

GAO

Testimony

Subcommittee on Oversight of Government Management,
the Federal Workforce, and the District of Columbia,
Committee on Governmental Affairs, U.S. Senate

For Release on Delivery
Expected at 9:00 a.m. EDT
Tuesday, July 20, 2004

HUMAN CAPITAL

Building on the Current
Momentum to Transform
the Federal Government

Statement of J. Christopher Mihm
Managing Director, Strategic Issues





Highlights of [GAO-04-976T](#), a testimony before the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Governmental Affairs, U.S. Senate

Why GAO Did This Study

The federal government is in a period of profound transition, forcing agencies to transform their cultures to enhance performance, ensure accountability, and position the nation for the future. Strategic human capital management is the centerpiece of this government transformation. Federal agencies will need the most effective human capital systems to succeed in their transformation efforts.

At the request of the subcommittee, this statement summarizes GAO's findings to date on agencies' use of human capital flexibilities, provides an overview of the most relevant human capital management efforts, and discusses GAO's recently enacted human capital flexibilities.

www.gao.gov/cgi-bin/getrpt?GAO-04-976T.

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.

HUMAN CAPITAL

Building on the Current Momentum to Transform the Federal Government

What GAO Found

While more progress in addressing human capital challenges has been made in the last few years than in the last 20 years, much more needs to be done to ensure that agencies' cultures are results oriented, customer focused, and collaborative in nature. For example, an essential element in acquiring, developing, and retaining high-quality federal employees is agencies' effective use of flexibilities. Congress provided governmentwide hiring flexibilities—category rating and direct hire—but agencies appear to be making limited use of them. The agencies and the Office of Personnel Management can use the Chief Human Capital Officers Council as a vehicle to help address crosscutting human capital challenges, such as hiring.

The following efforts to foster a strategic approach to human capital management are under way.

- **Conducting Strategic Workforce Planning:** In the wake of extensive downsizing during the early 1990s, agencies are experiencing significant challenges to deploying the right skills, in the right places, at the right time. Succession planning and management is particularly important given the demographic realities and transformation challenges agencies face.
- **Strengthening Federal Employee Training and Development:** Officials at selected agencies emphasized that they are transitioning to more formal and comprehensive planning approaches to assess skill and competency requirements and identify related training and development needs—primarily as part of broader efforts to incorporate workforce planning into ongoing strategic planning and the budgeting process.
- **Implementing Pay for Performance:** Emphasizing performance-based pay is critical at all levels of government. GAO strongly supports the need to expand pay for performance in the federal government. Recently, Congress has sought to modernize senior executive performance management systems. However, data show that more work is needed to make meaningful distinctions based on relative performance. In addition, the experiences of several personnel demonstration projects show that linking pay to performance is very much a work in progress.
- **Creating Strategic Human Capital Offices:** Congress has recognized the need for human capital offices that contribute to achieving missions and goals. Some agencies are shifting the focus of their human capital offices from primarily compliance to consulting activities for line managers. Agencies are also using alternative service delivery—the use of other than internal staff to provide a service or to deliver a product—to free staff to focus on core activities.

GAO's has begun to implement some of its recently enacted flexibilities that are collectively designed to help attract, retain, motivate, and reward a top quality and high-performing workforce.

Chairman Voinovich, Senator Durbin, and Members of the Subcommittee:

I am pleased to be here today to discuss the progress to date in addressing the federal government's pressing human capital challenges. As you know, the federal government is in a period of profound transition, which is forcing agencies to transform their cultures to enhance performance, ensure accountability, and position the nation for the future. Strategic human capital management is the centerpiece of government transformation.

Chairman Voinovich, in your December 2000 report to the President, you ask "Will the federal government invest the resources necessary to compete for talent in today's information workplace and become a world-class provider of services?"¹ You continue "Successfully addressing the human capital crisis...will not come about quickly nor easily. No single piece of legislation or executive order can accomplish these goals. For this effort to be successful, it must be embraced by Congress, career managers, and the employees who are on the front lines... Without the sustained support of all of the stakeholders, this effort will fall short."

