# GAO

**January 2003**

# High-Risk Series

# Strategic Human Capital Management

**GAO**

Accountability ★ Integrity ★ Reliability

## This Series

This report on strategic human capital management is part of GAO's high-risk series, first issued in 1993 and updated periodically. This series identifies areas at high risk due to either their greater vulnerabilities to waste, fraud, abuse, and mismanagement or major challenges associated with their economy, efficiency, or effectiveness. A companion series entitled the *Performance and Accountability Series: Major Management Challenges and Program Risks* contains separate reports covering each cabinet department, most major independent agencies, and the U.S. Postal Service. The series also includes a governmentwide perspective on transforming the way the government does business in order to meet 21st century challenges and address long-term fiscal needs. A list of all of the reports in this series is included at the end of this report.

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# Highlights

Highlights of a high-risk area discussed in the GAO report entitled High-Risk Series: Strategic Human Capital Management (GAO-03-120)

# HIGH-RISK SERIES

# Strategic Human Capital Management

## Why Area Is High Risk

In its January 2001 *High-Risk Update* (GAO-01-263), GAO designated strategic human capital management as a governmentwide high-risk area.  The basic problem, which continues today, 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.

This report is part of a special series of reports on governmentwide and agency-specific challenges.

## What Remains to Be Done

Reaching and maintaining an approach to human capital management that is strategic will take considerable effort from the Congress, agencies, the Office of Personnel Management, and the Office of Management and Budget. Ultimately, Congress will need to consider additional legislative reforms to existing civil service laws.  While momentum continues to build for comprehensive civil service reform, agencies need to use currently available flexibilities to recruit, hire, develop, retain, and hold employees accountable for mission accomplishment.

www.gao.gov/cgi-bin/getrpt?GAO-03-120.

For additional information about this high-risk area, click on the link above or contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

## What GAO Found

Leading public organizations here and abroad have found that strategic human capital management must be the centerpiece of any serious change management initiative and efforts to transform the cultures of government agencies.  Unfortunately, the federal government's strategic human capital approaches are not yet well positioned to enable the needed transformation.

Since we designated strategic human capital management as a governmentwide high-risk area in January 2001, Congress has taken a number of steps to address the challenges identified, including granting agencies significant new authorities for managing their human capital as part of the Homeland Security Act of 2002.  The strategic management of human capital was also placed at the top of the President's Management Agenda. Individual agencies have also taken action to address their specific challenges.

Despite the considerable progress over the past 2 years, it remains clear that today's federal human capital strategies are not appropriately constituted to meet current and emerging challenges or to drive the needed transformation across the federal government.  Specifically, agencies continue to face challenges in four key areas:

- *Leadership*: Top leadership in the agencies must provide the committed and inspired attention needed to address human capital and related organization transformation issues.
- *Strategic Human Capital Planning*: Agencies' human capital planning efforts need to be more fully and demonstrably integrated with mission and critical program goals.
- *Acquiring, Developing, and Retaining Talent*: Additional efforts are needed to improve recruiting, hiring, professional development, and retention strategies to ensure that agencies have the needed talent.
- *Results-Oriented Organizational Cultures*: Agencies continue to lack organizational cultures that promote high performance and accountability and empower and include employees in setting and accomplishing programmatic goals.

Importantly, although strategic human capital management remains high – risk governmentwide, federal employees are not the problem.  Rather, the problem is a set of policies and practices that are not strategic, and viewed by many as outdated and over-regulated.  In the final analysis, modern, effective, and credible human capital strategies will be essential in order to maximize the performance and assure the accountability of the government for the benefit of the American people.

**United States General Accounting Office**

# Contents

# G A O
**Accountability ★ Integrity ★ Reliability**

**United States General Accounting Office**
**Washington, D.C. 20548**

**Comptroller General**
**of the United States**

January 2003

The President of the Senate
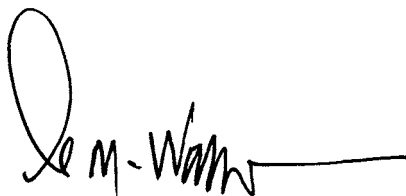The Speaker of the House of Representatives

Our high-risk update is provided at the start of each new Congress in conjunction with a special series we have issued biennially since January 1999, entitled the *Performance and Accountability Series: Major Management Challenges and Program Risks*. This report, which discusses strategic human capital management, is a companion to our 2003 high-risk update, *High-Risk Series: An Update* (GAO-03-119). These reports are intended to help the new Congress focus its attention on the most important issues and challenges facing the federal government.

In its January 2001 *High-Risk Update* (GAO-01-263), GAO designated strategic human capital management as a governmentwide high-risk area. The basic problem, which continues today, 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. Specifically, agencies across the federal government continue to face challenges in four key areas:

- **Leadership**: Top leadership in the agencies must provide the committed and inspired attention needed to address human capital and related organization transformation issues.

- **Strategic Human Capital Planning**: Agencies' human capital planning efforts need to be more fully and demonstrably integrated with mission and critical program goals.

- **Acquiring, Developing, and Retaining Talent**: Additional efforts are needed to improve recruiting, hiring, professional development, and retention strategies to ensure that agencies have the needed talent.

- **Results-Oriented Organizational Cultures**: Agencies continue to lack organizational cultures that promote high performance and accountability and empower and include employees in setting and accomplishing programmatic goals.

