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INTELLIGENCE REFORM

Human Capital Considerations Critical to 9/11 Commission's Proposed Reforms

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Strategic Issues





Highlights of [GAO-04-1084T](#), a testimony to Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Governmental Affairs

Why GAO Did This Study

GAO has performed extensive work and gained experience on government transformation and the critical role that human capital management can play in driving this change. Valuable lessons from these efforts could help guide the proposed reforms in the intelligence community envisioned by the 9/11 Commission.

At the request of this subcommittee, this statement focuses on (1) the lessons GAO has learned from successful mergers and organizational transformations; particularly the need for committed and sustained leadership and the role of performance management systems in these changes; (2) human capital flexibilities that can be used as essential tools to help achieve these reforms; (3) how the Federal Bureau of Investigation (FBI) is using these lessons and human capital flexibilities to transform to meet its evolving mission in the post 9/11 environment, and (4) GAO's findings to date on the factors that must be considered in the approach to the government's security clearance process, as a means to accelerate the process for national security appointments.

www.gao.gov/cgi-bin/getrpt?GAO-04-1084T.

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

INTELLIGENCE REFORM

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What GAO Found

Recognizing that people are the critical element in transformation initiatives is key to a successful transformation of the intelligence community and related homeland security organizations. GAO's work in successful mergers and transformations shows that incorporating strategic human capital management approaches will help sustain any reforms in the intelligence community. Successful major change management initiatives in large public and private sector organizations can often take at least 5 to 7 years to create the accountability needed to ensure this success. As a result, committed and sustained leadership is indispensable to making lasting changes in the intelligence community. Accordingly, the Congress may want to consider lengthening the terms served by the directors of the intelligence agencies, similar to the FBI Director's 10-year term. One of the major challenges facing the intelligence community is moving from a culture of a "need to know" to a "need to share" intelligence information. The experience of leading organizations suggests that performance management systems—that define, align, and integrate institutional, unit, and individual performance with organizational outcomes—can provide incentives and accountability for sharing information to help facilitate this shift.

Significant changes have been underway in the last 3 years regarding how the federal workforce is managed. The Congress passed legislation providing certain governmentwide human capital flexibilities, such as direct hire authority. While many federal agencies have received human capital flexibilities, others may be both needed and appropriate for intelligence agencies, such as providing these agencies with the authority to hire a limited number of term-appointed positions on a noncompetitive basis.

Human capital challenges are especially significant for the intelligence organizations, such as the FBI, that are undergoing a fundamental transformation in the aftermath of September 11, 2001. For the last 3 years, we have been using the lessons learned from successful transformations to monitor the FBI's progress as it transforms itself from its traditional crime enforcement mission to its post 9/11 homeland security priorities—counterterrorism, counterintelligence and cyber crimes. For example, the FBI has undertaken a variety of human capital related initiatives, including major changes in realigning, retraining, and hiring special agents and analysts with critical skills to address its top priorities.

The 9/11 Commission recommended that a single federal security clearance agency should be created to accelerate the government's security clearance process. Several factors must be considered in determining the approach to this process. The large number of requests for security clearances for service members, government employees, and others taxes a process that already is experiencing backlogs and delays. Existing impediments—such as the lack of a governmentwide database of clearance information, a large clearance workload, and too few investigators—hinder efforts to provide timely, high-quality clearance determinations.

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

I am pleased to be here today to discuss how strategic human capital management can drive the transformational challenges of the intelligence community. The work of the 9/11 Commission has clearly demonstrated the need to fundamentally change the organization and culture of the intelligence community to enhance its ability to collect, analyze, share, and use critical intelligence information—a crucial mission of the community. In a knowledge-based federal government, including the intelligence community, people—human capital—are the most valuable asset. How these people are organized, incentivized, enabled, empowered, and managed are key to the reform and ultimate effectiveness of the intelligence community and other organizations involved with homeland security.

To this end, we have conducted extensive work on government transformation, and the critical role that human capital management plays in driving this change over the past several years. In August 2004, Comptroller General David M. Walker testified before the Committee on Government Reform, U.S. House of Representatives, on how the valuable lessons we learned from this work can be applied to address the challenges of reform in the intelligence community.¹ He stated that while the intelligence community has historically been addressed separately from the remainder of the federal government, and while it undoubtedly performs some unique missions that present unique issues (e.g. the protection of sources and methods), many of its major transformational challenges are similar, or identical to those that face most government agencies, such as changing their cultures to fit evolving missions. Experience has shown that strategic human capital management must be the centerpiece of any serious change management initiative. As the Comptroller General also recently noted, many of the challenges facing the intelligence community as knowledge-based organizations, are similar to those he faced when he began his tenure at GAO. As a result, GAO has gained valuable experience and knowledge in government transformation that can be shared with the intelligence community. We also stand ready to use the experience and knowledge we have gained to offer GAO's assistance in support of the Congress' legislative and oversight activities for the intelligence community.

