

GAO

Testimony

Before the Subcommittee on Civil Service and Agency
Organization, Committee on Government Reform, House
of Representatives

For Release on Delivery
Expected at 2:00 p.m. EDT
Wednesday, July 16, 2003

GAO

Additional Human Capital
Flexibilities Are Needed

Statement of David M. Walker
Comptroller General of the United States





Highlights of [GAO-03-1024T](#), a testimony before the Subcommittee on Civil Service and Agency Organization, Committee on Government Reform, House of Representatives

Why GAO Did This Study

The Subcommittee seeks GAO's views on its latest human capital proposal that is slated to be introduced as a bill entitled the GAO Human Capital Reform Act of 2003.

What GAO Recommends

GAO believes that its proposal is well reasoned and reasonable. Although GAO's request for authority to adjust its annual pay system separate from the executive branch appears broad based, there are compelling reasons why GAO ought to be given this authority. These include the fact that GAO already has a hybrid pay system established by the authority the Congress granted it over two decades ago, the proposed authority is not radical if viewed in the light of authorities already granted and requested by other agencies, and GAO already has a number of key systems and safeguards in place and has plans to build in additional safeguards if granted the authority.

GAO has conducted extensive external and internal outreach efforts on its latest human capital proposal. GAO respectfully requests the Subcommittee's support and prompt passage by the Congress.

www.gao.gov/cgi-bin/getrpt?GAO-03-1024T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Sallyanne Harper at (202) 512-5800 or harpers@gao.gov.

GAO

Additional Human Capital Flexibilities Are Needed

What GAO Found

As an arm of the legislative branch, GAO exists to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the American people. Unlike many executive branch agencies, which have either recently received or are just requesting new broad-based human capital tools and flexibilities, GAO has had certain human capital tools and flexibilities for over two decades. GAO's latest proposal combines diverse initiatives that, collectively, should further GAO's ability to enhance its performance, assure its accountability, and help ensure that it can attract, retain, motivate, and reward a top-quality and high-performing workforce currently and in future years.

Specifically, GAO is requesting that the Congress (1) make permanent GAO's 3-year authority to offer early outs and buyouts, (2) allow GAO to set its own annual pay adjustment system separate from the executive branch, (3) permit GAO to set the pay of an employee demoted as a result of workforce restructuring or reclassification to keep his/her basic pay but to set future increases consistent with the new position's pay parameters, (4) provide authority to reimburse employees for some relocation expenses when that transfer has some benefit to GAO but does not meet the legal requirements for reimbursement, (5) provide authority to place upper-level hires with fewer than 3 years of federal experience in the 6-hour leave category, (6) authorize an executive exchange program with the private sector, and (7) change GAO's legal name from the "General Accounting Office" to the "Government Accountability Office."

GAO has used the narrowly tailored flexibilities granted by the Congress previously in Public Law 106-303, the GAO Personnel Flexibilities Act, responsibly, prudently, and strategically. GAO believes that it is vitally important to its future to continue modernizing and updating its human capital policies and system in light of the changing environment and anticipated challenges ahead. GAO's proposal represents a logical incremental advancement in modernizing GAO's human capital policies. Based on employee feedback, there is little or no concern relating to most of the proposal's provisions. Although some elements of GAO's initial straw proposal were controversial (e.g., GAO's pay adjustment provision), the Comptroller General has made a number of changes, clarifications, and commitments to address employee concerns. While GAO believes that some employees remain concerned about the pay adjustment provision, GAO also believes that employee concerns have been reduced considerably due to the clarifications, changes, and commitments the Comptroller General has made. Given GAO's human capital infrastructure and unique role in leading by example in major management areas, the rest of the federal government can benefit from GAO's pay system experience.

Madam Chairwoman and Members of the Subcommittee:

I am pleased to be here today to discuss GAO's latest human capital proposal. Chairwoman Davis, we at GAO appreciate your support of our proposal and your leadership in seeking additional sponsors for the bill you plan to introduce, the GAO Human Capital Reform Act of 2003.

As I have testified on many occasions, strategic human capital management must be the centerpiece of any serious government transformation effort. A key component of this is modern, effective, and credible human capital policies, which are critical to the successful functioning of any enterprise, both public and private. As the Chief Executive Officer and primary steward of GAO, I am not just responsible for GAO's current economy, efficiency, and effectiveness, I am also responsible for ensuring that we are well positioned to serve our congressional clients, maximize our performance, and assure our accountability in the future.

With this important responsibility in mind, I asked this committee and others over 3 years ago to grant GAO certain additional narrowly tailored human capital authorities. In enacting Public Law 106-303, known as the GAO Personnel Flexibilities Act, the Congress granted GAO certain flexibilities, which we have used responsibly to help strategically reshape the organization in order to better support the Congress and the American people. After reviewing the range and limits of our existing administrative and legal authorities, I have concluded that we now need to seek from the Congress additional human capital flexibilities in order for GAO to: ensure quality service to the Congress; continue leading by example in the government transformation, in general, and human capital reform areas in particular; and continue to attract, retain, motivate, and reward a quality and high-performing workforce, both currently and in future years. We believe that our proposal is well reasoned and reasonable, especially if viewed in the light of authorities already granted and requested by other agencies and the extensive external and internal outreach efforts we have conducted. We also respectfully request your support and prompt passage by the Congress.

GAO: A Unique Agency with a Hybrid System

As an arm of the legislative branch, GAO exists to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people. Today, GAO is a multidisciplinary professional services organization, comprised of about 3,250 employees,

that conducts a wide range of financial and performance audits, program evaluations, management reviews, investigations, and legal services spanning a broad range of government programs and functions. GAO's work covers everything from the challenges of securing our homeland, to the demands of an information age, to emerging national security threats, and the complexities of globalization. We are committed to transforming how the federal government does business and to helping government agencies become organizations that are more results oriented and accountable to the public. We are also committed to leading by example in all major management areas.

Given GAO's role as a key provider of information and analyses to the Congress, maintaining the right mix of technical knowledge and subject matter expertise as well as general analytical skills is vital to achieving the agency's mission. Carrying out GAO's mission today is a multidisciplinary staff reflecting the diversity of knowledge and competencies needed to deliver a wide array of products and services to support the Congress. Our mission staff—at least 67 percent of whom have graduate degrees—hold degrees in a variety of academic disciplines, such as accounting, law, engineering, public administration, economics, and social and physical sciences. I am extremely proud of our GAO employees and the difference that they make for the Congress and the nation. They make GAO the world-class organization that it is, and I think it is fair to say that while they account for about 80 percent of our costs, they constitute 100 percent of our real assets.

Because of our unique role as an independent overseer of federal expenditures, fact finder, and honest broker, GAO has evolved into an agency with hybrid systems. This is particularly evident in GAO's personnel and performance management systems. Unlike many executive branch agencies, which have either recently received or are just requesting new broad-based human capital tools and flexibilities, GAO has had certain human capital tools and flexibilities for over two decades. As a result, we have been able to some extent to operate our personnel system with a degree of independence that most agencies in the executive branch do not have. For example, we are excepted from certain provisions of Title 5, which governs the competitive service, and we are not subject to Office of Personnel Management (OPM) oversight.

Until 1980, our personnel system was indistinguishable from those of executive branch agencies—that is, GAO was subject to the same laws, regulations, and policies as they were. However, with the expansion of

GAO's role in congressional oversight of federal agencies and programs, concerns grew about the potential for conflicts of interest. Could GAO conduct independent and objective reviews of executive branch agencies, such as OPM, when these agencies had the authority to review GAO's internal personnel activities? As a result, GAO worked with the Congress to pass the GAO Personnel Act of 1980, the principal goal of which was to avoid potential conflicts by making GAO's personnel system more independent of the executive branch.

Along with this independence, the act gave GAO greater flexibility in hiring and managing its workforce. Among other things, it granted the Comptroller General authority to

- appoint, promote, and assign employees without regard to Title 5 requirements in these areas;
- set employees' pay without regard to the federal government's General Schedule (GS) pay system's classification standards and requirements; and
- establish a merit pay system for appropriate officers and employees.