This report should help the new Congress and the administration attend to these problems and improve agency strategic human capital management for the benefit of the American people. For additional information about this report, please contact J. Christopher Mihm, Director, Strategic

Issues, at (202) 512-6806 or mihmj@gao.gov.  Related GAO products on strategic human capital management are listed at the end of this report.

David M. Walker
Comptroller General
of the United States

# Strategic Human Capital Management: A High-Risk Area

The early years of the 21st century are proving to be a period of profound transition for our world, our country, and our government. As the governmentwide perspective volume of this series makes clear, this transition is being driven by a number of key trends, including global interdependence; diverse, diffuse, and asymmetrical security threats; changes in the nature of the economy; rapidly evolving science and technologies; dramatic shifts in the age and composition of our population; important quality of life issues; and evolving government structures and concepts. Given the challenges these trends present, the federal government needs to engage in a comprehensive review, reassessment, reprioritization, and as appropriate, a reengineering of what the government does, how it does business, and in some cases, who does the government's business. Leading public organizations here and abroad have found that strategic human capital management should be the centerpiece of any serious change management initiative and efforts to transform the cultures of government agencies.

Since we designated strategic human capital management as a governmentwide high-risk area in January 2001, Congress and agencies have taken a number of steps to address the federal government's human capital shortfalls. In August 2001, President Bush placed the strategic management of human capital at the top of the administration's management agenda. Later, in November 2002, Congress passed the Homeland Security Act of 2002 that created the Department of Homeland Security (DHS), and provided the new department with significant flexibility to design a modern human capital management system.[1] This act also included additional significant provisions relating to governmentwide human capital management.

Nevertheless, despite building momentum for comprehensive and systematic reforms, it remains clear that today's 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, which continues today, 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. Importantly, although strategic human capital management remains high risk governmentwide, federal employees are not the problem. Rather, the

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[1]Public Law 107-296, Nov. 25, 2002.

problem is a set of policies that are viewed by many as outdated, overregulated, and not strategic. Human capital weaknesses in the federal government did not emerge overnight and will not be quickly or easily addressed. Committed, sustained, and inspired leadership and persistent attention on behalf of all interested parties will continue to be essential to build on the progress that has been and is being made, if lasting reforms are to be successfully implemented.

# Important Actions Taken since January 2001

A real and growing momentum for change is evident since we placed strategic human capital management on our high-risk list in January 2001.

- In August 2001, President Bush placed the strategic management of human capital at the top of the administration's management agenda.

- In October 2001, the Office of Management and Budget (OMB) notified agencies that they would be assessed against standards for success for each part of the President's Management Agenda (PMA), including the strategic management of human capital. The first agency assessment was made public in February 2002 as part of the President's proposed fiscal year 2003 budget. Subsequent assessments were later released in June and September 2002, reporting on both the status and progress of agency efforts.

- In December 2001, the Office of Personnel Management (OPM) released a human capital scorecard to assist agencies in responding to the human capital standards for success in the PMA.

- In March 2002, we released *A Model of Strategic Human Capital Management*, designed to help agency leaders determine how well they integrate human capital considerations into daily decision making and planning for the program results they seek to achieve.[2]

- In April 2002, the Commercial Activities Panel, chaired by the Comptroller General, sought to elevate attention to human capital considerations in making sourcing decisions.

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[2]GAO-02-373SP.

- In October 2002, OMB and OPM approved revised standards for success in the human capital area of the PMA, reflecting language that was developed in collaboration with GAO. To assist agencies in responding to the revised PMA standards, OPM released the *Human Capital Assessment and Accountability Framework.*

- In the fall of 2002, OPM began realigning it organizational structure and appointed four new associate directors with proven human capital expertise to lead federal efforts as part of a larger OPM effort to be more customer-focused.

- In November 2002, Congress passed the Homeland Security Act of 2002, which created DHS and provided the department with significant flexibility to design a modern human capital management system. The effective development and implementation of these flexibilities will prove essential to the performance and accountability of DHS, as well as provide a potential model for Congress to consider for wider application governmentwide.

- The Homeland Security Act of 2002 also included additional significant provisions relating to governmentwide human capital management, such as direct hire authority, the ability to use categorical ranking in the hiring of applicants instead of the "rule of three," the creation of chief human capital officer (CHCO) positions and a CHCO Council, an expanded voluntary early retirement and "buy-out" authority, a requirement to discuss human capital approaches in Government Performance and Results Act reports and plans, a provision allowing executives to receive their total performance bonus in the year in which it is awarded, and other flexibilities.

- Congress has further underscored the consequences of human capital weaknesses in federal agencies and pinpointed potential solutions through its oversight process and a range of hearings.

A number of individual agencies have also begun efforts to address human capital challenges. The Department of Defense (DOD) published two human capital strategic plans in April 2002, addressing military personnel priorities and quality of life issues affecting service members and their families. These plans represent a positive step forward in fostering a more strategic approach to human capital management within DOD.[3] In addition, the National Aeronautics and Space Administration (NASA) is developing an agencywide workforce planning and analysis system as part of its new financial management system and has in place a strategic human capital plan. It is also refocusing attention on hiring applicants just out of college and implementing a student loan repayment program.[4] Facing immense challenges within its first year of existence, the Transportation Security Administration (TSA) has simultaneously started to build the infrastructure of a large organization as it focused primarily on meeting its aviation deadlines. TSA reports that in just over 1 year it recruited, hired, trained, and deployed more than 44,000 screeners in order to meet its mandated deadlines to federalize passenger screening at airports across the nation by November 19, 2002, and screen every piece of checked baggage for explosives by December 31, 2002.[5] Additionally, a number of federal agencies are in the early stages of implementing new performance management systems for their senior executives that are intended to balance accountability for organizational results with a focus on customer satisfaction and a consideration of employee perspectives.[6]

In addition to efforts being taken by the federal government, the National Academy of Public Administration, the Partnership for Public Service, the National Commission on the Public Service, the Kennedy School of Government at Harvard University, the Council for Excellence in Government, the IBM Endowment for the Business of Government, and other interested parties have played valuable and important roles in

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[3]U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Defense*, GAO-03-98 (Washington, D.C.: Jan. 30, 2003), and *Military Personnel: Oversight Process Needed to Help Maintain Momentum of DOD's Strategic Human Capital Planning*, GAO-03-237 (Washington, D.C.: Dec. 5, 2002).

