and agencies need not wait for detailed cost data to implement the human capital flexibilities available under current law. When implementing these flexibilities, agencies need to make a business case assessing the potential costs and benefits of a particular flexibility and the degree to which it may assist in improving agency performance. Developing a fact-based business case will be more difficult and time-consuming in the absence of organizationwide systems that provide sound financial data.

² For additional information on federal contracting, see the Commercial Activities Panel, *Improving the Sourcing Decisions of Government: Final Report* (Washington, D.C.: April 30, 2002).

4. The Substitute Manager’s Amendment and S. 1612 propose measures to expedite the hiring process by allowing agencies to directly hire job applicants for hard-to-fill positions. However, witnesses testified at the hearing on March 18, 2002, that this would not speed up hiring and may actually slow it down since OPM would already have a larger pool of selected applicants. Do you believe there are instances where direct hire authority may actually slow the hiring process?

We are studying the federal hiring process at the request of this committee. The concern raised at the hearing appeared to be based on the assumption that OPM retains authority over examining and rating job applicants and that OPM retains lists of certified applicants for various positions. According to a recent Merit Systems Protection Board (MSPB) report, OPM has delegated virtually all responsibilities associated with the hiring process to federal agencies.³ The decentralization of personnel management was begun to make these activities more timely and flexible. The same MSPB report indicates that human resources specialists believe that the delegation of responsibilities for the hiring process to the agencies has enabled them to fill positions in a more timely manner, do a better job of matching hiring needs and applicant skills, and fill jobs more cost effectively than they could when they had to request candidate referrals from OPM.

Questions from Senator Voinovich

1. In your testimony, you discuss the importance of fostering a results-oriented organizational culture in federal agencies and suggest that implementing pay-for-performance to replace the current pay system, which is based on “the passage of time and rate of inflation.” While we need to review the government’s compensation system, this is only one aspect of the human capital crisis. What can we do, right now, administratively or legislatively, to install a culture of excellence in federal agencies? What must federal managers do to motivate and empower their employees and make the government a more exciting place to work?

One way to embed a culture of excellence or results-orientation is to align individual employee performance expectations with agency goals so that individuals understand the connection between their daily activities and their organization’s success. High-performing organizations have recognized that a key element of a fully successful performance management system is to create a “line of sight” that shows how individual responsibilities can contribute to organizational goals. As a first step, these organizations align their top leadership’s performance expectations with organizational goals and then cascade performance expectations to lower organizational levels.

At the most senior level, one way to encourage accountability within an organization is through the use of executive performance agreements. Our work has shown that agencies have benefited from their use of results-oriented performance agreements for political and senior career executives.⁴ Although each agency developed and implemented performance agreements that reflected its specific organizational priorities, structures, and cultures, the performance agreements met the following characteristics. They

³U.S. Merit Systems Protection Board, *The U.S. Office of Personnel Management in Retrospect: Achievements and Challenges after Two Decades* (Washington, D.C.: December 2001).

⁴U.S. General Accounting Office, *Managing for Results: Emerging Benefits From Selected Agencies’ Use of Performance Agreements* GAO-01-115 (Washington, D.C.: October 2000).

- strengthened alignment of results-oriented goals with daily operations
- fostered collaboration across organization boundaries
- enhanced opportunities to discuss and routinely use performance information to make program improvements
- provided a results-oriented basis for individual accountability, and
- maintained continuity of program goals during leadership transitions.

Governmentwide, agencies are to place increased emphasis on holding senior executives accountable for organizational goals. OPM amended regulations that change the way agencies evaluate the members of the Senior Executive Service (SES). While agencies will need to tailor their performance management systems to their unique organizational requirements and climates, they nonetheless are to hold executives accountable for results; appraise executive performance on those results balanced against other dimensions, including customer satisfaction and employee perspective; and use those results as the basis for performance awards and other personnel decisions. Agencies were to implement the new policies for the SES appraisal cycles that began in 2001.

Furthermore, leading organizations we studied create a set of mission-related program guidelines within which managers operate, and then give their managers extensive authority to pursue organizational goals.⁵ Allowing managers to bring their judgment to bear in meeting their responsibilities, rather than having them merely comply with rigid rules and standards, can lead to more effective operations.