¹GAO, *9/11 Commission Report: Reorganization, Transformation, and Information Sharing*, GAO-04-1033T (Washington, D.C.: Aug. 3, 2004).

As I recently testified before your subcommittee, more progress in addressing human capital challenges has been made in the last 3 years than in the last 20 years; nevertheless, much more needs to be done.² 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. The basic problem has been the long-standing lack of a consistent approach to marshaling, managing, and maintaining the human capital needed to maximize government performance and ensure accountability because people define the organization's culture, drive its performance, and embody its knowledge base. Human capital (or people) strategy is the critical element to maximizing performance and ensuring accountability. Thus, federal agencies, including our intelligence and homeland security communities, will need the most effective human capital systems to address these challenges and succeed in their transformation efforts during a period of sustained budget constraints.

Under the leadership of this subcommittee and others in Congress, we have seen major efforts to address the human capital challenges involved in transforming these communities, such as the transformation of the Federal Bureau of Investigation (FBI) and the creation of the Department of Homeland Security (DHS). Nevertheless, as the 9/11 Commission and our work indicate, much more needs to be done to ensure that agencies' cultures are results-oriented, customer-focused, and collaborative in nature—characteristics critical to high performing organizations.³ As agreed, my statement today will cover four major points. First, I will discuss how we can use the lessons we have learned to date from successful private and public sector mergers and transformations to guide the intelligence community's human capital reforms; particularly the need for committed and sustained leadership, and the use of performance management systems to help achieve the necessary change. Second, I will discuss several human capital flexibilities that could be used as essential tools to help achieve these reforms, such as providing agencies with the authority to hire a limited number of term-appointed positions. Third, I will also discuss GAO's prior work on FBI's efforts to use these lessons and

²GAO, *Human Capital: Building on the Current Momentum to Transform the Federal Government*, [GAO-04-976T](#) (Washington, D.C.: July 20, 2004).

³GAO, *Comptroller General's Forum: High-Performing Organizations: Metrics, Means and Mechanisms for Achieving High Performance in the 21st Century Public Management Environment*, [GAO-03-343SP](#) (Washington, D.C.: Feb. 13, 2004).

human capital flexibilities as it transforms to meet its evolving mission in the post 9/11 environment. Finally, I will summarize our findings to date on the factors that must be considered in the approach to the government security clearance process, as a means to accelerate the process for national security appointments.

My comments are based on our completed GAO work and our institutional knowledge on organizational transformation and human capital issues, as well as on homeland security. We conducted our work in accordance with generally accepted government auditing standards.

Key Mergers and Transformation Practices Can Be Used to Guide Intelligence Community Reforms

Experience shows that failure to adequately address—and often even consider—a wide variety of people and cultural issues are at the heart of unsuccessful organizational transformations. Recognizing the people element in these initiatives and implementing strategies to help individuals maximize their full potential in the new environment are key to a successful transformation of the intelligence community and related homeland security organizations. Mergers and transformations require more than just changing organizational charts. They require fundamental changes in strategic human capital management approaches, particularly in defining, aligning, and integrating key institutional, unit, and individual performance management and reward systems to achieve desired outcomes.

The 9/11 Commission has recommended several transformational changes, such as the establishment of a National Counterterrorism Center for joint operational planning and intelligence, and the creation of a National Intelligence Director position to oversee national intelligence centers across the federal government. The Director would manage the national intelligence program, oversee agencies that contribute to it, and establish important aspects of a human capital system. Specifically, the Director would be able to set common personnel and information technology policies across the intelligence community. In addition, the Director would have the authority to evaluate the performance of the people assigned to the Center.

The creation of a National Counterterrorism Center and a National Intelligence Director would clearly represent major changes for the intelligence community. Recent structural and management changes have occurred and are continuing to occur in government that provide lessons for the intelligence community's transformation. For example, in

anticipation of the creation of DHS, in September 2002, the Comptroller General convened a forum of private and public sector experts to help identify useful practices and lessons learned from mergers, acquisitions, and transformations that DHS and other federal agencies could use to successfully transform their cultures.⁴ In a follow-up report, we also identified specific steps that organizations can adopt to help implement these practices, as seen in table 1.⁵ These practices and steps also provide guidance on what must occur to effectively transform the intelligence community.

⁴GAO, *Highlights of a GAO Forum: Mergers and Transformation: Lessons Learned for a Department of Homeland Security and Other Federal Agencies*, [GAO-03-293SP](#) (Washington, D.C.: Nov. 14, 2002).