[4]U.S. General Accounting Office, *NASA Management Challenges: Human Capital and Other Critical Areas Need to Be Addressed*, GAO-02-945T (Washington, D.C.: July 18, 2002).

[5]U.S. General Accounting Office, *Transportation Security Administration: Actions and Plans to Build a Results-Oriented Culture*, GAO-03-190 (Washington, D.C.: Jan. 17, 2003).

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

drawing attention to problems and potential solutions to address federal
human capital challenges.

# Continuing Weaknesses Underscore Need for Further Progress

Federal employees have often been viewed as costs to be cut rather than as
assets to be valued.  This is partially reflected in the September 2002 PMA
human capital scores assigned to agencies in which 21 of 26 agencies
received "red" scores, indicating substantial weaknesses in one or more of
the human capital areas.[7]  Governmentwide, agencies have only recently
begun to recognize and respond to the two principles that are central to the
human capital idea:

- People are assets whose value can be enhanced through investment.  As
  with any investment, the goal is to maximize value while managing risk.

- An organization's human capital approaches should be designed,
  implemented, and assessed by the standard of how well they help the
  organization achieve results and pursue its mission.

Specifically, agencies across the federal government continue to face
challenges in the four key areas that we highlighted in January 2001 when
we added strategic human capital management to the high-risk list.

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[7]This represents the third set of agency grades released as part of the PMA.  A baseline
evaluation was originally released in February 2002 as part of the President's fiscal year 2003
budget message.  A second set of grades on progress and current status was released in June
2002.

**High Risk Challenges**

- Leadership
- Strategic Human Capital Planning
- Acquiring, Developing, and Retaining Talent
- Results-Oriented Organizational Cultures

## Leadership

To become a high-performing organization, an agency needs senior leaders who are drivers of continuous improvement and stimulate and support efforts to integrate human capital approaches with organizational goals. There is no substitute for the committed involvement of top leadership. Our work over the years, most prominently in the *High-Risk* and *Performance and Accountability Series*, has amply documented that agencies are suffering from a range of long-standing management problems that are undermining their abilities to effectively and efficiently accomplish their missions and achieve results. The nature of the management challenges and transformation issues confronting many agencies calls for approaches from leaders governmentwide that serve to

- elevate attention to management issues and organization transformation,

- integrate various key management and transformation efforts, and

- institutionalize accountability for addressing management issues and leading organization transformation.

As detailed in the DHS volume of the *Performance and Accountability Series*, the creation of DHS will represent an enormous leadership challenge, encompassing each of the four key human capital challenge areas and many other management systems.[8] Over 170,000 federal employees from over 20 originating agencies or their components with different missions, cultures, and procedures will need to be effectively and efficiently integrated into a single department. Sustained and inspired political and career leadership will be essential to the successful implementation and transformation of DHS.

To assist DHS and other federal agencies undergoing transformation, we convened a forum composed of participants with experience in managing and studying large-scale mergers, acquisitions, and transformations, and individuals with recent executive branch leadership experience and/or significant management experience.[9] The forum identified key practices that have consistently been at the center of successful mergers, acquisitions, and transformations. We convened an additional forum to discuss strategies for addressing certain systemic federal governance and management challenges.[10]

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[8]U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Homeland Security*, GAO-03-102 (Washington, D.C.: Jan. 30, 2003).

[9]U.S. General Accounting Office, *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).

[10]U.S. General Accounting Office, *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).

More generally, elevating, integrating, and institutionalizing attention, responsibility, and accountability for management reform and organizational transformation is important because of the sustained, continuing efforts that are required. The experience of successful change management initiatives in large public and private organizations suggests that it can often take 5 to 7 years until such initiatives are fully implemented and cultures are transformed in a substantial manner. This time frame can easily outlast the tenures of top agency political leadership. Governmentwide, the average tenure of political appointees for the period 1990 through 2001 was just under 3 years.[11] The average tenure of political leadership and the long-term nature of the change management initiatives that are needed can have critical implications for the success of those initiatives. For example, the Federal Energy Regulatory Commission (FERC), which is responsible for regulating and overseeing major aspects of the natural gas and electric power industries, has been slow to implement a new regulatory and oversight approach in response to the shift to competitive energy markets, due in part to frequent turnover in the position of chief administrator over the past 5 years.[12]

Career executives must help provide the long-term commitment and focus needed to transform an agency. However, the challenges facing our executive corps require a comprehensive examination of opportunities for better using the federal government's career SES leadership. These issues include concerns about Senior Executive Service (SES) compensation and pay compression, including making pay increases variable and performance-based rather than across-the-board and fixed. The composition of the SES must also be carefully examined. In general, current members of the SES fill three broad roles: executive leadership, program management, and senior technical and specialist positions. The implications that these differing roles have for a range of issues, such as SES core competencies, performance standards, recruitment sources,

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[11]This analysis included only those appointed after October 1, 1989 (fiscal year 1990) who left before September 30, 2001 (fiscal year 2001). Political appointees who were appointed before October 1, 1989 or who had not left by September 30, 2001 were not included because they did not have appointment or separation dates in the database we reviewed and thus we could not determine their length of service. Separations included resignations, terminations, retirements, and deaths.

