

AUDIT REPORT
HUMAN CAPITAL MANAGEMENT

Number A-04-07

July 22, 2004



Smithsonian Institution

Office of Inspector General

SUMMARY

The Office of the Inspector General audited Smithsonian Institution human capital management. The purpose of the audit was to assess the steps being taken to reduce the risk of human capital weaknesses that might affect the strategic objectives of the Institution. We assessed the Institution's progress in implementing the Human Capital Initiative of the President's Management Agenda and reviewed selected internal controls. According to Institution management, "the Smithsonian is not governed by the Agenda" because it is "a trust instrumentality of the United States," but it has voluntarily embraced the Agenda's sound management principles for Federal human resources management. Our audit focused on the Institution's progress and internal controls in the following areas: timeliness in processing personnel actions; performance appraisals; succession planning; performance measures for human capital; and the development of a human capital plan. The scope of the audit included fiscal years 2002, 2003, and 2004 through May 28, 2004.

The Institution has taken initial steps in addressing human capital challenges. However, further improvements are needed to improve the Institution's progress in implementing the Human Capital Initiative of the President's Management Agenda and best practices in human capital management. We noted that improvements were needed in three areas: (1) tracking timeliness in processing recruitment actions; (2) monitoring non-senior level performance appraisals; and (3) implementing a succession planning system.

We made recommendations to:

- Complete reports for analyzing timeliness in processing recruitment actions; use these reports as management tools to evaluate delays; and take corrective action.
- Develop written timeliness standards for processing recruitment actions.
- Develop written guidelines on entering complete and consistent data into the human resources information system.
- Strengthen written procedures for monitoring the timeliness of performance appraisals.
- Establish baseline data and annual targets for completing performance appraisals, and assess progress against these targets.
- Establish schedules and milestones for implementing succession planning, and track these milestones on a periodic basis.

The Acting Director, Office of Human Resources, concurred with our recommendations and provided implementation plans. We believe that these implementation plans are responsive to our recommendations.


Office of the Inspector General

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ABBREVIATIONS AND ACRONYMS

| | |
|--------|---|
| ERP | Enterprise Resource Planning |
| HumRRO | Human Resources Research Organization |
| HRMS | Human Resources Management System |
| NFC | National Finance Center |
| OCIO | Office of the Chief Information Officer |
| OHR | Office of Human Resources |
| OMB | Office of Management and Budget |
| OPM | Office of Personnel Management |
| PAR | Personnel Action Request |
| SD | Smithsonian Directive |

INTRODUCTION

A. Purpose

The audit was included in our fiscal year 2004 plan because human capital management weaknesses have been identified as one of the top five management challenges and opportunities for the Institution. The purpose of the audit was to assess the steps being taken to reduce the risk of human capital weaknesses that might impact the strategic objectives of the Institution. We evaluated the Institution's progress in implementing the Human Capital Initiative of the President's Management Agenda and reviewed selected internal controls.

B. Scope and Methodology

The audit fieldwork was conducted from March 12, 2004, to June 10, 2004, in accordance with generally accepted government auditing standards. We determined whether selected internal controls were in place and whether adequate measures were being taken to improve human capital management at the Institution. The scope of the audit included internal controls and actions taken to improve human capital management in fiscal years 2002, 2003, and 2004 through May 28, 2004, in the following areas: timeliness in processing personnel actions; performance appraisals; succession planning; performance measures; and the development of a human capital plan.

To evaluate actions taken by the Institution to implement the President's Management Agenda, we interviewed staff from the Office of the Chief Information Officer (OCIO); the Office of the Deputy Secretary and Chief Operating Officer; the Office of Human Resources (OHR); the Office of Planning, Management and Budget; the Office of Policy and Analysis; the Office of the Under Secretary for Art; and the Office of the Under Secretary for Science. We also interviewed representatives from the U.S. Office of Management and Budget (OMB) and the Office of Personnel Management (OPM).

We reviewed quarterly scorecards for the President's Management Agenda for the period March 2002 through March 2004. We reviewed the interagency agreement between OPM and the Institution for the development of the Institution's Strategic Human Capital and Workforce Restructuring Plan. We reviewed the systems requirements for Phase I of the PeopleSoft Human Resources Management System (HRMS) related to the processing of personnel actions. We reviewed previous studies on the Institution's human resources systems.