⁵GAO, *Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, [GAO-03-669](#) (Washington, D.C.: July 2, 2003).

Table 1: Key Practices and Implementation Steps for Mergers and Transformations

Practice	Implementation Steps
Ensure top leadership drives the transformation.	<ul style="list-style-type: none"> • Define and articulate a succinct and compelling reason for change. • Balance continued delivery of services with merger and transformation activities.
Establish a coherent mission and integrated strategic goals to guide the transformation.	<ul style="list-style-type: none"> • Adopt leading practices for results-oriented strategic planning and reporting.
Focus on a key set of principles and priorities at the outset of the transformation.	<ul style="list-style-type: none"> • Embed core values in every aspect of the organization to reinforce the new culture.
Set implementation goals and a timeline to build momentum and show progress from day one.	<ul style="list-style-type: none"> • Make public implementation goals and timeline. • Seek and monitor employee attitudes and take appropriate follow-up actions. • Identify cultural features of merging organizations to increase understanding of former work environments. • Attract and retain key talent. • Establish an organizationwide knowledge and skills inventory to exchange knowledge among merging organizations.
Dedicate an implementation team to manage the transformation process.	<ul style="list-style-type: none"> • Establish networks to support implementation team. • Select high-performing team members.
Use the performance management system to define the responsibility and assure accountability for change.	<ul style="list-style-type: none"> • Adopt leading practices to implement effective performance management systems with adequate safeguards.
Establish a communication strategy to create shared expectations and report related progress.	<ul style="list-style-type: none"> • Communicate early and often to build trust. • Ensure consistency of message. • Encourage two-way communication. • Provide information to meet specific needs of employees.
Involve employees to obtain their ideas and gain ownership for the transformation.	<ul style="list-style-type: none"> • Use employee teams. • Involve employees in planning and sharing performance information. • Incorporate employee feedback into new policies and procedures. • Delegate authority to appropriate organizational levels.
Build a world-class organization.	<ul style="list-style-type: none"> • Adopt leading practices to build a world-class organization.

Source: GAO.

I would now like to discuss how two of these key practices, providing leadership commitment and using performance management systems, can help guide the intelligence community reforms.

Ensuring Committed and Sustained Leadership Is a Key Practice to Drive Transformation in the Intelligence Community

Committed, sustained, highly qualified, and inspired leadership, and persistent attention by all key parties in the successful implementation of organizational transformations are indispensable to making lasting changes in the intelligence community. Experience shows that successful major change management initiatives in large public and private sector organizations can often take at least 5 to 7 years to help to create the accountability needed to ensure that long-term management and transformation initiatives are successfully completed. This length of time and the frequent turnover of political leadership in the federal government have often made it difficult to obtain the sustained and inspired attention to make the needed changes. For example, while the FBI Director has a 10-year term appointment, most of the intelligence agency heads have shorter term appointments. In his August 2004 testimony on the proposed 9/11 Commission reforms, the Comptroller General suggested that the Congress may want to place attention on lengthening the period of time served by the directors of the other intelligence agencies to provide the continuity and management needed to make the tremendous changes that occur during organizational transformations.

We have also reported that the appointment of agency chief operating officers is one mechanism that should be considered to provide continuity by elevating attention on management issues and transformation, integrating these various initiatives, and institutionalizing accountability for addressing them.⁶ We believe that to provide such leadership continuity during reform of the intelligence community, one option that the Congress could consider is for the National Intelligence Director to appoint a Chief Operating Officer. This executive could serve under a term appointment to institutionalize accountability over extended periods and to help ensure that the long-term management and organizational initiatives of the National Counterterrorism Center and the Director are successfully completed. In general, the Chief Operating Officer could be responsible to the National Intelligence Director for the overall direction, operation, and management within the intelligence community to improve its performance. These responsibilities include implementing strategic goals, and assisting the National Intelligence Director in promoting reform, measuring results, and other responsibilities.

⁶GAO, *Highlights of a GAO Roundtable: The Chief Operating Officer Concept: A Potential Strategy to Address Federal Governance Challenges*, GAO-03-192SP (Washington, D.C.: Oct. 4, 2002).

Finally, there are also leadership continuity challenges that occur during transitions between administrations, and in the Presidential appointment process. For example, the 9/11 Commission noted that recent administrations did not have their full leadership teams in place for at least 6 months after the transitions occurred. The Commission recommended that the disruption of national security policymaking during a change of administrations be minimized as much as possible. The Comptroller General suggests that one way to avoid disruption and to provide continuity during transitions is that if the Congress creates Deputy or Assistant National Intelligence Directors, to designate one of them as the Principal Deputy, such as the Director of the Central Intelligence Agency (CIA), whose term appointment, as previously discussed, would not coincide with the term of the National Intelligence Director.