[12]U.S. General Accounting Office, *Energy Markets: Concerted Actions Needed by FERC to Confront Challenges That Impede Effective Oversight,* GAO-02-656 (Washington, D.C.: June 14, 2002).

mobility, and training and development programs need to be carefully considered.

In addition to addressing structural challenges facing the SES, the retirement eligibility of executives is increasing governmentwide. For example, 71 percent of career SES members will reach retirement eligibility by the end of fiscal year 2005. Comparatively, during fiscal years 1992 through 1998, 60 percent of career SES members became eligible to retire. The retirement eligibility trend suggests a loss in institutional knowledge, expertise, and leadership continuity and underscores the need for rigorous succession planning initiatives.

Furthermore, as reported by the Merit Systems Protection Board (MSPB), one of the pipelines for future executives, the Presidential Management Intern (PMI) program, designed to attract outstanding individuals to careers in the management and analysis of public policies and programs, is not universally viewed as a vehicle to hire and train future public managers.[13] According to the MSPB study, neither OPM nor participating agencies consistently stress the management development aspects of the PMI program.

## Strategic Human Capital Planning

High performing organizations align their human capital approaches with mission and goal accomplishment. They stay alert to emerging mission demands and human capital challenges and reevaluate their human capital approaches through the use of valid, reliable, and current data, including an inventory of employee skills and competencies. The absence of such data can seriously undermine efforts to identify and respond to current and emerging challenges.

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[13]U.S. Merit Systems Protection Board, *Growing Leaders: The Presidential Management Intern Program* (Washington, D.C.: August 2001).

We have noted that the Securities and Exchange Commission (SEC) lacks a comprehensive workforce plan, despite its being plagued by a rapidly increasing workload, and staff turnover that remains much higher than the norm for comparable federal positions, and at a time when the agency is trying to respond to a wave of corporate accounting scandals.[14] Likewise, although the Federal Aviation Administration (FAA) estimates that nearly 50 percent of currently employed air traffic controllers will retire by 2010, it has not developed a comprehensive human capital management strategy for hiring, training, and retaining controllers, thus increasing the risk that the agency will not have enough qualified controllers to meet air traffic demand.[15] More generally, we estimate that 15 percent of the federal workforce will retire from 2001 through 2006.[16] This creates an opportunity to consider the potential of different approaches to phased retirement, such that federal employees with critical skills could transition from full-time employment to part-time employment and receive a portion of their federal pension.

Some federal agencies, on the other hand, are beginning strategic human capital planning efforts. For example, the Environmental Protection Agency (EPA) released its workforce strategy in November 2000, which clearly identifies six major human capital goals, discusses implementation plans, and identifies units within the agency that are responsible for implementation. However, as we noted in our July 2001 report, the strategy does not explain how achieving its human capital objectives will improve the agency's performance in meeting its strategic objectives, and does not provide results-oriented measures for tracking the success of the human capital approaches.[17] In response to our recommendations, EPA has begun to develop a workforce planning system that is expected to identify the

[14]U.S. General Accounting Office, *SEC Operations: Increased Workload Creates Challenges*, GAO-02-302 (Washington, D.C.: Mar. 5, 2002), and *Securities and Exchange Commission: Human Capital Challenges Require Management Attention*, GAO-01-947 (Washington, D.C.: Sept. 17, 2001).

[15]U.S. General Accounting Office, *Air Traffic Control: FAA Needs to Better Prepare for Impending Wave of Controller Attrition*, GAO-02-591 (Washington, D.C.: June 14, 2002).

[16]U.S. General Accounting Office, *Federal Employee Retirements: Expected Increase Over the Next 5 Years Illustrates Need for Workforce Planning*, GAO-01-509 (Washington D.C.: Apr. 27, 2001).

[17]U.S. General Accounting Office, *Human Capital: Implementing an Effective Workforce Strategy Would Help EPA to Achieve Its Strategic Goals*, GAO-01-812 (Washington, D.C.: July 31, 2001).

technical skills and number and types of positions required, inventory the skills of the current workforce, examine attrition rates, and forecast the number of new hires needed.

Careful and thoughtful workforce planning efforts are also critical to making intelligent competitive sourcing decisions. The Commercial Activities Panel called for federal sourcing policy to be "consistent with human capital practices designed to attract, motivate, retain, and reward a high performing workforce" and highlighted a number of human capital approaches to help achieve that objective.[18]

## Acquiring, Developing, and Retaining Talent

A high-performance organization needs a dynamic, results-oriented workforce with the requisite talents, multidisciplinary knowledge, and up-to-date skills to ensure that it is equipped to accomplish its mission and achieve its goals. To acquire and retain such a workforce and replace the sizeable cohort of federal employees eligible for retirement over the coming years demands that agencies improve their recruiting, hiring, development, and retention approaches so that they can compete for talented people. As human capital approaches are designed to confront this challenge, agencies should take advantage of available flexibilities that are appropriate for their particular organizations and their mission accomplishment.

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[18]Commercial Activities Panel, *Improving the Sourcing Decisions of Government: Final Report* (Washington, D.C.: April 2002).

