

GAO

## Testimony

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# HUMAN CAPITAL

## Agencies Need Leadership and the Supporting Infrastructure to Take Advantage of New Flexibilities

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Strategic Issues





Highlights of [GAO-05-616T](#) a testimony before the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Homeland Security and Governmental Affairs, U.S. Senate

## Why GAO Did This Study

Strategic human capital is the centerpiece of agencies' efforts to transform into high-performing organizations poised to meet the challenges of the 21<sup>st</sup> Century. Congress, recognizing that the federal human capital management systems designed in the past are outmoded, has provided agencies with exemptions from the old rules and new flexibilities to more strategically manage their workforce. Congress has already granted statutory exemptions and new authorities affecting more than 1.2 million civilian federal employees. The momentum is building to continue to reform the policies, processes, and systems that govern federal human capital management. Congress is interested in taking stock of how agencies have implemented the new flexibilities they have been granted, especially as it considers the future steps to be taken to achieve human capital reform.

At the request of the subcommittee, this statement provides an update of GAO's work on the progress agencies have made in implementing these flexibilities to better accomplish their missions and achieve their goals. In addition, it provides information on GAO's experiences with human capital reform and also highlights a set of consistent principles, criteria, and processes that can help to guide future reforms, whether they are new flexibilities granted to individual agencies or applied governmentwide.

[www.gao.gov/cgi-bin/getrpt?GAO-05-616T](http://www.gao.gov/cgi-bin/getrpt?GAO-05-616T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Eileen Larence at (202) 512-6806 or [larencee@gao.gov](mailto:larencee@gao.gov).

## HUMAN CAPITAL

# Agencies Need Leadership and the Supporting Infrastructure to Take Advantage of New Flexibilities

## What GAO Found

To take full advantage of the flexibilities provided, agencies need leaders committed to taking a more strategic approach to managing their people in order to improve mission results, and must have the necessary infrastructure in place to make effective use of the flexibilities. This infrastructure includes a human capital planning process that integrates human capital policies, strategies, and programs with its program goals, mission, and desired outcomes; the capabilities to effectively develop and implement a new human capital system; and importantly, the existence of a modern, effective, and credible performance management system that includes adequate safeguards to help ensure consistency. GAO's work shows that, to date, agencies are using the flexibilities to varying degrees but continue to face barriers. In the future, agencies should have to demonstrate they have the required infrastructure and safeguards in place before using any new human capital authorities.

- Accountable Leadership:** Effective performance management systems first align leadership's performance expectations, appraisal systems, and compensation programs with organizational goals and results, then cascade this approach through all levels in the organization. Accordingly, agencies now have authority to increase senior executive pay levels, but only if they have an effective performance management system—one that links individual and organizational results and makes meaningful distinctions in performance. Recent data show, however, that agencies face a challenge in meeting the criteria for qualifying for the new executive pay flexibilities. GAO also continues to see opportunities for Chief Human Capital Officers and their Council to help agencies better implement various flexibilities and share best practices, while providing strategic leadership for reform.
- Strategic human capital planning:** Identifying current and future workforce gaps and ways to use flexibilities to fill them would help agencies remain competitive and achieve their missions. Some agencies do not have all the components of a strategic human capital planning process in place to help them resolve workforce challenges. GAO identified five key principles that could help guide and inform agencies' efforts to build this process.
- Capabilities to use new tools:** Agencies have not used some of the flexibilities designed to help them recruit and hire top talent as much as possible because of a lack of policy and guidance, among other things. OPM has since reported taking a number of initiatives to better educate agencies on the tools and encourage their use.

Agencies need to continue implementing new tools, evaluating their impact, and making adjustments. Congress' interest in monitoring agency progress is a critical ingredient to the success of these reforms.

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Chairman Voinovich and Members of the Subcommittee:

I am pleased to be here today to discuss our work on agencies' use of recently enacted human capital flexibilities to help address workforce challenges. 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. The tailored use of such flexibilities for acquiring, developing, and retaining talent is an important cornerstone of GAO's model of strategic human capital management. The subcommittee's interest in taking stock of where agencies are in using the flexibilities provided to them is critical and timely.

As we have consistently testified, and as the subcommittee has consistently recognized, an agency's human capital is its most important catalyst for transforming to meet the new challenges of the 21<sup>st</sup> century. We have also recognized that the federal human capital systems designed in the past are outmoded and, in some cases, barriers to an agency's transformation. Consequently, over the past few years, Congress has granted certain agencies exemptions from these old rules, as well as new flexibilities to recruit, hire, develop, manage, retain, and compensate the people with the knowledge, skills, and abilities that agencies need to accomplish their critical missions and compete with the private sector for top talent. This is especially important as the nation faces long-term fiscal challenges, and therefore, agencies are likely to have resource constraints in the future.

