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United States Government Accountability Office  
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April 28, 2011

The Honorable J. Randy Forbes  
Chairman  
The Honorable Madeleine Z. Bordallo  
Ranking Member  
Subcommittee on Readiness  
Committee on Armed Services  
House of Representatives

Subject: *Performance Management: DOD Is Terminating the National Security Personnel System, but Needs a Strategic Plan to Guide Its Design of a New System*

The Department of Defense (DOD) is one of the largest and most complex organizations in the world and faces challenges in managing its human capital—particularly its diverse civilian workforce.<sup>1</sup> Our prior work has noted that over time federal positions, including those within DOD, have become increasingly specialized and more highly skilled, resulting in a need for managers to have greater flexibility in hiring and compensating employees.<sup>2</sup> As a result, the department took steps—pursuant to the National Defense Authorization Act (NDAA) for Fiscal Year (FY) 2004<sup>3</sup>—to provide managers with greater flexibility in hiring and implemented a performance management system that sought to reward civilian employees’ performance and contributions to the agencies’ missions rather than to reward longevity in a position. Specifically, in 2004, DOD established the National Security Personnel System (NSPS)—a human capital system that significantly redesigned the rules, regulations, and processes that governed the way civilian employees were hired, compensated, and promoted at DOD.<sup>4</sup> In 2006, the department began converting its civilian employees to NSPS.

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<sup>1</sup>GAO, *High-Risk Series: An Update*, GAO-11-278 (Washington, D.C.: February 2011); *DOD’s High-Risk Areas: Actions Needed to Reduce Vulnerabilities and Improve Business Outcomes*, GAO-09-460T (Washington, D.C.: Mar. 12, 2009); *High-Risk Series: An Update*, GAO-09-271 (Washington, D.C.: January 2009); and *Defense Business Transformation: Sustaining Progress Requires Continuity of Leadership and an Integrated Approach*, GAO-08-462T (Washington, D.C.: Feb. 7, 2008).

<sup>2</sup>GAO, *Human Capital: Monitoring of Safeguards and Addressing Employee Perceptions Are Key to Implementing a Civilian Performance Management System in DOD*, GAO-10-102 (Washington, D.C.: Oct. 28, 2009).

<sup>3</sup>The NDAA for FY 2004 provided DOD with the authority to establish a pay-for-performance management system as part of the National Security Personnel System.

<sup>4</sup>See GAO-10-102 and GAO, *Human Capital: DOD Needs to Improve Implementation of and Address Employee Concerns about Its National Security Personnel System*, GAO-08-773 (Washington, D.C.: Sept. 10, 2008).

From its inception, NSPS was criticized and faced challenges from unions and employees regarding several issues, including inconsistent application of the system, pay inequities, and a lack of stakeholder involvement. Since 2003, we have reported on NSPS, covering issues such as DOD's initial regulations for the system and the pace at which it was implemented.<sup>5</sup> We noted in these reports that how human capital reform is done, when it is done, and the basis upon which it is done can make a difference in whether such efforts are successful.

In light of the concerns and challenges facing NSPS, the NDAA for FY 2010 contained provisions to terminate the system.<sup>6</sup> Specifically, the act repealed the statutory authority for NSPS and directed the Secretary of Defense to begin, no later than 6 months from the enactment of the law, to take all actions necessary to provide for the orderly termination of NSPS and the conversion of all NSPS employees and positions from NSPS.<sup>7</sup> The act also provided direction regarding DOD's pay and personnel system and a new performance management system.<sup>8</sup> More specifically, regarding the pay and personnel systems, the act directed the Secretary to (1) convert employees, no later than January 1, 2012, to the statutory pay system and all other aspects of the personnel system that last applied or would have applied if NSPS had not been established and (2) ensure that no employee shall suffer any loss of or decrease in pay as a result of the conversion. Regarding the new performance management system, the act directed the Secretary to promulgate, in coordination with the Director of the Office of Personnel Management, regulations providing for, among other things, (1) a fair, credible, and transparent performance appraisal system<sup>9</sup> for employees that links bonuses and other performance-based actions to performance appraisals; (2) a process for ensuring ongoing feedback and dialogue; and (3) development of a plan designed to give employees training, counseling, mentoring, and other assistance.<sup>10</sup> The act did not specify a date for completion of DOD's new performance management system. At the time that DOD's authority for NSPS was repealed, approximately 226,000 DOD civilian employees throughout the department were under the system.

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<sup>5</sup>See GAO-10-102 and GAO-08-773. Also, see GAO, *Human Capital: DOD Needs Better Internal Controls and Visibility over Costs for Implementing Its National Security Personnel System*, GAO-07-851 (Washington, D.C.: July 16, 2007), and *Human Capital: Observations on Final Regulations for DOD's National Security Personnel System*, GAO-06-227T (Washington, D.C.: Nov. 17, 2005).

<sup>6</sup>Pub. L. No. 111-84, § 1113 (2009).

<sup>7</sup>While the language of the NDAA for FY 2010 refers to the "conversion" of employees from NSPS, DOD has referred to the process of moving employees from NSPS to the General Schedule system and all other systems as a "transition." For the purposes of this report, we will refer to the respective conversions of civilian employees in each of the components as "transitions."

<sup>8</sup>To complete the requirements of the NDAA for FY 2010, DOD first transitioned employees from NSPS to their successor pay and personnel system—which included reviewing NSPS position descriptions and reclassifying each employee's position under the General Schedule system.

<sup>9</sup>The NDAA for FY 2010 directs DOD, under the subsection entitled "Performance Management and Workforce Incentives," to include certain elements as part of the new performance appraisal system. We refer to the system that DOD is in the process of developing as a "performance management system."

<sup>10</sup>The NDAA for FY 2010 also provides the Secretary of Defense with the authority to establish a Department of Defense Civilian Workforce Incentive Fund and to implement other personnel flexibilities. However, to date, DOD officials have stated that regulations have not been promulgated to establish its enterprisewide performance management system.

Following the passage of the NDAA for FY 2010 and the repeal of NSPS, a January 22, 2010, memo<sup>11</sup> from the Deputy Secretary of Defense canceled the charter of the NSPS, Program Executive Office; redesignated the NSPS Program Executive Office as the NSPS Transition Office (hereafter referred to as the Transition Office); and appointed a Director who reports to the Deputy Assistant Secretary of Defense for Civilian Personnel Policy. Specifically, the memo stated that the Director of the Transition Office was expected to (1) manage the development of the plan to transition employees from NSPS and (2) oversee the design and implementation of an enterprisewide performance management system, hiring flexibilities, and the DOD Civilian Workforce Incentive Fund under authorities granted to the Secretary of Defense in the NDAA for FY 2010. In addition, each component established an office to oversee the transition. Toward the end of our review, the Secretary of Defense issued a memo on certain efficiency initiatives decisions,<sup>12</sup> one of which eliminates 176 Civilian Senior Executive positions—including the Director of the Transition Office. The memo stated that the Office of the Under Secretary of Defense for Personnel and Readiness shall execute an implementation strategy to place affected personnel over the next 24 months.

Subsequent to the NDAA for FY 2010's requirement to terminate NSPS, you asked that we evaluate (1) the status of DOD's transition of employees from NSPS to their successor pay and personnel system, (2) the extent to which DOD documented and supported the costs of the NSPS termination,<sup>13</sup> and (3) DOD's approach for designing and implementing a new enterprisewide performance management system. This report documents and updates information that we provided to you and other congressional committees during an interim status briefing in December 2010.<sup>14</sup> For our updated briefing slides, see enclosure I.

For our review, we focused on DOD civilians that transitioned from NSPS to the General Schedule system in the Army, the Navy, the Air Force, and the DOD Fourth Estate because these were the civilians DOD transitioned in fiscal year 2010.<sup>15</sup> To address our first objective, we reviewed and analyzed relevant legislation, DOD transition policies

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<sup>11</sup>The Deputy Secretary of Defense's January 22, 2010, memo was entitled Establishment of the National Security Personnel System Transition Office and Selection of John H. James, Jr. as Director.

<sup>12</sup>Department of Defense, Office of the Secretary of Defense, Memorandum on Track Four Efficiency Initiatives Decisions (Mar. 14, 2011).

<sup>13</sup>DOD officials refer to the costs to transition employees and terminate NSPS (the program) as "termination costs."

<sup>14</sup>This work was initially conducted in response to an anticipated mandate in which DOD was expected to promulgate regulations for its new performance management system and GAO was to report on the processes established pursuant to those regulations; however, the department did not issue those regulations. Subsequently, the Chairman and Ranking Member for the Subcommittee on Readiness of the House Committee on Armed Services requested a report based on our ongoing work in this area.

<sup>15</sup>The Department of the Navy's NSPS policies include Marine Corps civilians. The DOD Fourth Estate refers to all organizational entities in DOD that are not in the military departments or the combatant commands. Examples include the Office of the Secretary of Defense, the Joint Staff, DOD's Office of the Inspector General, the defense agencies, and DOD field activities.

and guidance,<sup>16</sup> congressional testimony, and reports on personnel systems prepared by the Office of Personnel Management and other federal agencies.<sup>17</sup> We interviewed knowledgeable officials within the Transition Office and the transition offices of the Army, the Navy, the Air Force, and the DOD Fourth Estate.

To address our second objective, we compared DOD guidance on NSPS termination cost reporting and DOD- and component-level cost reports for the NSPS termination with GAO standards on internal controls and Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards and Concepts*. We reviewed termination cost estimates developed by the DOD Comptroller's Office. We also interviewed knowledgeable officials in the Transition Office and the component-level transition offices about their interpretation of DOD's guidance on capturing the costs of the NSPS termination. In assessing the reliability of these cost data, we found that DOD had limited documentation on its termination costs and estimates. We therefore discussed these issues as findings and recommendations in our report.

To address our third objective, we obtained, reviewed, and analyzed DOD briefings on the design and implementation of the enterprisewide performance management system, as well as DOD's report on its New Beginnings conference conducted in September 2010. We also interviewed senior officials from DOD's Transition Office and the component transition offices, as well as representatives from the United DOD Workers Coalition.<sup>18</sup> Because 75 percent of DOD's civilian employees transitioned from NSPS to the General Schedule in fiscal year 2010, we obtained, reviewed, and analyzed current flexibilities in the General Schedule system for recognizing and rewarding employee performance. See enclosure II for a discussion of these flexibilities, along with other components of performance management systems. To identify key practices for designing large-scale programs and organizational transformations, we reviewed prior GAO work on organizational change and on the importance of strategic planning and the establishment of goals and milestones.<sup>19</sup>

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<sup>16</sup>The guidance we reviewed and analyzed included the *NSPS to GS Transition Guide for the Human Resources Practitioner Chapters 1-6*, and the April 2010 *Department of Defense Overarching National Security Personnel System (NSPS) Transition Plan*, which included guidance on such things as roles and responsibilities, cost tracking, and timelines for the NSPS termination.