By excepting our agency from the above requirements, the GAO Personnel Act of 1980 allowed us to pursue some significant innovations in managing our people. One key innovation was the establishment of a "broad banding," or "pay banding," approach for classifying and paying our Analyst and Attorney workforce in 1989. This was coupled with the adoption of a pay for performance system for this portion of our workforce. Therefore, while other agencies are only now requesting the authority to establish broad banding and pay for performance systems, GAO has had almost 15 years of experience with such systems.

Although GAO's personnel and pay systems are not similar to those of many executive branch agencies, I must emphasize that in important ways, our human capital policies and programs are very much and will continue to remain similar to those of the larger federal community. GAO's current human capital proposal will not change our continued support for certain national goals (e.g., commitment to federal merit principles, protection from prohibited personnel practices, employee due process through a specially created entity—the Personnel Appeals Board (PAB), and application of veterans' preference consistent with its application in the executive branch for appointments and all appropriate reductions-in-

force). Furthermore, our pay system is and will continue to be consistent with the statutory principle of equal pay for equal work while making pay distinctions on the basis of an individual's responsibilities and performance. In addition, we are covered and will remain covered by Title VII of the Civil Rights Act, which forbids employment discrimination. At GAO, we also emphasize opportunity and inclusiveness for a diverse workforce and have zero tolerance for discrimination of any kind. We have taken and will continue to take disciplinary action when it "will promote the efficiency of the service"—which for us includes such things as GAO's ability to do its work and accomplish its mission.

Although we are not subject to OPM oversight, we are nevertheless subject to the oversight of the Congress including our appropriations committees—the Senate Committee on Appropriations' Subcommittee on the Legislative Branch and the House Committee on Appropriations' Subcommittee on Legislative—and our oversight committees—the Senate Committee on Governmental Affairs and the House Committee on Government Reform. In addition, GAO's management actions are subject to the review of an independent five member board, the Personnel Appeals Board, which performs functions similar to those provided by the Merit Systems Protection Board for federal executive branch employees' personnel grievances. The Congress authorized the establishment of the PAB specifically for GAO in order to protect GAO's independence as an agency. As with other federal executive branch employees, our employees have the right to appeal certain kinds of management actions including removal, suspension for more than 14 days, reductions in pay or grade, furloughs of not more than 30 days, a prohibited personnel practice, an action involving prohibited discrimination, a prohibited political activity, a within-grade denial, unfair labor practices or other labor relations issue. However, they do so to the PAB rather than the MSPB.

While we currently do not have any bargaining units at GAO, our employees are free to join employee organizations, including unions. In addition, we engage in a range of ongoing communication and coordination efforts to empower our employees while tapping their ideas. For example, we regularly discuss a range of issues of mutual interest and concern with our democratically elected Employee Advisory Council (EAC). Chris Keisling, who is a Band III field office representative of the EAC, is testifying with me today. In addition, I consult regularly with our managing directors on issues of mutual interest and concern. In that spirit, I will consult with the managing directors and the EAC before implementing the provisions related to our human capital proposal. As we did with the

flexibilities granted it under Public Law 106-303, the GAO Personnel Flexibilities Act, we will implement the authorities granted under this provision of our proposal only after issuing draft regulations and providing all employees notice and an opportunity for comment. Specifically, for the authorities granted to us under Public Law 106-303, we posted the draft regulations on our internal Web site and sent a notice to all GAO staff advising them of the draft regulations and seeking their comments.

Key Elements of GAO's Proposal

GAO's proposal combines diverse initiatives that, collectively, should further GAO's ability to enhance our performance, assure our accountability, and help ensure that we can attract, retain, motivate, and reward a top quality and high-performing workforce currently and in future years. These initiatives should also have the benefit of helping guide other agencies in their human capital transformation efforts. Specifically, we are requesting that the Congress provide us the following additional human capital tools and flexibilities:

- make permanent GAO's 3-year authority to offer voluntary early retirement and voluntary separation payments;
- allow the Comptroller General to adjust the rates of basic pay of GAO on a separate basis than the annual adjustments authorized for employees of the executive branch;
- permit GAO to set the pay of an employee demoted as a result of workforce restructuring or reclassification at his or her current rate with no automatic annual increase to basic pay until his or her salary is less than the maximum rate of their new position;
- provide authority in appropriate circumstances to reimburse employees for some relocation expenses when that transfer does not meet current legal requirements for entitlement to reimbursement but still benefits GAO;
- provide authority to put upper-level hires with less than 3 years of federal experience in the 6-hour leave category;
- authorize an executive exchange program with private sector organizations working in areas of mutual concern and involving areas in which GAO has a supply-demand imbalance; and

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- change GAO’s legal name from the “General Accounting Office” to the “Government Accountability Office.”

I will go into more detail later in my testimony on the details and rationale for each of these proposals.

Process for Developing the Proposal

In developing our proposal, we used a phased approach that involved (1) developing a straw proposal, (2) vetting the straw proposal broadly both externally and internally, and (3) making appropriate adjustments based on comments and concerns raised during the vetting process. As we have previously testified, many of the management tools and flexibilities we needed to pursue modern human capital management approaches are already available to us and we have used them. We have chosen to come to the Congress for legislation only where the tools and flexibilities we have were inadequate for addressing the challenges we faced. For example, the Congress enacted Public Law 106-303 to provide us with certain narrowly tailored flexibilities we needed to reshape our workforce and establish senior-level technical positions in critical areas. These flexibilities were needed to help GAO address the past decade’s dramatic downsizing (approximately 40 percent from 1992 through 1997) combined with a significant increase in the retirement-eligible workforce that jeopardized our ability to perform our mission in the years ahead.

In developing our preliminary proposal, we gathered suggestions for addressing GAO’s human capital challenges as well as challenges faced by the rest of the federal government, discussed and debated them internally, and compiled a preliminary list of proposals. We received a number of viable proposals that we separated into two groups: (1) proposals that would be more applicable government-wide and (2) proposals GAO should undertake. I had our Office of General Counsel review the proposals GAO should undertake to determine whether we needed to seek legislative authority to implement them or whether I could implement them under the Comptroller General’s existing authority.

Mindful of the need to keep the Congress appropriately informed, my staff and I began our outreach to GAO’s appropriations and oversight committees on the need for additional human capital flexibilities beginning late last year. In early spring of this year, we shared with these committees a confidential draft of a preliminary draft proposal. We also advised them that we planned to conduct a broad range of outreach and consultation on the proposal with our employees and other interested parties and that we

would send them our revised legislative proposal at a later date. We conducted an extensive outreach and consultation effort with members of the Congress, including chairmen and ranking minority members of our appropriations and oversight committees and a number of local delegation members; congressional staff; the Director of OPM; the Deputy Director for Management of the Office of Management and Budget; public sector employee associations and unions; and various “good government” organizations.

Within GAO, members of the Executive Committee (EC), which includes our Chief Operating Officer, our General Counsel, our Chief Mission Support Officer and me, engaged in an extensive and unprecedented range of outreach and consultation with GAO employees. This outreach included numerous discussions with our managing directors, who manage most of GAO’s workforce, and members of the EAC.

The EAC is an important source of input and a key communications link between executive management and the constituent groups its members represent. Comprising employees who represent a cross-section of the agency, the EAC meets at least quarterly with me and members of our senior executive team. The EAC’s participation is an important source of front-end input and feedback on our human capital and other major management initiatives. Specifically, EAC members convey the views and concerns of the groups they represent, while remaining sensitive to the collective best interest of all GAO employees; propose solutions to concerns raised by employees; provide input to and comment on GAO policies, procedures, plans, and practices; and help to communicate management’s issues and concerns to employees.