Since then, and under the leadership of this subcommittee and others in Congress, more progress in addressing human capital challenges has been made than in the last 20 years. For example, Congress provided governmentwide human capital flexibilities, such as direct hire authority, the ability to use category rating in the hiring of applicants instead of the "rule of three," and the creation of chief human capital officer (CHCO) positions and a CHCO Council. In addition, individual agencies—most recently, GAO, and earlier, the National Aeronautical and Space Administration (NASA) and the Departments of Defense (DOD) and Homeland Security (DHS)—received flexibilities intended to help them manage their human capital strategically to achieve results. These are important and positive developments.

Nevertheless, much more needs to be done to ensure that agencies' cultures are results oriented, customer focused, and collaborative in nature. At your request, my testimony today will (1) summarize our

¹Senator George V. Voinovich, *Report to the President: The Crisis in Human Capital*, Subcommittee on Oversight of Government Management, Restructuring, and the District of Columbia of the Committee on Governmental Affairs, United States Senate (Washington, D.C.: December 2000).

findings to date on agencies' use of human capital flexibilities, (2) provide an overview of the most relevant human capital management efforts, and (3) discuss GAO's recently enacted human capital flexibilities. My comments are based on previously issued GAO reports that were developed in accordance with generally accepted government auditing standards.

Agencies Must Build the Capability to Make Effective Use of Human Capital Flexibilities

An essential element to acquiring, developing, and retaining high-quality federal employees is agencies' effective use of human capital flexibilities. These flexibilities represent the policies and practices that an agency has the authority to implement in managing its workforce. The insufficient and ineffective use of flexibilities can significantly hinder the ability of federal agencies to recruit, hire, retain, and manage their human capital. In December 2002, we reported that agencies were often not maximizing their use of the human capital flexibilities already available to them and we identified key practices that agencies can implement to effectively use such flexibilities, as shown in figure 1.²

²U.S. General Accounting Office, *Human Capital: Effective Use of Flexibilities Can Assist Agencies in Managing Their Workforces*, [GAO-03-2](#) (Washington, D.C.: Dec. 6, 2002).

Figure 1: Key Practices for Effective Use of Human Capital Flexibilities

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

Source: GAO.

We reported that agencies must take greater responsibility for maximizing the efficiency and effectiveness of their individual hiring processes within the current statutory and regulatory framework that Congress and the Office of Personnel Management (OPM) have provided.

Specifically, in regard to the federal hiring process, we recommended that OPM take additional actions to assist agencies in strengthening that process.³ We subsequently reported that although Congress, OPM, and agencies have all undertaken efforts to help improve the federal hiring

³U.S. General Accounting Office, *Human Capital: Opportunities to Improve Executive Agencies' Hiring Processes*, GAO-03-450 (Washington, D.C.: May 30, 2003).

process, agencies appeared to be making limited use of the new hiring flexibilities provided by Congress in 2002—category rating and direct hire.⁴ In our survey of CHCO Council members, the most frequently cited barriers that they said prevented or hindered their agencies from using or making greater use of these hiring flexibilities included

- the lack of OPM guidance for using the flexibilities,
- the lack of agency policies and procedures for using the flexibilities,
- the lack of flexibility in OPM rules and regulations, and
- concern about possible inconsistencies in the implementation of the flexibilities within the department or agency.

Since the survey, OPM has taken a number of important actions to assist agencies in their use of hiring flexibilities. For example, OPM issued final regulations on the use of category rating and direct-hire authority, providing some clarification in response to various comments it had received in interim regulation. Also, OPM conducted a training symposium to provide federal agencies with further instruction and information on ways to improve the quality and speed of the hiring process.

To address the federal government’s crosscutting strategic human capital challenges, such as the hiring process, we have testified that an effective and strategic CHCO Council is vital.⁵ As stated in its charter, the Council’s purposes include (1) advising OPM, the Office of Management and Budget (OMB), and agency leaders on human capital strategies and policies, as well as on the assessment of human capital management in federal agencies; (2) informing and coordinating the activities of its member agencies on such matters as modernization of human resources systems; and (3) providing leadership in identifying and addressing the needs of the government’s human capital community.

⁴U.S. Government Accountability Office, *Human Capital: Increasing Agencies’ Use of New Hiring Flexibilities*, [GAO-04-959T](#) (Washington, D.C.: July 13, 2004); *Human Capital: Additional Collaboration Between OPM and Agencies Is Key to Improved Federal Hiring*, [GAO-04-797](#) (Washington, D.C.: June 7, 2004); and *Human Capital: Status of Efforts to Improve Federal Hiring*, [GAO-04-796T](#) (Washington, D.C.: June 7, 2004).