<sup>17</sup>See Office of Personnel Management, *Creating a Foundation for the 21<sup>st</sup> Century Federal Workforce: The 2008 Assessment of the Implementation of the Department of Defense National Security Personnel System* (Washington, D.C., December 2008); *Alternative Personnel Systems in Practice and a Guide to the Future* (Washington, D.C., October 2005); and *A Fresh Start for Federal Pay: The Case for Modernization* (Washington, D.C., April 2002). Also, see Congressional Research Service, *Conversion from the National Security Personnel System to Other Pay Schedules: Issues for Congress*, R41321 (Washington, D.C., July 15, 2010).

<sup>18</sup>In 2004, 36 of the DOD unions voluntarily formed the United DOD Workers Coalition to allow the workers to have one voice with regard to NSPS. Each union elects representatives to speak on its behalf at collaborative coalition meetings. DOD has 45 unions, which are affiliated with 1,500 local bargaining units.

<sup>19</sup>GAO, *Human Capital: Opportunities Exist to Build on Recent Progress to Strengthen DOD's Civilian Human Capital Strategic Plan*, GAO-09-235 (Washington, D.C.: Feb. 10, 2009), and *Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, GAO-03-669 (Washington, D.C.: July 2, 2003).

We conducted this performance audit from August 2010 through April 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Further details of our scope and methodology can be found in enclosure III.

## Results in Brief

During fiscal year 2010, DOD achieved its initial goal of transitioning approximately 75 percent of NSPS employees to their successor pay and personnel system—that is, the General Schedule system—despite having to overcome some challenges. DOD plans to transition the remaining NSPS employees by the January 1, 2012, mandated deadline. Specifically, according to DOD’s October 2010 report,<sup>20</sup> the department transitioned, as planned, approximately 172,000 of the 226,000 NSPS employees to the General Schedule system.<sup>21</sup> Regarding challenges, component officials told us that they completed the reclassifications of employees back to the General Schedule system even though in some cases it was difficult to meet deadlines—occasionally requiring the use of contractors or overtime. For the remaining NSPS employees—approximately 53,000<sup>22</sup>—the department plans to complete those transitions in five groups. More specifically, employees in 30 health care provider occupations will return to the General Schedule system from July to December 2011, and employees in other miscellaneous categories (e.g., deployed civilians and those affected by base realignment and closure activities) will transition to the appropriate pay and personnel system no later than December 2011. The remaining three groups of NSPS employees will transition to the following alternative pay and personnel systems during the time frames noted: Science and Technology Reinvention Laboratories from February to April 2011, Acquisition Demonstration Project from March to June 2011, and Physicians and Dentists Pay Plan in June 2011.

The Transition Office issued guidance<sup>23</sup> to the components for tracking the costs of the NSPS termination; however, the office did not sufficiently document and support termination costs, and we found inconsistencies in some reported costs. The guidance instructed the components to, among other things, (1) report only the costs that were

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<sup>20</sup>Department of Defense, *Semiannual Report to Congress: Termination of the National Security Personnel System* (Washington, D.C., October 2010).

<sup>21</sup>According to the Transition Office, during fiscal year 2011 (through the end of February 2011), the department completed an additional 8,336 transitions of employees from NSPS to the General Schedule system. Thus, as of February 27, 2011, a total of 180,000 employees had been transitioned from NSPS. With regard to the numbers of employees awaiting transition, as well as those who have already transitioned, department officials noted that those figures change with each pay period because of turnover and other changes in the workforce.

<sup>22</sup>As of September 30, 2010, the total number of employees awaiting transition from NSPS was 53,000.

<sup>23</sup>The guidance was included in the Transition Office’s April 2010 report to Congress. The guidance, entitled *NSPS Termination Costs and Tracking*, was to guide the component transition offices’ cost reporting efforts.

directly attributable to NSPS termination<sup>24</sup> and (2) include five categories of costs in the cost tracking reports—one category being Within-Grade Increase Buy-Ins, Performance Awards, and Quality Step Increases.<sup>25</sup> Regarding insufficient documentation, we found, for example, that the Transition Office reported \$238.6 million (as projected by the Transition Office and Comptroller’s Office) to Congress<sup>26</sup> as the estimated fiscal year 2011 departmentwide costs for increased compensation resulting from the termination. However, despite our repeated requests during the course of our review, DOD did not provide documentation to support this estimate or the methodology used to develop this estimate. Transition Office officials told us that the department had experienced turnover in both the Comptroller’s Office and the Transition Office since those estimates had been developed. Internal control standards state that all transactions and other significant events need to be clearly documented and that documentation should be readily available for examination.<sup>27</sup> Further, federal financial accounting standards state that all cost accounting processes and procedures should be documented, and regardless of the type of report in which it is presented, cost information should ultimately be traceable to the original common data source.<sup>28</sup> We found that one component reported \$15.5 million for its fiscal year 2010 termination cost, but the Transition Office reported \$10 million for the same cost. Unlike the Transition Office, the component’s reported cost accounted for Within-Grade Increase Buy-Ins, Performance Awards, and Quality Step Increases. According to Transition Office and component officials, they did not verify or validate costs obtained from lower-level organizations. Transition Office officials told us that a charter was not developed for their office and expressed uncertainty as to whether they had the responsibility for verifying the cost data provided by the components or the authority to require cost documentation. While a charter was not developed, the Deputy Secretary of Defense memo that established the Transition Office also made available to it the authorities, functions, and resources of the redesignated NSPS Program Executive Office.<sup>29</sup> Specifically, the NSPS Program Executive Office’s charter (1) included responsibility for preparing budgets (including submissions and justifications) and (2) required visibility over component funds. Moreover, our internal control standards state that entities should ensure the reliability of financial reporting. By not clearly documenting NSPS termination costs and helping to

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<sup>24</sup>According to officials in the Transition Office, DOD determined that it would not be economically feasible to directly trace or assign indirect costs for NSPS after a review of indirect costs in the Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards and Concepts* (July 31, 1995).

<sup>25</sup>NSPS termination cost tracking reports provided to us by the components included the following five categories (as specified by the Transition Office guidance): (1) Design and Termination; (2) Training, Development, Support, and Execution; (3) Human Resources (HR) Automated Systems; (4) Within-Grade Increase Buy-Ins, Performance Awards, and Quality Step Increases (formerly Program Evaluation); and (5) Program Office Operations.

<sup>26</sup>Department of Defense, *Report to Congress: Termination of the National Security Personnel System* (Washington, D.C., Apr. 23, 2010).

<sup>27</sup>GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

<sup>28</sup>Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards and Concepts*.

<sup>29</sup>As noted, a January 22, 2010, memo from the Deputy Secretary of Defense redesignated the NSPS Program Executive Office as the NSPS Transition Office and appointed a Director who reports to the Deputy Assistant Secretary of Defense for Civilian Personnel Policy.

ensure the reliability of cost data, DOD is not providing Congress and other stakeholders clear insight and visibility into the cost of the NSPS termination.

DOD has recently taken some steps to begin designing a new enterprisewide performance management system, including involving key stakeholders in that process; however, the department does not have a plan with documented goals and a timeline that are tied to funding to guide the design of the new system in the near term. Most notably, DOD has taken steps in accordance with Executive Order 13522 to collaborate with union representatives and other stakeholders on the design of the system prior to management approval.<sup>30</sup> Specifically, the department (1) hosted a September 2010 conference comprising 200 participants<sup>31</sup>—approximately 100 representatives each from DOD and the unions—to generate ideas for the system and establish a relationship with the DOD unions, (2) convened a December 2010 joint labor-management planning work group to identify requirements for the start-up of the design teams responsible for developing the new personnel authorities, (3) identified funds for the design of the system, (4) held a second conference in February 2011 to foster support for the collaborative relationship and process, and (5) convened design teams in February 2011 comprising DOD and labor participants to develop recommendations in response to the NDAA for FY 2010 authorities. According to the United DOD Workers Coalition, union representatives have been satisfied with DOD’s efforts to involve labor in the design of the new system. As an example, these representatives noted—and DOD officials acknowledged—that the September 2010 conference was initially scheduled for April 2010 but was delayed 5 months to ensure greater union involvement in the planning process. We have reported that involving employees and stakeholders helps gain a sense of ownership of a new performance management system.<sup>32</sup> Additionally, the Transition Office provided us with a funding plan for fiscal year 2011 outlining the estimated costs of designing an enterprisewide performance management system. However, the office did not provide us with supporting documentation for these estimates, and according to officials in the Transition Office, they have not developed a plan with goals and timelines tied to funding. These officials stated that building relationships with union stakeholders became their top priority because without union buy-in, designing a new system would be nearly impossible. These officials further stated that it was too early to know what the final system will look like and that they could not provide goals and timelines for the system. We agree that it may be too early to define what DOD’s final goals are for a new performance management system; however, by not having interim goals and a timeline that are linked to funding, DOD is not positioned to determine whether it is making progress or if resources are appropriate for the near-term efforts. Prior GAO work has demonstrated the importance of setting goals and a timeline to show progress from day one.<sup>33</sup> We have furthermore reported that key elements of a sound management

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<sup>30</sup>Executive Order 13522, entitled *Creating Labor-Management Forums to Improve Delivery of Government Services*, allows employees and their union representatives to have predecisional involvement in workplace matters to the fullest extent practicable.

<sup>31</sup>Officials from the Transition Office also said that nonunion DOD employees were also involved in the conference.

<sup>32</sup>GAO-03-669.

<sup>33</sup>GAO-03-669.

approach contain plans that include establishing goals and time frames and aligning activities with resources.<sup>34</sup>

## **Conclusions**

DOD focused initially on transitions of employees from NSPS to their successor pay and personnel system—as mandated by law. Moving forward, the department is now turning to the design of an enterprisewide performance management system—which includes performance-based appraisals, ongoing feedback, and open dialogue—and took steps to work with key stakeholders, including employees and union representatives. These are positive steps, and our prior work has noted that stakeholder involvement in the design of a performance management system is an essential safeguard to ensuring a fair, credible, and transparent performance management system. In its transition efforts, however, the department has not provided supporting documentation for key costs, assessed the reliability of such costs, or resolved certain inconsistencies in cost data, nor has it established a plan with documented goals and a timeline to guide DOD’s near-term efforts to design a new performance management system. Given the nation’s fiscal constraints, it is important that agencies accurately account for funds and their use. Now that the department has begun to involve stakeholders, having a strategic plan outlining goals, resources, and milestones would facilitate assessments of the department’s progress going forward.

