

U.S. GOVERNMENT ACCOUNTABILITY OFFICE  
AND THE NATIONAL COMMISSION ON THE PUBLIC  
SERVICE IMPLEMENTATION INITIATIVE

# FORUM



## HUMAN CAPITAL

Principles, Criteria,  
and Processes for  
Governmentwide  
Federal Human  
Capital Reform

December 2004





Highlights of [GAO-05-69SP](#)

## Why GAO Convened This Forum

There is widespread agreement that the federal government faces a range of challenges in the 21<sup>st</sup> century that it must confront to enhance performance, ensure accountability, and position the nation for the future. Federal agencies will need the most effective human capital systems to address these challenges and succeed in their transformation efforts during a period of likely sustained budget constraints.

More progress in addressing human capital challenges was made in the last 3 years than in the last 20, and significant changes in how the federal workforce is managed are underway.

On April 14, 2004, GAO and the National Commission on the Public Service Implementation Initiative hosted a forum with selected executive branch officials, key stakeholders, and other experts to help advance the discussion concerning how governmentwide human capital reform should proceed.

[www.gao.gov/cgi-bin/getrpt?GAO-05-69SP](http://www.gao.gov/cgi-bin/getrpt?GAO-05-69SP)

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

## HIGHLIGHTS OF A FORUM

# Human Capital: Principles, Criteria, and Processes for Governmentwide Federal Human Capital Reform

## What Participants Said

Forum participants discussed (1) Should there be a governmentwide framework for human capital reform? and (2) If yes, what should a governmentwide framework include?

There was widespread recognition that a “one size fits all” approach to human capital management is not appropriate for the challenges and demands government faces. However, there was equally broad agreement that there should be a governmentwide framework to guide human capital reform built on a set of beliefs that entail fundamental principles and boundaries that include criteria and processes that establish the checks and limitations when agencies seek and implement their authorities. While there were divergent views among the participants, there was general agreement that the following served as a starting point for further discussion in developing a governmentwide framework to advance needed human capital reform.

### Principles

- Merit principles that balance organizational mission, goals, and performance objectives with individual rights and responsibilities
- Ability to organize, bargain collectively, and participate through labor organizations
- Certain prohibited personnel practices
- Guaranteed due process that is fair, fast, and final

### Criteria

- Demonstrated business case or readiness for use of targeted authorities
- An integrated approach to results-oriented strategic planning and human capital planning and management
- Adequate resources for planning, implementation, training, and evaluation
- A modern, effective, credible, and integrated performance management system that includes adequate safeguards to ensure equity and prevent discrimination

### Processes

- Prescribing regulations in consultation or jointly with the Office of Personnel Management
- Establishing appeals processes in consultation with the Merit Systems Protection Board
- Involving employees and stakeholders in the design and implementation of new human capital systems
- Phasing in implementation of new human capital systems
- Committing to transparency, reporting, and evaluation
- Establishing a communications strategy
- Assuring adequate training



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

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Subject: *Highlights of a GAO and National Commission on the Public Service Implementation Initiative Forum on Human Capital: Principles, Criteria, and Processes for Governmentwide Federal Human Capital Reform*

There is widespread agreement that the federal government faces a range of challenges in the 21<sup>st</sup> century that it must confront to enhance performance, ensure accountability, and position the nation for the future. Federal agencies will need the most effective human capital systems to address these challenges and succeed in their transformation efforts during a period of likely sustained budget constraints.

The National Commission on the Public Service has reported that the federal government is neither organized nor staffed nor adequately prepared to meet the challenges of the 21<sup>st</sup> century.<sup>1</sup> To address these challenges, the National Commission made recommendations in three key areas. They are: (1) Organization: reorganize the federal government by mission to improve its capacity for coherent design and efficient implementation of public policy and reauthorize presidential reorganization authority to get this process started; (2) Leadership: reform the entry process for top leaders and undertake the long-term development of a highly skilled federal management corps; and (3) Operations: improve federal workforce recruitment and retention and adopt new personnel management principles to ensure much higher levels of government performance.

Strategic human capital management must be the centerpiece of the federal government's overall transformation effort. To that end, more progress in addressing human capital challenges was made in the last 3 years than in the last 20, and significant changes in how the federal workforce is managed are underway. For example, Congress provided agencies specific hiring authorities so that they can better compete for talented people in a highly competitive job market. In addition, the U.S. Government Accountability Office (GAO), National Aeronautics and Space Administration, the Department of Defense, and the Department of

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<sup>1</sup>The National Commission on the Public Service, *Urgent Business for America: Revitalizing the Federal Government for the 21<sup>st</sup> Century* (Washington, D.C.: January 2003).

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Homeland Security recently received authorities intended to help them manage their human capital strategically to achieve results. These recent actions have significant, precedent-setting implications for the rest of government. They represent both progress and opportunities, but also raise legitimate concerns. We are fast approaching the point where “standard governmentwide” human capital policies and processes are neither standard nor governmentwide. Human capital reform should avoid further fragmentation within the civil service, ensure reasonable consistency within the overall civilian workforce, and help maintain a reasonably level playing field among federal agencies when competing for talent. Further, human capital reform should maintain key merit principles and appropriate safeguards against discrimination and other prohibited personnel practices.

To help advance the discussion concerning how human capital reform should proceed, GAO and the National Commission on the Public Service Implementation Initiative co-hosted a forum on April 14, 2004 to discuss:

- Should there be a governmentwide framework for human capital reform?
- If yes, what should a governmentwide framework include?

The forum neither sought nor achieved consensus on all of the issues identified in the discussion. Nevertheless, there was widespread recognition among the forum participants that a “one size fits all” approach to human capital management is not appropriate given the range of the challenges and demands government faces. However, there was equally broad agreement that there should be a governmentwide framework to guide human capital reform built on a set of beliefs and boundaries. Beliefs entail the fundamental principles that should govern all approaches to human capital reform and should not be altered or waived by agencies seeking human capital authorities. Boundaries include the criteria and processes that establish the checks and limitations when agencies seek and implement human capital authorities. Further, a governmentwide framework should balance the desire for consistency across the federal government with the desire for flexibility so that individual agencies can tailor human capital systems to best meet their needs.