⁵U.S. General Accounting Office, *Human Capital: Observations on Agencies’ Implementation of the Chief Human Capital Officers Act*, [GAO-04-800T](#) (Washington, D.C.: May 18, 2004).

We have reported that interagency councils, such as the Chief Financial Officers' and Chief Information Officers' councils, have emerged as important leadership strategies in both developing policies that are sensitive to implementation concerns and gaining consensus and consistent follow-through within the executive branch.⁶ The CHCO Council can fulfill an equally important role. It has established subcommittees to address and recommend changes for key areas identified by the Council's leadership as critical to the success of strategic human capital management. The subcommittees are examining their areas and developing recommendations for review by the executive committee and, subsequently, the Council. We understand that three subcommittees— hiring process, leadership development and succession planning, and employee conduct and poor performers—have submitted their first reports for review by the executive committee. However, these reports had not been released as of July 13, 2004.

Efforts to Foster a Strategic Approach to Human Capital Management Are Under Way

A little over a year ago, in a joint hearing before your subcommittee and that of Chairwoman Davis, we testified that federal human capital strategies are not yet appropriately constituted to meet current and emerging challenges or to drive the needed transformation across the federal government.⁷ The basic problem has been the long-standing lack of a consistent strategic approach to marshaling, managing, and maintaining the human capital needed to maximize government performance and assure its accountability. At your request and others in Congress, we have undertaken a large body of work since then on relevant human capital management efforts that are under way. Our summary of the major themes emerging from that work follow.

Conducting Strategic Workforce Planning

In the wake of extensive downsizing during the early 1990s, done largely without sufficient consideration of the strategic consequences, agencies are experiencing significant challenges to deploying the right skills, in the right places, at the right time. Agencies are also facing a growing number of employees who are eligible for retirement and are finding it difficult to

⁶U.S. General Accounting Office, *Government Management: Observations on OMB's Management Leadership Efforts*, [GAO/T-GGD/AIMD-99-65](#) (Washington, D.C.: Feb. 4, 1999).

⁷U.S. General Accounting Office, *Human Capital: Building on the Current Momentum to Address High-Risk Issues*, [GAO-03-637T](#) (Washington, D.C.: Apr. 8, 2003).

fill certain mission-critical jobs, a situation that could significantly drain agencies' institutional knowledge.

Strategic workforce planning addresses two critical needs: (1) aligning an organization's human capital program with its current and emerging mission and programmatic goals and (2) developing long-term strategies for acquiring, developing, and retaining staff to achieve programmatic goals.⁸ Existing strategic workforce planning tools and models and our own work suggest that there are certain principles that such a process should address irrespective of the specific agency context in which planning is done, as shown in figure 2.

Figure 2: Principles of the Strategic Workforce Planning Process

- Involve top management, employees, and other stakeholders in developing, communicating, and implementing the strategic workforce plan.
- Determine the critical skills and competencies that will be needed to achieve current and future programmatic results.
- Develop strategies that are tailored to address gaps in number, deployment, and alignment of human capital approaches for enabling and sustaining the contributions of all critical skills and competencies.
- Build the capability needed to address administrative, educational, and other requirements important to support workforce strategies.
- Monitor and evaluate the agency's progress toward its human capital goals and the contribution that human capital results have made toward achieving programmatic goals.

Source: GAO.

For example, the achievement of DOD's mission is dependent in large part on the skills and expertise of its civilian workforce. We recently reported that DOD's future strategic workforce plans may not result in workforces that possess the critical skills and competencies needed.⁹ Among other things, DOD and the components do not know what competencies their staff need to do their work now and in the future and what type of recruitment, retention, and training and professional development

⁸U.S. General Accounting Office, *Human Capital: Key Principles for Effective Strategic Workforce Planning*, [GAO-04-39](#) (Washington, D.C.: Dec. 11, 2003).

⁹U.S. General Accounting Office, *DOD Civilian Personnel: Comprehensive Strategic Workforce Plans Needed*, [GAO-04-753](#) (Washington, D.C.: June 30, 2004).

workforce strategies should be developed and implemented to meet future organizational goals. It is questionable whether DOD's implementation of its new personnel reforms will result in the maximum effectiveness and value because DOD has not developed comprehensive strategic workforce plans that identify future civilian workforce needs.