## **Recommendations for Executive Action**

To promote an efficient use of resources and to better plan for the design of a new performance management system, we recommend that the Secretary of Defense direct the Deputy Assistant Secretary of Defense for Civilian Personnel Policy to take the following two actions:

- in conjunction with the DOD Comptroller, help ensure that information identifying and supporting the costs of the NSPS termination and new performance management system is documented, reliable, traceable to a source document, and readily available for examination, and
- develop a plan with documented near-term design and implementation goals and a timeline for meeting these goals to build momentum and show progress for the development of an enterprisewide performance management system and to facilitate an assessment of what is being achieved as a result of the resources being spent.

## **Agency Comments and Our Evaluation**

In commenting on a draft of our report, the Department of Defense (DOD) partially concurred with our two recommendations. DOD’s comments are reprinted in enclosure IV. The enclosure also includes our comments on specific points made in DOD’s letter. The department also provided technical comments on our draft report, which we incorporated as appropriate.

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<sup>34</sup>GAO-09-235.



In written comments, DOD partially concurred with our first recommendation to, in conjunction with the Comptroller, help ensure that information identifying and supporting the costs of the NSPS termination and new performance management system is documented, reliable, traceable to a source document, and readily available for examination. Regarding documentation, the department stated that it was not able to provide worksheets used to develop the estimate for NSPS transition compensation costs because the preparer of the estimate had departed more than a year ago and the office had not maintained his working files. DOD stated that it had maintained only the estimates and an explanation of the methodology that it had provided to GAO. However, we asked repeatedly over an 8-month period for documentation showing DOD's approach for its estimates and obtained only a limited explanation of the methodology. For the reasons mentioned previously, the department stated that it was difficult to provide the requested information. As noted in our report, internal control standards state that all transactions and other significant events need to be clearly documented and that documentation should be readily available for examination.

With respect to the inconsistencies in cost data we identified in the report, the department acknowledged that in some cases the components and the Transition Office provided inconsistent FY 2010 cost data to us and as we note in our report both the Transition Office and the components told us during this review that they did not verify or validate these data. In its comments DOD stated that the Transition Office, like its predecessor Program Executive Office NSPS, is not a program office in the classic sense of an acquisition program. It stated that the Transition Office is not a budget submission office, other than for its own operations, and the employing components have oversight of their civilian personnel dollars and budget authority to execute those dollars. However, as noted in our report, the Deputy Secretary of Defense memo that established the Transition Office made available to this office the authorities, functions, and resources of the redesignated NSPS Program Executive Office. Specifically, the NSPS Program Executive Office's charter (1) included responsibility for preparing budgets, including submissions and justifications, and (2) required visibility over components' funds. In commenting on our recommendation, the department noted that the Transition Office will, among other things, (1) work with the DOD Comptroller to ensure that cost information is appropriately addressed and (2) continue to assemble data for the military departments/DOD agencies and activities—the latter of which will remain accountable for their own budgets and expenditures. It is unclear whether or how these actions will fully ensure that information identifying and supporting the department's costs is documented, reliable, traceable to a source document, and readily available for examination. We therefore believe our recommendation remains valid in its entirety.

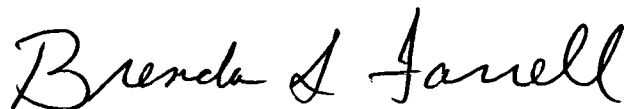
DOD also partially concurred with our second recommendation to develop a plan with documented near-term design and implementation goals and a timeline for meeting these goals to build momentum and show progress for the development of an enterprisewide performance management system and to facilitate an assessment of what is being achieved as a result of the resources being spent. With respect to designing a new performance management system, the department stated that it agreed that successful projects require project plans, milestones, resources, review, and decision processes.

According to the department, it is engaged in a unique collaborative effort with its labor partners, consistent with Congress's requirements, and the design of the new system is currently following an interim plan that is not the traditional top-driven project. The department further stated that (1) until recommendations are developed jointly for the new authorities, it would be premature to document design and implementation goals and a timeline for meeting them and (2) it will develop a detailed post-fiscal year 2011 project plan that includes goals, steps, and timelines, once it can determine the scope based on the recommendations being developed during the current, planned design team activities associated with the basic design. The department stated that it is following an interim plan; however, such things as goals and timelines, linked to funding, were not discussed with us during the course of our review. We continue to believe that it is important to set goals and a timeline to show progress from the beginning of this process and that key elements of a sound management approach contain plans that include establishing goals and time frames and aligning activities with resources. The existence of such a plan does not mean that from day one a final determination has been made about the system's design, but that interim steps are in place for the department to build momentum and show progress for the development of its new system. Such a plan need not wait until after fiscal year 2011, but the department would benefit from such interim steps at present, as we recommended.

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We are sending copies of this report to the appropriate congressional committees. We are also sending copies to the Secretary of Defense and the Director of the NSPS Transition Office. This report also is available at no charge on the GAO Web site at <http://www.gao.gov>.

Should you or your staff have questions concerning this report, please contact me at (202) 512-3604 or [farrellb@gao.gov](mailto:farrellb@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in enclosure V.



Brenda S. Farrell  
Director, Defense Capabilities and Management Issues

Enclosures - 5



# **Status of DOD's Transition from the National Security Personnel System**

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**Briefing for the Offices of the Senate Committee on Armed Services,  
House Committee on Armed Services, and  
House Committee on Oversight and Government Reform**

**December 2010**

**(Updated April 2011)**

The National Defense Authorization Act (NDAA) for Fiscal Year (FY) 2010 directed the Secretary of Defense to begin, no later than 6 months from the date of enactment, to take all actions necessary to provide for the orderly termination of the National Security Personnel System (NSPS) and to complete the conversion of all employees from NSPS by not later than January 1, 2012.<sup>1</sup> The act also directed the Secretary to, among other things,

- convert employees to the statutory pay system and all other aspects of the personnel system that last applied, and if none applied, to the system that would have applied had NSPS never been established;
- ensure that no employee shall suffer any loss of or decrease in pay as a result of the conversion; and
- promulgate, in coordination with the Director of the Office of Personnel Management, regulations providing for a fair, credible, and transparent performance appraisal system for employees.<sup>2</sup>

As of March 2011, officials from the NSPS Transition Office (Transition Office) have acknowledged that regulations have not been promulgated to establish its enterprisewide performance management system; however, the Department of Defense (DOD) has recently begun the initial planning stages for this new system.

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<sup>1</sup>While the language of the NDAA for FY 2010 refers to the “conversion” of employees, the Department of Defense (DOD) has referred to the process of moving employees from NSPS to the General Schedule system and to all other alternative pay and personnel systems as a “transition.” For the purposes of this briefing, we will refer to the process as a “transition.”

<sup>2</sup>The NDAA for FY 2010 also provides the Secretary of Defense with the authority to establish a DOD Civilian Workforce Incentive Fund and to implement other personnel flexibilities.

**As the DOD transitions from NSPS and begins to plan for an enterprisewide performance management system, our work addressed the following questions:**

1. What is the status of DOD's transition of employees from NSPS to their successor pay and personnel system?
2. To what extent has DOD documented and supported costs for the NSPS termination?<sup>3</sup>
3. What is DOD's approach for designing and implementing a new enterprisewide performance management system?

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<sup>3</sup>DOD officials refer to the costs to transition employees and terminate NSPS (the program) as "termination costs."

We focused our review on DOD civilians who transitioned from NSPS to the General Schedule system in fiscal year 2010 and who were employed by either

- the Army,
- the Navy,<sup>4</sup>
- the Air Force, or
- the DOD Fourth Estate.<sup>5</sup>

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<sup>4</sup>The Department of the Navy's NSPS policies include Marine Corps civilians.

<sup>5</sup>The DOD Fourth Estate refers to all organizational entities in DOD that are not in the military departments or the combatant commands. Examples include the Office of the Secretary of Defense, the Joint Staff, DOD's Office of the Inspector General, the defense agencies, and DOD field activities.

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## To assess the status of DOD's transition of employees from NSPS to their successor pay and personnel system, we

- reviewed relevant legislation;
- obtained, reviewed, and analyzed DOD and component-level plans and guidance for the transition of employees from NSPS to the General Schedule system, as well as plans and guidance for the transition of employees to alternative pay and personnel systems;<sup>6</sup>
- interviewed senior officials within the Transition Office responsible for managing the transition across all of the components;
- interviewed transition officials within each of the components at the headquarters level and local level at select installations and organizations; and
- reviewed congressional testimony and reports prepared by the Office of Personnel Management and other federal agencies.<sup>7</sup>

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<sup>6</sup>The transitions to the other pay and personnel systems did not take place until spring 2011; therefore, we have not been able to obtain as much information on these transitions as on the General Schedule.

<sup>7</sup>Office of Personnel Management, *Creating a Foundation for the 21st Century Federal Workforce: The 2008 Assessment of the Implementation of the Department of Defense National Security Personnel System* (Washington, D.C., December 2008); *Alternative Personnel Systems in Practice and a Guide to the Future* (Washington, D.C., October 2005); and *A Fresh Start for Federal Pay: The Case for Modernization* (Washington, D.C., April 2002).

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## To assess the extent to which DOD has documented and supported the costs of DOD's NSPS termination, we

- analyzed termination cost reporting guidance<sup>8</sup> issued by the Transition Office;
- interviewed officials from DOD's Transition Office and the component transition offices on how they had interpreted the guidance directing them to estimate NSPS termination costs;
- obtained and reviewed quarterly cost tracking reports from the Transition Office and the component transition offices, as well as termination cost estimates developed by the DOD Comptroller's Office;
- reviewed GAO's internal control standards, as well as the Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards and Concepts*; and
- assessed the reliability of cost data and found that DOD had limited documentation on termination costs and estimates. We, therefore, discussed this issue as a finding in our report and made related recommendations.

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<sup>8</sup>This guidance included *NSPS Termination Cost Reporting*, the *NSPS to GS Transition Guide for the Human Resources Practitioner Chapters 1-6*, as well as the April 2010 *Department of Defense Overarching National Security Personnel System (NSPS) Transition Plan*, which included guidance on such things as roles and responsibilities, cost tracking, and timelines for the NSPS termination.



