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The Honorable George V. Voinovich
Chairman
Subcommittee on Oversight of Government
Management, the Federal Workforce, and the
District of Columbia
Committee on Governmental Affairs
United States Senate

Subject: *Posthearing Questions Related to Assessing Progress in Human Capital Management*

Dear Chairman Voinovich:

On July 20, 2004, I testified before your Subcommittee on “Building the 21st Century Federal Workforce: Assessing Progress in Human Capital Management.”¹ This letter responds to your request that I provide answers to follow-up questions from you, Senator Akaka, and Senator Lautenberg. The questions and responses follow.

Questions from Senator Voinovich

1. Congress and the President just authorized additional human capital flexibilities to assist GAO to attract and retain a high-performing work force. What lessons can other agencies learn from GAO’s approach to building the case for these flexibilities?

A key reason GAO has sought additional human capital flexibilities is that while our people account for about 80 percent of our costs, they constitute 100 percent of our real assets. Without excellent human capital management, we run the risk of being unable to deliver what Congress and the nation expects of us. GAO’s approach to building the case for flexibilities is appropriate for the rest of government. We have emphasized that in addressing their human capital challenges, agencies should first identify and make use of the flexibilities already available under existing laws and regulations and seek additional flexibilities only when necessary and based on sound business cases.² We also have committed to an implementation approach that is based on employee involvement, transparency, clearly defined criteria, and monitoring and evaluation.

¹ GAO, *Human Capital: Building on the Current Momentum to Transform the Federal Government*, GAO-04-976T (Washington, D.C.: July 20, 2004).

² GAO, *Managing for Results: Using Strategic Human Capital Management to Drive Transformational Change*, GAO-02-940T (Washington, D.C.: July 15, 2002).

Leading by example, GAO based its recent requests for additional flexibilities on demonstrated business cases. In fiscal year 1999, we completed a self-assessment that profiled our human capital workforce and identified a number of serious challenges, including significant issues involving succession planning and imbalances in our structure, shape, and skills. To help address these challenges, we received from Congress several flexibilities, such as a 3-year authority to offer voluntary early retirement opportunities and voluntary separation payments, in the GAO Personnel Flexibilities Act of 2000. Collectively, these and other flexibilities were contributing factors in helping us begin to address skill gaps and other succession concerns, and hire more staff at the entry level.³ To help us continue to reshape the organization, we sought and received additional human capital flexibilities in GAO's recently enacted Human Capital Reform Act of 2004 (Human Capital II). In addition to providing GAO with permanent authority to offer early outs and buyouts, the act authorized additional flexibilities in the areas of annual pay adjustments, pay retention, and relocation benefits. We recognize that our transformation effort is a work in progress. Nevertheless, we will continue to share our lessons and experiences with others, and provide a range of tools and methodologies to "help others help themselves" to address their human capital challenges.

2. GAO identified the need for agencies to develop strategies to train its human resources workforce. Do you see the Chief Human Capital Officers' Council playing a significant role in addressing this need?

We have reported that educating agency managers and employees—including human resources professionals—on the availability and use of human capital flexibilities is a key practice to ensure they are used most effectively.⁴ The Chief Human Capital Officers (CHCO) Council can play a key role in helping agencies develop strategies to train their human resources workforce. The council is to provide leadership, information, and advice to agencies as they develop and implement their human capital strategies and policies, as well as serve as a coordinating mechanism across the agencies. We have found that interagency councils, including the Chief Financial Officer and Chief Information Officer councils, have emerged as important leadership strategies to foster communication among agencies about key policies and practices, build a commitment to institutionalize them across the executive branch, and ensure consistent follow-through on this implementation.⁵

In May 2003, we recommended that the Office of Personnel Management (OPM) work with and through the new CHCO Council to more thoroughly research, compile, and analyze information on the effective and innovative use of human capital flexibilities and more fully serve as a clearinghouse in sharing and distributing information on them.⁶ We noted that sharing information about when, where, and how the broad range of flexibilities is being used, and should be used, could help agencies meet their human capital challenges. To

³ GAO, *GAO: Transformation, Challenges, and Opportunities*, GAO-03-1167T (Washington, D.C.: Sept. 16, 2003).

⁴ GAO, *Human Capital: Effective Use of Flexibilities Can Assist Agencies in Managing Their Workforces*, GAO-03-2 (Washington, D.C.: Dec. 6, 2002).

⁵ GAO, *Government Management: Observations on OMB's Management Leadership Efforts*, GAO/T-GGD-AIMD-99-65 (Washington, D.C.: Feb. 4, 1999).