I have also used my periodic “CG chats,” closed circuit televised broadcasts to all GAO employees, as a means of explaining our proposal and responding to staff concerns and questions. Specifically, I have held two televised chats to inform GAO staff about the proposal. One of these chats was conducted in the form of a general listening session, open to all headquarters and field office staff, featuring questions from members of the EAC and field office employees. I have also discussed the proposal with the Band IIs (GS-13-14 equivalents) in sessions held in April 2003, and with our Senior Executive Service (SES) and Senior Level members at our May off-site meeting. In addition to my CG chats, I have personally held a number of listening sessions, including a session with members of our Office of General Counsel, two sessions with our administrative support staff, and sessions with staff in several field offices. Furthermore, the Chief

Operating Officer represented me in a listening session with Band I field office personnel. Finally, I have also personally received and considered a number of E-mails, notes, and verbal comments on the human capital proposal.

I would like to point out to others seeking human capital flexibilities that the outreach process, while necessary, is indeed time-consuming and requires real and persistent commitment on the part of an agency's top management team. In order for the process to work effectively, it also requires an ongoing education and dialogue process that will, at times, involve candid, yet constructive, discussion between management and employees. This is, however, both necessary and appropriate as part of the overall change management process. To facilitate the education process on the proposal, we posted materials on GAO's internal website, including Questions and Answers developed in response to employees' questions and concerns, for all employees to review. Unfortunately, others who have sought and are seeking additional human capital flexibilities have not employed such an extensive outreach process.

Nature of GAO Employee Concerns

Based on feedback from GAO employees, there is little or no concern relating to most of the provisions in our proposal. There has been significant concern expressed over GAO's proposal to decouple GAO's pay system from that of the executive branch. Some concerns have also been expressed regarding the pay retention provision and the proposed name change. As addressed below, we do believe, however, that these employee concerns, have been reduced considerably due to the clarifications, changes, and commitments resulting from our extensive outreach and consultation effort.

On the basis of various forms of GAO employee feedback, it is not surprising, since pay is important to all employees, that the provision that has caused the most stir within GAO has been the pay adjustment provision. Fundamentally, some of our employees would prefer to remain with the executive branch's GS system for various types of pay increases. There are others close to retirement who are concerned with their "high three" and how the modified pay system, when fully implemented, might affect permanent base pay, which is the key component of their retirement annuity computation. Overall, there is a great desire on the part of GAO employees to know specifically how this authority would be implemented.

It is important to note that, even in the best of circumstances, it is difficult to garner a broad-based consensus of employee support for any major pay system changes. While it is my impression, based on employee feedback, that we have made significant strides in allaying the significant initial concerns expressed by employees regarding the pay adjustment provision, I believe that some of these concerns will remain throughout implementation. In addition, some can never be resolved because they involve philosophical differences or personal interest considerations on behalf of individual GAO employees.

GAO's history with pay banding certainly is illustrative of how difficult it is for an organization to allay employee fears even in the face of obvious benefits. While history has proven that an overwhelming majority of GAO employees have benefited from GAO's decision to migrate our Analysts and Attorneys into pay banding and pay for performance systems, there was significant opposition by GAO employees regarding the decision to move into these systems. The experience of the executive branch's pay demonstration projects involving federal science and technology laboratories shows that employee support at the beginning of the pay demonstration projects ranged from 34 percent to 63 percent. In fact, OPM reports that it takes about 5 years to get support from two-thirds of employees with managers generally supporting demonstrations at a higher rate than employees.

Following the pay adjustment provision but a distant second in terms of employee concern, has been the pay reclassification provision, which would allow GAO employees demoted as a result of workforce restructuring or reclassification to keep their basic pay rates; however, future pay increases would be set consistent with the new positions' pay parameters. Currently, employees subject to a reduction-in-force or reclassification can be paid at a rate that exceeds the value of their duties for an extended period.

A distant third in terms of employee concern is the proposed name change from the "General Accounting Office" to the "Government Accountability Office," which would allow the agency's title to more accurately reflect its mission, core values, and work. My sense is that some GAO employees who have been with GAO for many years have grown comfortable with the name and may prefer to keep it. At the same time, I believe that a significant majority of our employees support the proposed name change. Importantly, all of our external advisory groups, including the Comptroller General's Advisory Council, consisting of distinguished individuals from

the public and private sectors, and the Comptroller General's Educators Advisory Council, consisting of distinguished individuals from the academic community, and a variety of "good government" groups strongly support the proposed name change.

Changes Made in Response to Employee Feedback

The members of the EC and I took our employees' feedback seriously and have seriously considered their concerns. Key considerations in our decision making were our institutional responsibility as leaders and stewards of GAO and the overwhelming support expressed through anonymous balloting by our senior executives, who also serve as leaders and stewards for GAO, for proceeding with all of the provisions of our human capital proposal, including the pay adjustment provision. Specifically, in a recent confidential electronic balloting of our senior executives, support for each element of our proposal ranged from over 2 to 1 to unanimous, depending on the provision. Support for the proposed pay adjustment provision was over 3 to 1, and support for the proposed pay protection provision was over 4 to 1. Given this and other considerations, ultimately, we decided to proceed with the proposal but adopted a number of the suggestions made by employees in these sessions, including several relating to the proposal to decouple GAO annual pay adjustments from those applicable to many executive branch agencies.

A key suggestion adopted include a minimum 2-year transition period for ensuring the smooth implementation of the pay provisions which would also allow time for developing appropriate methodologies and issuing regulations for notice and comment by all employees. Another key suggestion adopted was the commitment to guarantee annual across the board purchase power protection and to address locality pay considerations to all employees rated as performing at a satisfactory level or above (i.e., meeting expectations or above) absent extraordinary economic circumstances or severe budgetary constraints. We have chosen to implement this guarantee through a future GAO Order rather than through legislative language because prior "pay protection" guarantees relating to pay banding made by my predecessor, Comptroller General Charles A. Bowsher, used this means effectively to document and operationalize that guarantee. I have committed to our employees that I would include this guarantee in my statement here today so that it could be included as part of the legislative record. Additional safeguards relating to our pay proposal are set forth below.

The following represents additional information regarding our specific proposal.

Voluntary Early Retirement and Separation Incentive Payment Authorities

Section 2 of our proposal would make permanent the authority of GAO under section 1 and 2 of Public Law 106-303, the GAO Personnel Flexibilities Act of 2000, to offer voluntary early retirements (commonly termed “early outs”) and voluntary separation payments (commonly termed “buyouts”) to certain GAO employees when necessary to realign GAO’s workforce in order to meet budgetary or mission needs, correct skill imbalances, or reduce high-grade positions. We believe that we have behaved responsibly in exercising the flexibilities that the Congress granted us and deserve a permanent continuation of these authorities. In addition, the two flexibilities which we would like to be made permanent are narrowly drawn and voluntary in nature, since the employees have the right to decide if they are interested in being considered for the benefits. Further, the provisions also have built in limits: no more than 10 percent of the workforce in any one year can be given early outs and no more than 5 percent can be given buyouts.

GAO’s transformation effort is a work in progress, and for that reason, the agency is seeking legislation to make the voluntary early retirement provision in section 1 of the law permanent. While the overall number of employees electing early retirement has been relatively small, GAO believes that careful use of voluntary early retirement has been an important tool in incrementally improving the agency’s overall human capital profile. Each separation has freed resources for other uses, enabling GAO to fill an entry-level position or to fill a position that will reduce a skill gap or address other succession concerns. Similarly, we are seeking legislation to make section 2—authorizing the payment of voluntary separation incentives—permanent. Although GAO has not yet used its buyout authority and has no plans to do so in the foreseeable future, we are seeking to retain this flexibility. The continuation of this provision maximizes the options available to the agency to deal with future circumstances, which cannot be reasonably anticipated at this time. Importantly, this provision seems fully appropriate since the Homeland Security Act of 2002 provides most federal agencies with permanent early out and buyout authority.