While federal agencies shift program priorities and policies to respond to a dynamic environment, they should also be aware of and have the policies and programs in place to respond to the recruiting, hiring, and development challenges associated with the transformation. For example, we have reported on the talent challenges facing consular staff worldwide, including a changing workload due to new security procedures that are compounded by staffing limitations and the shortcomings of the training offered to these staff before July 2002.[19] However, should the Congress decide to require visas from current visa waiver travelers, the State Department would be faced with an even greater challenge to hire and train new staff to handle the resulting workload increase. Depending on the percentage of visa applicants that State would be required to interview due to the policy change, it could take at least 2 to 4 years to hire and train the needed personnel, according to our November 2002 report.[20] In addition to the approximately 840 foreign service officers who are currently overseas, we estimate that State would need from 350 to 800 additional officers to implement the proposed changes to the visa waiver program.

The Food and Drug Administration's (FDA) success in ensuring the timely review of drugs and biologics depends how well it faces the challenge of hiring and retaining its workforce. With the exception of chemists, FDA's attrition rate for employees in its drug review process is higher than the comparable attrition rates for the same disciplines at the Centers for Disease Control and Prevention, the National Institutes of Health, and similar disciplines governmentwide. The loss of staff is aggravated by the time the agency needs to hire and train replacement staff. Furthermore, the agency's currently employed reviewers have been forgoing training and professional development to meet statutory drug review timelines. To respond to the challenge, FDA has implemented a number of initiatives to reduce attrition, including the payment of retention bonuses, so that it can maintain the science base it needs to review increasingly complex applications for new drugs.

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[19]U.S. General Accounting Office, *Border Security: Visa Process Should be Strengthened as an Antiterrorism Tool*, GAO-03-132NI (Washington, D.C.: Oct. 21, 2002).

[20]U.S. General Accounting Office, *Border Security: Implications of Eliminating the Visa Waiver Program*, GAO-03-38 (Washington, D.C.: Nov. 22, 2002).

A particularly critical area on which to focus better investments and more attention in training and professional development is contract management. For example, the Department of Housing and Urban Development (HUD) has not taken steps to ensure that individuals responsible for managing and monitoring contracts have the skills and training that would enable them to perform their jobs effectively.[21] According to HUD's records, over half of the staff who are directly responsible for monitoring contractor performance have not received required acquisition training. HUD's procurement office management was not aware that staff were serving in that capacity without the required training. In response to our report, the department stated that it plans to take action to improve the management of its acquisition workforce, but that it believes its acquisition workforce is receiving the required training in accordance with federal requirements. We remain concerned that a significant portion of the staff responsible for contractor monitoring has not received the appropriate training.

The effective, efficient, and transparent use of human capital flexibilities must be a key component of agency efforts to address staffing shortages and related human capital challenges. We have observed that agencies should use available authorities to overcome the human capital challenges they face. Moreover, the Homeland Security Act of 2002 not only provided the President with additional authority to create new policies for managing the workforce within DHS, it also authorized additional personnel flexibilities to agencies across government. We have noted that while authorizing additional flexibilities is important, how personnel authorities are implemented is equally important. To assist agencies in that regard, we recently reported on a set of practices that are key to the effective use of flexibilities.[22] These practices are shown in figure 1.

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[21]U.S. General Accounting Office, *HUD Management: Actions Needed to Improve Acquisition Management*, GAO-03-157 (Washington, D.C.: Nov. 15, 2002).

[22]U.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**

- **Plan strategically and make targeted investments**. Agencies need to ensure that the use of flexibilities is part of an overall human capital strategy clearly linked to the program goals of the organization. Agencies also need a sound plan for how they will use and fund the authorities.

- **Ensure stakeholder input in developing policies and procedures.** Agency leaders, managers, employees, and employee unions must work together and in a constructive and cooperative manner to effectively implement any flexibility in order to reach agreement on the need for change, the direction and scope that change will take, and how progress will be assessed.

- **Educate managers and employees on the availability and use of flexibilities.** Agencies' human capital offices need to ensure that they have effective campaigns not only to inform managers of their personnel authorities, but also to explain the situations where the use of those authorities is appropriate. Agencies also need to inform employees about relevant policies and procedures and about the employees' rights related to the use of these authorities.

- **Streamline and improve administrative processes.** Agencies should streamline administrative processes for using flexibilities and review self-imposed constraints that may be excessively process-oriented.

- **Build transparency and accountability into the system.** Agencies should delegate authority to use flexibilities to appropriate levels within the agency. Agencies must develop clear and transparent guidelines for using flexibilities and then hold managers and supervisors accountable for their fair and effective use. Agencies can also make public the extent to which the flexibilities are used and the results of the flexibilities. Finally, agencies' use of flexibilities should, as appropriate, be subject to internal and external evaluations.

- **Change the organizational culture.** Agencies need to address managers' and supervisors' concerns that employees will view the use of some flexibilities as unfair. Also, with appropriate accountability mechanisms in place, agencies can begin to foster an organizational culture that encourages managers to develop creative approaches and take appropriate risks.

Source: GAO.