⁶ GAO, *Human Capital: OPM Can Better Assist Agencies in Using Personnel Flexibilities*, GAO-03-428 (Washington, D.C.: May 9, 2003).

provide this information and help educate agencies, OPM created the Chief Human Capital Officers Academy as part of the Council to educate the Officers about current human capital management issues and available flexibilities. The Academy has scheduled monthly training and discussion sessions with CHCOs throughout 2004. For example, in June 2004 OPM hosted a symposium on these flexibilities for 230 human resources officials from over 30 federal agencies. These types of coordination and communication efforts can significantly help agencies train their human resources workforces.

3. OPM has asked for the authority to design new systems for federal law enforcement retirement, classification, and pay. OPM proposes to do so in consultation with employing agencies and with the concurrence of the Attorney General. What are your thoughts on this recommendation?

While we have not done a recent comprehensive review of federal law enforcement retirement, classification, and pay, our work and the work of others continues to show that agencies need and want greater leadership from OPM in helping them address their human capital challenges.⁷ OPM recognizes the importance of exerting a stronger and more visible leadership role. In addition, obtaining the concurrence of the Attorney General, as well as other stakeholders in federal law enforcement, is critical when developing such systems to help improve employees' confidence and belief in the fairness of the system. For example, our work shows that when reforming their performance management systems, public sector organizations in other countries consulted a wide range of employees and stakeholders early in the process, obtained direct feedback from them, and engaged employee unions or associations.

We have observed that we are fast approaching the point where "standard governmentwide" human capital policies and processes are neither standard nor governmentwide. We believe that human capital reform should avoid further fragmentation within the civil service, ensure reasonable consistency within the overall civilian workforce, and help maintain a reasonably level playing field among federal agencies in competing for talent.

Questions from Senator Akaka

1. Which agencies have figured out how to optimize the use of workforce flexibilities to improve the federal hiring process and of those agencies, which ones use their agency specific authority instead of flexibilities available government-wide?

While we have not taken an inventory of all agencies' hiring practices, we reviewed the activities of five agencies: the U.S. Geological Survey, the U.S. Census Bureau, and the Department of the Army, as well as the Agricultural Research Service (ARS) and the Forest Service (FS), both of which are in the Department of Agriculture.⁸ We selected these agencies because, according to human resources directors and experts, they had taken actions to improve their hiring practices. We generally found that the changes these agencies implemented—including, for example, improving job announcements to make them more informative and easier to read, and automating hiring processes to reduce hiring time,

⁷ GAO, *Major Management Challenges and Program Risks: Office of Personnel Management*, GAO-03-115 (Washington, D.C.: January 2003).

⁸ GAO, *Human Capital: Opportunities to Improve Executive Agencies' Hiring Processes*, GAO-03-450 (Washington, D.C.: May 30, 2003).

increase the number of job applicants, and better serve internal and external customers—are actions that all agencies have the authority to implement.

ARS and FS did have one unique authority, under a pilot project implemented from 1990 to 1998, to use the category rating process. As you know, this alternative rating and selection procedure can provide agency managers with a larger pool of qualified job candidates from which to select than numerical ranking and the "rule of three," while also protecting veterans' preference. Because evaluations of the pilots showed the category rating process to be effective, both ARS and FS received permanent legislative authority to use this flexibility beginning in October 1998,⁹ and Congress extended this authority governmentwide in the Homeland Security Act of 2002.¹⁰

2. In 2002, GAO reported that some of the most effective flexibilities agencies can use to manage their workforce are work-life programs, such as alternative work schedules, child-care, and transit subsidies. Do you know of any new work-life programs that are being used in the private sector that could benefit the Federal government?

We have not conducted work with the private sector to determine whether companies are using any new work-life programs that federal agencies could adopt. As you note, we reported that according to more than 200 managers, supervisors, human resources officials, and union representatives from across the federal government, work-life programs—such as alternative work schedules, child care assistance, and transit subsidies—were among the flexibilities deemed most effective in helping agencies to manage their workforce.¹¹ More recently, we have reported on telework opportunities as being a key flexibility from the perspective of employees and a critical management tool for coping with potential disruptions in the workplace, including terrorism.¹²

We also reported that agencies could make more frequent and effective use of the work-life programs and other flexibilities already available to them. We determined that agencies sometimes overlook the effectiveness of these tools in recruiting, retaining, and motivating staff.¹³ In addition, we identified significant barriers to their use, including:

- agencies' weak strategic human capital planning and inadequate funding due to competing priorities;
- managers' and supervisors' lack of awareness and knowledge of the flexibilities; and
- managers' and supervisors' belief that approval processes to use specific flexibilities are often burdensome and time-consuming.