We have also learned, however, that to benefit from these reforms, agencies should have the appropriate institutional infrastructure and safeguards in place to make effective use of these new authorities. Agencies need leaders who are committed to taking a more strategic approach to managing their human capital assets. These leaders provide the organizational vision important in times of change, use the flexibilities available to them in a targeted and responsible manner, and ensure that human capital strategies are well-planned, thoroughly implemented, and sustained over time. Agencies also need a supporting infrastructure that includes a human capital planning process that integrates human capital policies, strategies, and programs with its program goals, mission, and desired outcomes; the capabilities to effectively develop and implement a new human capital system; and, importantly, the existence of a modern, effective, and credible performance management system that includes adequate safeguards to help ensure consistency.

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There continues to be widespread interest in reforming the policies, processes, and systems that govern federal human capital management. In ongoing work for Senator Susan Collins, we are cataloguing the wide array of statutory exemptions and new authorities that Congress has already granted to a select group of agencies, affecting more than 1.2 million civilian employees. Moving forward, Congress may continue to grant flexibilities to individual agencies or on a governmentwide basis. It will be important to ensure that agencies first have a business case for using the flexibilities, as well as the necessary infrastructure and safeguards in place to use them effectively and in a non abusive manner. In addition, there is general recognition that the government needs a framework to guide further reforms. GAO, working with its external partners, has proposed a common framework built around a fundamental set of principles, criteria, and processes. This could help to enhance the government's performance, ensure agency accountability, and provide for a relatively level playing field across agencies as they implement new authorities.

Today, I would like to highlight some of our recent work on the progress that agencies have made in implementing the flexibilities granted them, and that reinforces the actions Congress and agencies are taking or need to take to (1) provide the strategic leadership, (2) establish the necessary infrastructure for reforms, (3) better use the new flexibilities provided, and (4) position the government for future reform.

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## Accountable Leadership Can Serve As a Model for Effective Human Capital Management throughout the Agencies

High-performing organizations understand that they must have senior leaders who are held accountable for results, drive continuous improvement, and take a strategic approach to targeting available human capital tools and flexibilities that will help them achieve their organizational goals. Leaders who model effective performance management can help to institutionalize it throughout their agencies. As you know, we have advocated, and you have reinforced, that the federal government needs to fundamentally rethink its approach to performance management, better linking individual, unit, and organizational performance and rewarding individuals according to their relative performance and contributions. Effective performance management systems first align leadership's performance expectations, appraisals, and pay with organizational goals and results achieved, then cascade this approach through all levels in the organization. In October 2000, the Office of Personnel Management (OPM) revised its Senior Executive Service (SES) regulations to require agencies to implement performance management systems that meet these criteria.

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More recently, Congress provided that agencies that have successfully implemented effective performance management systems for their senior executives can increase the compensation of their higher-performing senior executives beginning in January 2004. To qualify for this flexibility, OPM must certify, and the Office of Management and Budget (OMB) must concur, that the agency's performance management system meets specified certification criteria, including demonstrating that its performance management system aligns individual performance expectations with the mission and goals of the organization and its appraisal system as designed and applied makes meaningful distinctions in performance. To receive full 2-year certification, an agency must provide documentation that its senior executive performance management system meets all nine of the criteria. Otherwise, agencies can meet four of nine criteria and demonstrate that their system in design meets the remaining certification criteria to receive one-year provisional certification and use the higher pay rates. Agencies with one-year provisional certification must reapply annually, but agencies with full certification must reapply every 2 years. In addition, SES members are no longer to receive annual across-the-board or locality pay adjustments but to receive pay and bonus increases based on contribution, skills, competencies, and other factors. The system also replaces the six SES pay levels with a single, open-range pay band.

Currently, two agencies have received full certification—the General Services Administration and the Pension Benefit Guaranty Corporation (for its senior-level /scientific or professional positions). The Departments of Agriculture, Commerce (for its senior-level/scientific or professional positions), Education, Health and Human Services (HHS), Homeland Security (DHS), and Labor, as well as the National Aeronautics and Space Administration (NASA), and the Office of Government Ethics have received provisional certification for calendar year 2005.