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## To assess DOD's efforts to design and implement a new enterprisewide performance management system, we

- interviewed senior officials within DOD's NSPS Transition Office responsible for managing the design and implementation of DOD's new enterprisewide performance management system;
- obtained, reviewed, and analyzed Transition Office briefings, as well as its report resulting from its recent conference, documenting initial steps taken before establishing a design team for the new system;
- reviewed prior GAO work on organizational change, strategic planning, goals, and milestones;
- interviewed union officials about DOD's efforts to include union representation in the design and implementation of the new system;<sup>9</sup> and
- obtained, reviewed, and analyzed current flexibilities in the General Schedule system for recognizing and rewarding employee performance. (See enc. II of the report for a discussion of these flexibilities, along with other components of performance management systems.)

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<sup>9</sup>In 2004, 36 of the DOD unions voluntarily formed the United DOD Workers Coalition to allow the workers to have one voice with regard to NSPS. Each union elects representatives to speak on its behalf at collaborative coalition meetings. DOD has 45 unions, which are affiliated with 1,500 local bargaining units.

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## Status of DOD's Transition from NSPS

During fiscal year 2010, DOD achieved its initial goal of transitioning approximately 75 percent of the 226,000 NSPS employees (about 172,000 employees) to their successor pay and personnel system—that is, the General Schedule system—despite having to overcome some challenges. DOD plans to transition the remaining approximately 53,000 NSPS employees by the January 1, 2012, mandated deadline.<sup>10</sup>

During fiscal year 2011 through the end of February 2011, the department completed an additional 8,336 transitions from NSPS to the General Schedule system, which totals more than 180,000.

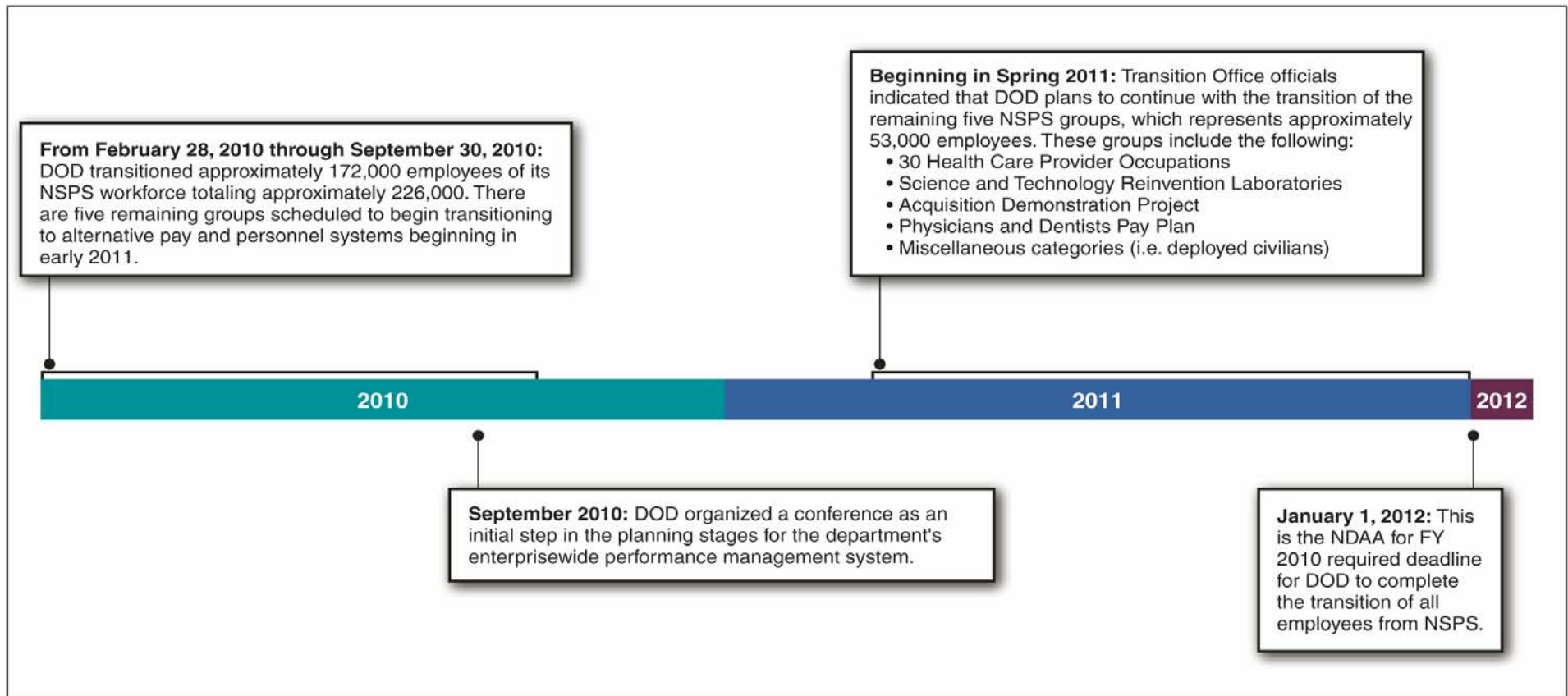
The timeline on the next slide shows DOD's efforts to transition NSPS employees.

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<sup>10</sup>With regard to the numbers of employees awaiting transition, as well as those who have already transitioned, department officials noted that those figures change with each pay period because of turnover and other changes in the workforce.

# Status of DOD's Transition from NSPS (cont'd.)

Figure 1: Timeline of DOD's Transition from NSPS



Source: GAO analysis of DOD data.

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## Status of the Army's Transition from NSPS

According to Army officials, the Army

- had transitioned approximately 67,000 NSPS employees to the General Schedule system in fiscal year 2010, with approximately 15,000 Army employees scheduled to transition to the General Schedule or alternative pay and personnel systems in 2011;<sup>11</sup>
- had maintained the General Schedule classifications alongside the NSPS position descriptions of its employees while NSPS was operational, facilitating efforts to reclassify employees as part of the transition from NSPS to the General Schedule system; and
- developed a conversion tool, called the NSPS2GS, which allowed for the electronic conversion of employees and tracking of classification decisions.

**Successor system:** Army officials told us that employees transitioning from NSPS to the General Schedule system will have their performance appraised under the Army's five-level legacy performance management system—the Total Army Performance Evaluation System, known as TAPES.<sup>12</sup>

**Challenges:** Army officials also stated that some challenges of the transition included managing employee perceptions about pay retention and identifying employees with “special circumstances,” such as deployed civilians.

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<sup>11</sup> According to the Transition Office, during fiscal year 2011 through the end of February 2011, the Army transitioned an additional 1,544 NSPS employees to the General Schedule system.

<sup>12</sup> Under TAPES, employees are assigned a rating based on five performance rating definitions: successful level 1, successful level 2, successful level 3, fair, and unsuccessful.

## Status of the Navy's Transition from NSPS

The Navy transitioned approximately 42,700 NSPS employees to the General Schedule system, achieving its stated goal for fiscal year 2010. Approximately 27,600 employees are scheduled to transition to alternative pay and personnel systems in 2011.<sup>13</sup>

**Successor system:** Navy officials told us that the Navy had transitioned its former NSPS employees to a two-tiered system referred to as the Interim Performance Management System. According to Navy and Marine Corps officials,

- the first tier satisfies the NDAA for FY 2010 requirement that all NSPS employees convert to the component's legacy pay and personnel system, and under this tier an employee's performance is determined to be acceptable or unacceptable by a rating official and senior rating official;
- the second tier is an optional framework that commands may adopt to make employee awards determinations, and under this tier, a Performance Awards Review Board determines employee awards but does not make any determinations about ratings;<sup>14</sup> and
- employees under the Interim Performance Management System are required to document their performance using a 20-page assessment form, similar to the automated self-assessment included as part of the Performance Appraisal Application under NSPS.

**Challenges:** With approximately 25 percent of the Navy's NSPS workforce having no prior exposure to the General Schedule system, the Navy faced a training and communication challenge given the relatively short transition time period.

<sup>13</sup>According to the Transition Office, during fiscal year 2011 through the end of February 2011, the Navy transitioned an additional 6,528 NSPS employees to the General Schedule system.

<sup>14</sup>Although Navy transition office officials stated that the second tier is optional and Navy guidance indicates that the second tier is a recommended framework, Marine Corps guidance issued on September 16, 2010, makes the second tier's framework mandatory Marine Corps-wide.

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## Status of the Air Force's Transition from NSPS

The Air Force transitioned approximately 37,000 NSPS employees to the General Schedule system in fiscal year 2010.<sup>15</sup> Approximately 4,000 employees are scheduled to transition to alternative pay and personnel systems in 2011.

According to Air Force transition office officials,

- the Air Force selected later transition dates (a July to September time frame)<sup>16</sup> in fiscal year 2010 so that employees would receive a rating of record for the 2010 performance cycle and
- the Air Force's transition strategy included communicating often with employees during the transition process and using the transition plan developed for the NSPS implementation as a road map for transitioning from NSPS.

**Successor system:** Former NSPS employees have returned to the Air Force's legacy pass/fail performance management system.

**Challenges:** According to Air Force transition office officials, challenges of the transition included managing the reclassification process, which resulted in, for example, a need for additional staff; developing a transition policy in a short time period; and training employees on the difference between NSPS and the General Schedule system.

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<sup>15</sup>According to the Transition Office, during fiscal year 2011 through the end of February 2011, the Air Force transitioned an additional 234 NSPS employees to the General Schedule system.

<sup>16</sup>According to DOD's *Transition from NSPS to GS Guidance*, chapter 5, issued July 23, 2010, employees who transitioned from NSPS to the General Schedule system from July 3, 2010, through January 1, 2011, are eligible to receive a rating of record, for which a pay pool panel is required.

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## Status of the DOD Fourth Estate's Transition from NSPS

According to Washington Headquarters Services agency officials,<sup>17</sup> the DOD Fourth Estate transitioned approximately 25,000 NSPS employees to the General Schedule system in fiscal year 2010, and approximately 2,400 employees are scheduled to transition in 2011 to alternative pay and personnel systems.<sup>18</sup>

**Successor system:** The various DOD Fourth Estate entities transitioned their employees back to at least 14 different legacy performance management systems, all of which had existed previously under the General Schedule system, including pass/fail, three-level, and five-level rating systems.

**Challenges:** Officials identified a number of challenges during the transition period, such as those related to reclassifying positions, providing guidance to employees in a timely manner, and managing employee perceptions on certain topics, such as pay retention.

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<sup>17</sup>The Washington Headquarters Services agency is responsible for managing the NSPS transition across all the DOD Fourth Estate entities.