To determine the adequacy of selected internal controls, we reviewed policies and procedures for processing personnel actions and annual performance appraisals. We reviewed data in the Personnel Action Request (PAR) system on recruitment actions completed in 2003 and 2004 through March 31, 2004. The data on recruitment actions was extracted from the PAR system by the systems analyst in OHR.¹ We reviewed the data for completeness and reasonableness. We calculated the average times for different phases of the recruitment process. We compared the Institution averages to a hiring model developed by OPM. To verify the integrity of the data, we selected a random

¹ The PAR system did not include recruitment actions for the Smithsonian Business Ventures, the Smithsonian Astrophysical Observatory, or the Smithsonian Tropical Research Institute local hires.

sample of recruitment actions from a population of 477 recruitment actions completed in 2003 and 2004, and reviewed the source documents in the recruitment action folder.

We reviewed OHR reports on calendar year 2003 performance appraisals for non-senior level employees received in OHR and recorded in the National Finance Center (NFC) personnel and payroll system.² To verify the integrity of OHR's reports, we selected a random sample of employees and determined whether the appraisals were in the official personnel folder in OHR. We also determined whether there were any appraisals in OHR that had not been entered into the NFC database or had not been filed in the official personnel folders. We reviewed OHR reports on annual performance appraisals and performance plans for senior-level employees received at OHR. We selected a random sample of senior-level employees to determine whether performance appraisals were linked to the Institution's mission, goals, and outcomes.

C. Background

The Office of Personnel Management (OPM) defines human capital management as the "transformation of how we employ, deploy, develop and evaluate the workforce." Human capital management focuses on placing the right people in the right positions to effectively perform the work of the organization. Both OHR and managers at the units are responsible for effective human capital management.

The President's Management Agenda (2001) is an aggressive strategy for improving management in five government-wide initiatives: (1) human capital; (2) competitive sourcing; (3) financial performance; (4) e-government; and (5) budget and performance integration. OMB and OPM evaluate 26 listed entities, including the Institution, on a quarterly basis, on their status in executing the human capital initiative, as well as their progress in meeting planned actions and other milestones. OMB issues a scorecard with a "traffic light" grading system: green for success, yellow for mixed results, and red for unsatisfactory. According to OPM representatives, in order to get a yellow score for status, an agency must develop and implement human capital strategies. In order to get a green score for status, agency must develop, implement, and show results in human capital initiatives.

According to Institution senior management, "though as a trust instrumentality, the Smithsonian is not governed by the mandates of the Agenda, we embrace many of its sound management recommendations and have begun coordinating human capital improvement efforts with the Office of Personnel Management and the Office of Management and Budget."

Agency scores are based on standards for success defined by OMB and OPM. OPM developed a *Human Capital Assessment and Accountability Framework* that provides consolidated guidance on human capital. The Framework sets forth six human capital standards for success: strategic alignment, workforce planning and deployment, leadership and knowledge management, results-oriented performance culture, talent, and accountability. The Framework also provides guidance on achieving these standards, such as critical success factors, suggested performance indicators, and other best practices for human capital management.

² The reports did not include performance appraisals for the Smithsonian Business Ventures or the Smithsonian Tropical Research Institute local hires.

The Institution has received “red” scores for status on the human capital initiative since the scorecard was implemented in March 2002. Scores for progress, which are affected by the agency’s ability to meet established and agreed timelines, have fluctuated between “yellow” and “red”. However, from March 2003 to March 2004, the Institution received “red” scores for both progress and status on the human capital initiative.

The Institution has taken initial steps to address its human capital weaknesses. With the assistance of an outside consultant, in May 2004, the Institution completed the *Smithsonian-Specific Strategic Human Capital and Workforce Re-Structuring Plan (SCHWRP): Project Roadmap*. The “roadmap” included (1) descriptions of the Institution’s key human capital challenges; (2) strategies and initiatives to address these challenges; (3) detailed implementation steps, timeframes and costs; and (4) measures to evaluate results of initiatives. The contractor projected that implementation of the roadmap would take five years.

The Institution has begun implementing some of these strategies, such as organizational restructuring, linking senior-level performance plans to the Institution’s strategic plan, and defining initial performance metrics for human capital. Beginning in October 2004, the Institution will replace its current human resources system with the PeopleSoft Human Resource Management System (HRMS). The HRMS is scheduled to be implemented in four phases throughout fiscal years 2005 and 2006.