## Results-Oriented Organizational Cultures

Federal agencies need to continue to incorporate a crucial ingredient found in successful organizations: organizational cultures that promote high performance and accountability and empower and include employees in setting and accomplishing the organization's programmatic goals. To foster results-oriented cultures, leading organizations have recognized that an effective performance management system can be a strategic tool to drive internal change and achieve external results. Effective performance management systems create a "line of sight" showing how unit, team, and individual performance can contribute to overall organizational goals. We have reported that this "line of sight" can help the Federal Bureau of Investigation (FBI) improve performance by helping its employees see the connection between their daily activities and the agency's success, and encouraging employees to focus on performing their duties in a manner that helps the FBI achieve its goals. [23] The FBI needs to review and revise its performance management system in a way that is in line with the agency's strategic plan, including results, core values, and transformational objectives. In June 2002, the FBI outlined its plans to reorganize according to new mission priorities and realign its workforce to support the accomplishment of these priorities.

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[23]U.S. General Accounting Office, *FBI Reorganization: Initial Steps Encouraging but Broad Transformation Needed*, GAO-02-865T (Washington, D.C.: June 21, 2002).

Leading organizations use their performance management systems not merely as once—or twice—yearly expectation and appraisal tools, but as mechanisms to facilitate communication throughout the year so that discussions about individual and organizational performance are integrated and ongoing. These leading organizations typically seek to achieve three key objectives with their performance management systems. First, they strive to provide candid and constructive feedback to help individual employees maximize their potential in understanding and realizing the goals and objectives of the agency. Second, they seek to provide management with the objective and fact-based information it needs to reward top performers. Third, performance management systems provide the necessary information and documentation to deal with poor performers. We are concerned that federal performance management systems do not achieve these objectives. Modernizing agency performance appraisal and management systems and linking them to agency strategic plans and desired outcomes should be a top priority if the federal government is to successfully address the transformational challenges it faces.[24]

To assist agencies in using their performance management systems to help achieve organizational goals, we studied other countries' experiences in developing and implementing their performance management systems, and identified practices that provide U.S. federal agencies with information and insights as they undertake their own initiatives.[25] For example, we found that the Ontario Public Service and the Australian Tax Office place considerable emphasis on the achievement of organizational results when evaluating individual performance and determining individual rewards.

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[24]U.S. General Accounting Office, *Managing for Results: Using Strategic Human Capital Management to Drive Transformational Change*, GAO-02-940T (Washington, D.C.: July 15, 2002).

[25]U.S. General Accounting Office, *Results-Oriented Cultures: Insights for U.S. Agencies from Other Countries' Performance Management Initiatives*, GAO-02-862 (Washington, D.C.: Aug. 2, 2002).

To place increased emphasis on accountability for organizational results governmentwide, starting in the appraisal cycles that began in 2001, OPM requires agencies to establish performance management systems for senior executives to hold them accountable for their individual and organizational performance; evaluate senior executive performance using measures that balance organizational results against customer satisfaction and employee perspectives; and use performance results as a basis for pay, awards, and other personnel decisions. We found that while the Bureau of Land Management, the Federal Highway Administration, the Internal Revenue Service, and the Veterans Benefits Administration are in the early stages of implementing new performance management systems for their senior executives, there are significant opportunities to strengthen their efforts as they move forward in holding senior executives accountable for results. In particular, more progress is needed in explicitly linking senior executive expectations for performance to 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.[26]

Ultimately, an effective performance management system must link pay and incentive programs to individual knowledge, skills, and contributions to achieve organizational results. However, this link will never be achieved without modern and effective performance management strategies. In that regard, leading organizations understand the importance of creating effective incentives and rewards for high-performing employees that place a greater emphasis on knowledge, skills, and contributions to achieving organizational results and in connection with federal employment promotion and compensation decisions at all levels, rather than the passage of time, the rate of inflation, or geographic location, as so often is the case today. Additional information on the performance management programs in use in agencies and the relative strengths and weaknesses of those programs, along with best practice information, would prove helpful as agencies seek to link pay to individual knowledge, skills, and performance.

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[26]GAO-02-966.

OPM's recently released white paper on federal pay provides a good foundation for the results-oriented pay reform discussion that must now take place.[27] The greater use of "broadbanding" is one of the options that deserves to be discussed. In the short term, Congress may wish to explore the benefits of (1) providing OPM with additional flexibility that would enable it to grant governmentwide authority for all agencies (i.e., class exemptions) to use broadbanding for certain critical occupations and/or (2) allowing agencies to apply to OPM (i.e., case exemptions) for broadbanding authority for their specific critical occupations. However, agencies should be required to demonstrate to OPM's satisfaction that they have modern, effective, and validated performance management systems before they are allowed to use broadbanding.

In addition to promoting high performance and accountability to foster results-oriented cultures, successful organizations empower and involve their employees. Leading organizations create a set of mission-related program guidelines within which managers operate, and give their managers extensive authority to pursue organizational goals. Involving employees in planning helps to incorporate insights about operations from a frontline perspective, increase their understanding and acceptance of organizational goals and objectives, and improve motivation and morale. We identified a number of barriers facing agencies as they began empowering and involving employees, including a lack of trust, resistance to change and lack of buy-in, workload demands, and poorly timed training.[28]

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[27]U.S. Office of Personnel Management, *A White Paper: A Fresh Start for Federal Pay: The Case for Modernization* (Washington, D.C.: April 2002).

[28]U.S. General Accounting Office, *Human Capital: Practices That Empowered and Involved Employees*, GAO-01-1070 (Washington, D.C.: Sept. 14, 2001).

Engaging employee unions in major changes can help achieve consensus on the planned changes, avoid misunderstandings, speed implementation, and more expeditiously resolve problems that occur. For example, as the U.S. Postal Service begins to implement its Transformation Plan, improvements in its adversarial relationship with labor groups will be required to improve workforce alignment and performance management systems.[29] For the Postal Service transformation to be successful, it is vital for the service and its unions to share a common vision for the future and mutual responsibility for finding solutions to the service's workforce problems. The recent formation of joint task teams with two major unions is a constructive step.