Involving frontline employees in decisionmaking, either directly or through employee unions and organizations, as appropriate, is another key ingredient in developing an organizational culture that motivates and empowers employees. Employee involvement in the planning process helps to develop agency goals and objectives that incorporate insights about operations from a frontline perspective. Involving employees can also serve to increase employees' understanding and acceptance of organizational goals and objectives and improve motivation, morale, and retention.⁶

Our work has shown that leading organizations commonly seek their employees' input on a periodic basis and explicitly address and use that input to adjust their human capital approaches.⁷ The organizations collect feedback using employee satisfaction surveys, convene focus groups or employee advisory councils, and including employees on task forces. Moreover, organizations we studied reported that they involved unions and incorporated their input into proposals before making decisions. Engaging employee unions in major changes such as redesigning work processes, changing work rules, or developing new job descriptions can help achieve consensus on the planned changes, avoid misunderstandings, speed implementation, and more expeditiously resolve problems that occur.

⁵U.S. General Accounting Office, *Managing for Results: Experiences Abroad Suggest Insights for Federal Management Reforms* GGD-95-120 Washington, D.C.: May 2, 1995).

⁶U.S. General Accounting Office, *Human Capital: Practices that Empowered and Involved Employees*, GAO-01-1070 (Washington, D.C.: Sept. 14, 2001).

⁷U.S. General Accounting Office, *Human Capital: Key Principles from Nine Private Sector Organizations* GAO/GGD-00-28 (Washington, D.C.: January 2000).

2. The American workforce has been transformed over the past decade as a result of information technology and other advancements. What must the federal government do to be competitive as an employer of choice? For instance, how should the federal government adapt to the fact that few new college graduates seek a 30-year career with one employer, preferring the flexibility to move from job to job and sector to sector without major barriers to entry?

There are numerous steps that can be taken in the short, medium, and long term to make the federal government an employer of choice for people within all levels and all sectors of the labor market. Many, but not all, of these steps can be done within current laws and regulations.

In the short term, agencies should use technology and available administrative flexibilities to minimize the time required to hire. In addition, a recently announced initiative of the OPM to improve the federal hiring process is a positive step. This initiative encourages agencies to develop clear, understandable job announcements; to provide timely and informed responses to questions about the recruiting process; and to regularly provide updates on the status of applications as significant decisions are reached. Those considering employment offers with the federal government may take offers more seriously if provided with information on the total compensation package. Accompanied by the federal government's contribution for health care benefits, life insurance, and retirement, a "low" salary offer seems more robust. Recruiters should also point out the many family-friendly and work/life benefits the federal government has to offer, including flexible work schedules, on-site child care or child care assistance, transportation benefits, and telecommuting.

In addition to focusing energy on the application process, agencies should develop ongoing relationships with colleges and universities that entail recruiting, general outreach, and educational opportunities. Agencies can further enrich their potential applicant pool by creating substantive internship opportunities that allow hiring officials the chance to observe student performance and expose students to the benefits of working for the federal government, and the impact they can make as federal employees.

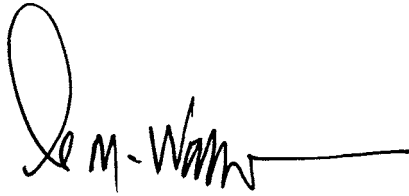
Once these initiatives are in place, agencies and other interested parties can turn their attention to activities that will take slightly longer to accomplish in making the federal government an employer of choice. For example, as agencies develop policies for providing student loan repayment assistance, they will need to budget their resources strategically and make a business case to OMB and Congress for additional funding based on a fact-based analysis of their needs and the constraints under which they currently operate.

In the long term, all concerned parties will need to work together on a number of efforts to make the federal government an employer of choice. Momentum is already building to address the challenges posed by a classification and pay system that many view as antiquated.⁸ As debate on comprehensive civil service reform moves forward, consideration must be given to having a greater share of an employee's salary dependent on knowledge, skills, and performance, rather than the passage of time and the rate of inflation, as is often that case today. This shift would communicate to potential applicants that the federal

⁸For example, see U.S. Office of Personnel Management, *A Fresh Start for Federal Pay: The Case for Modernization* (Washington, D.C.: April 2002).

government values, recognizes, and rewards high performance and the accomplishment of results. However, numerous studies report that money is not the sole motivating factor that leads someone to choose to work for the federal government specifically or the public sector generally. We must address the challenge of overcoming the legacy of more than two decades of bureaucrat bashing by emphasizing the essential and valuable role of public servants and the positive role the federal government plays in our day-to-day lives.

If you have any questions concerning this letter, please contact J. Christopher Mihm, Director, Strategic Issues, at mihmj@gao.gov.

A handwritten signature in black ink, appearing to read "D. M. Walker", with a long horizontal line extending to the right.

David M. Walker
Comptroller General
of the United States