While there were divergent views among the participants, there was general agreement that the following principles, criteria, and processes served as a starting point for further discussion in developing a

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governmentwide framework to advance needed human capital reform as shown in figure 1.

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**Figure 1: Principles, Criteria, and Processes**

**Principles that the government should retain in a framework for reform because of their inherent, enduring qualities:**

- Merit principles that balance organizational mission, goals, and performance objectives with individual rights and responsibilities
- Ability to organize, bargain collectively, and participate through labor organizations
- Certain prohibited personnel practices
- Guaranteed due process that is fair, fast, and final

**Criteria that agencies should have in place as they plan for and manage their new human capital authorities:**

- Demonstrated business case or readiness for use of targeted authorities
- An integrated approach to results-oriented strategic planning and human capital planning and management
- Adequate resources for planning, implementation, training, and evaluation
- A modern, effective, credible, and integrated performance management system that includes adequate safeguards to help ensure equity and prevent discrimination

**Processes that agencies should follow as they implement new human capital authorities:**

- Prescribing regulations in consultation or jointly with the Office of Personnel Management (OPM)
- Establishing appeals processes in consultation with the Merit Systems Protection Board (MSPB)
- Involving employees and stakeholders in the design and implementation of new human capital systems
- Phasing in implementation of new human capital systems
- Committing to transparency, reporting, and evaluation
- Establishing a communications strategy
- Assuring adequate training

Source: GAO.

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At the forum, the Director of OPM released a draft of OPM's *Guiding Principles for Civil Service Transformation* that should be very helpful in advancing and deepening the discussion of governmentwide civil service reform.<sup>2</sup> The Director invited forum participants and others to comment on the draft paper.

Attendees at the forum represented a cross section of senior leaders from the executive branch with responsibilities for human capital management, congressional staff from committees with jurisdiction over governmentwide human capital policy, employee representatives, and academics and other stakeholders who are involved in or have knowledge of current federal human capital reform efforts. As agreed with the participants, the purpose of the discussion was to engage in an open, nonattribution-based dialogue. Appendix I of this letter summarizes the collective discussion and does not necessarily represent the views of any individual participant, including GAO or the Implementation Initiative. Appendix II lists the forum attendees and observers.

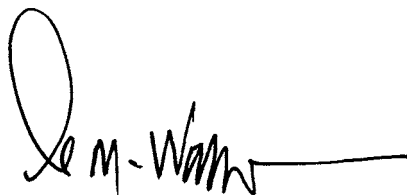
We wish to thank all of the participants in the forum for taking the time to share their knowledge and to provide their insights and perspectives on the important matters this document discusses. As the momentum accelerates for human capital reform, GAO looks forward to working with others, such as the National Academy of Public Administration and the National Commission on the Public Service Implementation Initiative, which offered

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<sup>2</sup>U.S. Office of Personnel Management, *OPM's Guiding Principles for Civil Service Transformation* (Washington, D.C.: Apr. 14, 2004) can be accessed at [http://www.opm.gov/Strategic\\_Management\\_of\\_Human\\_Capital/documents/merit/](http://www.opm.gov/Strategic_Management_of_Human_Capital/documents/merit/)

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to serve as a convener for further discussion on this and other important issues of mutual interest and concern.<sup>3</sup>



David M. Walker  
Comptroller General  
of the United States



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Chairman,  
National Commission  
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<sup>3</sup>See The National Commission on the Public Service Implementation Initiative and The National Academy of Public Administration, *A Governmentwide Framework for Federal Personnel Reform: A Proposal* (Washington, D.C.: November 2004).

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# Human Capital Reform: Highlights of Forum Discussion

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Recent actions in human capital reform have significant, precedent-setting implications for the rest of government. They represent progress and opportunities, but also legitimate concerns. We are fast approaching the point where “standard governmentwide” human capital policies and processes are neither standard nor governmentwide. The forum’s overall purpose was to discuss:

1. Should there be a governmentwide framework for human capital reform?
2. If yes, what should a governmentwide framework include?

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## Should There Be a Governmentwide Framework for Human Capital Reform?

While there was widespread recognition among the forum participants that a “one size fits all” approach to human capital management is not appropriate for the challenges and demands government faces, there was equally broad agreement that there should be a governmentwide framework to guide human capital reform built on a set of beliefs and boundaries. Beliefs entail the fundamental principles that should govern all approaches to human capital reform and should not be altered or waived by agencies seeking human capital authorities. Boundaries include the criteria and processes that establish the checks and limitations when agencies obtain and implement human capital authorities. Further, a governmentwide framework should balance the need for consistency across the federal government with the desire for flexibility so that individual agencies can tailor human capital systems to best meet their needs.

Striking this balance would not be easy to achieve, but is necessary to maintain a governmentwide system that is responsive enough to adapt to agencies’ diverse missions, cultures, and work forces. The Office of Personnel Management’s (OPM) draft *Guiding Principles for Civil Service Transformation* states that in modernizing the federal civil service system, “finding the right balance between flexibility and uniformity will be our greatest challenge.”<sup>1</sup> Recent human capital initiatives have begun to define that balance. For example, when Congress granted human capital authorities for the Department of Homeland Security (DHS) and the Department of Defense (DOD), Congress required both DHS and DOD to

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<sup>1</sup>U.S. Office of Personnel Management, *OPM’s Guiding Principles for Civil Service Transformation* (Washington, D.C.: Apr. 14, 2004).



adhere to the merit system principles, avoid prohibited personnel practices, and retain the right for employees to organize and bargain collectively. On the other hand, DHS and DOD have flexibility in how they design and implement their classification, pay, performance, appeals, and labor-relations systems to meet their organizational priorities, structures, and cultures.