<sup>18</sup>According to the Transition Office, during fiscal year 2011 through the end of February 2011, the DOD Fourth Estate transitioned an additional 30 NSPS employees to the General Schedule system.

## Status of DOD’s Transition from NSPS (cont’d.)

As mentioned previously, DOD expects to transition the remaining approximately 53,000 NSPS employees<sup>19</sup> according to the schedule below and anticipates completing the transition of all employees by the NDAA for FY 2010 deadline of January 1, 2012.

Population category	Transition to	Projected transition date
Physicians and dentists	Physicians and Dentists Pay Plan	June 2011
Other health care professionals in designated occupations	General Schedule system	July to December 2011
Acquisition Workforce Personnel Demonstration Project	Acquisition Workforce Personnel Demonstration Project	March to June 2011
Science and Technology Reinvention Laboratories	Science and Technology Reinvention Laboratories	February to April 2011
Miscellaneous (e.g., deployed civilians, alternative personnel systems)	Previous personnel system	No later than December 31, 2011

Source: DOD.

<sup>19</sup>As of September 30, 2010, the total number of employees awaiting transition from NSPS was 53,000.



## The Extent to Which DOD Has Documented and Supported Costs for the NSPS Termination

The Transition Office issued guidance<sup>20</sup> to the components for tracking costs of the NSPS termination; however, the office did not provide sufficient documentation to support termination costs, and we found inconsistencies in some reported costs.

- More specifically, the guidance, which was provided in the Transition Office’s April 2010 plan, states that the components are to, among other things,
  - (1) report only the costs that were directly attributable to NSPS termination;<sup>21</sup>
  - (2) include five categories in their cost tracking reports—one category being Within-Grade Increase Buy-Ins, Performance Awards, and Quality Step Increases;<sup>22</sup>
  - (3) begin cost reporting for the NSPS termination in the second quarter of fiscal 2010; and
  - (4) continue such reporting until all NSPS employees had transitioned to the appropriate pay and personnel systems.

<sup>20</sup>The guidance was included in the Transition Office’s April 2010 report to Congress and was to direct the component transition offices’ cost reporting efforts.

<sup>21</sup>According to a 2007 memo for component NSPS program managers, entitled Reporting National Security Personnel System (NSPS) Implementation Costs, DOD’s intent, at the time of NSPS implementation, was to report only direct NSPS implementation costs. According to the memo, DOD determined that it would not be economically feasible to directly trace or assign indirect costs for NSPS after review of indirect costs in Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards and Concepts* (July 31, 1995).

<sup>22</sup>NSPS termination cost tracking reports provided to us by the components included the following five categories (as specified by the Transition Office guidance): (1) Design and Termination; (2) Training, Development, Support, and Execution; (3) Human Resources (HR) Automated Systems; (4) Within-Grade Increase Buy-Ins, Performance Awards, and Quality Step Increases (formerly Program Evaluation); and (5) Program Office Operations.

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## The Extent to Which DOD Has Documented and Supported Costs for the NSPS Termination (cont'd.)

- With respect to insufficient supporting documentation, we found, for example, that the Transition Office reported \$238.6 million (as projected by the Transition Office and Comptroller's Office) to Congress<sup>23</sup> as the estimated fiscal year 2011 departmentwide costs for increased compensation resulting from the termination.
- However, despite our repeated requests during the course of our review, DOD did not provide documentation to support this estimate.
  - Transition Office officials told us that they were unable to provide such documentation because of turnover in both the Transition Office and the Comptroller's Office.
  - Our internal control standards state that all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination.<sup>24</sup>
  - Further, federal financial accounting standards<sup>25</sup> state that all cost accounting processes and procedures should be documented, and regardless of the type of report in which it is presented, cost information should ultimately be traceable back to the original common data source.

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<sup>23</sup>Department of Defense, *Report to Congress: Termination of the National Security Personnel System* (Washington, D.C., Apr. 23, 2010).

<sup>24</sup>GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

<sup>25</sup>Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards and Concepts*.

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## The Extent to Which DOD Has Documented and Supported Costs for the NSPS Termination (cont'd.)

- Additionally, termination costs were not always reported accurately and consistently by the components and the Transition Office. For example:
  - The Transition Office initially told us that fiscal year 2010 costs for increased compensation were \$180 million, but during the course of our review, the office corrected this estimate—stating that the \$180 million was the annualized cost of salary adjustments beginning in fiscal year 2011 and not a fiscal year 2010 cost. The Transition Office later provided an estimate of \$56 million for increased compensation costs for the fiscal year 2010 transitions.
  - One component's transition office reported that the fiscal year 2010 cost of the NSPS termination was \$15.5 million, while the Transition Office reported that the same cost was \$10 million—a difference of over \$5 million. This component's cost tracking report included one category—Within-Grade Increase Buy-Ins, Performance Awards, and Quality Step Increases—that was not included in the Transition Office's cost tracking report.
  - Another component's transition office reported that the fiscal year 2010 cost of the NSPS termination was approximately \$3.4 million, whereas the Transition office reported that the same cost was \$3.1 million—a difference of approximately \$300,000. We found that the Transition Office's and component's cost tracking sheets were consistent with on another for each reporting cost category; however, the totals were inconsistent.

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## The Extent to Which DOD Has Documented and Supported Costs for the NSPS Termination (cont'd.)

- According to Transition Office and component officials, they did not verify or validate costs obtained from lower-level organizations.
- Additionally, officials from the Transition Office told us that a charter was not developed for their office and expressed uncertainty as to whether they had the responsibility for verifying the cost data provided by the components.
- While a charter was not developed for the Transition Office, the Deputy Secretary of Defense memo that established the Transition Office also made available the authorities, functions, and resources of the redesignated NSPS Program Executive Office.<sup>26</sup> The NSPS Program Executive Office charter (1) included responsibility for preparing budgets (including submissions and justifications) and (2) required visibility over component funds.
- Our internal control standards state that entities should ensure the reliability of financial reporting.
- By not clearly documenting NSPS termination costs and helping to ensure the reliability of cost data, DOD is not providing Congress and other stakeholders clear insight and visibility into the cost of the NSPS termination.

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<sup>26</sup>As noted, a January 22, 2010, memo from the Deputy Secretary of Defense canceled the NSPS Program Executive Office charter, redesignated the NSPS Program Executive Office as the NSPS Transition Office, and appointed a Director who reports to the Deputy Assistant Secretary of Defense for Civilian Personnel Policy.

## DOD's Approach to Designing and Implementing an Enterprisewide Performance Management System

- DOD has recently taken some steps to begin designing a new enterprisewide performance management system, which include involving key stakeholders in that process. However, the department does not have a plan with documented goals and a timeline that are tied to funding to guide the design of the new system in the near term.
- Most notably, in accordance with Executive Order 13522,<sup>27</sup> the Transition Office has collaborated with union representatives and other stakeholders on the design of the system prior to management approval. Specifically the department,
  - hosted a September 2010 conference to generate ideas for the system and establish a relationship with the unions;
  - convened a December 2010 joint labor-management planning work group to identify requirements for the start-up of the design teams responsible for developing the new personnel authorities;
  - identified funds for the design of the system;
  - held a second conference in February 2011 to foster support for the collaborative relationship and process; and
  - convened design teams comprising DOD and labor participants to draft proposed regulations for NDAA for FY 2010 authorities.
- According to the United DOD Workers Coalition, union representatives have been satisfied with DOD's efforts to involve labor in the design of the new system.
  - For example, DOD officials noted that the September 2010 conference was initially scheduled for April 2010 but was delayed 5 months to ensure greater union involvement in the planning process.

<sup>27</sup>Executive Order 13522, entitled *Creating Labor-Management Forums to Improve Delivery of Government Services*, allows employees and their union representatives to have predecisional involvement in workplace matters to the fullest extent practicable.

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## DOD's Approach to Designing and Implementing an Enterprisewide Performance Management System (cont'd.)

- The Transition Office provided us with a funding plan for fiscal year 2011 outlining the estimated cost of designing an enterprisewide performance management system.
- However, according to officials, the Transition Office has not developed a plan with goals and timelines—tied to funding—that identifies next steps for the design of a new system. These officials stated that building relationships with union stakeholders became the top priority because without union buy-in, designing a new system would be nearly impossible. Officials further stated that previously it was too early to develop documented goals for the system but that the design teams had convened on February 23, 2011, and the department will spend the remainder of fiscal year 2011 developing and vetting recommendations for the three NDAA for FY 2010 mandates before sending their recommendation to the regulation writers.
- We agree that it may be too early to define what DOD's final plans are for a new performance management system; however, by not having interim goals linked to funding and a timeline for the near term, DOD is not positioned to determine whether it is making adequate progress or if resources are appropriate for the near-term efforts.
- Prior GAO work
  - demonstrated the importance of setting goals and a timeline to show progress from day one<sup>28</sup> and
  - reported that key elements of a sound management approach contain plans that include establishing goals and time frames and aligning activities with resources.<sup>29</sup>

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<sup>28</sup>GAO-03-669.

<sup>29</sup>GAO, *Human Capital: Opportunities Exist to Build on Recent Progress to Strengthen DOD's Civilian Human Capital Strategic Plan*, GAO-09-235 (Washington, D.C.: Feb.10, 2009). See also GAO-03-669.

## **Flexibilities in the General Schedule System and Other Elements of Performance Management**

According to the Office of Personnel Management, federal agencies are required to develop an approved performance appraisal system that establishes employee performance standards and includes appraisals that serve as a basis for training, rewarding, reassigning, promoting, reducing in grade, retaining, and removing employees.