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### Some Agencies May Face a Challenge in Meeting Criteria for Qualifying for the New Executive Pay Flexibilities

The criteria that OPM has developed to assess agencies' performance management systems are consistent with our research wherein we identified a set of key practices for effective performance management:<sup>1</sup>

- aligning individual performance expectations with organizational goals,

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<sup>1</sup>GAO, *Results-Oriented Cultures: Creating a Clear Linkage between Individual Performance and Organizational Success*, GAO-03-488 (Washington, D.C.: Mar. 14, 2003).

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- connecting performance expectations to crosscutting goals,
  - providing and routinely using performance information to track organizational priorities,
  - requiring follow-up actions to address organizational priorities,
  - using competencies to provide a fuller assessment of performance,
  - linking pay to individual and organizational performance,
  - making meaningful distinctions in performance,
  - involving employees and stakeholders to gain ownership of performance management systems, and
  - maintaining continuity during transitions.

In anticipation that senior executive performance management and pay systems were to be modernized, Chairman Voinovich, at your and former House Government Reform Civil Service Subcommittee Chairwoman Jo Ann Davis' request, we used these practices as a guide to review how well selected agencies were creating linkages between senior executive performance and their organizations' success.<sup>2</sup> You recognized that information on these agencies' experiences and knowledge could provide valuable insights to other agencies as they seek to use senior executive performance management as a tool to drive internal change and achieve external results. Last year, we reported that the agencies were implementing some of these practices, such as aligning individual and organizational goals. However, we also noted that their systems were inconsistent with other practices, such as making meaningful distinctions in performance. This is also the case governmentwide. For example, OPM data show that about 75 percent of executives received the highest performance ratings possible for fiscal year 2003 (the most current data available).

OPM will need to carefully monitor the implementation of the agencies' performance management systems, especially those that have provisional

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<sup>2</sup>GAO, *Human Capital: Senior Executive Performance Management Can Be Significantly Strengthened to Achieve Results*, [GAO-04-614](#) (Washington, D.C.: May 26, 2004).

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certification, to ensure that agencies are driving organizational performance by making meaningful distinctions in executive performance ratings and appropriately paying their senior executives at the higher level. A number of executive agencies will be challenged in the short term to provide the necessary performance data on their senior executives in order to receive full certification or maintain their certification. Agencies must provide 2 years of performance rating and bonus data showing that meaningful distinctions in SES performance were made to qualify. The recent data on SES ratings suggest that some agencies' data will not comply. In addition, several agencies' provisional certifications for calendar year 2004 expired and have not yet been renewed. The Acting Director of OPM noted in a March 2005 memorandum to agency heads that the SES performance results for fiscal year 2003 do not reflect the requirements of the new SES performance-based pay system and that OPM is analyzing the results of the 2004 rating cycle to determine the degree to which agencies have met the requirements. Depending on the outcome, some agencies may lose their certification, and others may not qualify for this new flexibility. The key, of course, is not just determining whether distinctions are made in ratings, but whether those distinctions are meaningful. That is, the distinctions should reflect real differences in individual executives' contributions to results.

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### The Chief Human Capital Officers Have the Potential to More Strategically Implement Flexibilities and Leverage Best Practices among Agencies

The success agencies have in implementing new human capital flexibilities will depend in large measure on their agency leadership, the existence of high quality Chief Human Capital Officers (CHCOs), and a strategic and effective CHCO Council. The Homeland Security Act of 2002 established the roles and responsibilities for the CHCO position and the Council.<sup>3</sup> We have reported that similar interagency councils, such as those of the Chief Financial Officers' (CFO) and Chief Information Officers', have emerged as important leadership strategies in both developing policies that are sensitive to implementation concerns and gaining consensus and consistent follow-through within the executive branch.<sup>4</sup> The CHCO Council can fulfill an equally important role.

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<sup>3</sup>Pub. L. No. 107-297, § § 1301-3 (Nov. 25, 2002).

<sup>4</sup>GAO, *Government Management: Observations on OMB's Management Leadership Efforts*, GAO/T-GGD/AIMD-99-65 (Washington, D.C.: Feb. 4, 1999).

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As stated in its charter, the Council's purposes include (1) advising OPM, OMB, and agency leaders on human capital strategies and policies, as well as on the assessment of human capital management in federal agencies; (2) informing and coordinating the activities of its member agencies on such matters as the modernization of human resources systems; and (3) providing leadership in identifying and addressing the needs of the government's human capital community.