RESULTS OF AUDIT

A. Timeliness in Processing Personnel Actions

The Office of Human Resources (OHR) was not tracking average times for processing recruitment actions. OHR was not tracking these times because the current Personnel Action Request (PAR) system was not designed to calculate average times for processing personnel actions by type of action, such as recruitments. OHR also had not established complete timeliness standards for processing recruitments. As a result, OHR did not have adequate information to analyze delays or make process improvements on an Institution-wide basis. Delays may reduce OHR's ability to meet the needs of its customers. Delays also increase the risk that the units may lose qualified applicants to other employers. During fiscal year 2004, OHR began correcting these weaknesses.

Background

OHR tracks recruitments and other types of personnel actions using the Personnel Action Request (PAR) system. The current PAR system is a separate system that is not integrated with other applications. This system is scheduled to be replaced by the PeopleSoft Human Resources Management System (HRMS). The Institution will implement HRMS in four phases, with Phase I scheduled for implementation in October 2004.

Smithsonian Directive (SD) 115, *Management Controls*, dated July 23, 1996, states that transactions should be promptly recorded, properly classified, and accounted for to prepare timely accounts and reliable and financial and other reports.

Internal procedures, entitled *Management Support Division Customer Service Standards*, dated March 31, 1999, issued by OHR, state that the Management Support Division will ensure that all transactions are effected in a timely manner and that employment records and information are accurate.

The Office of Personnel Management (OPM) Human Capital Standards for Success state that agency human capital decisions should be guided by a data-driven, results-oriented planning and accountability system. OPM provides a listing of suggested performance indicators. This listing includes "average time to hire" as a suggested metric for recruitments. In May 2004, OPM developed a model of 45 work days for the portion of the hiring process that covers the time from the close of a vacancy announcement to when an offer is made. Beginning in the fourth quarter of fiscal year 2004, OPM will also be looking at whether an "agency has a regular, auditable system for collecting and analyzing data on the actions of the hiring process."

Results of Review

OHR was not tracking average times for processing recruitment actions. OHR was using the PAR system primarily to determine the status of a recruitment action, i.e., what phase of the process the recruitment action was in, such as classification, announcement, rating and ranking, or interviewing. Although OHR staff entered the dates that different phases in the recruitment process were completed, the system did not produce reports that calculated average times for recruitment actions. OHR staff reviewed the status of recruitment actions at the transaction level, on a case-by-case basis. On an Institution-

wide basis, OHR was not analyzing process delays, the causes of these delays, or overarching trends.

We calculated average times for 419 recruitment actions completed in 2003 and 2004 through March 31, 2004. We compared these times to the OPM model of 45 work days for the phase of the hiring process that covers the time from the close of a vacancy announcement to when an offer is made.³ We found that the Institution's average time for this phase of the hiring process was about 62.5 work days. Our calculations for this phase of the recruitment process and components of this phase were:

- Average number of days from close of vacancy announcement to selection (rating, ranking, and interviewing): 87.5 calendar days, or about 62.5 work days.
- Average number of days from close of vacancy announcement to certificate of eligibility (rating and ranking): 50.2 calendar days, or about 35.9 work days.
- Average number of days from certificate of eligibility to selection (interviewing): 37.3 calendar days, or about 26.6 work days.

In our review of a sample of recruitment actions in 2003 and 2004, we noted that delays may occur at OHR or the units. Because there is a lot of interaction between OHR and the units at every phase of the process, we could not readily determine where the delays occurred. We also noted that in some cases, the units participated in the rating and ranking of candidates.

OHR has begun correcting weaknesses in the tracking process. In Phase I of the HRMS implementation, several improvements will be made. OCIO staff is developing a time-lapse report that calculates the average time to process different types of personnel actions, including recruitments. OCIO is in the process of obtaining user input and refining the time-lapse reports. OHR plans to test the reports in June, July, and August 2004, and implement the reports in October 2004 (Phase I of the HRMS implementation). Moreover, the tracking capability will be part of an integrated system, allowing greater access to PeopleSoft tables of employee and position information, and requiring less manual data entry.

OHR has also begun addressing delays in certain phases of the recruitment process. Effective October 2004 (Phase I of the HRMS implementation), the units will electronically submit requests to fill positions to OHR. OHR is also in the process of developing an automated position description library, which should facilitate the development of position descriptions.

OHR plans to improve the timeliness of personnel action processing by implementing QuickHire, an electronic application, rating, and ranking system, in Phase IV (scheduled for fiscal year 2007).⁴ The HRMS Steering Committee approved the recommendation to use QuickHire on May 5, 2004. QuickHire will allow the Institution to receive applications electronically and, for all types of positions advertised through QuickHire, will provide an automated system of rating and ranking applications.