Participants cited several reasons why having a governmentwide human capital framework would be both desirable and appropriate. First, broad consistency across federal agencies is critical to ensure that each federal employee has certain safeguards and protections regardless of where he or she works. For example, OPM's draft *Guiding Principles* acknowledges that federal employees might be better served by a single set of procedures in areas such as due process and labor relations. Further, other participants concurred that too much variation in each agency could be problematic for organizations that are responsible for adjudicating appeals and grievances, such as the Merit Systems Protection Board (MSPB) and the Equal Employment Opportunity Commission (EEOC). In formal proceedings, it could be difficult to rule that an individual's action would be sanctioned in one agency but not in another agency.

Second, a governmentwide framework would allow for some central coordination that could help minimize any adverse impact that single agencies' authorities might have on other agencies. Many agreed that a strong role for OPM would be necessary and appropriate. For example, in the proposed regulations for developing its human capital system, DHS is to coordinate with OPM when DHS establishes its occupational clusters and pay bands and their minimum and maximum rates of pay, as well as when it sets nationwide and locality-based pay adjustments each year. The proposed regulations also provide OPM the authority to intervene in, and if necessary to veto, the use of an authority when the potential exists to adversely affect others across government. For example, it was suggested that mobility across agencies could be adversely affected by differing agency compensation systems.

Other participants added that a governmentwide framework would help to avoid further fragmentation and maintain a level playing field among federal agencies in competing for talent. For example, it was suggested that in light of current global threats, agencies with security-related missions may have already received human capital authorities to help them better respond to their missions, and thus a framework could help other agencies receive similar authorities so they could better meet theirs.

Similarly, GAO has testified that it is preferable to employ a governmentwide approach to grant certain authorities that have broad-based application (e.g., broadbanding, pay for performance, part-time employment, reemployment annuities) and have serious potential implications for the civil service system.<sup>2</sup>

Finally, within a governmentwide framework, agencies collectively could leverage their size and take advantage of certain economies of scale. OPM's draft *Guiding Principles* recognizes the federal government's immense buying power as a single employer. OPM's draft noted that the actuarial cost of seceding from federal government programs, such as benefit programs for health care delivery, retirement, and life insurance, would be high. Specifically, under the Federal Employees Health Benefits Program, the federal workforce as a whole has been able to maintain benefits for enrollees, reduce costs to both the taxpayer and the employee, and mitigate financial risks. According to OPM, the same large scale may be able to benefit agencies' human resources information systems that share a common set of functional requirements.

On the other hand, participants stressed that a governmentwide framework should be flexible, agile, and responsive enough to adapt to any circumstance given agencies' diverse missions. To that end, many participants agreed that implementing a variety of human capital systems within a framework would be acceptable and in the long term, the most effective approach for agencies to deploy a workforce to help achieve their intended results. In determining what a governmentwide framework should consist of, one participant said that the approaches taken by leading global corporations could provide some insights. These corporations first determine if there is a strategic reason to retain a function at the corporate level, and if not, they devolve that function to their lower levels. In the context of the federal government, this means determining what must be done consistently across the government and leaving everything else to individual agencies' authorities. With any governmentwide framework, several participants cautioned that it would be necessary to guard against having the framework become a straight jacket that discourages innovation rather than being an enabler for agencies to identify and manage needed authorities.

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<sup>2</sup>GAO, *Human Capital: Building on DOD's Reform Effort to Foster Governmentwide Improvements*, GAO-03-851T (Washington, D.C.: June 4, 2003).

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## What Should a Governmentwide Framework for Human Capital Reform Include?

Most participants agreed that a framework to guide human capital reform efforts should consist of modern principles that should be prescribed governmentwide, criteria that should be required for agencies to use new human capital authorities, and processes that should be prescribed governmentwide for agencies to implement new authorities. To start the discussion, GAO and the Implementation Initiative suggested, in advance of the forum, a set of principles, criteria, and processes based on congressional and executive branch decision making and prior work. While there were divergent views among the participants, there was general agreement that the following principles, criteria, and processes served as a starting point for further discussion in developing a governmentwide framework to advance needed human capital reform.

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## Modern Principles that Should Be Prescribed Governmentwide

The participants agreed that there should be principles that the government should retain in a governmentwide framework for reform because of their inherent, enduring qualities. Participants observed that incorporating such principles in statute should be limited to those that have stood the test of time.

### **Merit principles that balance organizational mission, goals, and performance objectives with individual rights and responsibilities.**

All participants agreed that a set of merit principles should be a part of a governmentwide framework to guide human capital reform efforts. Generally, the merit system principles assure that federal employees are hired, promoted, paid, and discharged only on the basis of merit. Congress has not waived or altered the current merit system in recent laws granting federal agencies human capital authorities and both DOD and DHS are to adhere to the merit system principles. In addition, OPM's draft *Guiding Principles* states that merit principles must remain intact as the government moves forward with modernizing the civil service system.

Nevertheless, it was observed that there remain opportunities to update the current merit system principles to reflect the increased focus on missions, goals, and results as envisioned under the Government Performance and Results Act. While these updated merit principles would still protect employee interests, they would also take into account the organizational needs of federal agencies and the special roles and needs of federal employees as public servants. For example, the current principles do not address an organizational context, such as a shared vision or cooperation, except for the public service at large. In this regard, an updated principle

would be for managers, employees, and their representatives to work together to balance management responsibilities and employee interests to effectively and efficiently achieve high performance of the organization's mission and goals. Also, updated merit principles would be designed to support and create excellence. Specifically, recruitment would be drawn from *highly* qualified rather than *qualified* individuals and job security would be extended to those whose performance contributes to organizational goals rather than those whose performance is adequate.