To help fulfill this role, the Council has created subcommittees to address and recommend changes for key areas identified by the Council's leadership as critical to the success of strategic human capital management, including the hiring process and performance management, as well as leadership development and succession planning. To date, the Council has continued to define its agenda and priorities and to establish itself. For example, the former OPM Director reported that the Council's CHCO Academy was already proving to be a productive forum for discussing human resources issues among small groups of CHCOs. The Council established the Academy as a forum for Council members to discuss federal human resource issues, learn from one another in an informal setting, and share best practices in the strategic management of human capital. The Academy has considered topics such as (1) current workforce flexibilities and associated regulations, (2) human resources competitive sourcing, and (3) compensation reform. The subcommittees are also making some progress. For example, the leadership and succession planning subcommittee has made recommendations in a briefing to the full Council to set up a rotation program for senior executives among different agencies, among other things.

It is critical for the CHCO Council to leverage its progress to achieve significant accomplishments and facilitate lasting change. As just one illustration of the importance of their leadership and coordination roles, OPM agreed with our May 2003 recommendation to work with and through the Council to (1) more thoroughly research, compile, and analyze information on the effective and innovative use of human capital flexibilities and (2) more fully serve as a clearinghouse in sharing and distributing information about when, where, and how the broad range of flexibilities are being used, and should be used, to help agencies meet their human capital management needs.<sup>5</sup> Our ongoing work assessing select

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<sup>5</sup>GAO, *Human Capital: OPM Can Better Assist Agencies in Using Personnel Flexibilities*, GAO-03-428 (Washington, D.C.: May 9, 2003)



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agencies' succession planning, as well as their use of recruitment and retention tools, suggests that agencies continue to need an avenue for sharing ideas and best practices and the Council could provide that venue.

We also observed that more strategically, the Council could focus on several other key crosscutting areas, such as

- developing the capabilities required for the successful implementation of human capital reform,
- promoting strategic human capital planning, and
- transforming the human capital office and its processes to more fully contribute to key agency decisions.

For example, selected agencies are seeking to shift the focus of their human capital offices from primarily compliance activities to consulting activities. They are including human capital leaders in key agency strategic planning and decision making. In addition, their human capital leaders took actions to transform the agencies' human capital organizations by establishing clear strategic visions, restructuring their organizations, and improving the use of technology to free organizational resources. As a result, the agencies engaged the human capital organization as a strategic partner in achieving desired outcomes relating to the agencies' mission.

To continue this shift to a more strategic role, human capital offices are also understanding that they need to think broadly about how specific services are delivered. Human capital offices have traditionally used alternative service delivery (ASD)—the use of other than internal staff to provide a service or to deliver a product—as a way to reduce costs for transaction-based services, such as payroll administration. Going forward, human capital offices are seeking to use this approach for more strategic functions, such as workforce planning. We continue to see a role for OPM to provide comprehensive information about how agencies can use ASD for their human capital activities and that the CHCO Council could be an excellent vehicle to assist in this area.

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## Strategic Human Capital Planning Can Help Agencies Take Advantage of Human Capital Flexibilities but Remains a Continuing Challenge

An essential element in the institutional infrastructure that agencies need for their human capital management is a human capital planning process that ensures that an agency will capitalize on its workforce's strengths and target the use of its flexibilities. Strategic human capital planning addresses two critical needs: (1) aligning an organization's human capital program with its current and emerging mission and programmatic goals and (2) developing long-term strategies for using available flexibilities to acquire, develop, and retain staff to achieve those goals.

While there has been increased attention to such planning, strategic human capital management has remained on GAO's high-risk list because federal human capital strategies are still not appropriately constituted to meet current and emerging challenges or drive the transformations necessary for agencies to meet these challenges. We have continued to report opportunities for various agencies to improve the state of their human capital planning. For example, we reported in March that the Space Shuttle Program within NASA has made limited progress toward developing a detailed long-term strategy for transitioning its space shuttle workforce once the shuttle is retired.<sup>6</sup> Last year, we similarly reported that a major challenge the Department of Defense (DOD) and most of its components face in their efforts to develop and implement strategic workforce plans is their need for information on current competencies and those that will likely be needed in the future.<sup>7</sup>

While agencies' approaches to workforce planning will vary, GAO identified five key principles that this planning should consistently address:

- Involve top management, employees, and other stakeholders in developing, communicating, and implementing the strategic workforce plan.
- Determine the critical skills and competencies that will be needed to achieve current and future programmatic results.