Using Performance Management Systems Is Another Key Practice to Help Transform the Intelligence Community

A central theme of the 9/11 Commission report was that one of the major challenges facing the intelligence community is moving from a culture of a “need to know” to a “need to share.” The Congress and the President are separately considering a series of important structural and policy changes that would facilitate this shift. The experiences of leading organizations suggest that a performance management system can also be a part of the solution. Senator Voinovich, at your request and others, we previously identified leading performance management practices that should prove helpful for intelligence agencies seeking to move to a culture of “need to share” and thus improve their performance.⁷ The key practices are as follows:

⁷GAO, *Results-Oriented Cultures: Creating a Clear Linkage Between Individual Performance and Organizational Success*, GAO-03-488 (Washington, D.C.: Mar. 14, 2003).

Figure 1: Key Practices for Effective Performance Management

1. Align individual performance expectations with organizational goals. An explicit alignment helps individuals see the connection between their daily activities and organizational goals.
2. Connect performance expectations to crosscutting goals. Placing an emphasis on collaboration, interaction, and teamwork across organizational boundaries helps strengthen accountability for results.
3. Provide and routinely use performance information to track organizational priorities. Individuals use performance information to manage during the year, identify performance gaps, and pinpoint improvement opportunities.
4. Require follow-up actions to address organizational priorities. By requiring and tracking follow-up actions on performance gaps, organizations underscore the importance of holding individuals accountable for making progress on their priorities.
5. Use competencies to provide a fuller assessment of performance. Competencies define the skills and supporting behaviors that individuals need to effectively contribute to organizational results.
6. Link pay to individual and organizational performance. Pay, incentive, and reward systems that link employee knowledge, skills, and contributions to organizational results are based on valid, reliable, and transparent performance management systems with adequate safeguards.
7. Make meaningful distinctions in performance. Effective performance management systems strive to provide candid and constructive feedback and the necessary objective information and documentation to reward top performers and deal with poor performers.
8. Involve employees and stakeholders to gain ownership of performance management systems. Early and direct involvement helps increase employees' and stakeholders' understanding and ownership of the system and belief in its fairness.
9. Maintain continuity during transitions. Because cultural transformations take time, performance management systems reinforce accountability for change management and other organizational goals.

Source: GAO.

An effective performance management system is a vital tool for aligning the organization with desired results and creating a “line of sight” showing how team, unit, and individual performance can contribute to overall organizational results. In addition, to be successful, transformation efforts, such as the one envisioned for the intelligence community, must have leaders, managers, and employees who are capable of integrating and creating synergy among the multiple organizations involved. A performance management system can help send unmistakable messages about the behavior that the organization values and that support the organization’s mission and goals, as well as provide a consistent message to employees about how they are expected to achieve results. Thus, as transformation efforts are implemented, individual performance and contributions are evaluated on competencies such as change management,

cultural sensitivity, teamwork, collaboration, and information sharing. Leaders, managers, and employees who demonstrate these competencies are rewarded for their successful contributions to the achievement of the transformation process.

Human Capital Flexibilities Are Also Essential Tools for Intelligence Community Transformation

Significant changes have been underway in the last 3 years regarding how the federal workforce is managed. For example, the Congress passed legislation providing certain governmentwide human capital flexibilities, such as direct hire authority.⁸ In addition, individual agencies—such as the National Aeronautical and Space Administration, the Department of Defense (DOD), and DHS—received flexibilities intended to help them manage their human capital strategically to achieve results. While many federal agencies have received additional human capital flexibilities, others may be both needed and appropriate for the intelligence and other selected agencies. For example, the 9/11 Commission recommends rebuilding CIA's analytical capabilities, enhancing the agency's human intelligence capabilities, and developing a stronger language program. Human capital flexibilities can help agencies like the CIA meet these critical human capital needs.

Therefore, to further enable the intelligence agencies to rapidly meet their critical human capital needs and workforce plans, the Comptroller General suggests that Congress could consider, as necessary, legislation granting selected agency heads the authority to hire a limited number of positions for a stated period of time (e.g., up to 3 years) on a noncompetitive basis. The Congress has passed legislation granting this authority to the Comptroller General of the United States and it has helped GAO address a range of critical needs in a timely, effective, and prudent manner over many years. The Comptroller General was also provided the authority to carry out early retirement offers which may be made to any employee or group of employees based on a number of factors including (1) geographic area, organizational unit, or occupational series or level; or (2) skills, knowledge, or performance, which he suggests would further assist intelligence agencies in planning and shaping their future workforces. For GAO, the Comptroller General can deny any requests for early retirement if he determines that granting them would jeopardize GAO's ability to achieve its mission.