Generally speaking, as a first priority, it is important for agencies to assess and determine which human capital flexibilities are the most appropriate for managing their workforces.

⁹ Section 749 of Pub. L. No. 105-277 (Oct. 21, 1998).

¹⁰ Section 1312 of Pub. L. No. 107-296 (Nov. 25, 2002).

¹¹ GAO-03-2.

¹² GAO, *Human Capital: Key Practices to Increasing Federal Telework*, GAO-04-950T (Washington, D.C.: July 8, 2004).

¹³ GAO, *Securities and Exchange Commission: Human Capital Challenges Require Management Attention*, GAO-01-947 (Washington, D.C.: Sept. 17, 2001).

Then, they need to take concerted actions to overcome any barriers and implement these flexibilities effectively.

Questions from Senator Lautenberg

1. How does the GAO plan to use its flexibilities for adjusting the rate of basic pay and enhanced annual leave for senior staff? How will these flexibilities be implemented and monitored to assure they are not abused by managers?

We are studying the implementation of the pay adjustment provision that would allow us to determine the amount of the current annual across-the-board pay adjustment. This provision is designed, among other reasons, to afford additional flexibility to the Comptroller General to increase the funding for performance-based compensation. GAO has recently let a contract to help inform our decisionmaking on performance-based compensation and other matters.

Leading by example, we have adopted safeguards that help to ensure that our performance-based pay program is fair, effective, and credible:

- assure that the performance management system links to the strategic plan, related goals, and desired outcomes and results in meaningful distinctions in individual employee performance;
- involve employees, their representatives, and other stakeholders in the design of the system;
- assure that certain predecisional internal safeguards exist to help achieve the consistency, equity, nondiscrimination, and nonpoliticization of the performance management process and resulting pay process; and
- assure reasonable transparency and appropriate accountability mechanisms in connection with the results of the performance management system.

As you know, GAO also received the authority to put key officers and employees with less than 3 years of federal experience in the 6-hour leave category. GAO is drafting regulations, which will then be shared with managing directors and our Employee Advisory Council prior to initiating the formal notice and comment period for all employees.

GAO has reported that a key practice for effective use of human capital flexibilities is to build transparency and accountability into the system.¹⁴ The consistent application of policies and procedures helps to lessen employee fears because program criteria are well defined, documented, transparent, and applied the same way in similar situations. We plan to use this same approach as we implement and monitor this and other flexibilities we recently received from Congress.

¹⁴ GAO-03-2.

2. **GAO’s written statement notes that agency human capital offices often use “alternative service delivery (ASD)” in lieu of internal staff. Is ASD a euphemism for contracted-out work?**

Our work noted that selected agencies are using a variety of alternative service delivery options, in addition to contracting with the private sector, to address a wide range of human capital activities.¹⁵ ASD is the use of other than internal staff to provide a service or to deliver a product. Public sector providers are one of the primary ASD options agencies are using to accomplish traditional human capital service delivery, such as employee assistance programs, as well as training and advisory services. For example, some agencies enter into reimbursable agreements with other agencies that provide the necessary services. Another ASD option is to enter into partnerships—voluntary alliances that do not necessarily involve the exchange of funds. For example, the Census Bureau’s Partnership and Data Services program established partnerships with national, state, and local organizations to recruit census takers during Census 2000. These examples indicate that informing agencies about effective ways ASD has been used to date can encourage human capital offices to continue thinking more broadly than just contracting with the private sector to cost-effectively obtain a range of needed services.

Use of ASD by at least one agency included functions like classification appeals and administrative investigations. Does GAO believe these are appropriate functions for contractor personnel? Where should the line be drawn between what are and what aren’t inherent government functions in human capital work?

While we did not take a position in our report on the appropriateness of using ASD for various human capital activities, we do think there are opportunities to use contractor personnel to conduct at least some of the activities involved in functions such as classification appeals and administrative investigations. For example, contractors might conduct research or interviews to support the investigations. However, it is more appropriate to have federal employees conduct other activities involved in these functions, such as the final appeals determination.

In terms of defining what are inherently governmental human capital functions that should not be performed by contractor personnel, the April 2002 final report of the Commercial Activities Panel, which was chaired by GAO and tasked with determining ways to improve the government’s sourcing decisions, offers some guidance.¹⁶ The panel recognized there is widespread consensus that certain functions should be performed by federal workers, but also acknowledged the difficulty in precisely defining what should be considered “inherently governmental.” The panel considered guidance from the Office of Management and Budget (OMB) that provides agencies a framework for defining these functions,¹⁷ as well as information obtained under the Federal Activities Inventory Reform Act on commercial work being performed by the government. The group then concluded that federal employees

¹⁵ GAO, *Human Capital: Selected Agencies’ Use of Alternative Service Delivery Options for Human Capital Activities*, GAO-04-679 (Washington, D.C.: June 25, 2004).