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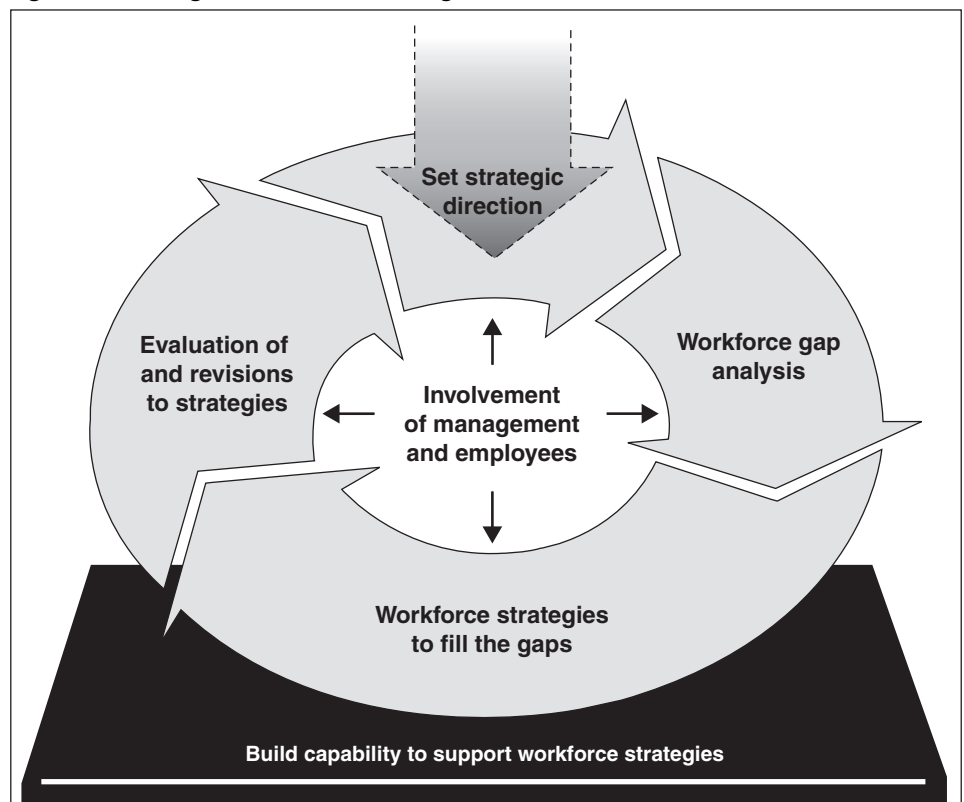
<sup>6</sup>GAO, *Space Shuttle: Actions Needed to Better Position NASA to Sustain Its Workforce through Retirement*, [GAO-05-230](#) (Washington, D.C.: March 9, 2005).

<sup>7</sup>GAO, *DOD Civilian Personnel: Comprehensive Strategic Workforce Plans Needed*, [GAO-04-753](#) (Washington, D.C.: June 30, 2004).

- Develop strategies that are tailored to address gaps in the number, deployment, and alignment of human capital approaches for enabling and sustaining the contributions of all critical skills and competencies.
- Build the capability needed to address administrative, educational, and other requirements important to support workforce planning strategies.
- Monitor and evaluate the agency's progress toward its human capital goals and the contribution that human capital results have made toward achieving programmatic results.

Figure 1 illustrates a model strategic human capital planning process that can help to inform agencies' efforts to define their workforces of the future.

**Figure 1: Strategic Workforce Planning Process**



Source: GAO.

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## Strategic Approach to Succession Planning and Training Is Also Critical

A key piece of an agency's strategic human capital plan should also acknowledge the demographic trends that the agency faces with its workforce, especially pending retirements, and include succession strategies and training and development programs to ensure that it will have the knowledge, skills, and abilities it needs to meet its mission. Leading agencies go beyond a succession planning approach that focuses on simply replacing individuals and engage in broad, integrated succession planning and management efforts that focus on strengthening both current and future organizational capacity. Senator Voinovich, at your and former Chairwoman Davis' request, we reviewed how agencies in four countries are adopting a more strategic approach to managing the succession of their senior executives and other public sector employees with critical skills.<sup>8</sup> Subsequently, you asked us to follow up with a review of how selected federal agencies are implementing succession planning and management efforts, as well as the practices we observed in other countries. We plan to report to you on the results of our research in the coming weeks.

Once agencies have used their succession planning to identify workforce gaps, one strategy they can use to fill these gaps is to implement well-designed training and development programs. Training and developing new and current staff to fill new roles and work in different ways will transform how agencies do business and engage employees in further innovation and improvements. In addition, we have reported that educating managers and employees goes a long way in ensuring the effective use of flexibilities, and completion of a training plan can acknowledge the costs of implementation and provide that they be budgeted up front. In this context, we published a guide in March 2004 for assessing training and development efforts in the federal government.<sup>9</sup> As part of the guide, we identified the four broad, interrelated components of the training and development process: (1) planning/front-end analysis, (2) design/development, (3) implementation, and (4) evaluation. Agencies can use this guide to assess and revise their own programs.

