

GAO

Testimony

Before the Senate Committee on Governmental Affairs

---

For Release on Delivery  
Expected at 9:30 a.m. EDT  
Tuesday, September 16, 2003

GAO'S PROPOSED  
HUMAN CAPITAL  
LEGISLATION

Views of the Employee  
Advisory Council

Statement for the Record by GAO's Employee Advisory  
Council



---

Mr. Chairman and Members of the Committee:

We are pleased to have the opportunity to comment on the Comptroller General's Human Capital II proposal. The Comptroller General formed the EAC about 4 years ago to be fully representative of the GAO population and advise him on issues pertaining to both management and employees. The members of the EAC represent a variety of employee groups and almost all employees outside of the senior executive service (more than 3,000 of GAO's 3,200 employees or 94 percent). The EAC operates as an umbrella organization that incorporates representatives of GAO's long-standing employee organizations including groups representing the disabled, Hispanics, Asian-Americans, African-Americans, gays and lesbians, veterans, and women,<sup>1</sup> as well as employees in various pay bands, attorneys, and administrative and professional staff.<sup>2</sup>

As established in our charter, the Employee Advisory Council serves as an advisory body to the Comptroller General and other senior executives by:

- seeking and conveying the views and concerns of the individual employee groups it represents while being sensitive to the mutual interests of all employees, regardless of their grade, band, or classification group;
- proposing solutions to concerns raised by employees, as appropriate;
- providing input by assessing and commenting on GAO policies, procedures, plans, and practices; and,
- communicating issues and concerns of the Comptroller General and other senior managers to employees.

In preparing this statement, the EAC considered the results of discussions with constituents, and input from Council representatives, including information gathered from employees during the initial introduction of the proposal and comments provided on the Comptroller General's revised

---

<sup>1</sup> While these organizations historically operated under separate charters by the Comptroller General, they now are included in the charter of the EAC and appoint representatives to serve on the Council.

<sup>2</sup> These members are elected by their constituency to two-year terms and may seek reelection once.

---

proposal. Although we have limited quantitative data in this regard and recognize that not all employees have the same opinions regarding all provisions of the proposed legislation, we believe our testimony is representative of a substantial cross-section of GAO employees.

In summary, GAO employees generally support many of the provisions in the proposed legislation. For example, most employees expressed support for

- the provision to make GAO's authority to offer voluntary early retirement permanent,
- provisions to enhance vacation time for upper-level hires and relocation expenses deemed necessary by the Comptroller General to recruit and retain top employees, and
- the provision to establish an exchange program with the private sector.

However, many employees have expressed concerns about the proposals that affect pay. Specifically, many staff are concerned about the potential negative impact of the change in the basis for annual salary increases, although some staff recognize the potential benefits for additional reward and management flexibility. To a lesser extent, staff are concerned about changes to pay protections provided under traditional federal employment rules. Staff have differing opinions on the provision to change GAO's name to the Government Accountability Office.

The EAC recognizes and appreciates the efforts the Comptroller General has made to address employees' concerns regarding provisions affecting pay by (1) providing assurances that the new system will sustain employees' purchasing power and provide parity with prevailing locality pay, (2) proposing short- and longer-term modifications to GAO's performance management system, and (3) incorporating a 2-year transition period for implementation of the new system. We hope that if the legislation is enacted, the Comptroller General will continue to be responsive to the concerns of employees as the agency moves forward in implementing these changes.

---

---

## GAO Employees Support Most Aspects of the Proposed Legislation but Have Concerns about Pay Provisions and Differing Opinions about the Proposed Name Change

Outreach efforts by EAC representatives indicate that most employees support many portions of the legislative proposal under consideration by the Subcommittee but have concerns about provisions in the proposal related to pay. Specifically, employees generally support provisions that make the authorities provided to GAO for voluntary early retirement pay incentives permanent, to provide enhancements in vacation time and relocation expenses deemed necessary by the Comptroller General to recruit and retain top employees, and to establish a private sector exchange program. However, many employees are concerned about the provisions that change the way that annual pay decisions are made and, to a lesser extent, the proposed change to traditional protections for pay retention. Employees had differing opinions about the proposed change to GAO's name.