⁸GAO, *Human Capital: Increasing Agencies' Use of New Hiring Flexibilities*, [GAO-04-959T](#) (Washington, D.C.: July 13, 2004).

As the Congress considers reforms to the intelligence community's human capital policies and practices, it should also consider whether agencies have the necessary institutional infrastructure to effect these changes. At a minimum, this infrastructure includes a human capital planning process that integrates the agency's human capital policies, strategies, and programs with its program goals, mission and desired outcomes; the capabilities to effectively develop and implement a new human capital system; and importantly, a performance management system with a set of appropriate principles and safeguards—including reasonable transparency and appropriate accountability mechanisms—to ensure the fair, effective, credible, nondiscriminatory implementation and application of a new system.

FBI Is Using Strategic Human Capital Management to Transform and Meet Post 9/11 Challenges

Human capital challenges are especially significant for the intelligence organizations, such as the FBI, that are undergoing a fundamental transformation in the aftermath of September 11, 2001. For the last 3 years, we have been monitoring the FBI's progress as it transforms itself from its traditional crime enforcement mission to its post September 11 homeland security priorities—counterterrorism, counterintelligence, and cyber crimes. In terms of human capital, this has meant major changes in recruiting, training, and deploying FBI's staff resources. Specifically, the 9/11 Commission recommends that the FBI create a specialized and integrated national security workforce, consisting of agents, analysts, linguists, and surveillance specialists who are recruited, trained, rewarded, and retained to ensure the development of an institutional culture with expertise in intelligence and national security. While the FBI has made admirable progress on a number of these human capital fronts, substantial challenges remain.⁹

Linchpins of any successful transformation are (1) a strategic plan to guide an organization's mission, vision, and the steps necessary to achieve its long-term goals; and (2) a strategic human capital plan linked to the strategic plan that guides recruitment, hiring, training, and retention decisions for staff with skills critical to the organization's mission and goals. In March 2004, we reported that the FBI had completed both of these

⁹GAO, *FBI Transformation: Human Capital Strategies May Assist the FBI in Its Commitment to Address Its Top Priorities*, [GAO-04-817T](#) (Washington, D.C.: June 3, 2004).

plans.¹⁰ With respect to strategic human capital planning, FBI has developed a strategic human capital plan that contains many of the principles that we have laid out for an effective human capital system.¹¹ For example, it highlights the need for the FBI to fill identified skill gaps, in such areas as language specialists and intelligence analysts, by using various personnel flexibilities including recruiting and retention bonuses.¹²

In addition, in the immediate aftermath of September 11, 2001, the FBI undertook a variety of human capital-related initiatives to align with its transformation efforts. These initiatives included realigning, retraining, and hiring special agents and analysts with critical skills to address its top priorities, and taking initial steps to revamp its performance management system.

In relation to realigning resources to fit the new agency priorities, the FBI has transferred agents from its drug, white-collar crime, and violent crime programs to focus on counterterrorism and counterintelligence priorities. This realignment of resources has permanently shifted 674 field agent positions from drug, white-collar, and violent crime program areas to counterterrorism and counterintelligence since September 11, 2001. About 550 of these positions were drawn from the drug crime area. Yet because of demands in the counterterrorism and counterintelligence programs, the FBI has had a continuing need to temporarily redirect special agent resources from traditional criminal investigative programs to address its top priorities.¹³

In terms of retraining its existing staff, the FBI also revamped its special agent training curriculum to enhance skills in counterterrorism investigation techniques. The revised training for new agents was instituted in April 2003 and by the end of that calendar year, it was expected that

¹⁰GAO, *FBI Transformation: FBI Continues to Make Progress in Its Efforts to Transform and Address Priorities*, [GAO-04-578T](#) (Washington, D.C.: Mar. 23, 2004).

¹¹GAO, *A Model of Strategic Human Capital Management*, [GAO-02-373SP](#) (Washington, D.C.: March 2002).

¹²GAO, *Human Capital: Effective Use of Flexibilities Can Assist Agencies in Managing Their Workforces*, [GAO-03-2](#) (Washington, D.C.: Dec. 6, 2002).

¹³GAO, *FBI Transformation: Data Inconclusive on Effects of Shift to Counterterrorism-Related Priorities on Traditional Crime Enforcement*, [GAO-04-1036](#) (Washington, D.C.: Aug. 31, 2004).

agents transferring from more traditional crime areas to work in the priority areas would have received specialized training. To enhance the skills and abilities of FBI analysts, the FBI created the College of Analytic Studies at the Quantico training facility in October 2001. This program, with assistance from CIA personnel, provides training to both new and in-service analysts in tools and techniques for both strategic and technical analysis.