It will be critical for DHS and DOD, as they continue to design and implement a totally new human capital system in their agencies, to take

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<sup>8</sup>GAO, *Human Capital: Insights for U.S. Agencies from Other Countries' Succession Planning and Management Initiatives*, [GAO-03-914](#) (Washington, D.C.: Sept. 15, 2003).

<sup>9</sup>GAO, *Human Capital: A Guide for Assessing Strategic Training and Development Efforts in the Federal Government*, [GAO-04-546G](#) (Washington, D.C.: March 2004).

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such a strategic approach to their training and development programs. This will help to ensure that (1) managers and employers are prepared to succeed in implementing the changes, (2) the agencies efficiently use their limited training and development funds, and (3) the agencies achieve their intended results.

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### Evaluation Provides Agencies with Feedback on How Well Their Strategies Are Working

We previously noted that a critical component of an agency's strategic human capital approach is establishing goals prior to the application of new flexibilities so that agencies can then collect baseline data and establish performance measures to support the evaluation of these initiatives.<sup>10</sup> Developing meaningful outcome-oriented performance goals and collecting performance data to measure the achievement of these goals presents a major challenge for many federal agencies. It will be especially important for DHS and DOD to carefully plan up front for the evaluation of their new human capital systems, especially since they could have significant implications for the rest of the federal government. We have identified the following elements as facilitating this process:

- establishing clear goals and objectives for the initiative or flexibility being implemented,
- designing concrete management improvement steps,
- setting key milestones to track the implementation status, and
- collecting cost and performance data to gauge overall progress.<sup>11</sup>

In addition to facilitating success, effective evaluations would facilitate congressional oversight; allow for any midcourse corrections; assist agencies in benchmarking progress with other efforts; and provide for documenting best practices and sharing lessons learned with employees, stakeholders, other federal agencies, and the public.

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<sup>10</sup>GAO, *Human Capital Management: FAA's Reform Effort Needs a More Strategic Approach*, [GAO-03-156](#) (Washington, D.C.: Feb. 3, 2003).

<sup>11</sup>GAO, *Management Reform: Elements of Successful Improvement Initiatives*, [GAO/T-GGD-00-26](#) (Washington, D.C.: Oct. 15, 1999).

# Agencies Are Taking Advantage of New Flexibilities to Varying Degrees but Face Some Barriers

As we introduced in testimony to you last year, from our previous interviews with human resources directors from across the federal government and our previous human capital work, we have reported on six key practices that agencies should implement to use human capital flexibilities effectively. Figure 2 identifies these key practices.

**Figure 2: Key Practices for Effective Use of Human Capital Flexibilities**

<b>Plan strategically and make targeted investments</b>	<ul style="list-style-type: none"> <li>• Obtain agency leadership commitment</li> <li>• Determine agency workforce needs using fact-based analysis</li> <li>• Develop strategies that employ appropriate flexibilities to meet workforce needs</li> <li>• Make appropriate funding available</li> </ul>
<b>Ensure stakeholder input in developing policies and procedures</b>	<ul style="list-style-type: none"> <li>• Engage the human capital office</li> <li>• Engage agency managers and supervisors</li> <li>• Involve employees and unions</li> <li>• Use input to establish clear, documented, and transparent policies and procedures</li> </ul>
<b>Educate managers and employees on the availability and use of flexibilities</b>	<ul style="list-style-type: none"> <li>• Train human capital staff</li> <li>• Educate agency managers and supervisors on existence and use of flexibilities</li> <li>• Inform employees of procedures and rights</li> </ul>
<b>Streamline and improve administrative processes</b>	<ul style="list-style-type: none"> <li>• Ascertain the source of existing requirements</li> <li>• Reevaluate administrative approval processes for greater efficiency</li> <li>• Replicate proven successes of others</li> </ul>
<b>Build transparency and accountability into the system</b>	<ul style="list-style-type: none"> <li>• Delegate authority to use flexibilities to appropriate levels within the agency</li> <li>• Hold managers and supervisors directly accountable</li> <li>• Apply policies and procedures consistently</li> </ul>
<b>Change the organizational culture</b>	<ul style="list-style-type: none"> <li>• Ensure involvement of senior human capital managers in key decision-making processes</li> <li>• Encourage greater acceptance of prudent risk taking and organizational change</li> <li>• Recognize differences in individual job performance and competencies</li> </ul>

Source: GAO.