Moving beyond a "replacement" approach, which focuses on identifying particular individuals as possible successors for specific top-ranking positions, succession planning and management are particularly important given the demographic realities and transformation challenges agencies face. Leading organizations engage in broad, integrated succession planning and management efforts that focus on strengthening both current and future organizational capacity. As part of this approach, these organizations identify, develop, and select successors who are the right people, with the right skills, at the right time for leadership and other key positions. We identified specific succession planning and management practices that agencies in Australia, Canada, New Zealand, and the United Kingdom are implementing that reflect this broader focus on building organizational capacity (see fig. 3).¹⁰

Figure 3: Selected Practices Used by Agencies in Other Countries to Manage Succession

- Receive active support of top leadership.
- Link to strategic planning.
- Identify talent from multiple organizational levels, early in careers, or with critical skills.
- Emphasize developmental assignments in addition to formal training.
- Address specific human capital challenges, such as diversity, leadership capacity, and retention.
- Facilitate broader transformation efforts.

Source: GAO.

At your request and the request of Chairwoman Davis, we are now evaluating selected federal agencies' succession planning and management

¹⁰U.S. General Accounting Office, *Human Capital: Insights for U.S. Agencies from Other Countries' Succession Planning and Management Initiatives*, [GAO-03-914](#) (Washington, D.C.: Sept. 15, 2003).

efforts. As part of that engagement, we plan to examine how they are implementing these key practices.

Strengthening Federal Employee Training and Development

As they continue to build their fundamental management capabilities, federal agencies will need to invest resources, including time and money, to ensure that their employees have the information, skills, and competencies they need to work effectively in a rapidly changing and complex environment. This includes investments in training and developing employees as part of an agency's overall effort to achieve cost-effective and timely results. To this end, we have developed a framework that federal agencies can use to ensure that their training and development investments are targeted strategically and are not wasted on efforts that are irrelevant, duplicative, or ineffective.¹¹ This framework consists of a set of principles and key questions that can help agencies assess their training and development efforts and make it easier to determine what, where, and how improvements may be implemented.

We also recently reviewed selected agencies' experiences and lessons in key aspects of designing training and development programs.¹² The officials emphasized that their agencies are transitioning to more formal and comprehensive planning approaches to assess skill and competency requirements and identify related training and development needs—primarily as part of broader efforts to incorporate workforce planning into ongoing strategic planning and budgeting processes focused on achieving results.

To develop strategies and solutions for training needs, the selected agencies considered a mixture of delivery mechanisms, as well as potential sources for training and development opportunities. However, projecting costs and benefits of proposed training and development programs presented challenges for them. The agencies usually developed broad information on anticipated benefits and expected costs of potential investments, although often without tying benefits to specific performance

¹¹U.S. General Accounting Office, *Human Capital: A Guide for Assessing Strategic Training and Development Efforts in the Federal Government*, [GAO-04-546G](#) (Washington, D.C.: March 2004).

¹²U.S. General Accounting Office, *Human Capital: Selected Agencies' Experiences and Lessons Learned in Designing Training and Development Programs*, [GAO-04-291](#) (Washington, D.C.: Jan. 30, 2004).

improvements or considering all costs. For example, one of the lessons learned was to establish mechanisms to avoid duplication or inconsistencies. Education Service Representatives in each regional Veterans Health Administration network, for example, coordinate training and development programs with headquarters—sharing information about successful practices and identifying areas where coordination is needed.

Implementing Pay for Performance

There is a growing understanding that the federal government needs to fundamentally rethink its current approach to pay and to better link pay to individual and organizational performance. As you are aware, GAO strongly supports the need to expand pay for performance in the federal government. Nevertheless, how it is done, when it is done, and the basis on which it is done, can make all the difference in whether such efforts are successful. High-performing organizations continuously review and revise their performance management systems to achieve results, accelerate change, and facilitate two-way communication throughout the year so that discussions about individual and organizational performance are integrated and ongoing.