³ This 45-day model for hiring was issued in a memorandum, dated May 6, 2004, from the Director, Office of Personnel Management.

⁴ The Institution is pursuing funding for this software in the fiscal year 2006 budget request.

OHR was not tracking average times for recruitment actions because of several reasons, including: (1) an inadequate system, (2) incomplete timeliness standards, and (3) incomplete data.

Inadequate System - OHR management advised that the current PAR system was never intended or designed to measure or generate reports on average times for processing personnel actions by type of personnel action, such as recruitment actions. The system was designed primarily to provide the status of an action.

Incomplete Timeliness Standards - OHR had not developed complete standards on average times for completing recruitment actions. Current standards provide timeframes for when particular phases should begin, but do not indicate how long it should take to complete certain phases or the entire recruitment process. For example, one standard states that activity on rating applications will begin no later than 5 days after the close of the announcement but does not give a timeframe for completion.

Incomplete and Inconsistent Data - Data entered into the PAR system was not always complete or consistent. For example, for completed recruitments, in the field “selection date,” 47 out of 466 records, or 10.1 percent, were blank. In the field “draft announcement completion date,” 74 out of 466 records, or 15.9 percent, were blank. For multiple hires from the same announcement, the “in date” of the request for hire was not always consistent. In some cases, units were sending in the request for hire (Form 52) for additional hires after the original request was sent in and most of the recruitment process had been completed. This problem with multiple hires occurred in 67 out of 466, or 14.4 percent of the records.

As a result, OHR did not have adequate information to analyze trends or make process improvements on an Institution-wide basis. Also, without complete timeliness standards, OHR could not compare actual recruitment times to standards and establish targets for improvement.

Delays in the processing of recruitment actions increase the risk that the Institution may lose qualified applicants to other employers. Applicants may accept positions from other employers rather than wait for a decision by the Institution. Also, lengthy processing times may discourage applicants from applying in the first place.

Delays in the recruitment process also reduce OHR’s ability to meet the needs of its customers. Several studies have identified concerns about the timeliness of processing personnel actions. For example, an Institution-wide customer satisfaction study of OHR services, dated November 2002, found that 26 percent of OHR customers were somewhat dissatisfied and 15 percent were very dissatisfied with the timeliness of referral of candidates for vacancies. The study also stated that the primary way that OHR can increase customer satisfaction is to improve timeliness of services, especially those regarding personnel actions.

Conclusion

Improvements are needed in the tracking of recruitments to analyze delays and make improvements in the timeliness of recruitment actions. OHR has begun correcting weaknesses in the tracking process. The lengthy hiring process has become an important issue government-wide. Civil service experts are concerned that the government's hiring process may discourage people from seeking federal employment and that the government may be losing some of the best applicants.

Recommendation

We recommended that the Acting Director, OHR:

1. Finalize PeopleSoft HRMS reports for calculating average times for processing recruitment actions (in conjunction with OCIO), use these reports as management tools to evaluate where delays occur and the causes of these delays, and take corrective action.
2. Develop written timeliness standards for processing recruitment actions, including the various phases of the recruitment process.
3. Develop written guidelines on entering complete and consistent dates into the PeopleSoft HRMS.

Management Comments

1. Concur. OHR, working with OCIO, will ensure that PeopleSoft HRMS reports will calculate average times for processing recruitment actions. (Target completion date: first quarter, fiscal year 2005) OHR will use those reports to evaluate the process and take corrective action. (Target completion date: second quarter, fiscal year 2005)
2. Concur. OHR will revise their current customer service standards to include more specific timeliness standards for recruitment actions. This standard should incorporate the results of the OHR process study, take into account complexity and recruitment strategies, and relate to the OPM model. (Target completion date: first quarter, fiscal year 2005)
3. Concur. OHR, working with OCIO, will develop Standard Operating Procedures for entering data into PeopleSoft HRMS. (Target completion date: first quarter, fiscal year 2005)

Office of the Inspector General Response

The Acting Director's planned actions are responsive to our recommendations.

B. Performance Appraisals for Non-Senior Level Employees

According to OHR's records, as of April 26, 2004, approximately 44 percent of eligible non-senior level employees did not have performance appraisals for calendar year 2003 on file in the official personnel records. Several factors contributed to this condition, including weak monitoring procedures prior to 2004 and a lack of a uniform appraisal cycle prior to calendar year 2003. Timely performance appraisals help management ensure that individual performance is linked to organization goals and desired results. OHR has begun addressing these weaknesses. In April 2002, OHR issued a memorandum to all units stating that all non-senior employees will be evaluated on a calendar year basis. Calendar year 2003 was the first full year that all non-senior level Smithsonian employees were on the same appraisal cycle. In 2004, OHR began sending reminders to the units.