Public Law 106-303 required that GAO perform an assessment of the exercise of the authorities provided under that law, which included the authority for the Comptroller General to provide voluntary early retirement

and voluntary separation incentive payments. With your permission, I would like to submit the assessment entitled *Assessment of Public Law 106-303: The Role of Personnel Flexibilities in Strengthening GAO's Human Capital*, issued on June 27, 2003, for the record. I will now highlight for you our observations from that assessment on voluntary early retirement and buyouts.

Voluntary Early Retirement

Public Law 106-303 also allows the Comptroller General to offer voluntary early retirement to up to 10 percent of the workforce when necessary or appropriate to realign the workforce to address budgetary or mission constraints; correct skill imbalances; or reduce high-grade, supervisory, or managerial positions. This flexibility represents a proactive use of early retirement to shape the workforce to prevent or ameliorate future problems. GAO Order 2931.1, Voluntary Early Retirement, containing the agency's final regulations, was issued in April 2001. Under the regulations, each time the Comptroller General approves a voluntary early retirement opportunity, he establishes the categories of employees who are eligible to apply. These categories are based on the need to ensure that those employees who are eligible to request voluntary early retirement are those whose separations are consistent with one or more of the three reasons for which the Comptroller General may authorize early retirements. Pursuant to GAO's regulations, these categories are defined in terms of one or more of the following criteria:

- organizational unit or subunits,
- occupational series,
- grade or band level,
- skill or knowledge requirements,
- performance appraisal average,
- geographic location, or
- other similar factors that the Comptroller General deems necessary and appropriate.

Since it is essential that GAO retain employees with critical skills as well as its highest performers, certain categories of employees have been ineligible

under the criteria. Some examples of ineligible categories are employees receiving retention allowances because of their unusually high or unique qualifications; economists, because of the difficulty that the agency has experienced in recruiting them; and staff in the information technology area. In addition, employees with performance appraisal averages above a specified level have not been eligible under the criteria.

To give the fullest consideration to all interested employees, however, any employee may apply for consideration when an early retirement opportunity is announced, even if he or she does not meet the stated criteria. Furthermore, under our order, the Comptroller General may authorize early retirements for these applicants on the basis of the facts and circumstances of each case. The Comptroller General or his EC designee considers each applicant and makes final decisions based on GAO's institutional needs. Only employees whose release is consistent with the law and GAO's objective in allowing early retirement are authorized to retire early. In some cases, this has meant that an employee's request must be denied.

GAO held its first voluntary early retirement opportunity in July 2001. Employees who were approved for early retirement were required to separate in the first quarter of fiscal 2002. As required by the act, information on the fiscal 2002 early retirements was reported in an appendix to our 2002 Performance and Accountability Report. Another voluntary early retirement opportunity was authorized in fiscal 2003, and employees were required to separate by March 14, 2003. In anticipation of the 3-year sunset on our authority to provide voluntary early retirements, I have recently announced a final voluntary early retirement opportunity under our current authority. Table 1 provides the data on the number of employees separated by voluntary early retirement as of May 30, 2003.

Table 1: Summary Data on Voluntary Early Retirements

Applications/Status of applications	Fiscal 2002		Fiscal 2003		Totals	
	Number	Percentage of total	Number	Percentage of total	Number	Percentage of total
Total applications submitted	78	100.0	39	100.0	117	100.0
Approved applications	72	92.3	37	94.8	109	93.1
Disapproved applications	6	7.7	2	5.1	8	6.8
Approved applications withdrawn by employees	18	23.0	12	30.7	30	25.6
Applicants separated by voluntary early retirement	54	69.3	25	64.1	79	67.5

Source: GAO.

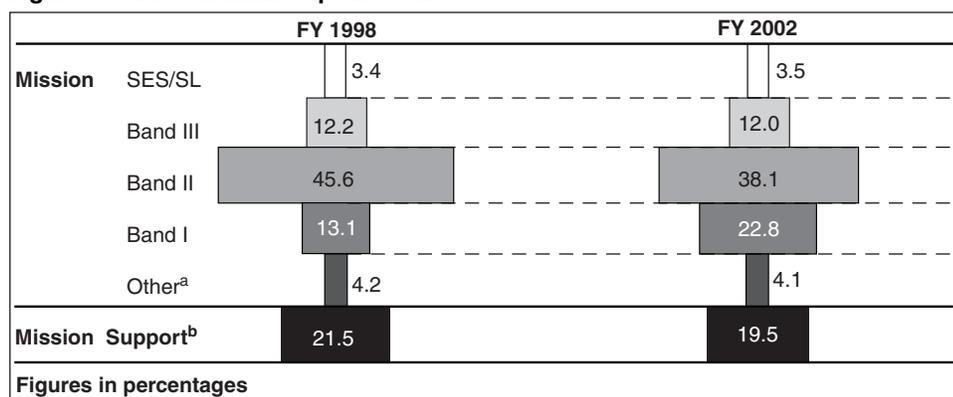
As you can see from the table, of the 79 employees who separated from GAO through voluntary early retirement, 66, or 83.5 percent, were high-grade, supervisory, or managerial employees. High-grade, supervisory, or managerial employees are those who are GS-13s or above, if covered by GAO's GS system; Band IIs or above, if covered by GAO's banded systems for Analysts and Attorneys; or in any position in GAO's SES or Senior-Level system.

In recommending that GAO's voluntary early out authority be made permanent, I would like to point to our progress in changing the overall shape of the organization. The 1990s were a difficult period for ensuring that GAO's workforce would remain appropriately sized, shaped, and skilled to meet client demands and agency needs. Severe downsizing of the workforce, including a suspension of most hiring from 1992 through 1997, and constrained investments in such areas as training, performance incentives, rewards, and enabling technology left GAO with a range of human capital and operational challenges to address. Over 3 years ago, when GAO sought additional human capital flexibilities, our workforce was sparse at the entry level and plentiful at the midlevel. We were concerned about our ability to support the Congress with experienced and knowledgeable staff over time, given the significant percentage of the agency's senior managers and analysts reaching retirement eligibility and the small number of entry-level employees who were training to replace more senior staff.

As illustrated in figure 1, by the end of fiscal year 2002, GAO had almost a 74 percent increase in the proportion of staff at the entry level (Band I)

compared with fiscal year 1998. Also, the proportion of the agency's workforce at the midlevel (Band II) decreased by 16 percent.

Figure 1: GAO's Human Capital Profile



Source: GAO.

Voluntary Separation Payments

In addition to authorizing voluntary early retirement for GAO employees, Public Law 106-303 permits the Comptroller General to offer voluntary separation incentive payments—buyouts—when necessary or appropriate to realign the workforce to meet budgetary constraints or mission needs; correct skill imbalances; or reduce high-grade, supervisory, or managerial positions. Under the act, up to 5 percent of employees could be offered such an incentive, subject to criteria established by the Comptroller General.

The act requires GAO to deposit into the U.S. Treasury an amount equivalent to 45 percent of the final annual basic salary of each employee to whom a buyout is paid. The deposit is in addition to the actual buyout amount, which can be up to \$25,000 for an approved individual. Given the many demands on agency resources, these costs present a strong financial disincentive to use the provision if at all. GAO anticipates little, if any, use of this authority because of the associated costs. For this reason, as well as to avoid creating unrealistic employee expectations, GAO has not developed and issued agency regulations to implement this section of the act. Nevertheless, as stated earlier, it is prudent for us to seek the continuation of this provision because it maximizes the options available to the agency to deal with future circumstances. Since GAO is also eligible to request buyouts under the provisions of the Homeland Security Act, the

agency will consider its options under this provision as well. However, under the Homeland Security Act, GAO would have to seek OPM approval of any buyouts, which raises serious independence concerns.