The FBI set ambitious goals for hiring in many specialty areas over the last few years. While it has achieved success in some areas, such as increasing the number of special agents hired with intelligence and foreign language proficiency, achieving other hiring goals has been more challenging. Specifically, the FBI has had some difficulty in retaining and competing with other government agencies and the private sector for intelligence analysts. These problems may be related to the truncated career ladder for intelligence analysts at the FBI compared to the career ladders for the same types of positions at other federal agencies. For example, both the CIA and the National Security Agency (NSA) maintain a career ladder for intelligence staff that includes both senior executive (managerial) and senior level (nonmanagerial) positions. Although, the FBI has actively moved towards establishing a GS-15 senior managerial level position for its intelligence staff, this would still not create a level playing field with the rest of the intelligence community that has the authority to provide positions at the Senior Executive Service (SES) level. Should the FBI decide to adopt senior managerial and SES positions for its intelligence staff, the agency will need to develop and implement a carefully crafted plan that includes specific details on how such an intelligence career service would integrate into its strategic plan as well as its strategic human capital plan, the expectations and qualifications for the positions, and how performance would be measured.

As discussed previously, an effective performance management system is a vital tool for aligning the organization with desired results and showing how team, unit, and individual performance can contribute to overall organizational results. As we have previously reported, the current FBI system for rating agents and analysts—a pass/fail system—is inadequate to achieve that needed linkage. A successful performance management system should make meaningful distinctions in performance so that staff can understand their role in relation to agency objectives. It should also map a course of progress to improve performance so that it more closely aligns with agency goals. The FBI has made progress in adjusting its performance management system for senior executives to conform to the

performance management principles that I previously discussed. Although FBI's human capital plan indicates that it is also moving in the direction of changing the performance management system for agents and analysts, a major effort will be needed before it is operational.

As we have highlighted, in recent years, the FBI has used a variety of available human capital flexibilities, such as recruitment bonuses and retention allowances, to help recruit and retain valuable staff resources. As with any organization undergoing transformation and considering the use of additional human capital strategies, the FBI would have to weigh all options that are available to it before implementing a successful human capital strategy, including using existing administrative flexibilities and requesting new legislative alternatives. The FBI would also need to ensure that it has the institutional infrastructure in place so that any human capital flexibilities are used appropriately.

Many Factors Must Be Considered in Approach to Government Security Clearance Process

The 9/11 Commission also raised concerns about minimizing national security policymaking disruptions during the change of administrations by accelerating the process for national security appointments. The Commission recommended that a single federal agency should be responsible for providing and maintaining security clearances and for ensuring uniform security clearance standards, including maintaining a single governmentwide database of clearance information, as a way to address this concern. In prior work, we have found that many factors must be considered in addressing the government security clearance process. These factors include the personnel security clearance criteria and process, recent actions that DOD has taken to consolidate investigative and adjudicative functions, and existing impediments and internal control concerns for security clearance programs.

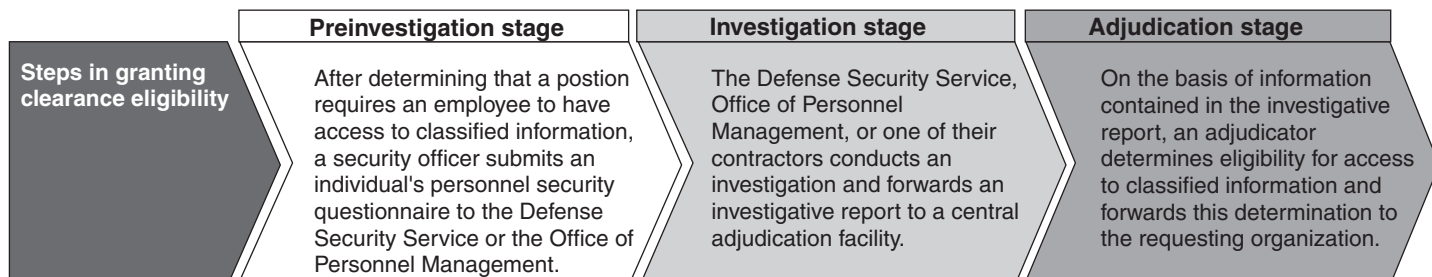
All Security Clearances Are Already Governed by the Same Criteria and General Process

In considering ways in which to approach the government's security clearance process, it is helpful to note that since 1997, all agencies have been subject to a common set of personnel security investigative standards and adjudicative guidelines for determining whether service members, government employees, industry personnel, and others are

eligible to receive a security clearance.¹⁴ Classified information is categorized into three levels—top secret, secret, and confidential.¹⁵ The expected damage to national defense or foreign relations that unauthorized disclosure could reasonably be expected to cause is “exceptionally grave damage” for top secret information, “serious damage” for secret information, and “damage” for confidential information.