Background

We reviewed OHR reports on calendar year 2003 performance appraisals for non-senior level employees received in OHR and recorded in the National Finance Center (NFC) personnel and payroll system.⁵ To verify the integrity of OHR's reports, we selected a random sample of employees and determined whether the appraisal was in the official personnel folder in OHR. We also determined whether there were any appraisals in OHR that had not been entered into the NFC database or had not been filed in the official personnel folders. Our review focused on controls in OHR. We did not interview unit managers.

Unit supervisors and OHR are responsible for the Institution's performance appraisal system. Unit supervisors are responsible for developing the performance plan, and completing and submitting the performance appraisal to OHR on time. OHR is responsible for (1) providing guidance on performance appraisals; (2) reviewing the performance appraisals for compliance with Institution policy (e.g., appropriate signatures); (3) recording the rating in the NFC personnel and payroll system; (4) filing the performance appraisal in the official personnel folders; and (5) tracking and monitoring performance appraisals.

The Institution is implementing PeopleSoft Human Resources Management System (HRMS) to improve its human resources processes. Performance appraisals are included in Phase IV, which is scheduled to be implemented in fiscal year 2006. OHR is looking at modules for recording performance appraisals electronically.

Smithsonian Directive 212, *Federal Personnel Handbook*, Chapter 430, Performance Management System, dated August 3, 1987, states that each employee who has been on a performance plan for 120 days will receive an annual written appraisal at the end of the appraisal period. Copies of all performance appraisals should be sent to OHR. The Directive further states that continuous evaluation will occur through summary evaluations of performance appraisals prepared and submitted to the Secretary by OHR at the end of each year.

Title 5 CFR Section 430.208 (a) states that a written, or otherwise recorded, rating of record shall be given to each employee as soon as practicable after the end of the appraisal

⁵ The reports did not include performance appraisals for the Smithsonian Business Ventures or the Smithsonian Tropical Research Institute local hires.

period. OPM officials advised that the “best practice” for a majority of agencies is to give appraisals to employees within 30 days after the end of the appraisal period. OPM advised that a timeframe is usually included in the agency’s internal personnel policies and procedures.

OPM Human Capital Standards for Success state that agencies should have a performance management system that effectively differentiates between high and low performance and links individual, team, and unit performance to organization goals and desired results. One of the elements of the system is that performance expectations are communicated in a timely fashion.

Results of Review

According to OHR’s records, as of April 26, 2004, approximately 44 percent of eligible non-senior level employees did not have performance appraisals for calendar year 2003 on file in the official personnel records. OHR’s reports on completion percentages by unit indicate that this condition was widespread throughout the Institution.

Several factors contributed to this condition, including but not limited to weak monitoring procedures prior to 2004 and a lack of written procedures.

1. Weak monitoring practices prior to January 2004 - Prior to January 1, 2004 (for the 2003 calendar year appraisal period), OHR did not actively monitor annual performance appraisals. OHR did not prepare or send reports on appraisals to management or the units on a regular basis. Reports were generally prepared on an ad hoc basis or as requested by management. Appraisals were difficult to monitor because employees were on different appraisal cycles.
2. Lack of a uniform appraisal cycle prior to 2003 - Prior to calendar year 2003, all employees were not on a uniform appraisal cycle. In April 2002, OHR issued a memorandum to all units stating that all non-senior employees will be evaluated on a calendar year basis, i.e., January 1 through December 31. Calendar year 2003 was the first full year that all non-senior level Smithsonian employees were on the same appraisal cycle.
3. Lack of written procedures - OHR had not established written procedures with specific timeframes for the units to submit performance appraisals to OHR. They also had not established written procedures with specific timeframes for sending reminders to the unit supervisors and reports of delinquent appraisals to senior management.

OHR began improving monitoring practices in calendar year 2004. On January 9, 2004, OHR sent a memorandum to the units stating that 2003 appraisals should be completed and sent to OHR as soon as practicable. On April 1, 2004, OHR sent a reminder to the units, along with a report that showed 2003 appraisals received and on record in OHR. On April 27, 2004, OHR sent detailed reports of 2003 appraisals received and on record to the Deputy Secretary. OHR management advised that, in the future, they hope to send the appraisal reports out earlier than April.