On the other hand, it was also observed that performance, even at the highest level, should not be the sole basis for job security even though additional weight should be given to performance as a factor in a reduction in force. Concern was also expressed that the timing of any re-examination of the merit principles is important and that such an undertaking could possibly influence DHS's and DOD's implementation of their human capital authorities since adherence to the principles is mandated.

Generally participants felt that as agencies receive more authority to establish their own human capital systems, it is especially important to engender trust among federal employees by prescribing the adherence to merit principles. It was suggested that governmentwide, organizations such as OPM, MSPB, EEOC, and the Office of Special Counsel, could provide sufficient counterweight when agencies develop and implement their own systems to ensure that merit principles are enforced when agencies receive new human capital authorities.

The National Academy of Public Administration and the National Commission on the Public Service Implementation Initiative have offered to serve as conveners for further discussions on this and other related issues.

**Ability to organize, bargain collectively, and participate through labor organizations.** Generally, participants agreed that the ability to organize, bargain collectively, and participate in labor organizations is an important principle to be retained in a governmentwide framework. Congress has already incorporated this provision in recent human capital legislation. Both DOD and DHS are to retain the right for employees to organize, bargain collectively, and participate through labor organizations of their own choosing, subject to the provisions of the new laws.

It was suggested that unions must be both willing and able to actively collaborate and coordinate with management if unions are to be effective

representatives of their members and real participants in human capital reform. One participant noted that although some people believe collective bargaining slows down the process of reform, there are examples of effective labor-management relationships. For example, because the Internal Revenue Service (IRS) is exempt from certain Title 5 provisions, Congress mandated IRS to involve employees to gain ownership for the new policies. In response, GAO reported that IRS and the National Treasury Employees Union entered into an agreement that was designed to ensure that employees are adequately represented and informed of proposed new policies and have input into the proposals.<sup>3</sup>

Nevertheless, there might be opportunities for improvement in labor relations. OPM's draft *Guiding Principles* paper states that a governmentwide framework should continue to guarantee employees' rights to join unions and bargain collectively. However, a single set of streamlined and simplified procedures for labor relations and collective bargaining may be the best way to modernize labor relations, rather than by using an agency-by-agency approach. Similarly, the National Commission on the Public Service agrees that employees' rights to organize, bargain collectively, and participate through labor organizations should be retained as a principle of human capital reform.<sup>4</sup> Nevertheless, a new level of labor-management discourse is necessary if the government is to achieve real reform, and engaged and mutually respectful labor relations should be a high federal priority.

One participant suggested it would be useful to craft guidance on how to design and implement revised collective bargaining procedures and manage conflicts to achieve results. Further, DOD's human capital reform legislation may be the starting point for such guidance. DOD is to provide employee representatives and management the opportunity to have meaningful discussions concerning the development of the new system. In addition, DOD is to give employee representatives at least 30 calendar days (unless extraordinary circumstances require earlier action) to review and make recommendations on the proposal for the system and give any recommendations received full and fair consideration, among other

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<sup>3</sup>GAO, *Human Capital: Practices That Empowered and Involved Employees*, GAO-01-1070 (Washington, D.C.: Sept. 14, 2001).

<sup>4</sup>The National Commission on the Public Service, *Urgent Business for America: Revitalizing the Federal Government for the 21<sup>st</sup> Century* (Washington, D.C.: January 2003).



criteria. The legislation also includes a 6-year time limit, after which the labor-relations provisions in Title 5 will apply, unless the authority is extended.

**Certain prohibited personnel practices.** Generally, participants agreed that certain personnel practices, such as reprisal for whistle blowing, and violation of veterans' preference requirements, should be explicitly prohibited and included as a governmentwide principle. Some participants felt that such a principle has negative overtones and implies that without an explicit prohibition, there would be management abuse. Others acknowledged that an explicit principle was a necessary safeguard in the public sector where the workforce takes an oath rather than signs a contract and expectations are greater for transparency and accountability. However, ultimately it depends on management to enforce this principle in the spirit that was intended.

**Guaranteed due process that is fair, fast, and final.** Participants also agreed that guaranteed due process is an important principle in a governmentwide framework. Congress required both DHS and DOD to ensure employees are afforded the protections of due process in their proposed human capital systems.

Nevertheless, it has been observed that as the federal human capital system is reformed, the current approach to due process should similarly be reexamined. For example, the National Commission on the Public Service Implementation Initiative and the National Academy of Public Administration recently sponsored a forum on the federal appeals system in response to the ongoing debate about the new systems for DHS and DOD. Forum attendees reached a consensus that any federal employee appeals systems should be fair, fast, and final; preserve the core rights of employees and the general public interest; and consider protecting the agency's mission.<sup>5</sup>

In addition, OPM's draft *Guiding Principles* notes that due process for federal workers for any action that threatens their employment is a principle that may be best protected by a single set of adverse action procedures for both misconduct and poor performance for all agencies, as

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<sup>5</sup>National Commission on the Public Service Implementation Initiative and National Academy of Public Administration, *Conversations on Public Service: Forum on the Federal Appeals System: Items of Consensus* (February 2004).

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well as a single independent adjudicating agency. Similarly, the National Commission on the Public Service found that there are multiple agencies involved in handling employee appeals that form a tangled scheme with varying procedures and case law. Lastly, GAO has reported that the complex system to protect employees' rights to due process is inefficient, expensive, and time-consuming.<sup>6</sup>

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### Criteria That Should Be Required for Agencies To Use New Human Capital Authorities

The participants generally agreed that some criteria should be required for agencies to use new human capital authorities. However, there was some discussion about whether agencies should have these criteria designed or in place before an agency could implement its authorities. Some participants maintained that agencies should have broad human capital authorities when there is not a compelling reason for centralization and consistency across government. In other words, centralization or the absence of authority should require a business case, not the other way around. However, others felt that requiring some of these criteria to be in place before authorities are granted, as opposed to when authorities are implemented, could have the unintended consequence of discouraging human capital reform.