# Building on the Current Momentum to Create Lasting Change

While important progress is being made, much more needs to be done to address the federal government's long-standing strategic human capital management challenges. First and foremost, individual federal agencies need to more consistently and completely adopt a strategic approach to their most important asset – their people. This requires persistent leadership commitment; aligning human capital approaches with the accomplishment of agency goals; implementing recruiting, hiring, training and professional development, and retention approaches that foster mission accomplishment; and instilling a results-oriented organizational culture.

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[29]U.S. General Accounting Office, *Major Management Challenges and Program Risks: U.S. Postal Service*, GAO-03-118 (Washington, D.C.: Jan. 30, 2003), and *U.S. Postal Service: Deteriorating Financial Outlook Increases Need for Transformation,* GAO-02-355 (Washington, D.C.: Feb. 28, 2002).

## OPM and OMB Must Sustain Their Attention

As the agency responsible for leading human capital management governmentwide, OPM plays a central role in helping agencies tackle the broad range of human capital challenges that are at the root of transforming what agencies do, how they do it, and with whom they partner. As detailed in our *Performance and Accountability Series* volume on OPM, our work and the work of others continues to show that agencies need and want greater leadership from OPM in helping them to address their human capital challenges, especially in identifying new human capital flexibilities, removing obstacles from the federal hiring process, and assisting agency workforce planning efforts.[30] Opportunities exist for OPM to be more vigorous in responding to a number of critical program challenges, such as applicant examination, staffing, and compensation approaches. In addition, OPM shares responsibility with agencies for ensuring that human capital practices are carried out in accordance with merit systems principles and other national goals. Effective and strategic oversight of agencies' systems is even more critical today because an increasing number of agencies are seeking and obtaining exemptions from traditional civil service rules at the same time that human capital staffs responsible for overseeing these activities have dwindled.

In response to these ongoing challenges, OPM has taken a number of important actions. First, OPM is realigning its organizational structure and workforce to create a new, flexible structure that will "de-stovepipe" the agency; enable it to be more responsive to its primary customers, federal departments and agencies; and focus on the agency's core mission. In November 2002, OPM's director appointed four new associate directors with proven human capital expertise to lead the organization. OPM also has the key role in leading the administration's efforts to address strategic human capital management, a critical part of the PMA, and issued a human capital scorecard in December 2001 to assist agencies. OPM published two reports in 2001 to increase agencies' awareness of available human capital flexibilities, and released a report on federal compensation practices in April 2002. A major initiative begun in the spring of 2002 is designed to improve the hiring process. Furthermore, OPM is addressing its oversight challenge in part by encouraging agencies to develop and maintain internal accountability systems in line with its *HRM Accountability Standards*.

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[30]U.S. General Accounting Office, *Major Management Challenges and Program Risks: Office of Personnel Management*, GAO-03-115 (Washington, D.C.: Jan. 30, 2003).

The designation of human capital as the first item on the PMA and the supporting standards for success have raised the profile of human capital issues on OMB's agenda. As OMB and the agencies learn to evaluate themselves against the standards and implement policies to improve, OMB will need to ensure that the standards are consistently and appropriately applied while assessing agencies' progress in managing their human capital. Perhaps most important, OMB support will be needed as agencies identify targeted investment opportunities to address human capital shortfalls.

## Congressional Leadership Continues to Be Critical to Improving Strategic Human Capital Management

Congress has had and will need to continue to have a central role in improving agencies' human capital approaches. Traditionally, Congress has been an institutional champion in improving management of executive agencies. On an agency-specific basis as well, support and pressure from Congress has been indispensable to instituting and sustaining management reforms. Its confirmation, oversight, appropriations, and legislative responsibilities provide Congress with continuing opportunities to ensure that agencies recognize their responsibilities to manage people for results. For example, the Senate has the opportunity during the confirmation process to articulate its commitment to sound federal management by exploring how prospective nominees plan to make a link between mission accomplishment and human capital policies.[31] As part of the oversight and appropriations process, Congress can continue to examine whether agencies are managing their human capital to improve programmatic effectiveness and to encourage agencies to use the range of appropriate flexibilities available under current law. Congress will also play a defining role in determining the scope and appropriateness of additional human capital flexibilities and targeted investments, while maintaining appropriate safeguards to prevent abuse.

Ultimately, Congress may wish to consider comprehensive legislative reforms to existing civil service laws, taking into account the extent to which traditional approaches make sense in the current and future operating environment. Consensus has yet to emerge on the degree to which legislative changes are needed to

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[31]Toward this end, we developed a set of questions for political appointees that the Senate may use during the confirmation process. See U.S. General Accounting Office, *Confirmation of Political Appointees: Eliciting Nominees' Views on Leadership and Management Issues*, GAO/GGD-00-174 (Washington, D.C.: Aug. 11, 2000).

- design a more flexible and streamlined position classification system;

- design a more flexible compensation system that relies to a larger degree on performance, skills, and knowledge;

- design a hiring process that enables agencies to hire employees more rapidly while upholding merit system principles and other national goals; and

- ensure that agency-designed performance management systems provide (1) candid and constructive feedback to link employee performance with the accomplishment of organizational results, (2) fact-based information to management to reward top performers, and (3) information for dealing with poor performers.