Timely performance appraisals help management ensure that individual performance is linked to organization goals and desired results. Performance appraisals are an important mechanism for providing timely feedback to employees about their performance.

Also, without performance appraisals on record in OHR, supervisors may not have adequate documentation to support certain performance-based actions, service credit for reduction-in-force purposes, and certain performance awards. For example, Federal employees undergoing reduction-in-force procedures are entitled to additional service credit based on performance. Employees receive credit for the latest three annual Federal performance ratings received during the four-year period preceding the RIF notice. Each rating is assigned a value, and credit is based on the average of the three ratings. According to Institution policy, the rating must have been issued to an employee with all appropriate reviews and signature, and received by OHR.

Conclusion

Institution supervisors and OHR did not yet have sufficient controls in place to ensure that all non-senior level employees received performance appraisals timely. The Institution has begun improving these controls. In April 2002, OHR issued a memorandum to all units stating that all non-senior employees will be evaluated on a calendar year basis. Calendar year 2003 was the first full year that all non-senior level Smithsonian employees were on the same appraisal cycle. In 2004, OHR began sending reminders to the units, along with detailed reports of appraisals received and on record in OHR. However, controls need to be further strengthened in order to increase the number of performance appraisals on file in the official personnel records in OHR.

Recommendation

We recommended that the Acting Director, OHR:

1. Strengthen OHR's written procedures for monitoring the timeliness of performance appraisals by developing specific timetables for (1) submitting appraisals to OHR, (2) sending reminders to unit supervisors, and (3) reporting missing appraisals to senior management.
2. Establish baseline data and annual targets for the number of performance appraisals on record in OHR and assess progress against these targets.

Management Comments

1. Concur. OHR will develop specific timetables for the performance management program for non-senior level employees in the three areas listed above. (Target completion date: first quarter, fiscal year 2005)
2. Concur. OHR will establish baseline data and annual targets. (Target completion date: fourth quarter, fiscal year 2004) OHR will assess progress against targets. (Target completion date: second quarter, fiscal year 2005)

Office of the Inspector General Response

The Acting Director's planned actions are responsive to our recommendations.

C. Succession Planning

The Institution did not have a succession planning system in place. The Institution is faced with several unique challenges, including two major personnel systems (Federal and Trust) and very diverse disciplines. The lack of a succession planning system increases the risk that the Institution may not have enough qualified candidates to fill leadership vacancies. A lack of continuity in leadership could affect the Institution's ability to achieve its mission. The Institution has begun addressing this weakness.

Background

The Office of Management and Budget (OMB) Human Capital Standards state that the agency should "implement succession strategies, including structured executive development programs, to assure continuity of leadership."

OPM Human Capital Standards for Success state that the agency should ensure that "a formal succession planning management program is in place that includes a review of current and emerging leadership needs in light of strategic and program planning, identifies sources of key position talent and provides for assessing, developing and managing the identified talent."

Results of Review

The Institution did not have a succession planning system in place. The Institution is faced with several unique challenges, including two major personnel systems (Federal and Trust) and very diverse disciplines. There is no standard model for succession planning that the Institution can follow. In some Federal agencies, succession planning models are tied to Senior Executive Service ("SES") candidate development programs. (OPM has ruled that the Institution is not covered by the SES provisions of Title 5, and thus does not have the authority to have SES positions.)

The Institution has taken initial steps toward the development of a succession planning system by identifying key succession positions and potential successors. The Institution has identified potential internal succession candidates for top level positions, such as directors of museums, research centers, and major pan-Institutional offices. The Institution has also identified key positions within these units below the director level that should be included in the next level of succession management planning.

The Institution has also begun studying internal leadership development initiatives. The Institution is in the process of (1) reviewing inter-unit details and job rotation opportunities; (2) analyzing flexible career tracks, such as a curator career track; and (3) considering the establishment of appropriate structured leadership training.

An outside consultant, the Human Resources Research Organization ("HumRRO"), completed a roadmap for improving human capital management on May 3, 2004. In their report, HumRRO recommended that the Institution develop succession planning and leadership development policies and programs. HumRRO outlined a five-step process for developing a succession planning system: (1) develop a succession planning model; (2) develop and validate a leadership competency model; (3) design and implement a senior leader candidate screening process; (4) design a senior leader

development program; and (5) develop a plan to cascade the process down to manager and supervisor levels. HumRRO indicated in their report that succession planning will be a multi-year project.