Annual Pay Setting Policy and Adjustments

Section 3 and 4 of our proposal would provide GAO greater discretion in determining the annual across the board and locality pay increases for our employees. Under our proposal, GAO would have the discretion to set annual pay increases by taking into account alternative methodologies from those used by the executive branch and various other factors, such as extraordinary economic conditions or serious budgetary constraints. While the authority requested may initially appear to be broad based, there are compelling reasons why GAO ought to be given such authority. First, as I discussed at the beginning of my testimony, GAO is an agency within the legislative branch and already has a hybrid pay system established under the authority the Congress granted over two decades ago. Therefore, our proposal represents a natural evolution in GAO's pay for performance system. Second, GAO's proposal is not radical if viewed from the vantage point of the broad-based authority that has been granted the Department of Homeland Security (DHS) under the Homeland Security Act of 2002; agencies that the Congress has already granted the authority to develop their own pay systems; the authorities granted to various demonstration projects over the past two decades; and the authority Congress is currently contemplating providing the Department of Defense (DOD). Third, GAO already has a number of key safeguards and has plans to build additional safeguards into our modified pay system if granted this authority.

Our proposal seeks to take a constructive step in addressing what has been widely recognized as fundamental flaws in the federal government's approach to white-collar pay. These flaws and the need for reform have been addressed in more detail in OPM's April 2002 White Paper, *A Fresh Start For Federal Pay: A Case for Modernization*, and more recently the National Commission on the Public Service's January 2003 report on revitalizing the public service. The current federal pay and classification system was established over 60 years ago for a federal workforce that was made up largely of clerks performing routine tasks which were relatively simple to assess and measure. Today's federal workforce is composed of much higher graded and knowledge-based workers.

Although there have been attempts over the years to refine the system by enacting such legislation as the Federal Employees Pay Comparability Act (FEPCA) which sought to address, among other things, the issue of pay

comparability with the nonfederal sector, the system still contains certain fundamental flaws. The current system emphasizes placing employees in a relative hierarchy of positions based on grade; is a “one size fits all approach” since it does not recognize changes in local market rates for different occupations; and is performance insensitive in that all employees are eligible for the automatic across the board pay increases regardless of their performance. Specifically, the annual across the board base pay increase, also commonly referred to as the cost of living adjustment (COLA) or the January Pay Increase which the President recommends and the Congress approves, provides a time driven annual raise keyed to the Employment Cost Index (ECI) to all employees regardless of performance. In certain geographic areas, employees receive a locality adjustment tied to the local labor markets. However, in calculating the locality adjustment, for example, it is my understanding that FEPCA requires the calculation of a single average, based on the dominant federal employer in an area, which does not sufficiently recognize the differences in pay rates for different occupations and skills. In view of the fact that today we are in a knowledge-based economy competing for the best knowledge workers in the job market, I believe that new approaches and methodologies are warranted. This is especially appropriate for GAO’s highly educated and skilled workforce.

Our proposed pay adjustment provision along with the other provisions of GAO’s human capital proposal are collectively designed to help GAO maintain a competitive advantage in attracting, motivating, retaining, and rewarding a high performing and top-quality workforce both currently and in future years. First, under our proposal, GAO would no longer be required to provide automatic pay increases to employees who are rated as performing at a below satisfactory level. Second, when the proposal is fully implemented, GAO would be able to allocate more of the funding—currently allocated for automatic across-the-board pay adjustments to all employees—to permanent base pay adjustments that would vary based on performance. In addition, our proposal would affect all GAO, non-wage grade employees, including the SES and Senior Level staff.

Ultimately, if GAO is granted this authority, all GAO employees who perform at a satisfactory level will receive an annual base pay adjustment composed of purchase power protection and locality based pay increases absent extraordinary economic circumstances or severe budgetary constraints. GAO will be able to develop and apply its own methodology for annual cost-of-living and locality pay adjustments. The locality pay increase would be based on compensation surveys conducted by GAO and

which would be tailored to the nature, skills, and composition of GAO's workforce. The performance part of an employee's annual raise would depend on the level of the employee's performance and that employee's pay band. We estimate that at least 95 percent of the workforce will qualify for an additional performance-based increase. However, under this provision, employees who perform below a satisfactory level will not receive an annual increase of either type.

How GAO Plans to Use This Authority

GAO's major non-SES pay groups include (1) Analysts and Attorneys which comprises the majority of our workforce and is our mission group, (2) the Professional Development Program staff (PDP) which is our entry level mission group, (3) the Administrative Professional Support Staff (APSS), which is our mission support group for the most part, and (4) Wage Grade employees who primarily operate our print plant. Each of these groups currently operate in a different pay system. Generally, our mission staff are all in pay bands whereby they currently receive the annual across-the-board base pay increase and locality pay increase similar to the GS pay system, along with performance-based annual increases that are based on merit. Generally, our mission support staff, with some exceptions, remain in a system similar to the GS pay system with its annual across-the-board pay increases, locality pay, quality step increases, and within grade increases. We are currently in the process of migrating the mission support staff into pay bands and a pay for performance system. Our Wage Grade staff will continue to be covered by the federal compensation system for trade, craft, and laboring employees. Because of the small number of employees and the nature of their work, we have no plans to apply the pay adjustment provision authority to this group.

I would like to point out the tables in appendices I through IV, which succinctly describe how GAO plans to operationalize our authority under our proposed annual pay adjustment provision over time.

GAO's Proposed Pay Authority Is Reasonable

GAO's proposal for additional pay flexibility is reasonable in view of the authority the Congress has already granted DHS through the Homeland Security Act of 2002; the other agencies for whom the Congress has granted the authority to develop their own pay systems; the demonstration projects that OPM has authorized; and the authorities that other agencies in the executive branch are currently seeking (e.g., DOD).

While we are aware that the passage of the Homeland Security Act of 2002 was not without its difficult moments, particularly with respect to the broad-based authorities granted the department, we are also aware that the process employed by DOD and certain of its human capital proposals are highly controversial. It is important to point out that GAO's proposal and proposed pay flexibilities pale in respect to those granted to the DHS and to those requested by the DOD in the Defense Transformation for the 21st Century Act of 2003. Collectively, these two agencies represent almost 45 percent of the non-postal federal civilian workforce. Specifically, in November 2002, the Congress passed the Homeland Security Act of 2002, which created DHS and provided the department with significant flexibilities to design a modern human capital management system, which could have the potential, if properly developed, for application governmentwide. DOD's proposed National Security Personnel System (NSPS) would provide wide-ranging changes to its civilian personnel pay and performance management systems, collective bargaining, rightsizing, and a variety of other human capital areas. NSPS would enable DOD to develop and implement a consistent, DOD-wide civilian personnel system.

In addition to DHS, there are a number of federal agencies with authority for their own pay systems. Some of these agencies are, for example, the Congressional Budget Office, which is one of our sister agencies in the legislative branch; the Federal Aviation Administration (FAA); the Securities and Exchange Commission (SEC); and the Office of the Comptroller of the Currency (OCC) within the Department of the Treasury. When the Congress created the CBO in 1974, it granted that legislative branch agency significant flexibilities in the human capital area. For example, CBO has "at will" employment. In addition, CBO is not subject to the annual executive branch pay adjustments. Further, CBO has extensive flexibility regarding its pay system subject only to certain statutory annual compensation limits.

Furthermore, there are twelve executive branch demonstration projects involving pay for performance. These projects have taken different approaches to the sources of funding for salary increases that are tied to performance and not provided as entitlements. Many of the demonstration projects reduce or deny the annual across the board base pay increase for employees with unacceptable ratings (e.g., the Department of Navy's China Lake demonstration, DOD's Civil Acquisition Workforce demonstration, the Department of Air Force's Research Laboratory demonstration, and the Department of Navy's Research Laboratory demonstration, among others.) Others, including the National Institute of Standards and Technology and

the Department of Commerce demonstration projects, deny both the annual across the board base pay increase and the locality pay adjustment for employees with unacceptable ratings.

Currently, this Congress is considering a NASA human capital proposal. This proposal would provide NASA with further flexibilities and authorities for attracting, retaining, developing, and reshaping a skilled workforce. These include a scholarship-for-service program; a streamlined hiring authority for certain scientific positions; larger and more flexible recruitment, relocation, and retention bonuses; noncompetitive conversions of term employees to permanent status; a more flexible critical pay authority; a more flexible limited-term appointment authority for the SES; and greater flexibility in determining annual leave accrual rate for new hires.