---

## Most Employees Support Proposals to Improve GAO's Ability to Realign the Workforce and Attract and Retain High Quality Employees

Most employees support the Comptroller General's proposed provisions to make permanent GAO's 3-year authority to offer voluntary early retirement and voluntary separation payments to provide flexibility to realign GAO's workforce. In addition, GAO employees recognize that attracting and retaining high-quality employees and managers throughout the organization is vitally important for the future of GAO. Employees thus generally support the provisions to offer flexible relocation reimbursements, provide upper-level hires with 6-hour leave accrual, and establish an executive exchange program with private sector organizations. Most employees commented positively on these authorities so long as there are internal controls to monitor and report on their use, as are present to provide accountability for other authorities throughout GAO.<sup>3</sup>

---

## Many Employees Are Concerned about the Provisions That Affect Pay

Many employees expressed concern about the provisions that affect the determination of annual pay increases and pay retention. The opinions expressed by employees generally fall into three categories: (1) general concerns and some supporting views regarding changes in traditional civil service employment rules that could reduce the amount of annual pay increases provided for economic adjustments but provide greater

---

<sup>3</sup> For example, the Comptroller General detailed GAO's use of the flexibilities provided in the first round of authorities granted in the GAO Personnel Flexibilities Act of October 2000 in U.S. General Accounting Office, *Assessment of Public Law 106-303*, [GAO-03-954SP](#) (Washington, D.C., June 27, 2003).

---

opportunity for rewarding performance, (2) concerns about making a portion of annual economic adjustments variable based on performance assessment, and to a lesser extent (3) concerns about the loss of traditional pay retention protections.

Concerns and Supporting Views on Proposed Changes That Could Reduce Annual Pay Provided for Economic Adjustments but Provide Greater Rewards

The first area of employee concern is proposed changes to traditional federal civil service employment rules that have historically provided a fixed annual increase for all federal employees determined by the President and the Congress. Government employees in general, and GAO employees in particular, often conduct work that can have far reaching implications and impacts. Such work can positively or negatively affect segments of the population and thereby the general public's perceptions of, and reactions to, the federal government, including Members of Congress. Over the years, the Congress has developed a bulwark of protections to shield federal workers from reprisals that might result from their service as employees. Included among these has been the process by which federal employees' salaries are annually adjusted as a result of the passage of, and signing into law, of the annual budget.

The historical process relies on passage of legislation which includes an annual increase in pay to reflect increases in inflation and overall employment costs, followed by determinations by the President (and the Office of Personnel Management) to calculate the distribution of the legislative economic adjustments between an overall cost-of-living adjustment and locality-based increases to reflect differences in cities across the nation. The current mechanism for annual federal pay adjustments is found in Public Law 101-509, the Federal Employees Pay Comparability Act.<sup>4</sup>

---

<sup>4</sup>While the goal of the act is to achieve full comparability, namely pay parity, between federal employees and their nonfederal counterparts on a locality-by-locality basis, the law has never been implemented as originally enacted as a result of a provision in the law that authorizes the President to offer an alternative pay plan in times of war or "serious economic conditions affecting the general welfare."

---

The Comptroller General has expressed his concern about trends in the executive branch that make it highly likely that the current civil service pay system will be the subject of comprehensive reform within the next few years. Citing federal agencies that already have many of these flexibilities, such as the Federal Aviation Administration<sup>5</sup> and the new Department of Homeland Security, as well as agencies currently seeking reform, such as the Department of Defense, he has stated his belief that GAO needs to be “ahead of the curve.”

Under the proposal, rather than relying on the administration’s determination and the Congress’ mandate for an annual salary adjustment, GAO can develop and apply its own methodology for the annual cost-of-living adjustments and compensation differences by locality that the Comptroller General believes would be more representative of the nature, skills, and composition of GAO’s workforce. Some employees have expressed following concerns.