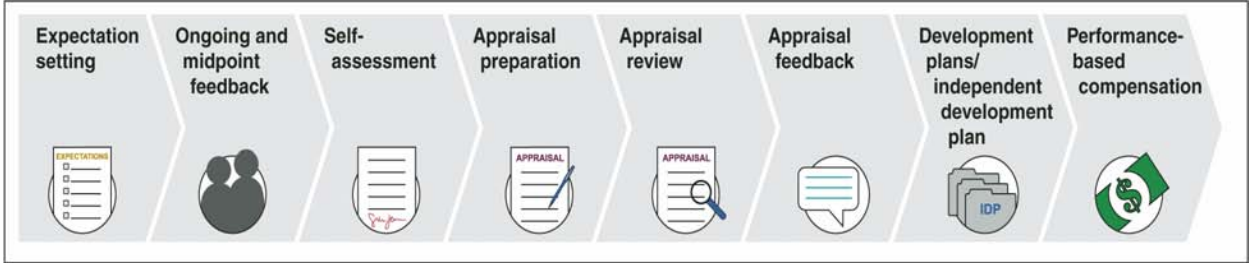
Within the General Schedule system, as an example, federal managers have three primary means to recognize and reward employee performance. First, an employee who is paid on an annual basis, who occupies a permanent position within the scope of the General Schedule, and who has not reached the maximum rate of pay for the grade in which his or her position is placed is eligible for a within-grade increase at set intervals based upon time of service within each grade—provided his or her work is performed at an acceptable level as determined by the head of the agency and the employee did not receive an equivalent increase in pay from any cause during that period. Specifically, (1) for each 52 weeks of service, an employee may advance in steps 1, 2, and 3; (2) for each 104 calendar weeks of service an employee may advance in steps 4, 5, and 6; and (3) for each 156 calendar weeks of service an employee may advance in steps 7, 8, and 9. However, a within-grade increase can be withheld for performance below an acceptable level. Second, the head of each agency may grant additional quality step increases provided resources are available, in recognition of high-quality performance above that ordinarily found in the type of position concerned. However, an employee is eligible under this section for only one additional step increase within any 52-week period. Third, agencies may grant cash awards, honorary or informal recognition awards, or time-off awards to an employee on the basis of performance as reflected in the employee's most recent rating of record.

In addition, a sound performance management system will include many elements. Figure 2 shows some examples of these elements,<sup>35</sup> which include, among others, (1) clearly communicate performance expectations to employees that align with organization missions and goals; (2) provide employees meaningful, constructive, and candid feedback relative to performance expectations, including at least one documented interim review; and (3) provide employees with a recommended rating of record.

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<sup>35</sup>See GAO, *Human Capital: Monitoring of Safeguards and Addressing Employee Perceptions Are Key to Implementing a Civilian Performance Management System in DOD*, GAO-10-102 (Washington, D.C.: Oct. 28, 2009); *Human Capital: DOD Needs to Improve Implementation of and Address Employee Concerns about Its National Security Personnel System*, GAO-08-773 (Washington, D.C.: Sept. 10, 2008); and *DOD Civilian Personnel: Intelligence Personnel System Incorporates Safeguards, but Opportunities Exist for Improvement*, GAO-10-134 (Washington, D.C.: Dec. 17, 2009).

Figure 2: Elements of a Performance Management System



Source: GAO.



## Objectives, Scope, and Methodology

In our review of civilian employees' transition from the National Security Personnel System (NSPS) at the Department of Defense (DOD), we focused primarily on the approximately 172,000 employees transitioning to the General Schedule system in fiscal year 2010 (the first year of the transition) from the Army, the Navy, the Air Force, the Marine Corps, and the DOD Fourth Estate.<sup>36</sup> The transitions of the remaining 53,000 employees from NSPS to alternative pay and personnel systems are not due for completion until January 1, 2012. During the course of our review, we met with officials from the NSPS Transition Office (Transition Office) as well as the component-level offices responsible for managing the transition at each of the components.

To determine the status of the NSPS transition of employees from NSPS to their successor pay and personnel systems, we reviewed the legislative requirements for the transition identified in the National Defense Authorization Act for Fiscal Year 2010. We also reviewed Title 5 of the United States Code, which governs government organization and employees. Specifically, we focused on Section 9902, which governs DOD personnel authorities; Chapter 53, Subchapter III, which governs General Schedule pay rates; and Section 5363, which governs the use and applicability of pay retention. We also obtained, reviewed, and analyzed relevant DOD transition guidance, such as the *NSPS to GS Transition Guide: Chapters 1-6*, as well as component-specific transition guidance. We also obtained, reviewed, and analyzed congressional testimony regarding the NSPS transition given by DOD's Transition Office and the Office of Personnel Management. Using a semistructured interview technique, we interviewed knowledgeable officials from the Transition Office and each component's responsible transition office to understand how DOD and each component were managing the orderly transition of NSPS employees to the General Schedule system, and the extent to which each of those offices is prepared for future transitions. Further, we analyzed documents on the General Schedule system and performance management that were issued by the Office of Personnel Management and interviewed appropriate officials. We also analyzed reports on NSPS transition, lessons learned, and organizational transformation published by the Congressional Research Service and GAO.

To determine the extent to which DOD documented and supported costs for the NSPS termination, we compared DOD guidance on NSPS termination cost reporting provided to the components and lower-level organizations—included as part of DOD's April 2010 report to Congress<sup>37</sup>—and DOD- and component-level cost reports for the NSPS termination with GAO standards on internal controls and Statement of Federal Financial

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<sup>36</sup>The Department of the Navy's NSPS policies encompass Marine Corps civilians. The DOD Fourth Estate includes all organizational entities in DOD that are not in the military departments or the combatant commands, for example, the Office of the Secretary of Defense, the Joint Staff, DOD's Office of the Inspector General, the defense agencies, and DOD field activities.

<sup>37</sup>Department of Defense, *Semiannual Report to Congress: Termination of the National Security Personnel System* (Washington, D.C., October 2010).

Accounting Standards No. 4, *Managerial Cost Accounting Standards and Concepts*. We reviewed termination cost estimates developed by the DOD Comptroller's Office. We also interviewed knowledgeable officials in the Transition Office and the component-level transition offices about their interpretation of DOD guidance on capturing the costs of the NSPS termination. We assessed the reliability of these cost data by reviewing available documentation, including the Transition Office's funding plan, and interviewing knowledgeable agency officials about these costs. We reviewed the data and documents for completeness and consistency, and in discussions with component and Transition Office officials, they told us that they neither verified nor validated the information obtained from lower-level organizations. Based on these facts and identified errors and inconsistencies, we concluded that the data were not reliable and therefore discussed these issues as findings and recommendations in our report.

To determine DOD's approach for designing and implementing a new enterprisewide performance management system, we obtained, reviewed, and analyzed DOD briefings on the development of its new enterprisewide performance management system. We also obtained, reviewed, and analyzed DOD's conference report resulting from its New Beginnings Conference, which documents initial ideas that will be used to design the enterprisewide performance management system, in addition to DOD's hiring flexibilities, and the Workforce Incentive Fund. Using a semistructured interview technique, we interviewed senior officials within DOD's Transition Office and the component transition offices responsible for managing the design and implementation of DOD's new enterprisewide performance management system about the current status of DOD's efforts and future plans for the enterprisewide performance management system.

To better understand options available to federal managers for recognizing and rewarding employee performance, we obtained, reviewed, and analyzed flexibilities in the General Schedule system. To determine best practices for designing large-scale programs and transformation, we reviewed prior GAO work on organizational change and on the importance of strategic planning and the establishment of goals and milestones.<sup>38</sup> To determine the extent to which DOD has involved union representatives in the design and implementation of its new performance management system, we interviewed senior representatives of the United DOD Workers Coalition about DOD's efforts to include union representation in the design and implementation of the new system.

We conducted this performance audit from August 2010 through April 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>38</sup>GAO, *Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, GAO-03-669 (Washington, D.C.: July 2, 2003), and *Military Personnel: Sustained Leadership and Oversight Needed to Improve DOD's Prevention and Treatment of Domestic Abuse*, GAO-10-923 (Washington, D.C.: Sept. 22, 2010).

Enclosure IV

Comments from the Department of Defense

Note: DOD's letter was sent on April 14, 2011. GAO comments supplementing those in the report text appear at the end of this enclosure.



DEPARTMENT OF DEFENSE  
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**NSPS**  
*Transition*

Ms. Brenda S. Farrell  
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U.S. Government Accountability office  
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Dear Ms. Farrell:

This is the Department of Defense (DoD) response to your draft report, "Performance Management: DoD Is Terminating the National Security Personnel System, but Needs a Strategic Plan to Guide Its Design of a New System," dated March 29, 2011 (GAO Code 351519/GAO-11-524R). Thank you for the opportunity to review and comment on the draft.

The National Defense Authorization Act for Fiscal Year 2010 (NDAA 2010) amends section 9902 of title 5, U.S. Code. It requires GAO to assess employee satisfaction with the regulations, processes, and the fairness, transparency, and credibility of the new performance management system, redesigned appointment procedures, and the DoD Civilian Workforce Incentive Fund as authorized in NDAA 2010. As will be discussed more fully below, the design process is ongoing and the statutorily mandated assessment would be premature at this time. While the statute did not require an evaluation of the termination of the National Security Personnel System (NSPS), the Department is pleased that GAO reviewed the transitions from NSPS that DoD effected during Fiscal Year 2010 (FY2010)<sup>1</sup>.

The Department's response to GAO's evaluation follows. Our response to the two recommendations for executive action is enclosed.

The repeal of the statutory authority for NSPS precipitated an unprecedented effort – one of the largest scale transitions from one Federal personnel system to another. The NSPS population at its largest (226,000 employees when transitions began the end of February 2010) was larger than the number of employees in any Executive agency, with the exception of the Department of Veterans' Affairs. DoD planned for the orderly termination of NSPS and the

<sup>1</sup> When GAO Code 351519 was announced in a June 28, 2010, letter to Secretary of Defense Gates, the engagement was titled "2010 Review of the Department of Defense's Transition out of the National Security Personnel System (NSPS)." The letter stated that the source of the work was "in response to a congressional mandate in the National Defense Authorization Act for Fiscal Year 2010, which directed GAO to conduct reviews of the department's transition from NSPS in calendar years, 2010, 2011, and 2012." At a pre-closeout meeting with GAO analysts on March 2, 2011, GAO advised us that the scope of their evaluation had been revised and the draft report would be focused on three objectives: (1) the status of DoD's transition of employees from NSPS to their legacy pay and classification system; (2) the extent to which DoD has identified the costs associated with the NSPS termination; and (3) DoD's approach for designing and implementing a new enterprise-wide performance system.

See comment 1.

See comment 2.

See comment 1.

Department of Veterans' Affairs. DoD planned for the orderly termination of NSPS and the transition of employees and positions with the least possible disruption to the mission and hardship to employees. The Department's senior leadership opted to transition the workforce to the applicable prior pay and personnel system, in conformance with the NDAA 2010 requirement, as quickly as possible.

As noted in the draft report, roughly 75 percent of the NSPS population in February 2010 occupied positions rooted in the government-wide General Schedule (GS) system. Therefore, the Department decided to transition most NSPS employees in positions with a legacy to the GS pay and classification system – without undue interruption – during FY2010. The degree of planning for and execution of this initiative was much greater, more intense, far-reaching, time- and resource-consuming than it might appear – and was accomplished while maintaining readiness and carrying out other imperatives. The Department's success in overcoming challenges and transitioning 172,000 employees (representing 76 percent of the NSPS population) from the NSPS broad bands to the discrete grades of the GS system in FY2010 is a tribute to the hard work of the DoD supervisory, managerial, and human resources communities to plan and carry out the job classifications, training, communications, data processing, and performance system migration.