**Demonstrated business case or readiness for use of targeted authorities.** Several participants observed that requiring agencies to present a business case for any requested authority would be a positive step towards the integration of human capital policies and programs with strategic planning. Other participants, however, felt that requiring a business case could have the unintended consequence of discouraging human capital reform. Instead, a readiness assessment could suffice to receive the authority, with the clear understanding that certain elements would have to be in place to go ahead with its implementation. Those who held this view believed that the better course is to authorize broad agency flexibilities but ensure that they are exercised responsibly.

High performing organizations determine agency workforce needs using fact-based analysis. They identify their current and future human capital needs, including the appropriate number of employees; the key competencies for mission accomplishment; and the appropriate deployment of staff across the organization. GAO has reported that federal

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<sup>6</sup>GAO, *Federal Employee Redress: A System in Need of Reform*, [GAO/T-GGD-96-110](#) (Washington, D.C.: Apr. 23, 1996).

agencies often have not gathered and analyzed the data required to effectively assess how well their human capital approaches have supported results.<sup>7</sup>

Congress has recognized the importance of granting authorities to agencies based on demonstrated needs. The authorities given to the National Aeronautics and Space Administration (NASA) are intended to enable NASA to compete successfully with the private sector to attract and retain a world-class workforce and to reshape and redeploy its workforce more effectively to support the mission. In advance of exercising any of the new authorities, NASA is to submit a workforce plan, approved by OPM, 90 days before NASA implements its human capital authorities. The workforce plan is to describe the critical needs and how the new authorities would address those needs.

Some participants suggested that a governmentwide approach, rather than the more piecemeal approach of agencies developing unique plans, would be more effective and efficient in the long term. OPM or the Office of Management and Budget (OMB) could develop a business case for governmentwide change that would be applicable to all agencies. One participant felt that, in effect, a governmentwide business case has in fact been made since the DOD and DHS legislations have already demonstrated the need and recognition for change.

Some participants questioned the government's willingness and ability to take risk as agencies' leadership implement human capital reforms in their organizations. For example, a participant noted that he was particularly concerned about the findings from a Brookings Institution report that showed there is not a high willingness to accept risk and change in the government.<sup>8</sup> The report found that 55 percent of federal employees surveyed reported that their organization encourages them to take risks, 9 percent lower than the private-sector employees surveyed.

GAO has found that to effectively implement human capital authorities, managers and supervisors need to have an appropriate attitude toward risk taking and proceed with new operations after carefully analyzing the risks

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<sup>7</sup>GAO, *Human Capital: Effective Use of Flexibilities Can Assist Agencies in Managing Their Workforces*, [GAO-03-2](#) (Washington, D.C.: Dec. 6, 2002).

<sup>8</sup>The Brookings Institution, *The Troubled State of the Federal Public Service* (Washington, D.C.: June 27, 2002).

involved and determining how they may be minimized or mitigated.<sup>9</sup> The insufficient and ineffective use of authorities can significantly hinder the ability of federal agencies to recruit, hire, retain, and manage their human capital. Also, with appropriate accountability mechanisms in place, agencies can begin to foster an organizational culture that encourages managers to develop creative approaches and take appropriate risks.

**Integrated approach to results-oriented strategic planning and human capital planning and management.** Participants generally agreed that agencies need to link their strategic and human capital planning and management in order to achieve the desired outcomes with the team, unit, and individual performance management systems. It was noted that while many agencies do not currently have the infrastructure to do this, this infrastructure is essential to effectively address future demands.

Effective organizations integrate their strategies for accomplishing their mission and programmatic goals with human capital approaches.<sup>10</sup> The effectiveness of this integration is judged by how well it helps achieve organizational goals. To this end, Congress has already begun to require this integrated approach in recent human capital legislation. Congress explicitly required DOD to link its new performance management system with the agency's strategic plan. Additionally, we reported DHS has begun strategic human capital planning.<sup>11</sup> For example, one of the department's strategic goals, organizational excellence, has an objective focused on ensuring effective recruitment, development, compensation, succession management and leadership of a diverse workforce to provide optimal service at a responsible cost.

GAO also stated that any additional human capital authorities should be implemented only when an agency has the institutional infrastructure in place. This infrastructure includes, among other things, a human capital planning process that integrates the agency's human capital policies, strategies, and programs with its program goals, mission and desired outcomes. For example, GAO has reported that leading organizations use

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<sup>9</sup>GAO-03-2.

<sup>10</sup>GAO, *A Model of Strategic Human Capital Management*, GAO-02-373SP (Washington, D.C.: Mar. 15, 2002).

<sup>11</sup>GAO, *Human Capital: DHS Faces Challenges In Implementing Its New Personnel System*, GAO-04-790 (Washington, D.C.: June 18, 2004).

succession planning and management as a strategic tool that focuses on their current and future needs and identifies and develops high-potential staff with the aim of filling leadership and other key roles in order to meet their missions over the long term.<sup>12</sup>

**Adequate resources for planning, implementation, training, and evaluation.** There was widespread agreement among the participants that making human capital reform most effective would require that agencies have adequate resources to ensure sufficient planning, implementation, training, and evaluation. Experience has shown that additional resources are necessary. OPM has reported that the increased costs of implementing alternative personnel systems should be acknowledged and budgeted for up front. Similarly, GAO reported that selected OPM personnel demonstration projects experienced increased costs associated with implementing alternative personnel systems related to salaries, training, and automation and data systems.<sup>13</sup>

Recent human capital reforms recognize the need for adequate resources for their implementation. Congress required DOD to ensure adequate resources are allocated for the design, implementation, and administration of its new performance management system. DHS also recognized that significant resources would be needed to design and implement a new human capital system. In its proposed regulations, DHS estimates the overall costs associated with implementing its new human capital system will be approximately \$130 million over a 4-year period.