The overall effort to improve the federal hiring process is a notable example highlighting the importance of effectively using flexibilities. Agencies complained that they were losing good talent because the hiring process was too long and cumbersome. Congress, OPM, and agencies have all undertaken efforts to help improve the process. However, in a survey

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we conducted last year, CHCO Council members reported that their agencies were making limited use of new hiring flexibilities that Congress had provided agencies: category rating and direct-hire authority. Category rating is an alternative rating and selection procedure that can provide agency managers with a larger pool of qualified job candidates from which to select rather than have to use numerical ranking and the rule of three,<sup>12</sup> while also protecting veterans' preference. Direct-hire authority allows agencies to appoint candidates directly to positions where OPM determines there is a severe shortage of candidates or a critical hiring need, rather than numerically rating and ranking applicants. Agencies cited a number of barriers to using these flexibilities, including a lack of policy and guidance on these tools.

Consistent with our findings and recommended actions, OPM has since reported a wide range of efforts it has undertaken, including some in partnership with key external stakeholders, to assist agencies in using the new hiring authorities, including a number of important initiatives that took place after we surveyed CHCO Council members. For example, OPM has hosted training symposia on both tools. OPM has taken these actions with the goal of helping to ensure that agencies are aware of the hiring flexibilities available to them as well as assisting agencies in taking full advantage of these available flexibilities.

I also wanted to highlight ongoing work that addresses several other human capital flexibilities that Congress has provided. First, Congress has authorized agencies to repay, at their discretion, their employees' student loans as a means to recruit and retain a talented workforce. We have work under way to review agencies' use of the program. In addition, the Homeland Security Act of 2002 provides governmentwide authority for offering voluntary separation incentive payments, commonly referred to as buyouts, and voluntary early retirement, or early outs, for the purpose of workforce reshaping. We also have work under way to identify the extent to which agencies are implementing these tools. We plan to report on the results of our research later this year.

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<sup>12</sup>5 U.S.C. § 3318(a)

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accountability of the federal government for the benefit of the American people. We deeply appreciate the support and assistance we have received from this subcommittee and others in Congress in providing us with the tools and authorities we need to support Congress. We believe that it is vitally important to GAO's future that the agency continue modernizing and updating our human capital policies and system in light of the changing environment and anticipated challenges ahead. We believe that the GAO Human Capital Reform Act is well reasoned with adequate safeguards for GAO employees. As you know, GAO has had certain human capital tools and flexibilities for over two decades. GAO's more recent Human Capital Reform Act of 2004 (Human Capital II) combines diverse initiatives that, collectively, should further GAO's ability to enhance the agency's our performance and attract, retain, motivate, and reward a high-performing workforce now and in the future.<sup>13</sup>

Specifically, Human Capital II allows for a number of additional human capital tools and flexibilities, including

- making permanent GAO's three-year authority to offer voluntary early retirement and voluntary separation incentive payments;
- allowing the Comptroller General to adjust the rates of basic pay of GAO employees on a separate basis from the annual adjustments authorized for employees of the executive branch;
- providing authority to reimburse employees for certain relocation expenses and to award certain employees with additional annual leave benefits; and
- authorizing an executive exchange program with private sector organizations to further the institutional interest of GAO or Congress, including for the purpose of providing training.

Consistent with GAO's long-standing practice, the new human capital flexibilities are being implemented in continuing consultation with GAO's employees and executives. GAO's regulations for offering voluntary early retirement were issued on November 15, 2004. The Comptroller General may authorize early retirements for applicants on the basis of the

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<sup>13</sup>For more information, see Pub. L. No. (108-271), July 7, 2004, and GAO, *GAO: Additional Human Capital Flexibilities Are Needed*, [GAO-03-1024T](#) (Washington, D.C.: July 16, 2003).



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institutional needs of GAO, subject to certain statutory limits. GAO believes that its careful use of these flexibilities will continue to be an important tool in incrementally improving the agency's overall human capital profile, freeing resources for other uses, and enabling GAO to reduce a skill gap or address other succession concerns.

GAO has also begun to implement the flexibility on adjusting the rates of basic pay for GAO employees. GAO is implementing a compensation system that places greater emphasis on job performance while, at a minimum, protecting the purchasing power of employees who are performing acceptably and ensuring that they are paid within competitive compensation ranges. With the help of an international human capital consulting firm, GAO developed new market-based compensation pay ranges for analysts, attorneys, and specialists that are already in the first phase of implementation. With the new market-based pay system, employee compensation will now consider current salary and allocate individual performance-based compensation amounts between a merit increase (i.e., salary increase) and a performance bonus (i.e., cash). GAO is in the early stages of conducting a similar study of market-based pay for the remainder of GAO's workforce who began the transition to performance-based compensation in 2004 with the introduction of pay banding and a new competency-based performance appraisal system.