Modernizing Senior Executive Performance Management

Senior executives need to lead the way to transform their agencies' cultures to be more results oriented, customer focused, and collaborative in nature. Performance management systems that are valid, reliable, and transparent with reasonable safeguards can help manage and direct this process. We previously reported that more progress is needed in explicitly linking senior executives' performance expectations to contributing to the achievement of results-oriented organizational goals, fostering the necessary collaboration both within and across organizational boundaries to achieve results, and demonstrating a commitment to lead and facilitate change.¹³

Recently, Congress and the administration have sought to modernize senior executive performance management systems by establishing a new performance-based pay system for the Senior Executive Service (SES) that is designed to provide a clear and direct linkage between SES performance

¹³U.S. General Accounting Office, *Results-Oriented Cultures: Using Balanced Expectations to Manage Senior Executive Performance*, GAO-02-966 (Washington, D.C.: Sept. 27, 2002).

and pay.¹⁴ With the new system, an agency can raise the pay cap 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. However, data suggest that more work is needed in making such distinctions. Agencies rated about 75 percent of senior executives at the highest levels their systems permitted, and approximately 49 percent of senior executives received bonuses in fiscal year 2002, the most current year for which data are available.

We recently assessed how well the Departments of Education and Health and Human Services (HHS) and NASA are creating linkages between senior executive performance and their organizations' success.¹⁵ Overall, we concluded that Education, HHS, and NASA have undertaken important and valuable efforts, but these agencies need to continue to make substantial progress in using their senior executive performance management systems to strengthen the linkage between senior executive performance and organizational success.

For example, senior executives' perceptions at Education, HHS, and NASA indicate that these three agencies have opportunities to use their career senior executive performance management systems more strategically to strengthen that link. Specifically, based on our survey of career senior executives, we found that generally less than half of the senior executives at Education, HHS, and NASA believe that their agencies are fully using their performance management systems as a tool to manage the organization or to achieve organizational goals.

In addition, generally less than half of the senior executives at Education, HHS, and NASA felt that their agencies are fully using their performance management systems to achieve such systems' three key objectives. Effective performance management systems (1) strive to 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-

¹⁴ See section 1322 of Public Law 107-296, November 25, 2002, and section 1125 of Public Law 108-136, November 24, 2003.

¹⁵U.S. General Accounting Office, *Human Capital: Senior Executive Performance Management Can Be Significantly Strengthened to Achieve Results*, [GAO-04-614](#) (Washington, D.C.: May 26, 2004).

based information it needs to reward top performers, and (3) provide the necessary information and documentation to deal with poor performers.

Information on Education's, HHS's, and NASA's experiences and knowledge should provide valuable insights to other agencies as they seek to use senior executive performance management as a strategic tool to drive internal change and achieve external results. Overall, we recommended that the Secretaries of Education and HHS and the Administrator of NASA continue to build their career senior executive performance management systems along the key practices we previously identified for effective performance management.¹⁶ NASA concurred with all the recommendations and plans to implement the recommendations in its next SES appraisal cycle. While HHS did not provide formal comments on the report, an HHS official told us that they intend to incorporate our recommendations into future revisions to its system in response to OPM's new SES pay system. Education described specific actions it plans to take to revise its SES system, which are generally consistent with our recommendations.

Implementing Pay for Performance at Personnel Demonstration Projects

Several federal agencies have experimented with new pay for performance systems through OPM's personnel demonstration projects. We reported on the approaches selected demonstration projects have taken in designing and implementing their pay for performance systems.¹⁷ Overall, these demonstration projects show an understanding that linking pay to performance is very much a work in progress at the federal level. Their approaches follow.

- *Using competencies to evaluate employee performance.* We found that high-performing organizations use validated core competencies as a key part of evaluating individual contributions to organizational results. Several demonstration projects use core competencies for all positions across the organization to evaluate performance, while some demonstration projects use competencies based primarily on the individual position.

¹⁶For information on these key practices, see U.S. General Accounting Office, *Results-Oriented Cultures: Creating a Clear Linkage between Individual Performance and Organizational Success*, GAO-03-488 (Washington, D.C.: Mar. 14, 2003).

¹⁷U.S. General Accounting Office, *Human Capital: Implementing Pay for Performance at Selected Personnel Demonstration Projects*, GAO-04-83 (Washington, DC: Jan. 23, 2004).