Many participants pointed out that while sufficient resources are the key to effectively implementing new pay systems, budget constraints are a given in the public service. For example, one participant noted that in the current environment, pay for performance is more like pay by budget because the budget drives pay, not performance. Some felt that Congress often authorizes pay raises for federal employees but does not then provide additional resources to agencies to make the required pay adjustments. To make up the difference, agencies must find resources from other areas in their budgets. On the other hand, it was observed that Congress authorized

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<sup>12</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>13</sup>GAO, *Human Capital: Implementing Pay for Performance at Selected Personnel Demonstration Projects*, [GAO-04-83](#) (Washington, D.C.: Jan. 23, 2004).



these pay raises in response to budget proposals that did not provide parity between civilian and uniformed services personnel.

**A modern, effective, credible, and integrated performance management system that includes adequate safeguards to help ensure equity and prevent discrimination.** Participants generally agreed that performance management systems with some safeguards are needed. Effective performance management systems strive to (1) provide candid and constructive feedback to help individuals maximize their contribution and potential in understanding and realizing the goals and objectives of the organization, (2) seek to provide management with the objective and fact-based information it needs to reward top performers, and (3) provide the necessary information and documentation to deal with poor performers.

Congress and the administration have recognized the necessity of effective performance management systems in recent human capital reform initiatives. Congress established a new performance-based pay system for members of the Senior Executive Service that is designed to provide a clear and direct linkage between performance and pay. An agency can seek approval from OPM to raise the pay for its senior executives if OPM certifies, and OMB concurs that the agency's performance management system, as designed and applied, makes meaningful distinctions based on relative performance.

In addition, DOD's human capital legislation requires its new human capital system to have a fair, credible, and transparent performance appraisal system that includes effective safeguards to ensure that the management of the system is fair and equitable and based on employee performance. The new system also is to have a process for ensuring ongoing performance feedback and dialogue between supervisors, managers, and employees throughout the appraisal period.

Under the proposed regulations, the DHS performance management system must, among other things, align individual performance expectations with the mission, strategic goals, or a range of other objectives of the department or of the DHS components. Also, the DHS performance management system is intended to promote individual accountability by communicating performance expectations as well as holding employees responsible for accomplishing them and holding supervisors and managers responsible for effectively managing the performance of employees under their supervision. GAO testified that the

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proposal takes another valuable step towards modern performance management.<sup>14</sup>

GAO has testified that, before additional human capital authorities are implemented, an agency should have to demonstrate that it has a modern, effective, credible, and as appropriate, validated performance management system in place with adequate safeguards, including reasonable transparency and appropriate accountability mechanisms, to ensure fairness and prevent politicalization and abuse of employees.<sup>15</sup> In addition, GAO has identified a set of practices that collectively can help agencies develop effective performance management systems.<sup>16</sup>

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Processes That Should Be  
Prescribed  
Governmentwide for  
Agencies to Implement New  
Authorities

There was widespread agreement that, as a starting point, the following processes are critical to future human capital reform efforts. While some participants questioned whether it was necessary to prescribe some of these processes in legislation, there was recognition that addressing these processes sets a general expectation that every step should be taken to ensure the most efficient and effective implementation of agencies' human capital authorities.

**Prescribing regulations in consultation or jointly with OPM and Establishing appeals processes in consultation with MSPB.** The participants generally agreed that involving OPM and MSPB was necessary for future human capital reform efforts. However, OPM felt that agencies' jointly prescribing regulations rather than only consulting with OPM would help to ensure that civil service principles are preserved when broad authorities are under consideration. Both DOD and DHS are required to develop regulations jointly with OPM for their new human capital systems and to consult with MSPB when developing new appellate procedures. It was observed that involving OPM and MSPB offers opportunities to ensure that flexibilities are used in a manner that places the public's interest paramount.

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<sup>14</sup>GAO, *Human Capital: Preliminary Observations on Proposed DHS Human Capital Regulations*, [GAO-04-479T](#) (Washington, D.C.: Feb. 25, 2004).

<sup>15</sup>GAO, *Defense Transformation: Preliminary Observations on DOD's Proposed Civilian Personnel Reforms*, [GAO-03-717T](#) (Washington, D.C.: Apr. 29, 2003).

<sup>16</sup>GAO, *Results-Oriented Cultures: Creating a Clear Linkage between Individual Performance and Organizational Success*, [GAO-03-488](#) (Washington, D.C.: Mar. 14, 2003).

In its draft *Guiding Principles*, OPM asserts that implementation of modernized human capital systems must be managed by OPM to avoid any adverse impact on other agencies. For example, OPM notes that agency coordination with OPM is necessary in areas such as in setting minimum and maximum rates of pay and establishing nationwide and locality-based pay adjustments to ensure that cross-agency effects are taken into account and if necessary, mitigated.

On the other hand, it was also observed that OPM might need the people resources to help manage the implementation of modernized human capital systems across government. For example, GAO reported that there are opportunities for OPM to strengthen its current organizational transformation efforts as it shifts its role *from less* of a rule maker and enforcer *to more* of a strategic partner in leading and supporting agencies' human capital management systems.<sup>17</sup>

**Involving employees and stakeholders in the design and implementation of new human capital systems.** The participants agreed that actively engaging employees and stakeholders in designing new human capital systems was an important process. GAO has reported that a successful organizational transformation must involve employees and their representatives from the beginning to gain their ownership for the changes that are occurring in the organization. Employee involvement strengthens the transformation process by including frontline perspectives and experiences.<sup>18</sup> To involve employees, agencies can

- use employee teams to assist in implementing changes;
- involve employees in planning and sharing performance information to help employees understand what the organization is trying to accomplish and how it is progressing in that direction, facilitate the development of organizational goals and objectives that incorporate insights about operations from a front-line perspective, and increase employees' understanding and acceptance of organizational goals and objectives; and

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<sup>17</sup>GAO, *Major Management Challenges and Program Risks: Office of Personnel Management*, [GAO-03-115](#) (Washington, D.C.: January 2003).