The Department acknowledges that we were not able to provide the worksheets used to develop the estimate for NSPS transition compensation costs, and that in some cases there were inconsistencies between the FY2010 cost figures provided by the Military Departments/Defense Agencies and Activities and the way the NSPS Transition Office characterized them. It is useful to consider the nature of the costs discussed in your evaluation, recap for the record the methodology for estimating the compensation costs associated with the transitions, and address the inconsistencies in reporting those costs that are noted in your draft report.

Congress required employees to transition from NSPS to the statutory pay and personnel system that last applied or that would have applied if NSPS had never been established. The GS rules of classification and pay setting governed the FY2010 transitions. The great majority of termination costs entailed grade and step placements documented in official personnel transactions, recorded in the Defense Civilian Personnel Data System (DCPDS). DCPDS was the source of raw data for analyst estimates in May 2009, and for summary reports regarding actual changes in compensation. Although not normally involved in budget matters for the employing Military Departments and Defense Agencies and Activities, the NSPS Transition Office estimated the aggregate salary increase for the DoD Comptroller. GAO did not comment on the accuracy of the Department's estimate of the change in employee compensation when compared to the actual cost, but rather commented that the Department did not have working files from May 2009 available so their analysts could inspect DoD's methodology. We provided GAO the methodology for developing the estimate, but not the source data files. As we explained, the analyst who prepared the transition cost estimate departed more than a year ago, and the office did not maintain his working files, only the estimates and explanation of the methodology which the NSPS Transition Office provided to GAO. At the pre-closeout meeting on March 8, 2011, GAO analysts informed us that the documentation the Department had provided was not sufficient to give them a full understanding of whether the estimate of NSPS to GS transition costs was valid.

See  
comment 3.

See  
comment 4.

See  
comment 4.

In developing the compensation cost estimate, the Department could not know an individual employee's GS transition grade before it was determined. In 2009, when we estimated compensation increases due to NSPS termination, we therefore could not predict whether his or her NSPS salary would be within the range for their GS grade, over, or under. The analyst's start point was DCPDS data for the NSPS workforce as it stood in spring 2009 when Congress set forth its initial NDAA 2010 provisions for terminating NSPS – 209,700 employees, with an average adjusted salary (base plus locality) of \$82,800. The DoD NSPS Transition Office analyst assumed that all employees would be placed on a step, not to exceed step 10, with a pay increase if their NSPS pay fell between steps of the GS grade of their transition position – in conformance with government-wide GS pay setting rules. NSPS physicians and dentists whose base salary exceeded the YA-3 pay band maximum were not included. Also excluded were 8,500 employees at the maximum of their NSPS pay band and 1,300 employees within \$50 of their maximum rate. For employees who came to NSPS from a DoD GS position, the analyst modeled the grade they likely would hold if NSPS transactions similar to within band promotions had been to a GS position. That is, the analyst reviewed three years of personnel actions during the time that NSPS had been in effect. He credited NSPS accelerated compensation for developmental positions and other individual increases that rounded up to five percent as a GS promotion. He then calculated their step placement increases, averaged them, and applied the resulting average increase of 1.03 percent as a standard factor across the NSPS workforce. The total salary estimate for one year was \$178.5M, including nearly \$153M in base pay increases and nearly \$27M for locality pay. Using the rounded \$180M as the adjusted pay increase, the DoD Comptroller adjusted the amount to include benefits and the expected civilian pay raise. Estimated increased civilian pay costs of \$238.6M (rounded to \$239M) are provided in the DoD budget for FY2011 and inflated through the Future Years' Defense Program.

An alternative method suggested by the Office of Personnel Management was to apply a 1.5 percentage (representing a half step increase) across the workforce, resulting in an estimated cost nearly 50 percent higher than the more granular estimate used by the Department. Such an approach was likely to overestimate costs, because it was not adjusted for employees at or above the maximum rate for the highest GS grade encompassed by the employee's NSPS pay band or for some employees at or above the maximum rate for their likely GS transition grade. Those employees would not receive pay increases upon transition.

DoD received no extra funding to cover FY2010 compensation costs resulting from transitions from NSPS as a result of Congress's repeal of NSPS. Employees transitioned from NSPS between February 28 and the end of September 2010, as scheduled by the employing Military Department/Defense Agency or Activity. The employing offices carried out the transitions, processed the transition actions in DCPDS, and absorbed resulting compensation cost increases within their FY2010 budgets. The DoD NSPS Transition Office monitored progress and impact of conversion transactions in aggregate throughout the year.

GAO found that the NSPS transition offices did not validate the transition costs reported by the employing offices. As discussed at the exit conference, the NSPS Transition Office, like its predecessor Program Executive Office NSPS, is not a program office in the classic sense of an acquisition program. It is not a budget submission office (other than for its own operations).

See  
comment 5.

See  
comment 5.

It does not manage employing organizations' payroll budgets and expenditures (other than for its own staff). It does not monitor individual personnel changes after transition from NSPS. The employing Components have oversight of their civilian personnel dollars and budget authority to execute those dollars.

See  
comment 6.

From a DoD-wide standpoint, the estimate by the NSPS Transition Office for one year of compensation increases due to NSPS termination was applied toward the FY2011 DoD budget. Based on all transition step placements documented in the personnel data system, the one year value of pay increases due to actual transitions of 172,000 employees from NSPS in FY2010 was just over \$180M, before any benefit cost additions. As noted, payroll costs are traceable to the individual personnel actions via DCPDS by DoD Components that took employees out of NSPS and placed them into GS. With roughly half the remaining 53,000 NSPS employees as of September 30, 2010 expected to transition to the GS system in 2011, the budgeted \$238.6M places our estimate within 10 percent of the projected actual cost. We can provide a personnel data system file of NSPS employees as of the end of April 2009 and one that captures the FY2010 transitions, if GAO analysts desire to make their own calculations.

See  
comment 7.

With respect to the three inconsistent cost figures cited in your report and draft presentation, the report discusses the resolution of two of them – one was resolved during the course of the review, and the second was the result of a difference in the way figures were reported. We have determined that the third inconsistency was the result of a mistake in addition – the NSPS Transition Office had the supporting figures but made a mistake in the arithmetic.

See  
comment 8.

With respect to designing the new performance management system prescribed in NDAA 2010, we agree that successful projects require project plans, milestones, resources, review, and decision processes. The Department's success in drawing down NSPS due to the system's repeal – acknowledged by GAO – is indicative that we understand well how to plan and manage such an undertaking.

See  
comment 8.

GAO in its draft report asserted that the Department does not have interim goals and a timeline that are linked to funding for the next steps in designing the new performance management system and is not positioned to determine if it is making progress or if resources are appropriate for near-term efforts. The NSPS Transition Office staff discussed with the GAO analysts its plan and estimated resource needs for the near-term design process. Transition Office staff also discussed two factors associated with the details of Congress's mandate for a new performance management system and other authorities that make our task different from traditional top-driven projects.

See  
comment 9.

The interim design project plan begins with a series of planning meetings starting in spring of 2010 that culminated in the September 2010 conference that brought together over 200 participants from management, employees, and DoD unions to explore, give insights, and suggest system ideas concerning the NDAA 2010 authorities. The next steps of the project plan were joint union-management planning to decide on the design process and general timeframes. Joint design teams were established, and participants convened in February 2011 to begin a series of scheduled meetings through September 2011. As we explained to the GAO analysts, the teams were presenting their detailed project plans for the year at the end of their second

See  
comment 9.

session, March 31. The teams have stated project goals to fully explore options and develop recommendations for consideration by DoD decision makers by the end of FY2011. At the end of each design session, there are scheduled progress reviews with the joint steering group to inform them about progress, key outcomes, and next steps.

As discussed with GAO, the first of two factors that makes the design of the new system different from traditional top-driven projects is that NDAA 2010 requires DoD to "include a means for ensuring employee involvement (for bargaining unit employees, through their exclusive representatives) in the design and implementation of such system." Congress required the Department to ensure no problems like those underscored in the Defense Business Board's August 2009 review of NSPS would occur if DoD proposed an alternative personnel system for transition of its NSPS employees; the key criticism being insufficient workforce/union involvement in planning NSPS. As captured in the Department's fall 2010 reports to Congress and in other information on DoD's New Beginnings website, the Department has been mindful of its responsibility to work with exclusive representatives of DoD employees and involve the workforce in developing the new authorities. DoD is proceeding with its unions in a deliberate, collaborative partnership consistent with Congress's requirements, as well as the President's labor-management Executive Order requiring pre-decisional involvement of unions in all workplace matters to the fullest extent practicable.

The second factor that makes the development of the new performance management system and other authorities different from the traditional top-down approach is that until the collaborative process works through, the Department remains open to union-management recommendations for future system/process changes which may be narrow and along proven lines, or far-reaching innovations with a substantial implementation tail. As GAO acknowledged in its draft report, the United DoD Workers' Coalition is complimentary on the Department's approach to developing the new system. Once the ideas are matured and the scope of jointly developed recommendations known, we will be in a position to work out the full timeline and tie it to long-term funding for completing the basic design and central operations to implement the system. It is premature to estimate the whole project.

In summary, when NSPS was designed and implemented, there was no indication that the statutory authority would be repealed after the system had operated for three years. When Congress repealed the authority, the Department planned and carried out the transition of 172,000 employees from NSPS in FY2010 promptly and responsibly. The great majority of transition costs were the actual compensation costs associated with applying the government-wide GS classification and pay setting rules to transitioning employees and their positions. The compensation cost estimate itself and the processed transactions indicate that the methodology was appropriate and the estimate that DoD used for the budget was quite close to the actual experience. Finally, the Department has implemented an interim project plan that continues to engage with its partners in the joint labor and management design teams, and that is expected to produce collaborative design recommendations for a new performance management system that then will be scoped, addressed for full implementation in a new project plan, and tied to funding.

See  
comment 9.

Again, thank you for the opportunity to comment on the draft report. Our response provides comments on major items we would like to clarify or correct. If you have any questions regarding this response, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "John H. James, Jr.", written in a cursive style.