In addition, all agencies generally follow a similar clearance process. DOD’s process for determining eligibility is used here to illustrate the stages required in making such a determination for federal agencies. We are highlighting DOD’s process because, as of September 30, 2003, DOD was responsible for the clearances issued to approximately 2 million personnel, including nearly 700,000 industry personnel who work on contracts issued by DOD and 22 other federal agencies¹⁶ as well as staff in the legislative branch of the federal government. (see fig. 2).

Figure 2: DOD’s Personnel Security Clearance Process



Source: DOD.

¹⁴The White House, “Implementation of Executive Order 12968,” Memorandum, (Washington, D.C.: Mar. 24, 1997). This memorandum approves the adjudication guidelines, temporary eligibility standards, and investigative standards required by Executive Order 12968, *Access to Classified Information*, (Aug. 2, 1995).

¹⁵Classification of National Security Information, 5 C.F.R. §1312.4 (2003).

¹⁶GAO, *DOD Personnel Clearances: Additional Steps Can Be Taken to Reduce Backlogs and Delays in Determining Security Clearance Eligibility for Industry Personnel*, [GAO-04-632](#) (Washington, D.C.: May 26, 2004) for a listing of the 22 agencies. DOD Regulation 5200.2-R, *DOD Personnel Security Program* (Feb. 23, 1996) describes the clearance process for legislative staff.

Recent Attempts to Consolidate Some Investigative and Adjudicative Functions

In terms of centralizing personnel investigations, The National Defense Authorization Act for Fiscal Year 2004 authorized an action that, if taken, would result in the Office of Personnel Management (OPM) being responsible for an estimated 80 percent of the personnel investigations conducted for the federal government.¹⁷ The Act authorized the transfer of DOD's personnel security investigative functions and 1,855 investigative employees to OPM. OPM indicated that it will not accept the transfer at least during fiscal year 2004 because of concerns about the financial risk associated with the authorized transfer. DOD and OPM have, however, signed a memorandum of understanding that, among other things, results in OPM providing DOD investigative staff with training on OPM's investigative procedures as well as training on and access to OPM's case management system.

As for centralizing the adjudication steps in the clearance process, in May 2004, we reported that DOD's Senior Executive Council was considering the consolidation of the clearance adjudicative functions that two of DOD's 10 central adjudication facilities perform.¹⁸ A DOD official told us that the consolidation would provide greater flexibility in using adjudicators to meet changes in the clearance approval workload and could eliminate some of the time required to transfer cases between adjudication facilities. A wider-ranging adjudicative initiative is also being undertaken in DOD. When fully implemented, the Joint Personnel Adjudication System (JPAS) is supposed to enhance DOD's adjudicative capabilities by—among other things—consolidating information into a DOD-wide security clearance data system (instead of maintaining the data on 10 adjudication facility-specific systems), providing near real-time input and retrieval of clearance-related information, and improving the ability to monitor overdue reinvestigations and estimate the size of that portion of delayed clearances. JPAS, identified as mission critical by the DOD Chief Information Officer, was supposed to be implemented in fiscal year 2001 and is now projected for full implementation sometime in fiscal year 2004. Even though JPAS may consolidate adjudicative data on the approximately 2 million clearances

¹⁷ Pub. L. 108-136 § 906 (Nov. 24, 2003).

¹⁸ [GAO-04-632](#); GAO, *DOD Personnel Clearances: DOD Needs to Overcome Impediments to Eliminating Backlog and Determining Its Size*, [GAO-04-344](#) (Washington, D.C.: Feb. 9, 2004) lists DOD's current 10 central adjudication facilities and the roles that each plays in awarding clearances.

that DOD had on September 30, 2003, other agencies, such as the FBI, maintain their own databases with adjudicative information.

Addressing Existing Impediments and Internal Control Concerns is Important to Any Consolidation Decision

Regardless of the decision about whether or not to consolidate investigative and adjudicative functions governmentwide, existing impediments—such as the lack of a governmentwide database of clearance information—hinder efforts to provide timely, high-quality clearance determinations. I will discuss two of those major impediments—large workloads and too few investigators, and two internal control issues. The remainder of this section relies heavily on work that we conducted on DOD’s investigative and adjudicative functions because there is a dearth of reports available on these functions in other federal departments and agencies.