<sup>18</sup>GAO, *Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, [GAO-03-669](#) (Washington, D.C.: July 2, 2003).

- incorporate employee feedback into new policies and procedures.

DOD's human capital legislation requires DOD to include a means for ensuring employee involvement in the design and implementation of its new human capital system. Similarly, DHS's legislation requires employee involvement in the design of its new human capital systems. GAO reported that during the course of the design process DHS has recognized the importance of employee involvement and has been involving multiple organizational components and its three major employee unions in designing the new human capital system.<sup>19</sup>

**Phasing in implementation of new human capital systems.** There was general understanding among the participants on why a phased approach to implementing major management reforms was both appropriate and judicious. A phased implementation approach recognizes that different components of agencies will often have different levels of readiness and different capabilities to implement new authorities. Moreover, a phased approach allows for learning so that appropriate adjustments and midcourse corrections can be made before new policies and procedures are fully implemented organizationwide.

Congress has also recognized the need for phasing in new human capital systems. DOD is to implement its new system for up to 300,000 employees and cannot expand it until the Secretary determines that the department has in place a performance management system that meets the criteria specified in the law. Similarly, according to its proposed regulations, DHS plans to implement its job evaluation, pay, and performance management system in phases to allow time for final design, training, and careful implementation.

**Committing to transparency, reporting, and evaluation.** The participants agreed that transparency, reporting, and evaluation are critical processes in ongoing human capital reform efforts. High-performing organizations continually review and revise their human capital management systems based on data-driven lessons learned and changing needs in the environment. It was observed that the public deserves to be told how well the government is doing to improve the quality of its civil service as measured against objective standards linked to promised results.

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<sup>19</sup>GAO, *Human Capital: DHS Personnel System Design Effort Provides for Collaboration and Employee Participation*, [GAO-03-1099](#) (Washington, D.C.: Sept. 30, 2003).

The benefits of ongoing evaluation and knowledge sharing are gaining wider acceptance. Congress required the interagency Chief Human Capital Officers Council to include an evaluation of the formulation and implementation of agency performance management systems in its annual report to Congress. In addition, DHS's proposed regulations indicate that it is committed to an ongoing comprehensive evaluation of the effectiveness of the human capital system, including the establishment of human capital metrics and the use of employee surveys.

One participant observed that there has not been enough evaluation and sharing of lessons learned from existing alternative human capital systems. For example, the participant noted that lessons learned from the Federal Aviation Administration (FAA) could be shared more broadly across the government. In 1996, the FAA received broad exemptions from Title 5 laws governing federal civilian personnel management, which at the time was regarded as one of the most flexible human capital efforts in the federal government. While GAO reported that FAA had not fully incorporated elements that are important to effective human capital management, FAA's experiences are valuable nonetheless.<sup>20</sup>

Along these lines, GAO has reported that agencies seeking human capital reform should consider doing evaluations that are broadly modeled on the evaluation requirements of the OPM demonstration projects.<sup>21</sup> Under the demonstration project authority, agencies must evaluate and periodically report on results, implementation of the demonstration project, cost and benefits, impacts on veterans and other equal employment opportunity groups, adherence to merit system principles, and the extent to which the lessons from the project can be applied governmentwide. A set of balanced measures addressing a range of results, customer, employee, and external partner issues may also prove beneficial. Such an evaluation could facilitate congressional oversight; allow for any midcourse corrections; assist the agencies in benchmarking its 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>20</sup>GAO, *Human Capital Management: FAA's Reform Effort Requires a More Strategic Approach*, [GAO-03-156](#) (Washington, D.C.: Feb. 3, 2003).

<sup>21</sup>[GAO-03-717T](#) and [GAO-04-479T](#).



**Establishing a communications strategy.** While the participants agreed that a communications strategy is an important process in the implementation of any major change management initiative, such as new human capital authorities, some questioned whether it is necessary to write it into legislation for human capital reform. Other participants observed that it should not be taken for granted that such a strategy would necessarily happen, and for that reason, making a communication strategy an explicit requirement in legislation would make it more likely to occur.

GAO has found that creating an effective, on-going communications strategy is essential to implementing a transformation.<sup>22</sup> The organization undergoing a transformation must develop a comprehensive communications strategy that reaches out to employees, customers, and stakeholders and seeks to genuinely engage them in the transformation process.

**Assuring adequate training.** The participants agreed that training for employees at all levels was critical to the success of any human capital reform. High performing organizations understand the value of training. Several participants suggested that the success of DHS's and DOD's human capital reform efforts hinged on the type and quality of the training managers and employees received. However, although training was recognized as important, some participants questioned whether it is necessary to prescribe training in legislation.

While DHS's human capital legislation does not require it to provide training on its new human capital system, DHS recognizes in its proposed regulations that a substantial investment in training is a key aspect of implementing a performance management system. DOD's human capital legislation requires the department to provide adequate training and retraining for supervisors, managers, and employees in the implementation and operation of the performance management system.

To ensure that adequate funding is set aside for training for human capital reform efforts, one participant suggested developing a formula to designate a fixed amount of training dollars for federal employees so that training is not cut when agency budgets are constrained. Along these lines, under the Human Capital Performance Fund that Congress established, agencies are to use up to 10 percent of their appropriations to train supervisors,

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<sup>22</sup>GAO-03-669.

managers, and others on using performance management systems to make meaningful distinctions in performance. However, Congress has not fully funded the Performance Fund.

GAO found that organizations implementing personnel demonstration projects provided extensive training before and during implementation of their new human capital systems as well as throughout the first 5 or more years of the project.<sup>23</sup> GAO has reported that training and developing new and current staff to fill new roles and work in different ways will play a crucial part in the federal government's endeavors to meet its transformation challenges.<sup>24</sup> Ways that employees learn and achieve results will also continue to transform how agencies do business and engage employees in further innovation and improvements.