-
- *Translating employee performance ratings into pay increases and awards.* We have also recognized that high-performing organizations traditionally seek to create pay, incentive, and reward systems that clearly link employee knowledge, skills, and contributions to organizational results. Some demonstration projects establish predetermined pay increases, awards, or both depending on a given performance rating, while others delegated the flexibility to individual pay pools to determine how ratings would translate into pay increases, awards, or both. The demonstration projects made some distinctions among employees' performance.
 - *Considering current salary in making performance-based pay decisions.* Several of the demonstration projects consider an employee's current salary when making pay increase and award decisions. With this approach, there is an attempt to better match an employee's compensation and his or her contribution to the organization. Therefore, two employees with comparable contributions could receive different performance pay increases and awards depending on their current salaries.
 - *Managing costs of the pay for performance system.* The major cost drivers of implementing pay for performance systems at demonstration projects were salaries, training, and automation and data systems, according to project officials. In making their pay decisions, some of the demonstration projects use funding sources such as the annual general pay increase and locality pay adjustment. For example, to manage salary costs, some of the demonstration projects consider fiscal conditions and the labor market when determining how much to budget for pay increases, manage movement through the pay band, and provide a mix of one-time awards and permanent pay increases.
 - *Providing information to employees about the results of performance appraisal and pay decisions.* To ensure fairness and guard against abuse, performance-based pay systems should have adequate safeguards. One such safeguard is to ensure reasonable transparency and appropriate accountability mechanisms in connection with the results of the performance management process. Several of the demonstration projects accomplish this by publishing information for employees, such as the average performance rating, performance pay increase, and award.

We observed that additional work is needed to strengthen efforts to ensure that the demonstration projects' performance management systems are tools to help them manage on a day-to-day basis. In particular, there are opportunities to use organizationwide competencies to evaluate employee performance that reinforce behaviors and actions that support the organization's mission, translate employee performance so that managers can make meaningful distinctions between top and poor performers with objective and fact-based information, and provide information to employees about the results of the performance appraisals and pay decisions to ensure that reasonable transparency and appropriate accountability mechanisms are in place.

Creating Strategic Human Capital Offices

In creating the CHCO, Congress has underscored the critical role leadership must play in human capital management. If people are the federal government's most important asset to drive its performance and key to its transformation, they must have leadership and support. Agencies are increasingly recognizing how human capital activities contribute to achieving mission and goals as they integrate their human capital strategies with their organizational mission, visions, core values, goals, and objectives.

Selected agencies are seeking to shift the focus of their human capital offices from primarily compliance activities to consulting activities. They are taking several key actions to make this shift.¹⁸

- Agency leaders included human capital leaders in key agency strategic planning and decision making and, as a result, the agencies engaged the human capital organization as a strategic partner in achieving desired outcomes relating to the agency's mission.
- Human capital leaders took actions to transform the agencies' human capital organizations by establishing clear strategic visions, restructuring their organizations, and improving the use of technology to free organizational resources. These leaders also promoted a transition to a larger strategic role for human capital professionals with their focus being more on consulting rather than compliance activities.

¹⁸U.S. General Accounting Office, *Human Capital: Selected Agency Actions to Integrate Human Capital Approaches to Attain Mission Results*, GAO-03-446 (Washington, D.C.: Apr. 11, 2003).

The human capital profession is in transition from valuing narrowly focused specialists to requiring generalists, who have all the skills necessary to play an active role in helping to determine the overall strategic direction of the organization.

- Jointly, agency leaders and human capital leaders are having human capital professionals and agency line managers share the accountability for successfully integrating human capital considerations into agency strategic planning and decision making.

At the same time, human capital offices are understanding that they need to think broadly about how specific services are delivered. Human capital offices have traditionally used alternative service delivery (ASD)—the use of other than internal staff to provide a service or to deliver a product—as a way to reduce costs for transaction-based services. We reported that, according to agency officials, a primary driver for using ASD included taking advantage of the economies of scale that specialized providers can offer.¹⁹ For instance, OPM's e-payroll initiative is designed to eventually collapse the operations of 22 executive branch payroll systems into 2 systems. By using consolidated ASD providers for their payroll services, federal agencies should realize cost savings from lower operational costs, eliminated duplicative systems investments, and simplified payroll processing.