Safeguards Provided

As we have testified, agencies should have modern, effective, credible, and as appropriate, validated performance management systems in place with adequate safeguards, including reasonable transparency and appropriate accountability mechanisms, to ensure fairness and prevent politicization and abuse. While GAO's transformation is a work in progress, we believe that we are in the lead compared to executive branch agencies in having the human capital infrastructure in place to provide such safeguards and implement a modified pay system that is more performance oriented. Specifically, for our Analyst pay group, we have gone through the first cycle of a validated performance management system that has adequate safeguards, including reasonable transparency and appropriate accountability mechanisms. We have learned from what has worked and what improvements can and should be made with respect to the first cycle. In fact, we have adopted many of the recommendations and suggestions of our managing directors and EAC and are now in the process of implementing these suggestions.

The following is an initial list of possible safeguards, developed at the request of Congressman Danny Davis, for Congress to consider to help ensure that any pay for performance systems in the government are fair, effective, and credible. GAO's current human capital infrastructure has most of these safeguards built in, and the others are in the process of being incorporated.

- Assure that the agency's performance management systems (1) link to the agency's strategic plan, related goals, and desired outcomes and

(2) result in meaningful distinctions in individual employee performance. This should include consideration of critical competencies and achievement of concrete results.

- Involve employees, their representatives, and other stakeholders in the design of the system, including having employees directly involved in validating any related competencies, as appropriate.
- Ensure that certain predecisional internal safeguards exist to help achieve the consistency, equity, nondiscrimination, and nonpoliticization of the performance management process (e.g., independent reasonableness reviews by the human capital offices and/or the offices of opportunity and inclusiveness or its equivalent in establishing and implementing a performance appraisal system, as well as reviews of performance rating decisions, pay determinations, and promotion actions before they are finalized to ensure that they are merit-based; internal grievance processes to address employee complaints; and pay panels predominately made up of career officials who would consider the results of the performance appraisal process and other information in making final pay decisions).
- Assure reasonable transparency and appropriate accountability mechanisms in connection with the results of the performance management process (e.g., publish overall results of performance management and pay decisions while protecting individual confidentiality, and report periodically on internal assessments and employee survey results).

Transition Period

We have provided a statutory period minimum to allow for a smooth implementation of the law as it applies to both our mission and mission support staff. Specifically, for our Analyst and Attorney communities, we plan to allow for at least a two-year period, during which they will continue to receive their annual across the board pay raise and their locality pay, if applicable, based on the amount set by the GS system. Once the proposal is fully implemented, the new across-the-board increase, which provides for inflation protection and locality pay where applicable, would be computed based on GAO compensation studies, and the performance-based merit pay would be provided based on an employee's performance.

For our APSS employees, the transition period of at least 2 years would allow for a smooth migration to the pay bands and the implementation of at

least one performance cycle of a newly validated competency based performance appraisal system for that component of GAO's workforce. Our APSS employees are currently still in the GS system, but we are in the process of moving them into pay bands. We will allow time for the group to migrate to broad bands and to have at least one performance cycle under pay bands before moving it into the new pay system. Therefore, as with the analysts and attorneys, the administrative support staff will move into a hybrid pay system once they migrate to pay bands. Also, as with the analysts and attorneys, I have committed to providing them "pay protection." This guarantee would continue even after GAO's authority to adjust pay is fully implemented.

We have a small Wage Grade community of under 20 employees. As mentioned earlier, we do not contemplate having the pay adjustment provision apply to them.

"Pay Protection" Guarantee

My predecessor, Comptroller General Charles A. Bowsher, provided the analysts and attorneys a "pay protection" guarantee at the time of their conversion to broad bands. This guarantee, later spelled out in a GAO order, provided that the analyst and attorneys rated as meeting expectations in all categories would fare at least as well under pay bands as under the GS system. This guarantee would not apply to employees who are promoted after conversion or demoted, and to new employees hired after the conversion. It is my understanding that this guarantee provided by my predecessor is unique to GAO and has generally not been applied by other agencies that have migrated their employees to pay bands.

Currently, 535 GAO employees are still covered by this "pay protection" guarantee, while less than 10 employees annually have their pay readjusted after the merit pay process. I have committed to GAO employees that even if we receive the new pay adjustment authority, I would still honor my predecessor's pay protection guarantee. In addition, our mission support staff will also receive this guarantee upon conversion to pay bands. This guarantee will continue through the implementation period for our new human capital authority.

Pay Retention

Section 5 of our proposal would allow GAO not to provide any automatic increase in basic pay to an employee demoted as a result of workforce restructuring or reclassification at his or her current rate until his or her

salary is less than the maximum rate of the new position. Under current law, the grade and pay retention provisions allow employees to continue to be paid at a rate that exceeds the value of the duties they are performing for an extended period. Specifically, employees who are demoted (e.g., incur a loss of grade or band) due to, among other things, reduction-in-force procedures or reclassification receive full statutory pay increases for 2 years and then receive 50 percent of the statutory pay increases until the pay of their new positions falls within the range of pay for those positions. We believe that this antiquated system is inconsistent with the merit principle that there should be equal pay for work of equal value.

In granting GAO this authority, we would be able to immediately place employees in the band or grade commensurate with their roles and responsibilities. It is important to note that we have a key safeguard—employees whose basic pay exceeds the maximum rate of the grade or band in which the employee is placed will not have their basic pay reduced. These employees, who would still be eligible to increase their overall pay through certain types of performance-based awards (e.g., incentive awards), would retain this rate until their basic pay is less than the maximum for their grade or band. As with all the provisions in our proposal, we will not implement this pay retention provision until we have consulted with the EAC and managing directors and have provided all GAO employees an opportunity for notice and comment on any regulations.

Relocation Expenses

Section 6 would provide GAO the authority, in appropriate circumstances, to reimburse employees for some relocation expenses when transfers do not meet current legal requirements for entitlement to reimbursement but still benefit GAO. Under current law, employees who qualify for relocation benefits are entitled to full benefits; however, employees whose transfer may be of some benefit or value to the agency would not be eligible to receive any reimbursement. This provision would provide these employees some relief from the high cost of relocating while at the same time allowing GAO the flexibility to promulgate regulations in order to provide such relief. This authority has been previously granted to other agencies, including the FAA.

Leave for Upper Level Hires

Section 7 of the proposal provides GAO the authority to provide 160 hours (20 days) of annual leave to appropriate employees in high-grade, managerial or supervisory positions who have less than 3 years of federal

service. This is narrowly tailored authority that would apply only to GAO and not to executive branch agencies. While it is been a long-standing tenet that all federal employees earn annual leave based on years of federal service, we believe that there is substantial merit in revisiting this in view of today's human capital environment and challenges. We have found that, in recruiting experienced mid- and upper-level hires, the loss of leave they would incur upon moving from the private to the federal sector is a major disincentive. For example, an individual, regardless of the level at which he enters first enters the federal workforce, is eligible to earn 4 hours of annual leave for each pay period and, therefore, could accrue a total of 104 hours (13 days) annually so long as they do not use any of that leave during the year. This amount increases to 6 hours of annual leave after 3 years of federal service. By increasing the annual leave that certain newly hired officers and employees may earn, this provision is designed to help attract and retain highly skilled employees needed to best serve the Congress and the country.

Executive Exchange Program

Section 8 would authorize GAO to establish an executive exchange program between GAO and private sector entities. Currently, GAO has the authority to conduct such an exchange with public entities and non profit organizations under the Intergovernmental Personnel Act; there is no such authority for private sector exchanges. Under this program, high-grade, managerial or supervisory employees from GAO may work in the private sector, and private sector employees may work at GAO. While GAO will establish the details of this program in duly promulgated regulations, we have generally fashioned, with exceptions where appropriate, the legal framework for this program on the Information Technology Exchange Program authorized by Public Law 107-347, the E-Government Act of 2002, which the Congress enacted to address human capital challenges within the executive branch in the information technology area.