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## Next Steps in Human Capital Reform

Among the next steps in human capital reform, there was general recognition for a need to continue to develop a governmentwide framework for human capital reform that Congress and the administration can implement to enhance performance, ensure accountability, and position the nation for the future. The momentum is accelerating to make strategic human capital management the centerpiece of the federal government's overall management transformation effort. Agencies such as DOD and DHS have received broad human capital authorities. It is likely that other departments and agencies will soon seek their own human capital authority. There is a need to guide these future reform efforts constructively and determine if there should be governmentwide change or continue to change human capital policies agency by agency. Further, if there is governmentwide change, the amount of authority afforded to agencies must be determined.

Also, the anticipated future roles of Congress, OPM, and other stakeholders should be articulated as human capital reforms proceed. Congress could provide continued oversight of governmentwide human capital reform. It was generally recognized that such oversight is critical in ensuring that OPM has a role in the design and implementation of new human capital systems. OPM could provide a governmentwide perspective to human

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<sup>23</sup>GAO-04-83.

<sup>24</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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**Appendix I**  
**Human Capital Reform: Highlights of Forum**  
**Discussion**

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capital reform, for example, by collaborating in the design and development of new human capital systems and in identifying and mitigating any adverse impact of reform efforts on other agencies. GAO could continue assisting Congress in analyzing and supporting efforts to improve the human capital infrastructure key to successful transformation of the government. The Implementation Initiative and other key stakeholders can continue to advance human capital reform through conversations, such as the one that took place at this forum.

# Forum Attendees

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## Moderators

David M. Walker	Comptroller General of the United States U.S. Government Accountability Office
Paul A. Volcker	Chairman National Commission on the Public Service

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## Participants

Carol A. Bonosaro	President Senior Executives Association
Charles Bowsher	Former Comptroller General of the United States and Member of the National Commission on the Public Service
Dr. David S. Chu	Under Secretary of Defense (Personnel and Readiness) Office of the Secretary of Defense U.S. Department of Defense
Claudia A. Cross	Chief Human Capital Officer/Director Office of Human Resources Management U.S. Department of Energy
Brian DeWyngaert	Executive Assistant to the President American Federation of Government Employees, AFL-CIO
Maureen Gilman	Director of Legislation The National Treasury Employees Union
Janet Hale	Under Secretary for Management U.S. Department of Homeland Security
Sallyanne Harper	Chief Administrative Officer/Chief Financial Officer U.S. Government Accountability Office
Jesse Hoskins	Chief Human Capital Officer U.S. Government Accountability Office

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**Appendix II**  
**Forum Attendees**

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Patricia Ingraham	Distinguished Professor The Maxwell School of Citizenship and Public Affairs Syracuse University
Kay Coles James	Director U.S. Office of Personnel Management
Clay Johnson III	Deputy Director for Management U.S. Office of Management and Budget
C. Morgan Kinghorn	President National Academy of Public Administration
Nancy Kingsbury	Managing Director Applied Research and Methods U.S. Government Accountability Office
Rosslyn Kleeman	Distinguished Executive in Residence The George Washington University
Gail T. Lovelace	Chief People Officer U.S. General Services Administration
Neil A. G. McPhie	Acting Chairman U.S. Merit Systems Protection Board
J. Christopher Mihm	Managing Director Strategic Issues U.S. Government Accountability Office
Steve Nelson	Director Office of Policy and Evaluation U.S. Merit Systems Protection Board
Vicki Novak	Assistant Administrator for Human Resources National Aeronautics and Space Administration
Bernard Rosen	Emeritus Distinguished Adjunct Professor in Residence American University
Ron Sanders	Associate Director Division for Strategic Human Resources Policy U.S. Office of Personnel Management

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**Appendix II**  
**Forum Attendees**

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Joanne Simms	Deputy Assistant Attorney General for Human Resources and Administration / Chief Human Capital Officer Justice Management Division U.S. Department of Justice
Hannah Sistare	Executive Director National Commission on the Public Service Implementation Initiative
Pete Smith	President Private Sector Council
Max Stier	President and CEO Partnership for Public Service
Michael B. Styles	National President Federal Managers Association
Robert N. Tobias	Professor American University
Mitchel B. Wallerstein	Dean The Maxwell School of Citizenship and Public Affairs Syracuse University

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**Congressional  
Observers**

Mason Alinger	Professional Staff Member House Government Reform Committee U.S. House of Representatives
Nanci Langley	Democratic Deputy Staff Director Subcommittee on Financial Management, the Budget, and International Security Senate Governmental Affairs Committee U.S. Senate
Chris Lu	Deputy Chief Counsel – Minority House Government Reform Committee U.S. House of Representatives

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**Appendix II**  
**Forum Attendees**

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Andrew Richardson	Staff Director Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia Senate Governmental Affairs Committee U.S. Senate
Tania A. Shand	Professional Staff Member House Government Reform Committee U.S. House of Representatives
Jennifer Tyree	Counsel Subcommittee on Financial Management, the Budget, and International Security Senate Governmental Affairs Committee U.S. Senate
Marianne Clifford Upton	Minority Staff Director and Chief Counsel Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia Senate Governmental Affairs Committee U.S. Senate

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**Other Observers**

William Atkinson	Former Chief of Staff U.S. Merit Systems Protection Board
Paul Conway	Chief of Staff to the Director U.S. Office of Personnel Management
Stephanie Diamond	Former Human Resources Program Manager Office of Human Resources Management U.S. Department of Energy
Rita R. Franklin	Deputy Director, Office of Human Resources Management U.S. Department of Energy
Thomas Richards	Government Affairs Representative Federal Managers Association



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**Appendix II**  
**Forum Attendees**

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Debra Tomchek	Director for Human Resources Justice Management Division U.S. Department of Justice
Didier Trinh	Executive Director Federal Managers Association
Tracey Watkins	Senior Advisor to Acting Chairman U.S. Merit Systems Protection Board

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