Our report described how selected agencies were using ASD for the full range of their human capital activities, including advisory services and strategy and policy support activities as well as transaction-based services. Conceptually, agency officials agreed that human capital activities that did not require an intimate knowledge of the agency, oversight, or decision-making authority could be considered for ASD, although in practice they showed differences in their choices of ASD activities. Frequently cited reasons for using ASD were to free staff to focus on core activities where the human capital office can add strategic value and to respond to reductions in human capital staffing. In addition, using ASD for sporadic activities allows agencies to contract for the services only when needed. For example, the U.S. Fish and Wildlife Service used ASD for its classification appeals and studies, equal employment opportunity and

¹⁹U.S. General Accounting Office, *Human Capital: Selected Agencies' Use of Alternative Service Delivery Options for Human Capital Activities*, [GAO-04-679](#) (Washington, D.C.: June 25, 2004).

administrative investigations, and mediations. Also, agency officials noted that gaining access to expertise and being able to respond quickly to changing environments were primary reasons for using ASD for human capital policy formulation and support activities, such as workforce planning and organizational assessment. A private sector contractor, for example, helped the U.S. Department of Agriculture develop the design for a corporate leadership development program to prepare upper-level managers for future leadership roles. One of the rationales for relying on a contractor was that the contractor had the research edge on best practices gleaned from completing needs assessments with other organizations.

We recommended that OPM provide comprehensive information about how agencies can use ASD for their human capital activities and that the CHCO Council could be an excellent vehicle to assist in this area. Given its potential benefits, it appears that the use of ASD will increase among federal agencies. By sharing experiences and lessons learned, agencies may be better prepared to use ASD to help them meet their human capital challenges.

Next Steps in Federal Human Capital Reform

The broad human capital authorities that Congress provided to DHS when it created the agency and to DOD were clearly important to helping these agencies meet current needs and prepare for the future. Nonetheless, these and related recent actions have significant, precedent-setting implications for the rest of government. We are fast approaching the point where “standard governmentwide” human capital policies and processes are neither standard nor governmentwide. We believe that 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 in competing for talent. Moving forward, GAO believes it would be both prudent and preferable to employ a governmentwide approach to address the need for human capital authorities that have broad-based application and serious implications for the civil service system. Employing this approach is not intended to delay any individual agency’s efforts, but rather to accelerate needed human capital reform throughout the federal government in a manner that ensures reasonable consistency within the overall civilian workforce. In short, the important changes under way at individual agencies naturally are suggesting that broader, more systematic civil service reform should be seriously considered.

To help advance the discussion concerning how human capital reform should proceed, GAO and the National Commission on the Public Service Implementation Initiative cohosted a forum to discuss whether there should be a framework for human capital reform, and if yes, what principles, criteria, and processes should be included in that framework. We will issue a summary of that forum in the coming weeks. However, the discussion was centered on three areas: 1) principles that the government should retain in a framework for reform because of their inherent, enduring qualities; 2) criteria that agencies should have in place as they plan and manage their new human capital authorities; and 3) processes that agencies should follow as they implement new human capital flexibilities.

In addition, the Chairman of the Committee on Governmental Affairs has asked us to help craft a statutory framework of human capital authorities and flexibilities that would help Congress as it considers agency-specific requests for human capital reforms. We look forward to continuing to assist Congress as it considers these important and difficult questions.

GAO's Human Capital Reform Act of 2004 Is Intended to Help Ensure a High-performing Workforce

GAO exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people. We deeply appreciate the support and assistance we have received from this subcommittee and others in Congress in providing us with the tools and authorities we need to support Congress.

Unlike many executive branch agencies, which have either recently received or are just requesting new broad-based human capital tools and flexibilities, GAO has had certain human capital tools and flexibilities for over two decades. GAO's recently enacted Human Capital Reform Act of 2004 (Human Capital II), which, as you know, was recently signed by the President, combines diverse initiatives that, collectively, should further GAO's ability to enhance our performance; assure our accountability; and help ensure that we can attract, retain, motivate, and reward a top-quality and high-performing workforce currently and in future years.²⁰ These initiatives should also have the benefit of helping guide other agencies in their human capital transformation efforts.

²⁰For more information, see Public Law 108-271, July 7, 2004, and U.S. General Accounting Office, *GAO: Additional Human Capital Flexibilities Are Needed*, [GAO-03-1024T](#) (Washington, D.C.: July 16, 2003).