Moving forward, we will continue to play a professional, objective, and constructive role in assisting Congress and the executive branch as agencies transform and implement strategic human capital approaches. As part of this effort, we have released two tools to inform agency leaders as they evaluate the current state of strategic human capital management in their organizations. *A Model of Strategic Human Capital Management* is designed to help agency leaders determine how well they integrate human capital considerations into daily decision making and planning for the program results they seek to achieve.[32] In addition, agencies may find our *Human Capital: A Self-Assessment Checklist for Agency Leaders* helpful in assessing the success or shortcomings of particular human capital policies.[33]

The challenge to manage federal human capital strategically will not be quickly or easily addressed. Comprehensive human capital legislative reforms will likely be needed, but agency leaders must not wait for them to happen. Much of the authority agency leaders need to manage human capital strategically is already available under current laws and regulations.[34] Therefore, we believe the first step toward meeting the

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[32]GAO-02-373SP.

[33]GAO/OCG-00-14G.

[34]To assist agencies in identifying available human capital flexibilities, OPM has published *Human Resources Flexibilities and Authorities in the Federal Government* (Washington, D.C.: July 2001).

government's human capital challenges is for agency leaders to identify and make use of all the appropriate administrative authorities available to them to manage their people for results. The use of these authorities often will need to be undertaken as part of and consistent with proven change management practices. The second step is for policymakers to pursue incremental legislative reforms to give agencies additional tools and flexibilities to hire, manage, and retain the human capital they need, particularly in critical occupations. The third step is for all interested parties to work together to identify the kinds of comprehensive legislative reforms in the human capital area that should be enacted over time.

For additional information on strategic human capital management issues, contact J. Christopher Mihm, Director, Strategic Issues, at (202) 512-6806 or mihmj@gao.gov.

# Related GAO Products

*Major Management Challenges and Program Risks: Office of Personnel Management.* GAO-03-115. Washington, D.C.: January 30, 2003.

*Human Capital: Effective Use of Flexibilities Can Assist Agencies in Managing Their Workforces.* GAO-03-2. Washington, D.C.: December 6, 2002.

*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.: November 14, 2002.

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

*Results-Oriented Cultures: Using Balanced Expectations to Manage Senior Executive Performance.* GAO-02-966. Washington, D.C.: September 27, 2002.

*Results-Oriented Cultures: Insights for U.S. Agencies from Other Countries' Performance Management Initiatives.* GAO-02-862. Washington, D.C.: August 2, 2002.

*Managing for Results: Using Strategic Human Capital Management to Drive Transformational Change.* GAO-02-940T. Washington, D.C.: July 15, 2002.

*Improving the Sourcing Decisions of Government.* Final Report of the Commercial Activities Panel. Washington, D.C.: April 30, 2002.

*A Model of Strategic Human Capital Management.* GAO-02-373SP. Washington, D.C.: March 15, 2002.

*Human Capital: Practices That Empowered and Involved Employees.* GAO-01-1070. Washington, D.C.: September 14, 2001.

*Office of Personnel Management: Status of Achieving Key Outcomes and Addressing Major Management Challenges.* GAO-01-884. Washington, D.C.: July 9, 2001.

*Major Management Challenges and Program Risks: A Governmentwide Perspective.* GAO-03-95.

*Major Management Challenges and Program Risks: Department of Agriculture.* GAO-03-96.

*Major Management Challenges and Program Risks: Department of Commerce.* GAO-03-97.

*Major Management Challenges and Program Risks: Department of Defense.* GAO-03-98.

*Major Management Challenges and Program Risks: Department of Education.* GAO-03-99.

*Major Management Challenges and Program Risks: Department of Energy.* GAO-03-100.

*Major Management Challenges and Program Risks: Department of Health and Human Services.* GAO-03-101.

*Major Management Challenges and Program Risks: Department of Homeland Security.* GAO-03-102.

*Major Management Challenges and Program Risks: Department of Housing and Urban Development.* GAO-03-103.

*Major Management Challenges and Program Risks: Department of the Interior.* GAO-03-104.

*Major Management Challenges and Program Risks: Department of Justice.* GAO-03-105.

*Major Management Challenges and Program Risks: Department of Labor.* GAO-03-106.

*Major Management Challenges and Program Risks: Department of State.* GAO-03-107.

*Major Management Challenges and Program Risks: Department of Transportation.* GAO-03-108.

*Major Management Challenges and Program Risks: Department of the Treasury.* GAO-03-109.

*Major Management Challenges and Program Risks: Department of Veterans Affairs.* GAO-03-110.

*Major Management Challenges and Program Risks: U.S. Agency for International Development.* GAO-03-111.

*Major Management Challenges and Program Risks: Environmental Protection Agency.* GAO-03-112.

*Major Management Challenges and Program Risks: Federal Emergency Management Agency.* GAO-03-113.

*Major Management Challenges and Program Risks: National Aeronautics and Space Administration.* GAO-03-114.

*Major Management Challenges and Program Risks: Office of Personnel Management.* GAO-03-115.

*Major Management Challenges and Program Risks: Small Business Administration.* GAO-03-116.

*Major Management Challenges and Program Risks: Social Security Administration.* GAO-03-117.

*Major Management Challenges and Program Risks: U.S. Postal Service.* GAO-03-118.

*High-Risk Series: An Update.* GAO-03-119.

*High-Risk Series: Strategic Human Capital Management.* GAO-03-120.

*High-Risk Series: Protecting Information Systems Supporting the Federal Government and the Nation's Critical Infrastructures.* GAO-03-121.

*High-Risk Series: Federal Real Property.* GAO-03-122.