- Removing GAO from the traditional process significantly alters a key element of federal pay protection that led some employees to seek employment in the federal sector. Changing this protection could diminish the attractiveness of federal service and result in the need for higher salaries to attract top candidates.
- A portion of appropriations historically intended to provide all federal employees with increases to keep pace with inflation and the cost of living in particular localities should not be tied to individual performance.
- **GAO-based** annual economic adjustments are more likely to be less than, rather than more than, amounts annually provided by the Congress; thus employees performing at lower (but satisfactory) levels who may not receive an equal or greater amount in the form of a bonus or dividend may experience an effective pay cut from amounts traditionally provided.
- The flexibility for the Comptroller General to use funds appropriated for cost-of-living adjustments for pay-for-performance purposes could

---

<sup>5</sup> While the Federal Aviation Administration is not required to grant cost of living allowances or locality pay increases, agency management has elected to continue providing these pay adjustments as they are generally applied to the federal pay system.

---

imperil future GAO budgets by making that portion of the annual budget discretionary where it was once mandatory.

- The wide latitude provided in the proposal gives the Comptroller General broad discretion and limited accountability for determining whether employees receive annual across-the-board economic adjustments, the amount of such adjustments, and the timing of adjustments could result in unfair financial harm for some employees if the broad authorities were improperly exercised.<sup>6</sup>
- The Comptroller General has not made a compelling case regarding the need for these pay-related and other legislative changes, for example by showing that existing cost-of-living adjustment mechanisms are inaccurate or that the agency has had difficulty in attracting and retaining high-quality employees.

On the other hand, some employees also recognize that the proposed pay provisions may offer some distinct advantages for some employees. Some employees commented in support of the provision indicating that

- the existing system for calculating inflation and local cost adjustments may not accurately reflect reality;
- most employees would not likely be harmed by a system that allocates a greater share of pay to performance-based compensation;
- the authorities would allow GAO managers to provide greater financial rewards to the agency's top performers, as compared to the present pay-for-performance system;
- making a stronger link between pay and performance could facilitate GAO's recruitment of top talent.

In addition, the provision may, to a limited extent, address a concern of some field employees by providing alternatives to reductions in force in times when mandated pay increases are not fully funded or in other

---

<sup>6</sup> While management's salary increase decisions for employees are not subject to appeal under the current system, some employees feel that the application of any methodology that GAO establishes to determine the amount of annual economic increases under the proposed approach should be subject to appeal.

---

extraordinary circumstances. For example, from 1992 to 1997, GAO underwent budgetary cuts totaling 33 percent (in constant fiscal year 1992 dollars.) To achieve these budgetary reductions, GAO staff was reduced by 39 percent, primarily through field office closures and the associated elimination of field-based employees. While we hope the agency will never again have to manage budget reductions of this magnitude, this provides a painful example of the vulnerability of staffing levels, particularly in the field, to budgetary fluctuations. The proposed pay provisions would provide the Comptroller General with greater flexibility to manage any future budget crises by adjusting the annual pay increases of all employees without adversely and disproportionately impacting the careers and lives of field-based employees.

Concerns about Making a  
Portion of Annual Pay Increases  
Variable Based on Performance  
Assessment

In addition to the revised basis for calculating annual economic adjustments, employees are concerned about the provision that transforms a portion of the annual pay increases that have historically been granted to federal employees for cost-of-living and locality-pay adjustments into variable, performance-based pay increases and bonuses. Because the GAO workforce is comprised of a wide range of highly qualified and talented people performing a similarly wide range of tasks, employees recognize that it is likely that some employees at times have more productive years with greater contributions than others. Therefore, most agree with the underlying principle of the provision to provide larger financial rewards for employees determined to be performing at the highest level. However, in commenting on the proposal, some employees said that GAO management already has multiple options to reward high performers through bonuses, placement in top pay-for-performance categories, and promotions. Others expressed concern that increased emphasis on individual performance could result in diminished teamwork, collaboration, and morale because GAO work typically is conducted in teams, often comprised of employees who are peers.