Specifically, Human Capital II allows for the following additional human capital tools and flexibilities:

- make permanent GAO's 3-year authority to offer voluntary early retirement and voluntary separation incentive payments;
- allow the Comptroller General to adjust the rates of basic pay of GAO on a separate basis from the annual adjustments authorized for employees of the executive branch;
- permit GAO to set the pay of an employee demoted as a result of workforce restructuring or reclassification at his or her current rate with no automatic annual increase to basic pay until his or her salary is less than the maximum rate for the new position;
- provide authority in appropriate circumstances to reimburse employees for some relocation expenses when that transfer does not meet current legal requirements for entitlement to reimbursement but still benefits GAO;
- provide authority to put key officers and employees with less than 3 years of federal experience in the 6-hour leave category;
- authorize an executive exchange program with private sector organizations working in areas of mutual concern to further the institutional interest of the GAO or Congress, including for the purpose of providing training; and
- change GAO's legal name from the "General Accounting Office" to the "Government Accountability Office."

The Comptroller General and other GAO Executive Committee members engaged in a broad range of outreach and consultation activities with GAO staff on the Human Capital II legislation as it was being developed.²¹ For example, the Comptroller General held two televised chats to inform GAO staff about the proposal. He also discussed the proposal with all staff including managing directors and the Employee Advisory Council on

²¹See, for example, U.S. General Accounting Office, *GAO's Proposed Human Capital Legislation: View of the Employee Advisory Council*, [GAO-03-1020T](#) (Washington, D.C.: July 16, 2003).

multiple occasions. He held a number of listening sessions with staff and incorporated feedback from these sessions into the proposal for Human Capital II. A link from the GAO internal home page was established that allowed employees to review a series of questions and answers, explanatory charts, and statements to Congress regarding the legislation.

We have already begun to implement some of the flexibilities we received. For example, we posted and requested employee comments on the order that establishes the interim regulations on GAO's voluntary early retirement authority that are in effect immediately. GAO believes that careful use of voluntary early retirement has been an important tool in incrementally improving the agency's overall human capital profile. Each separation has freed resources for other uses, enabling GAO to fill an entry-level position or to fill a position that will reduce a skill gap or address other succession concerns.

In addition, our name has changed to the "Government Accountability Office." At the same time, the well-known acronym "GAO" will be maintained. Although currently less than 15 percent of agency resources are devoted to traditional financial auditing and accounting activities, members of the public, the press, as well as Congress in the past incorrectly assumed that GAO was solely a financial auditing organization. In addition, the former name confused many potential job applicants, who assumed that GAO was only interested in hiring accountants. We believe that the new name will help attract applicants and address certain "expectation gaps" that exist outside of GAO.

GAO is studying the implementation of the pay adjustment provision that would allow GAO to determine the amount of the current annual across-the-board pay adjustments that take into account differences in locality. GAO will, absent extraordinary economic conditions or serious budgetary constraints, provide all GAO staff whose performance is at a satisfactory level both across-the-board and, as appropriate, performance-based annual pay adjustments. GAO will also be able to develop and apply its own methodology for annual across-the-board pay adjustments that take into account differences in locality, which would be more representative of the nature, skills, and composition of GAO's workforce and will incorporate consideration of market-based salary data. GAO has recently let a contract to help inform our decision making on compensation. As in the past, GAO will continue to solicit input from employees and incorporate their views as appropriate as part of this process.

We believe that it is vitally important to GAO's future that we continue modernizing and updating our human capital policies and system in light of the changing environment and anticipated challenges ahead. We believe that the GAO Human Capital Reform Act is well reasoned with adequate safeguards for GAO employees. Given our human capital infrastructure and our unique role in leading by example in major management areas, including human capital management, the federal government will benefit from GAO's experience with pay for performance systems.

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

Contacts and Acknowledgments

For further information regarding this statement, please contact J. Christopher Mihm, Managing Director, Strategic Issues, on (202) 512-6806 or at mihmj@gao.gov or Eileen Larence, Acting Director, Strategic Issues, on (202) 512-6806 or at larencee@gao.gov. Individuals making key contributions to this statement included Mallory Barg, Michelle Bracy, K. Scott Derrick, William Doherty, Clifton G. Douglas Jr., Judith Kordahl, Janice Latimer, Trina Lewis, and Lisa Shames.

GAO's Mission

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
TDD: (202) 512-2537
Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, D.C. 20548

Public Affairs

Jeff Nelligan, Managing Director, NelliganJ@gao.gov (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, D.C. 20548

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.