The lack of a leadership development program increases the risk that the Institution may not have enough qualified candidates to fill leadership vacancies. A lack of continuity in leadership could affect the Institution's ability to achieve its mission.

Conclusion

The Institution needs to develop and implement succession planning and leadership development programs in order to ensure that it can meet its leadership needs. The Institution has begun doing so with the identification of key positions and potential internal successors. We believe that the five-step process for developing a succession planning system outlined by HumRRO in their May 2004 report provides a good roadmap for this process. OHR should establish schedules and milestones for implementing a succession planning system, and track progress against these milestones.

Recommendation

We recommended that the Acting Director, OHR, establish schedules and milestones for implementing succession planning, as outlined in the HumRRO Human Capital and Re-Structuring Plan, and track these milestones on a periodic basis.

Management Comments

Concur In Principle. The Institution is forming a Human Resources Coordinating Committee, which will decide on how to prioritize the recommendations in the HumRRO report. The succession planning milestones may thus not match exactly those in the HumRRO report. The Human Resources Coordinating Committee will set human capital priorities and approve milestone schedules. (Target completion date: first quarter, fiscal year 2005) OHR will track milestones on a periodic basis. (Target completion date: quarterly following issuance of schedule)

Office of the Inspector General Response

The Acting Director's planned actions are responsive to our recommendation.

Appendix A. Management's Comments



Smithsonian Institution

Office of Human Resources

Date: July 20, 2004

From: James Douglas
Acting Director, Office of Human Resources *James Douglas*

To: Thomas D. Blair
Inspector General

Subject: Response to Inspector General Draft Report on Human Capital Management (Number A-04-07)

The Office of Human Resources (OHR) has reviewed draft report A-04-07, Human Capital Management, and we concur with all of the recommendations. Our planned actions and target dates are provided in Attachment 1, and our specific comments and corrections are provided in Attachment 2. We are pleased that the report reflects that OHR had already begun to address the process issues raised in report.

Although the report properly identified some processes needing improvement, we continue to excel in certain critical areas. Among other successes, the growth and stability of the Smithsonian's outstanding leadership team has underscored our ability to recruit and retain high-performing employees.

The Smithsonian is continuing to improve its human resource processes and results – changing not only the form but also the substance of our human resources programs. While the President's Management Agenda does not apply to the Smithsonian, we embrace its good, common sense approach to Federal human capital issues.

In this regard, we continue to enhance our human capital management programs, as the following recent accomplishments indicate:

- Received Strategic Human Capital & Workforce Restructuring Plan Roadmap and performed initial analysis;
- Realigned organizational structure with creation of Deputy Secretary/Chief Operating Officer to provide improved coordination of administrative functions;
- Linked all senior-level performance plans to the Smithsonian's strategic plan;
- Implemented strategies to address under-representation, such as our Hispanic Recruitment Plan;
- Began succession management initiative;
- Developed a broad set of metrics to measure OHR performance;
- Continued implementation of the PeopleSoft HR System;
- Began development of an automated Position Description (PD) library (expected to be completed by January 2005; database currently contains over 500 PDs);

Appendix A. Management's Comments (continued)

- Began system of performance management reminders throughout the performance cycle; and
- Initiated actions to obtain contractor support for a review of the Smithsonian's human resources processes, a limited workforce analysis, and succession management support (completed statement of work and anticipate that the Office of Personnel Management will issue task order in late July/early August).

Of the areas above, you had originally indicated that the audit would encompass the development of the human capital plan, metrics, and senior-level performance appraisals. We are pleased that our efforts in these areas did not result in any recommendations.

All of the above activities are all part of the Smithsonian's larger human capital reform efforts, including those areas where recommendations were made. It is important to recognize this larger context: we will be addressing your recommendations with steps that were already planned as part of our human capital management efforts.

We appreciated for the opportunity to review this draft report. If you have any questions about our comments, please contact me at (202) 275-1100, or your staff may contact Greg Bettwy at (202) 275-0943.

Attachments

SUMMARY OF INSPECTOR GENERAL RECOMMENDATIONS AND UNIT RESPONSE

Issue Area: Timeliness in Processing Personnel Actions

Recommendation #1: Finalize PeopleSoft HRMS reports for calculating average times for processing recruitment actions (in conjunction with OCIO), use these reports as management tools to evaluate where delays occur and the causes of these delays, and take corrective action.