¹⁶ *Improving the Sourcing Decisions of the Government*, Commercial Activities Panel, April 30, 2002. The panel, convened by GAO, consisted of representatives from agencies, federal labor unions, and private industry, as well as other individuals with expertise in the area.

¹⁷ Office of Management and Budget Directive 92-1.

should conduct certain activities, such as establishing policy or regulations, enforcing these regulations, and adjudicating disputes, among other things.

In addition, the National Academy of Public Administration offers a more specific definition of inherently governmental human capital functions, which includes:¹⁸

- Decision making on matters concerning human capital. The final determination on selecting, hiring, promoting, rewarding, punishing, and removing employees must be done by federal employees. A line manager may exercise final determinations with human resources, in house or outsourced, serving as a consultant to the responsible official.
- Human capital policy determination at the agency level. Overall human capital policy must be made by agency staff and reflect federal law and regulation as well as agency values and priorities.
- Setting performance standards. Agency managers must enact standards and make final judgment as to compliance.
- Contract management and oversight. Qualified and knowledgeable human capital professionals must be used to ensure that outsourced providers deliver high-quality service at a reasonable cost.

3. Is GAO consulting its employee organizations in implementing its new human capital tools and flexibilities?

The Comptroller General and other GAO executives engaged in a broad range of outreach and consultation activities with GAO staff on the Human Capital II legislation as it was being developed. GAO will continue to solicit input from employees and incorporate their views as appropriate as part of the implementation process.

4. I believe there may be a federal agency that has an employee performance evaluation system with only two ratings: pass or fail. The same agency has an employee award system that is totally delinked from employee performance evaluations. Doesn't such a system:

- **Create a large incentive for favoritism in making awards, since they are not linked to any objective performance measure?**
- **Create a disincentive to quality work by employees?**
- **Limit managers' ability to recognize and reward outstanding employees?**

Instead of allowing each agency to create its own performance management system, should the federal government return to a uniform multi-level (e.g., 5) performance evaluation system?

While agencies need to develop and effectively implement the human capital approaches that best meet their needs, resources, context, and authorities, we are concerned that a pass/fail system does not provide enough meaningful information and dispersion in ratings to recognize and reward top performance, help everyone attain their maximum potential, and

¹⁸ National Academy of Public Administration, *Alternative Service Delivery: A Viable Strategy for Federal Government Human Resources Management* (Washington, D.C.: November 1997).

deal with poor performers. Furthermore, we identified a set of practices leading public sector organizations both here and abroad have used for effective performance management, and among these practices is to make meaningful distinctions in performance.¹⁹ We believe that an agency can use this set of practices to demonstrate that it has a performance management system in place that provides the objective and fact-based information that is needed to reward top performers and the necessary information and documentation to deal with poor performers.

As for a uniform performance management system across agencies, OPM recognizes that agencies' approaches will depend on their specific situations. For example, agencies must have, at least four, but no more than five rating levels, among other things, in designing their new performance-based senior executive performance management systems under the July 2004 OPM interim final regulations. Once OPM certifies and OMB concurs that their performance managements systems, as designed and applied, make meaningful distinctions based on relative performance, agencies can then raise the pay cap for their senior executives.²⁰ In addition, we reported that selected personnel demonstration projects took different approaches in translating individual employee performance ratings into pay increases and awards.²¹ These different approaches were intended to enhance the success of the pay-for-performance systems because the systems were designed and implemented to meet the demonstration projects' unique cultural and organizational needs.

For additional information on our work on strategic human capital management, please contact me or Eileen Larence on (202) 512-6806 or at mihmj@gao.gov or larencee@gao.gov.

Sincerely yours,

A handwritten signature in black ink that reads "J. Christopher Mihm". The signature is written in a cursive, flowing style.

J. Christopher Mihm
Managing Director, Strategic Issues

(450357)

¹⁹ GAO, *Results-Oriented Cultures: Creating a Clear Linkage between Individual Performance and Organizational Success*, GAO-03-488 (Washington, D.C.: Mar. 14, 2003).

²⁰ For more information, see GAO, *Human Capital: Senior Executive Performance Management Can Be Significantly Strengthened to Achieve Results*, GAO-04-614 (Washington, D.C.: May 26, 2004).

²¹ GAO, *Human Capital: Implementing Pay for Performance at Selected Personnel Demonstration Projects*, GAO-04-83 (Washington, D.C.: Jan. 23, 2004).

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