John H. James, Jr.  
Director

Enclosure



**GAO DRAFT REPORT DATED MARCH 29, 2011  
GAO CODE 3515039/GAO-11-524R**

**“Performance Management: DoD is Terminating the National Security Personnel System,  
but Needs a Strategic Plan to Guide Its Design of a New System”**

**DEPARTMENT OF DEFENSE RESPONSE TO GAO RECOMMENDATIONS FOR  
EXECUTIVE ACTION**

To help ensure an efficient use of resources and to better plan for the design of a new performance management [system], we recommend that the Secretary of Defense direct the Under Deputy Assistant Secretary of Defense for Civilian Personnel Policy to take the following two actions:

**RECOMMENDATION 1:** In conjunction with the Comptroller, help ensure that information identifying and supporting the costs of the NSPS termination and new performance management system is documented, reliable, traceable to a source document, and readily available for examination.

**DoD RESPONSE:** Partially concur.

With respect to NSPS termination, the vast majority of transition costs was increased employee compensation as a result of applying the government-wide GS classification and pay setting rules. These costs are documented on individual official personnel transactions that effect the transitions of employees from NSPS to the appropriate successor pay and personnel system. The Department uses personnel records that reside in the Defense Civilian Personnel Data System for source data. There was no line item for NSPS in the DoD budget, and compensation costs are included in DoD Components and Activities' funding.

With respect to costs of the new performance management system, a copy of the budget request was provided to the GAO team. As discussed at the out brief and in the DoD letter response to GAO, it is premature to predict future costs as the system is being developed jointly by DoD labor and management and is not top-driven. Costs for program operations such as for training and program start up can be estimated by the responsible office, once the design matures and recommendations emerge.

We will work with the DoD Comptroller to ensure that cost information is appropriately addressed. The NSPS Transition Office will refine a budget request for its own operations, and will continue to assemble data for the Military Departments/DoD Agencies and Activities. They will continue to be accountable for their budgets and expenditures.

**RECOMMENDATION 2:** Develop a plan with documented near-term design and implementation goals and a timeline for meeting these goals to build momentum and show progress for the development of an enterprise-wide performance management system and to facilitate an assessment of what is being achieved as a result of the resources being spent.

**GAO DRAFT REPORT DATED MARCH 29, 2011  
GAO CODE 3515039/GAO-11-524R**

**“Performance Management: DoD is Terminating the National Security Personnel System,  
but Needs a Strategic Plan to Guide Its Design of a New System”**

**DEPARTMENT OF DEFENSE RESPONSE TO GAO RECOMMENDATIONS FOR  
EXECUTIVE ACTION**

**DoD RESPONSE:** Partially concur.

The Department is engaged in a unique collaborative effort with its labor partners, consistent with Congress’s requirements. As discussed in the Department’s letter response to GAO and during the out brief, design of the new system is following an interim plan that is not the traditional, top-driven project. Until recommendations are developed jointly for the new authorities, it would be premature to document design and implementation goals and a timeline for meeting them as contemplated by the GAO recommendation. We will develop a detailed post-FY2011 project plan that includes goals, steps, and timelines, once we can determine the scope based on the recommendations being developed during the current, planned design team activities associated with the basic design.

The following are GAO's comments on specific points made in the Department of Defense's (DOD) letter sent on April 14, 2011.

### **GAO Comments**

1. DOD stated that the National Defense Authorization Act (NDAA) for Fiscal Year (FY) 2010 requires GAO to assess employee satisfaction with the regulations, processes, and the fairness, transparency, and credibility of the of the new performance management system, redesigned appointment procedures, and the DOD Civilian Workforce Incentive Fund as authorized in the NDAA. The comments further noted that the GAO letter announcing the engagement stated that the source of work was "in response to a congressional mandate," the design process was ongoing and the statutorily mandated assessment would be premature at the time, and that at the pre-closeout meeting, GAO advised the department that the scope of the evaluation had been revised and the draft report would be focused on the three objectives included in the report. To clarify, we note in our report that we initially conducted our review in response to an anticipated mandate in which DOD was expected to promulgate regulations for its new performance management system and GAO was to report on, among other things, the processes established pursuant to those regulations. But the department did not issue those regulations and thus the mandate was not triggered. We informed DOD that we briefed the defense committees in December 2010 and congressional interest was expressed for us to continue our work on the status of the National Security Personnel System (NSPS) transition. Subsequently, the Chairman and Ranking Member of the Subcommittee on Readiness of the House Committee on Armed Services requested our ongoing work in this area.

2. DOD stated that it planned for the orderly termination of NSPS and the Department of Veterans' Affairs. The part about the Department of Veterans Affairs was not a requirement of the NDAA for FY 2010.

3. DOD stated that although the office is not normally involved in budget matters for the employing military departments and defense agencies and activities, the NSPS Transition Office (Transition Office) estimated the aggregate salary increase for the DOD Comptroller. The department further noted that we did not comment on the accuracy of the department's estimate of the change in employee compensation when compared to the actual cost, but rather we commented that the department did not have working files from May 2009 available for inspecting DOD's methodology. As the department stated, we did not comment on the accuracy of DOD's estimate of the change in employee compensation when compared to the actual cost because, during the course of our review, we repeatedly asked DOD for the actual costs associated with the transition and this information was not provided. Regarding DOD's comment on working files, we also asked repeatedly over an 8-month period for supporting documentation of DOD's actual termination cost, but did not receive documentation of the actual cost resulting from changes in employee compensation because of the transition and received only a limited explanation of the approach used to develop the estimate. For the reasons mentioned previously, the department stated that it was difficult to provide the requested

information. As we mentioned in our report, internal control standards<sup>39</sup> state that all transactions and other significant events need to be clearly documented and that documentation should be readily available for examination. Further, federal financial accounting standards<sup>40</sup> state that all cost accounting processes and procedures should be documented, and regardless of the type of report in which it is presented, cost information should ultimately be traceable to the original common data source.

4. DOD stated that the department had provided GAO the methodology for developing the estimate but had not provided the source data files. DOD explained that one of the analysts who prepared the transition cost estimate had departed more than a year ago and that the office did not maintain his working files. As we mentioned in comment 3, internal control standards and federal financial accounting standards emphasize the value of documentation. Thus, we continue to believe that documentation is imperative. Additionally, during the 8 months of our review, we repeatedly asked the department to provide supporting documentation of the cost data and methodology used to determine the cost estimates, but received only a limited explanation of the department's approach to calculating the estimate. However, the department, in its comments on a draft of this report, provided some additional information on its cost estimates for which supporting documentation was not provided. More specifically, the department did not previously provide us with such information about (1) the analyst's starting point being 209,700 employees, with an average adjusted salary (base plus locality) of \$82,800; (2) the assumptions used for the estimate; and (3) the number of excluded employees. Maintaining such documentation is important because, among other things, (1) it helps ensure management's approval of the methodology over time; (2) it helps ensure consistent application of the methodology over time; and (3) it provides a basis for independent evaluators to review and assess the methodology—including all data sources, costing methods and assumptions used, and the justification for using them.

5. DOD stated that GAO found that the NSPS transition offices did not validate the transition costs reported by the employing offices. In its comments DOD stated that "the NSPS Transition Office, like its predecessor Program Executive Office NSPS, is not a program office in the classic sense of an acquisition program. It is not a budget submission office, other than for its own operation, and the employing components have oversight of their civilian personnel dollars and budget authority to execute those dollars." However, as noted in our report, the Deputy Secretary of Defense memo that established the Transition Office made available to this office the authorities, functions, and resources of the redesignated NSPS Program Executive Office. Specifically, the NSPS Program Executive Office's charter (1) included responsibility for preparing budgets, including submissions and justifications and (2) required visibility over components' funds.

6. DOD stated that it can now provide a personnel data system file of NSPS employees that captures the fiscal year 2010 transitions for GAO review. However, as previously

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<sup>39</sup>GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

<sup>40</sup>Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards and Concepts*.

noted, over an 8-month period we repeatedly asked for but were not provided the actual costs and documentation associated with the department's termination-related costs.

7. With respect to the three inconsistencies in cost data that we noted in our report, the department stated that (1) one was resolved during the course of our review, (2) the second was the result of a difference in the way the cost figures were reported, and (3) the third was the result of a mistake in addition. In our report, we identified three inconsistencies, which included (1) \$180 million that was initially reported to us as a fiscal year 2010 cost, (2) a difference of over \$5 million between the reported termination costs of one component and the amount reported by the Transition Office, and (3) a difference of approximately \$300,000 between the reported termination costs of a different component and the amount reported by the Transition Office. We continue to believe that the reliability of financial reporting is important. As mentioned in our report, internal control standards state that entities should ensure the reliability of financial information. Without ensuring the reliability of cost data, DOD is not providing Congress and other stakeholders clear insight and visibility into the cost of the NSPS termination.

8. With respect to designing the new performance management system prescribed in the NDAA for FY 2010, DOD acknowledged that successful projects require project plans, milestones, resources, review, and decision processes. We found that the department did not have interim goals and a timeline that linked to funding for the next steps in designing the new performance management system and was not positioned to determine if it was making progress or if resources were appropriate for near-term efforts. DOD stated that Transition Office staff had discussed its plan with us and had estimated resource needs for the near-term design process. We disagree. The department officials told us that they had an interim plan; however, such things as goals and timelines, linked to funding, were not discussed with us during the course of our review.

9. DOD commented that its design teams were presenting their detailed project plans for the year at the end of their second session—March 31—and have stated project goals to fully explore options and develop recommendations for consideration by DOD decision makers by the end of fiscal year 2011. It further noted that the department had implemented an interim project plan that continues to engage with its partners in the joint labor and management design teams, and that is expected to produce collaborative design recommendations for a new performance management system that then will be scoped, addressed or full implementation in a new project plan, and tied to funding. Although the department discussed its interim plan with us, as noted, such things as goals and timelines, linked to funding, were not discussed. We continue to believe that it is important to set goals and a timeline to show progress from day one and that key elements of a sound management approach contain plans that include establishing goals and time frames and aligning activities with resources.

10. The GAO job code should be 351519, not 3515039.

Enclosure V

## **GAO Contact and Staff Acknowledgments**

### **GAO Contact**

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### **Staff Acknowledgments**

In addition to the contact named above, Ron Fecso, Chief Statistician; Marion A. Gatling, Assistant Director; Margaret G. Braley; Virginia A. Chanley; Mae F. Jones; Lonnie J. McAllister; Mark R. Needham; Neil A. Pinney; Amie M. Steele; Spencer J. Tacktil; Martha R. Tracy; John W. Van Schaik; Jack C. Warner; and Jennifer L. Weber made key contributions to this report.

(351519)

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