Response: Concur.

Planned Actions/Targets: OHR, working with OCIO, will ensure that PeopleSoft HRMS reports will calculate average times for processing recruitment actions
(First quarter, fiscal year 2005)

OHR will use those reports to evaluate the process and take corrective action
(Second quarter, fiscal year 2005)

Recommendation #2: Develop written timeliness standards for processing recruitment actions, including the various phases of the recruitment process.

Response: Concur.

Planned Actions/Targets: OHR will revise their current customer service standards to include more specific timeliness standards for recruitment actions. This standard should incorporate the results of the OHR process study, take into account complexity and recruitment strategies, and relate to the OPM model.
(First quarter, fiscal year 2005)

Recommendation #3: Develop written guidelines on entering complete and consistent dates into the PeopleSoft HRMS.

Response: Concur.

Planned Actions/Targets: OHR, working with OCIO, will develop Standard Operating Procedures for entering data into PeopleSoft HRMS
(First quarter, fiscal year 2005)

Appendix A. Management's Comments (continued)

Issue Area: Performance Appraisals for Non-Senior Level Employees

Recommendation #1: Strengthen OHR's written procedures for monitoring the timeliness of performance appraisals by developing specific timetables for 1) submitting appraisals to OHR, 2), sending reminders to unit supervisors, and 3) reporting missing appraisals to senior management.

Response: Concur.

Planned Actions/Targets: OHR will develop specific timetables for the performance management program for non-senior level employees in the three areas listed above
(First quarter, fiscal year 2005)

Recommendation #2: Establish baseline data and annual targets for the number of performance appraisals on record in OHR and assess progress against these targets.

Response: Concur.

Planned Actions/Targets: OHR will establish baseline data and annual targets
(Fourth quarter, fiscal year 2004)

OHR will assess progress against targets
(Second quarter, fiscal year 2005)

Issue Area: Succession Planning

Recommendation #1: Establish schedules and milestones for implementing succession planning, as outlined in the HumRRO Human Capital and Restructuring Plan, and track these milestones on a periodic basis.

Response: Concur In Principle. The Institution is forming a Human Resources Coordinating Committee, which will decide on how to prioritize the recommendations in the HumRRO report. The succession planning milestones may thus not match exactly those in the HumRRO report.

Planned Actions/Targets: The Human Resources Coordinating Committee will set human capital priorities and approve milestone schedules.
(First quarter, fiscal year 2005)

OHR will track milestones on a periodic basis
(Quarterly following issuance of schedule)

SPECIFIC COMMENTS

Summary, First Paragraph

You currently mention the President's Management Agenda both in the summary (page ii) and in the report. In the report, you provide the appropriate caveats explaining the Smithsonian's position on the President's Management Agenda; that is not included in the summary.

We recommend that you expand the summary to include the fact that, while the Smithsonian is not governed by the Agenda due to our status as a trust instrumentality of the United States, we have voluntarily embraced its sound management principles for Federal human resources management.

Page 9, First Paragraph, Last Sentence

This sentence currently reads, "OHR began addressing these weaknesses in calendar year 2004." As part of the effort to improve performance management included changing the performance cycles, OHR actually began addressing the weaknesses in calendar year 2002.

Page 10, Results of Review Section, Second Paragraph, First Sentence

The sentence currently reads, "Several factors contributed to this condition, including weak monitoring procedures...." We suggest that this sentence be changed to read, "Several factors contributed to this condition, including but not limited to weak monitoring...." There are certainly other factors that contributed to the condition.

Page 10, Results of Review Section, Factor #1 (Weak monitoring), Second to Last Sentence

This sentence current reads, "Reports were only prepared on an ad hoc basis." This sentence should be changed to read, "Reports were generally prepared on an ad hoc basis or as requested by senior management." For a period, the reports were being requested and sent regularly.

Page 10, Results of Review Section, Third Paragraph, First Sentence

Reflecting our first comment above, this sentence should be changed to reflect that the initial efforts to address the weaknesses in the performance management process began with the cycle change in calendar year 2002.

Appendix A. Management's Comments (continued)

Page 11, Conclusion, Second Sentence.

Reflecting the comments, above, this sentence should be changed to reflect that the initial efforts to address the weaknesses in the performance management process began with the cycle change in calendar year 2002.

Page 12, Results of Review Section, Third Paragraph

The reference to the establishment of a "Smithsonian College" is premature. That should read as follows: "...(3) considering the establishment of appropriate structured leadership training."