Draft regulations implementing the Executive Exchange Program were provided to employees for comment on January 31, 2005. The comment period closed on March 4, 2005 and review and analysis of the comments is in process. We anticipate issuing final regulations on or before June 1, 2005, and are concurrently working on the operational implementation of the program.

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## A Consistent Set of Principles, Criteria, and Processes Can Help Guide Future Reforms

In the future, agencies most likely will continue to request some of the flexibilities and reforms granted to agencies such as GAO, DOD, and DHS, as they strive to become higher-performing and results-based organizations. In response, Congress may continue to grant individual reforms or design a set of more comprehensive governmentwide reforms or a combination of these approaches. To qualify for these reforms, agencies should be able to demonstrate that they have the necessary infrastructure in place before they are authorized to implement significant human capital flexibilities and authorities. In anticipation of future reforms, and to help advance the discussion concerning how human capital reform should proceed, GAO and the National Commission on the Public

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Service Implementation Initiative hosted a forum on whether there should be a governmentwide framework for human capital reform and, if so, what this framework should include.<sup>14</sup> While there were divergent views among the forum participants, there was general agreement on a set of principles, criteria, and processes that would serve as a starting point for further discussion in developing a governmentwide framework, as shown in Figure 3.

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<sup>14</sup> GAO and the National Commission on the Public Service Implementation Initiative, *Highlights of a Forum: Human Capital: Principles, Criteria, and Processes for Governmentwide Federal Human Capital Reform*, [GAO-05-69SP](#) (Washington, D.C.: Dec. 1, 2004).

**Figure 3: Principles, Criteria, and Processes**

<p><b>Principles that the government should retain in a framework for reform because of their inherent, enduring qualities:</b></p> <ul style="list-style-type: none"><li>• Merit principles that balance organizational mission, goals, and performance objectives with individual rights and responsibilities</li><li>• Ability to organize, bargain collectively, and participate through labor organizations</li><li>• Certain prohibited personnel practices</li><li>• Guaranteed due process that is fair, fast, and final</li></ul> <p><b>Criteria that agencies should have in place as they plan for and manage their new human capital authorities:</b></p> <ul style="list-style-type: none"><li>• Demonstrated business case or readiness for use of targeted authorities</li><li>• An integrated approach to results-oriented strategic planning and human capital planning and management</li><li>• Adequate resources for planning, implementation, training, and evaluation</li><li>• A modern, effective, credible, and integrated performance management system that includes adequate safeguards to help ensure equity and prevent discrimination</li></ul> <p><b>Processes that agencies should follow as they implement new human capital authorities:</b></p> <ul style="list-style-type: none"><li>• Prescribing regulations in consultation or jointly with the Office of Personnel Management (OPM)</li><li>• Establishing appeals processes in consultation with the Merit Systems Protection Board (MSPB)</li><li>• Involving employees and stakeholders in the design and implementation of new human capital systems</li><li>• Phasing in implementation of new human capital systems</li><li>• Committing to transparency, reporting, and evaluation</li><li>• Establishing a communications strategy</li><li>• Assuring adequate training</li></ul>
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Source: GAO.

## Conclusions

Strategic human capital management is the centerpiece of the federal government's overall management transformation effort. A number of stakeholders have a key role in this process. Congress has provided agencies, including DOD and DHS, with broad human capital authorities to help them with their transformations. Agencies are taking advantage of these provided flexibilities but continue to face some barriers. OPM and the CHCO Council can continue to assist agencies in navigating these flexibilities, as well as take a more coordinated and strategic view of federal human capital management policies, processes, and systems. Agencies will need to continue implementing these tools, evaluating the

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results achieved, and adjusting implementation, especially if they are to use their resources most wisely in a fiscally constrained environment. The Subcommittee's and Congress' interest in monitoring agencies' progress with these new human capital tools and willingness to adjust and support them are a critical ingredient to success. Furthermore, agencies requesting additional flexibilities should be able to first demonstrate a need and then that they have the infrastructure and capabilities to use these flexibilities effectively. Finally, in granting these, or more comprehensive governmentwide reforms, we have offered Congress a framework, a set of consistent principles, criteria, and processes to consider as it designs the federal human capital system for the 21<sup>st</sup> century.

Chairman Voinovich and Members of the subcommittee, this concludes my prepared statement. I would be pleased to answer any questions you may have.

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