These concerns are compounded by long-standing widespread employee concerns regarding the accuracy and validity of GAO's performance appraisal system, which is used for the current system of performance-based pay adjustments. Any effort to increase the link between pay and performance implicitly relies upon the existence of a reliable method for gauging individual performance. We received comments that the varying levels of complexity, time frames, resource availability, and sensitivity of GAO work make it difficult to objectively assess individual performance and to fairly and accurately compare employees' performance with sufficient precision. In other words, some employees believe that the

---

subjectivity inherent in the system does not provide a valid basis for distinguishing between subtle differences in performance that may be measured in tenths of a percentage point between performance categories. Employee concerns about performance assessment have not significantly changed as a result of the new competency-based system GAO implemented last year. The comments we have heard are consistent with the concerns expressed to the Congress by GAO employees in 1993:

“The PFP (pay-for-performance) process involves managers making very fine distinctions in staff’s performance in order to place them in discrete performance management categories. These categories set artificial limits on the number of staff being recognized for their contributions with merit pay and bonuses.”

Related to concerns about subjectivity in the performance assessment system, Council representatives and employees expressed concern about data indicating that as a group, minorities, veterans, and field-based employees have historically received lower ratings than the employee population as a whole. While the data indicate that the disparity is considerably improved or eliminated for employees who have been with the agency fewer than 5 years, some employees have serious reservations about providing even greater discretion in allocating pay based on the current performance management system.

### Concerns about the Loss of Traditional Pay Retention Protections

To a lesser extent, some employees expressed concerns about the elimination of traditional federal employment rules related to grade and pay retention for employees who are demoted due to such conditions as a workforce restructuring or reclassification. The proposed legislation will allow the Comptroller General to set the pay of employees downgraded as a result of workforce restructuring or reclassification at their current rates (i.e., no drop in current pay), but with no automatic annual increase to basic pay until their salaries are less than the maximum rates of their new grades or bands.

Employee concern, particularly among some Band II analysts and mission support staff, focuses on the extent to which this provision may result in a substantial erosion in future pay, since there is a strong possibility that these two groups may be restructured in the near future. For example, one observation is that the salary range within pay bands is such that senior analysts who are demoted would likely wait several years for their next increase in pay or bonus. In this circumstance, employees would need to reconcile themselves to no permanent pay increases regardless of their performance. Some employees cited this potential negative impact on staff motivation and productivity and emphasized that to continue providing

---

service at the level of excellence that the Congress and the American people expect from GAO, this agency needs the best contributions of all its midlevel and journeymen employees. However, the EAC recognizes that, absent this kind of authority and given some of the authorities already provided to the Comptroller General, some employees who may be demoted could otherwise face termination rather than diminished salary increases.

---

### Employee Had Differing Opinions regarding a Change in GAO's Name

Finally, employees had differing opinions regarding the provision to change GAO's name to the Government Accountability Office. Some employees are concerned that the proposed change in GAO's name to more accurately reflect the work that we do will damage GAO's "brand recognition." Most employees who oppose the name change do not see the current name as an impediment to doing our work or to attracting quality employees. Some employees expressed concern that the legacy of high-quality service to the Congress that is embedded in the name "United States General Accounting Office" might be lost by changing the name. Other employees support the name change and cited their own experiences in being recruited or recruiting others and in their interaction with other federal agencies. In their opinion, the title "General Accounting Office" reflects misunderstandings and incorrect assumptions about GAO's role and function by those who are not familiar with our operations and may serve as a deterrent to attracting employees who are otherwise not interested in accounting.

---

### The EAC Appreciates the Comptroller General's Efforts to Address Concerns of GAO Employees about Pay-Related Human Capital II Provisions

We appreciate the Comptroller General's efforts to involve the Employee Advisory Council and to solicit employee input through discussions of the proposal. As a result of employee feedback and feedback from GAO managers and the EAC, the Comptroller General has made a number of revisions and clarifications to the legislative proposal along with commitments to address concerns relating to the annual pay adjustment by issuing formal GAO policy to formally establish his intent to retain employees' earning power in implementing the authorities; by revising the performance management system; and by deferring implementation of pay changes until 2005.