The large number of requests for security clearances for service members, government employees, and industry personnel taxes a process that already is experiencing backlogs and delays. In fiscal year 2004, GAO published reports documenting the numbers of clearance requests and delays in completing investigations by DOD (for service members, government employees and industry personnel), OPM (for DOD and the Federal Air Marshal Service), and the FBI (for state and local law enforcement officials).¹⁹ In fiscal year 2003, DOD submitted over 775,000 requests for investigations. The large number of investigative and adjudicative workload requirements is also found in the form of a growing portion of the requests requiring top secret clearances, in at least one segment of the population. From fiscal year 1995 through fiscal year 2003, the proportion of all requests requiring top secret clearances for industry personnel grew from 17 to 27 percent. According to DOD, top secret clearances take 8 times more investigative effort to complete and 3 times more adjudicative effort to review than do secret clearances. In addition, a top secret clearance must be renewed twice as often as a secret clearance—every 5 years instead of every 10 years. The full effect of

¹⁹GAO-04-344; GAO-04-632; GAO, *DOD Personnel Clearances: Preliminary Observations Related to Backlogs and Delays in Determining Security Clearance Eligibility for Industry Personnel*, GAO-04-202T (Washington, D.C.: May 6, 2004); GAO, *Aviation Security: Federal Air Marshal Service Is Addressing Challenges of Its Expanded Mission and Workforce, but Additional Actions Needed*, GAO-04-242 (Washington, D.C.: Nov. 19, 2003); and GAO, *Security Clearances: FBI Has Enhanced Its Process for State and Local Law Enforcement Officials*, GAO-04-596 (Washington, D.C.: Apr. 30, 2004).

requesting a top secret, rather than a secret clearance, thus is 16 times the investigative effort and 6 times the adjudicative effort.

The limited number of investigative staff available to process requests hinders efforts to issue timely clearances. According to a senior OPM official, DOD and OPM together need roughly 8,000 full-time-equivalent investigative staff to eliminate the security clearance backlogs and deliver timely investigations to their customers. However, in our February report, GAO estimated that DOD and OPM have around 4,200 full-time-equivalent investigative staff who are either federal employees or contract investigators, slightly more than half as many as needed.²⁰

Internal control concerns are also present with regard to personnel security clearances. A 1999 GAO report documented problems with the quality of DOD personnel security clearance investigations. The severity of these problems led DOD to declare its investigations program a systemic weakness under the Federal Managers' Financial Integrity Act.²¹ That declaration has continued to be made each year in DOD's annual statement of assurance. We continued to track these issues and in 2001, we recommended DOD establish detailed documentation requirements to support adjudicative decisions as a way to strengthen internal controls.²² Three years earlier, the DOD Office of the Inspector General stated that no DOD office is assigned the responsibility to ensure that the various adjudication facilities consistently implement adjudicative policies and procedures.

When OPM was privatizing its investigative function in 1996 to create the company that still conducts the vast majority of OPM's investigations for the federal government, we raised an internal control concern, namely that OPM's contract with the newly created company would require the contractor to conduct personnel security clearance investigations on its own employees.²³ This remains one area of concern because OPM officials

²⁰GAO-04-344.

²¹GAO, *DOD Personnel: Inadequate Personnel Security Investigations Pose National Security Risks*, GAO/NSIAD-00-12 (Washington, D.C.: Oct. 27, 1999).

²²GAO, *DOD Personnel: More Consistency Needed in Determining Eligibility for Top Secret Security Clearances*, GAO-01-465 (Washington, D.C.: Apr. 18, 2001).

²³GAO, *Privatization of OPM's Investigations Service*, GAO/GGD-96-97R (Washington, D.C.: Aug. 22, 1996).

told us in April 2003 that its contractors were still conducting the investigations on its own personnel.

Conclusions

The 9/11 Commission recognized that fundamental changes in the management of human capital in the intelligence and homeland security communities will improve the efforts of these communities to effectively carry out its fundamental mission—to gather and share intelligence that will ultimately help to protect the American people.

Human capital considerations, such as the recruitment and retention of key skills and competencies, performance incentives to share information, and more flexible approaches to the management of human capital, are crucial to the success of the intelligence community reforms envisioned by the 9/11 Commission, and agencies involved with the intelligence community will need the most effective human capital systems to succeed in their transformation efforts. Thus, strategic management of human capital is one such reform critical to maximizing the performance of the intelligence community.

Committed, sustained, highly qualified, and inspired leadership, and persistent attention by all key parties to the successful implementation of these reforms and organizational transformations will be essential, if lasting changes are to be made and the challenges we are discussing today are to be effectively addressed.

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

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