While the Information Technology Exchange Program only involves technology exchanges, GAO's exchange program will cover not only those who work in information technology fields, but also accountants, economists, lawyers, actuaries, and other highly skilled professionals. This program will help us address certain skills imbalances in such areas as well as a range of succession planning challenges. Specifically, by fiscal year 2007, 52 percent of our senior executives, 37 percent of our management-level analysts, and 29 percent of our analysts and related staff will be eligible for retirement. Moreover, at a time when a significant percentage of our workforce is nearing retirement age, marketplace, demographic,

economic, and technological changes indicate that competition for skilled employees will be greater in the future, making the challenge of attracting and retaining talent even more complex.

One of the key concerns raised in the past regarding private sector exchange programs has been the issue of conflict of interest. We believe that in this regard GAO differs from executive branch agencies in that, as reviewers, we are not as subject to potential conflicts of interest. Nevertheless, it is important to note in requesting this authority that we have made clear that the private sector participants would be subject to the same laws and regulations regarding conflict of interest, financial disclosure, and standards of conduct applicable to all employees of GAO. Under the program, private sector participants would receive their salaries and benefits from their employers and GAO need not contribute to these costs. We also believe that this will also encourage private sector individuals to devote a portion of their careers to the public sector without incurring substantial financial sacrifice.

Changing GAO's Name to the "Government Accountability Office"

Section 9 would change the name of our agency from the "General Accounting Office" to the "Government Accountability Office." At the same time, the well-known acronym "GAO," which has over 80 years of history behind it, will be maintained. We believe that the new name will better reflect the current mission of GAO as incorporated into its strategic plan, which was developed in consultation with the Congress. As stated in GAO's strategic plan, our activities are designed to ensure the executive branch's accountability to the American people. Indeed, the word accountability is one of GAO's core values along with integrity and reliability. These core values are also incorporated in GAO's strategic plan for serving the Congress.

The GAO of today is a far cry from the GAO of 1921, the year that the Congress established it through the enactment of the Budget and Accounting Act. In 1921, GAO pre-audited agency vouchers for the legality, propriety, and accuracy of expenditures. In the 1950s, GAO's statutory work shifted to the comprehensive auditing of government agencies. Later, beginning during the tenure of Comptroller General Elmer B. Staats, GAO's work expanded to include program evaluation and policy analysis. Whereas GAO's workforce consisted primarily of accounting clerks during the first three decades of its existence, today it is a multidisciplinary professional services organization with staff reflecting the diversity of

knowledge and skills needed to deliver a wide range of services to the Congress.

Although currently less than 15 percent of agency resources are devoted to traditional auditing and accounting activities, members of the public, the press, as well as the Congress often incorrectly assume that GAO is still solely a financial auditing organization. In addition, our name clearly confuses many potential applicants, who assume that GAO is only interested in hiring accountants. We believe that the new name will help attract applicants and address certain “expectation gaps” that exist outside of GAO.

Concluding Observations

In conclusion, I believe that GAO’s human capital proposal merits prompt passage by this committee and, ultimately, the Congress. We have used the narrowly tailored flexibilities the Congress provided us previously in Public Law 106-303 responsibly, prudently, and strategically to help posture GAO to ensure the accountability of the federal government for the benefit of the Congress and the American people. Although some elements of our initial straw proposal were controversial, we have made a number of changes, clarifications, and commitments to address various comments and concerns raised by GAO employees. We recognize that the pay adjustment provision of this proposal remains of concern to some of our staff. However, we believe that it is vitally important to GAO’s future that we continue modernizing and updating our human capital policies and system in light of the changing environment and anticipated challenges ahead. We believe that the proposal as presented and envisioned is well reasoned and reasonable with adequate safeguards for GAO employees. Given our human capital infrastructure and our unique role in leading by example in major management areas, including human capital management, the federal government could benefit from GAO’s experience with pay for performance systems. Overall, we believe that this proposal represents a logical incremental advancement in modernizing GAO’s human capital policies, and with your support, we believe that it will make a big difference for the GAO of the future.

Chairwoman Jo Ann Davis, Mr. Davis, and Members of the Committee, this concludes my prepared statement. I would be pleased to respond to any questions you may have.

Contacts

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Analysts and Attorneys: Pay Increases under GAO's Current System and Human Capital Proposal

Types of Pay Increases ^a	Current Pay System ^b (Broad band)		Transition Period ^c (Guaranteed Minimum; Pay Protection from Band Conversion)		Implementation Period ^d (Pay Protection from Band Conversion)	
	Included	Permanent base pay	Included	Permanent base pay	Included	Permanent base pay
Annual across-the-board base pay	●	●	● (Same percentage as executive branch GS; for all satisfactory performers)	●	● (Percentage decoupled from executive branch GS; for all satisfactory performers)	●
Locality pay	●	●	● (Same percentage as executive branch GS; for all satisfactory performers)	●	● (Percentage decoupled from executive branch GS; for all satisfactory performers)	●
Performance-based pay (Merit increases)	● (Percentages determined by EC annually)	●	● (Percentages determined by EC annually; initial additional performance-based funds limited due to transition period guarantee)	●	● (Percentages determined by EC annually; actual incremental amount will vary over time)	●
Performance bonuses ^{b-d} (for individuals who are pay capped)	●	One-time	●	One-time	●	One-time
Dividends ^{b-d}	●	One-time	●	One-time	●	One-time
Incentive awards	●	One-time	●	One-time	●	One-time

● This element is applicable

N/A This element is not applicable

Source: GAO.

^aThe percentage allocated to each type of pay increase varies annually.

^bUnder our current pay system, GAO is linked to the executive branch for annual base and locality pay adjustments; however, since the implementation of broad banding, has not been linked to the executive branch for performance-based merit pay increases, performance bonuses/dividends, and other incentive award pay increases. The Executive Committee determines on an annual basis which pay categories, if any, are eligible for bonuses and dividends. For example, individuals in pay categories one and two received dividends for their FY 02 performance.

^cDuring the transition period, GAO staff rated as performing at a satisfactory level (i.e., meeting expectations or higher) will be guaranteed, at a minimum, barring extraordinary economic

Appendix I
Analysts and Attorneys: Pay Increases under
GAO's Current System and Human Capital
Proposal

circumstances or serious budgetary constraints, base pay and locality pay according to the same adjustment provided to executive branch employees. All such GAO staff will also be eligible for additional performance-based merit pay increases, performance bonuses (if pay capped)/dividends, and incentive awards. During the transition period, GAO will continue to raise the pay cap for its pay bands commensurate with executive branch pay cap increases absent extraordinary economic circumstances or serious budgetary constraints. The Executive Committee will determine on an annual basis which categories, if any, are eligible for bonuses and dividends.

^dUnder its human capital proposal, GAO proposes to decouple itself from the executive branch for base and locality pay adjustments after a 2 plus year transition period. After the transition period, GAO will fully implement a modified pay system in which absent extraordinary economic conditions or serious budgetary constraints, all GAO staff rated as performing at a satisfactory level (i.e., meeting expectations or higher) can expect to receive at a minimum an annual adjustment designed to protect purchasing power (e.g., the Consumer Price Index) and address differences in compensation ranges by localities. In addition, all such staff will continue to be eligible for performance-based merit pay increases, performance bonuses (if pay capped)/dividends, and incentive awards. Before finalizing and implementing a modified pay system, GAO will seek the advice of the managing directors and GAO's Employee Advisory Council. We will also draft revised pay regulations and publish them for review and comment by all employees.