---

### Retention of Earning Power and Locality Pay Parity

Key among the commitments made by the Comptroller General is his assurance to explicitly consider factors such as cost-of-living and locality-

---

pay differentials among other factors, both items that were not in the preliminary proposal. In addition, the Comptroller General has said that employees who are performing adequately will be assured of some annual increase that maintains spending power. He outlined his assurance in GAO's weekly newsletter for June 30th that successful employees will not witness erosion in earning power and will receive an annual adjustment commensurate with locality-specific costs and salaries. According to the Comptroller General, pay protection commitments that are not included in the statute will be incorporated in the GAO orders required to implement the new authorities. This is consistent with the approach followed when GAO made similar pay protection commitments during the conversion to broad bands in the 1980s. To the extent that these steps are taken, overall employee opinion of the changes should improve because much of the concern has focused on making sure that staff who are performing adequately do not witness economic erosion in their pay.

---

## Planned Revisions to Performance Management

In response to concerns regarding the performance management system and the related variable elements of annual pay increases raised by the EAC, employees, and senior managers, the Comptroller General has told employees that he will provide increased transparency in the area of ratings distributions, for example by releasing summary-level performance appraisal results. In addition, the Comptroller General has stated that he plans to take steps to improve the performance management system that could further reduce any disparities. Specifically, on June 26, the Comptroller General released a "Performance Management System Improvement Proposal for the FY 2003 Performance Cycle" that outlines proposed short-term improvements to the analyst performance management system that applies to the majority of GAO employees. These include additional training for staff and performance managers and a reduction in the number of pay categories from five to four. A number of longer-term improvements to the performance appraisal system requiring validation are also under consideration, including weighting competencies and modifying, adding, or eliminating competencies. For all employees to embrace any additional pay-for-performance efforts, it is vital that the Comptroller General take steps that will provide an increased level of confidence that the appraisal process is capable of accurately identifying high performers and fairly distinguishing between levels of performance.

---

---

## Deferred Implementation of Pay Provisions

Finally, the Comptroller General has agreed to delay implementation of the pay-for-performance provisions of the proposal until October 1, 2005. This change should provide an opportunity to assess efforts to improve the annual assessment process and lessen any impact of changes in the permanent annual pay increase process for employees approaching retirement. It should also provide an opportunity to implement a number of measures designed to improve confidence in the annual assessment process.

---

## Conclusion

In summary, as GAO employees we are proud of our work assisting the Congress and federal agencies to make government operations more efficient and effective. Although all of us would agree that our agency is not perfect, the EAC believes GAO is making a concerted effort to become a more effective organization. We will continue to work closely with management to improve GAO, particularly in efforts to implement and monitor any additional authorities granted to the Comptroller General. We believe that it is vital that we help to develop and implement innovative approaches to human capital management that will enable GAO to continue to meet the needs of the Congress; further improve the work environment to maximize the potential of our highly skilled, diverse, and dedicated workforce; and serve as a model for the rest of the federal government.

---

---

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

---

## GAO's Mission

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

---

## Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through the Internet. GAO's Web site ([www.gao.gov](http://www.gao.gov)) contains abstracts and full-text files of current reports and testimony and an expanding archive of older products. The Web site features a search engine to help you locate documents using key words and phrases. You can print these documents in their entirety, including charts and other graphics.

Each day, GAO issues a list of newly released reports, testimony, and correspondence. GAO posts this list, known as "Today's Reports," on its Web site daily. The list contains links to the full-text document files. To have GAO e-mail this list to you every afternoon, go to [www.gao.gov](http://www.gao.gov) and select "Subscribe to e-mail alerts" under the "Order GAO Products" heading.

---

## Order by Mail or Phone

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

U.S. General Accounting Office  
441 G Street NW, Room LM  
Washington, D.C. 20548

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

---

## To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: [www.gao.gov/fraudnet/fraudnet.htm](http://www.gao.gov/fraudnet/fraudnet.htm)

E-mail: [fraudnet@gao.gov](mailto:fraudnet@gao.gov)

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

---

## Public Affairs

Jeff Nelligan, Managing Director, [NelliganJ@gao.gov](mailto:NelliganJ@gao.gov) (202) 512-4800  
U.S. General Accounting Office, 441 G Street NW, Room 7149  
Washington, D.C. 20548