Professional Development Program (PDP) Staff: Pay Increases under GAO's Current System and Human Capital Proposal

Types of Pay Increases ^a	Current Pay System ^b (Broad band/PDP)		Transition Period ^c Guaranteed Minimum		Implementation Period ^d	
	Included	Permanent base pay	Included	Permanent base pay	Included	Permanent base pay
Annual across-the-board base pay	●	●	● (Same percentage as executive branch GS; for all satisfactory performers)	●	● (Percentage decoupled from executive branch GS; for all satisfactory performers)	●
Locality pay	●	●	● (Same percentage as executive branch GS; for all satisfactory performers)	●	● (Percentage decoupled from executive branch GS; for all satisfactory performers)	●
Performance-based pay	● (Percentages determined by EC annually)	●	● (Percentages determined by EC annually)	●	● (Percentages determined by EC annually)	●
Performance bonuses ^{b-e} (for individuals who are pay capped)	●	One-time	●	One-time	●	One-time
Dividends ^{c-e}	N/A	N/A	N/A	N/A	N/A	N/A
Incentive awards	●	One-time	●	One-time	●	One-time

● This element is applicable

N/A This element is not applicable

Source: GAO.

Note: PDP Staff who are Band IF (full performance) are covered by the merit pay system. See chart for Analysts & Attorneys.

^aThe percentage allocated to each type of pay increase varies annually.

^bUnder our current pay system, GAO is linked to the executive branch for base and locality pay. Band I staff in the PDP are eligible for periodic performance based PDP pay increases that are not available in the executive branch. PDP staff are not eligible for performance based merit increases and dividends.

^cDuring the transition period, PDP staff rated as performing at a satisfactory level (i.e., meeting expectations or higher) will be guaranteed, at a minimum, barring extraordinary economic circumstances or serious budgetary constraints, base pay and locality pay according to the same adjustment provided to the executive branch employees. PDP staff rated as performing at the satisfactory level (i.e., meeting expectations or higher) will be eligible for performance-based PDP pay increases. During and after the transition period, PDP staff will not be eligible for dividends because PDP staff are evaluated every 6 months for performance based PDP increases. During the transition period, GAO will raise the pay cap for its Band I pay band commensurate with executive branch pay cap increases absent extraordinary economic circumstances or serious budgetary constraints. The

Appendix II
Professional Development Program (PDP)
Staff: Pay Increases under GAO's Current
System and Human Capital Proposal

Executive Committee will determine on an annual basis which pay categories, if any, are eligible for PDP bonuses.

^dUnder its human capital proposal, GAO proposes to decouple itself from the executive branch for base and locality pay after a 2 plus year transition period. After the transition period, GAO will fully implement a modified pay system in which absent extraordinary economic conditions or serious budgetary constraints, all PDP staff rated as performing at a satisfactory level (i.e., meeting expectations or higher) can expect to receive at a minimum, an annual adjustment designed to protect purchasing power (e.g., the Consumer Price Index) and address differences in compensation ranges by localities. In addition, PDP staff rated as performing at a satisfactory level (i.e., meeting expectations or higher) will continue to be eligible for additional performance-based compensation, including performance-based PDP pay increases and incentive awards. Before finalizing and implementing a modified pay system, GAO will seek the advice of the managing directors and GAO's Employee Advisory Council. We will also draft revised pay regulations and publish them for review and comment by all employees.

Administrative Professional Support Staff (APSS): Pay Increases under GAO's Current System and Human Capital Proposal

Types of Pay Increases ^a	Current Pay System ^b (GS)		Transition Period ^c (Broad band) Pay Protection from Band Conversion		Implementation Period ^d Pay Protection from Band Conversion	
	Included	Permanent base pay	Included	Permanent base pay	Included	Permanent base pay
Annual across-the-board base pay	●	●	● (Same percentage as executive branch GS)	●	● Percentage decoupled from executive branch GS; for all satisfactory performers)	●
Locality pay	●	●	● (Same percentage as executive branch GS)	●	● Percentage decoupled from executive branch GS; for all satisfactory performers)	●
Quality step increase (QSI)	●	●	N/A	N/A	N/A	N/A
Within grade increase (WIG)	●	●	N/A	N/A	N/A	N/A
Performance-based pay (merit increases)	N/A	N/A	● (Percentages determined by EC annually)	●	● (Percentages determined by EC annually; actual incremental amount will vary over time)	●
Performance bonuses ^{b-d} (for individuals who are pay capped)	N/A	N/A	●	One-time	●	One-time
Dividends ^{b-d}	N/A	N/A	●	N/A	●	●
Incentive awards	●	One-time	●	One-time	●	One-time

● This element is applicable

N/A This element is not applicable

Source: GAO.

^aThe percentage allocated to each type of pay increase varies annually. This chart applies only to APSS employees who are under the General Schedule (GS) system. APSS employees who are already in broad bands should see the chart for Analysts and Attorneys.

^bUnder our current pay system, GAO is linked to the executive branch for annual base, locality, QSI, and WIG pay adjustments. APSS staff are eligible for performance incentive award pay increases; however, they are not eligible for performance bonuses (if pay capped) or dividends.

^cDuring the transition period, GAO will implement broad banding for the APSS community between April – June 2004 and allow at least one full cycle of a new competency-based performance appraisal system before implementing any additional performance-based pay adjustments envisioned under HC II. Upon conversion to broad bands, GAO, as it did with its Analyst and Attorney communities, will replace QSIs and WIGs with performance pay increases that are not linked to the executive branch. Also, as it did with its Analyst and Attorney communities when they were converted to bands, GAO will provide a pay protection guarantee. Specifically, APSS staff who perform at the meets expectations level on any performance rating will earn a salary at least as high as they would have received had they remained under the General Schedule at their grade at the time of conversion. However, this

Appendix III
Administrative Professional Support Staff
(APSS): Pay Increases under GAO's Current
System and Human Capital Proposal

guarantee will not apply to staff who are promoted after conversion or demoted and to new employees hired after the conversion. APSS staff will be eligible for performance-based merit increases, performance bonuses (if pay capped) /dividends, and incentive awards. During the transition period, GAO will continue to raise the pay cap for its pay bands commensurate with executive branch pay cap increases. The Executive Committee will determine on an annual basis which pay categories, if any, are eligible for bonuses and dividends.

^dUnder its human capital proposal, GAO proposes to decouple itself from the executive branch for base and locality pay after a two plus year transition for the broad band conversion. After the transition period, GAO will fully implement a modified pay system in which absent extraordinary economic conditions or serious budgetary constraints, all GAO staff rated as performing at a satisfactory level (i.e., meeting expectations or higher) can expect to receive at a minimum, an annual adjustment designed to protect purchasing power (e.g., the Consumer Price Index) and address differences in compensation ranges by localities. In addition, all APSS staff will continue to be eligible for performance-based merit pay increases, performance bonuses (if pay capped)/dividends, and incentive awards. Before finalizing and implementing a modified pay system, GAO will seek the advice of the managing directors and GAO's Employee Advisory Council. We will also draft revised pay regulations and publish them for review and comment by all employees. In addition, APSS staff receiving the pay protection guarantee from their conversion into pay bands will continue to be eligible for pay protection during the implementation period.

Wage Grade (WG) Staff: Pay Increases under GAO's Current System and Human Capital Proposal

Types of Pay Increases ^a	Current Pay System ^b (Wage Grade) System Same Under HC II	
	Included	Permanent
Annual across-the-board base pay	●	●
Locality pay	N/A	N/A
Quality step increase (QSI)	N/A	N/A
Within grade increase (WIG)	●	●
Incentive awards ^c	●	One-time

● This element is applicable

N/A This element is not applicable

Source: GAO.

Note: HC II refers to GAO's human capital proposal.

^aThe percentage allocated to each type of pay increase varies annually.

^bUnder its current wage grade pay system, GAO is linked to the executive branch for base, locality, and WIG pay increases. Wage grade employees are not eligible for QSIs and locality pay increases in GAO or anywhere in the federal government. Because its wage grade community is so small, GAO does not plan to include the wage grade community in the modified pay system under its human capital proposal.

^cWage grade staff are not eligible for bonuses and dividends.

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