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Comptroller General  
of the United States

United States General Accounting Office  
Washington, DC 20548

July 3, 2003

The Honorable Susan M. Collins  
Chairman  
Committee on Governmental Affairs  
United States Senate

Subject: *Posthearing Questions Related to Proposed Department of Defense (DOD)  
Human Capital Reform*

On June 4, 2003, I testified before your committee at a hearing entitled “Transforming the Department of Defense Personnel System: Finding the Right Approach.”<sup>1</sup> This letter responds to your request that I provide answers to posthearing questions from Senator George V. Voinovich and Senator Thomas R. Carper. The questions and responses follow.

#### Questions from Senator Voinovich

**1. Mr. Walker, in your written testimony, you support the phased in approach for DOD reforms. While this will give the Department additional time to establish a better personnel system, do you believe it may contribute to a fractured atmosphere, potentially creating a culture of “haves,” employees benefiting from the new system and “have-nots?”**

As I have testified, we believe that it is critical that agencies or components have in place the human capital infrastructure and safeguards before implementing new human capital reforms. This institutional infrastructure includes, at a minimum (1) a human capital planning process that integrates the agency’s human capital policies, strategies, and programs with its program mission, goals, and desired outcomes, (2) the capabilities to develop and implement a new human capital system effectively, and (3) a modern, effective, credible and, as appropriate, validated performance appraisal and management system that includes adequate safeguards, such as reasonable transparency and appropriate accountability mechanisms, to ensure the fair, effective, and nondiscriminatory implementation of the system.

Clearly, some components of DOD may have such an infrastructure and safeguards in place before others. However, as we have noted, in the human capital area, how you do something and when you do it, can be as important as what you do. In our view,

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<sup>1</sup> U.S. General Accounting Office, *Human Capital: Building on DOD’s Reform Effort to Foster Governmentwide Improvements*, [GAO-03-851T](#) (Washington, D.C.: June 4, 2003).

the positive benefits of implementing the new human capital authorities properly and effectively will far outweigh any potential issues of some DOD components benefiting from the new personnel authorities before others.

**2. In the Homeland Security legislation, Congress gave the new Department broad flexibility to amend six areas of Title 5 (performance appraisals, classification, pay rates and systems, labor management relations, adverse actions, and appeals). It has been said that the Department of Homeland Security's personnel system may become the future human resource model for the federal government. Today the Secretary of Defense explained his vision for the personnel system for the civilian workforce, which in some instances goes well beyond the Homeland Security proposal. I know that the Department of Defense has had a great deal of success with their demonstration projects, but do you think we should wait until the Homeland Security system is fully established before we give broad authority to the Defense Department?**

As we noted in our high-risk series, modern, effective, and credible human capital strategies will be essential in order to maximize performance and assure accountability of the government for the benefit of the American people.<sup>2</sup> As the employer of almost 700,000 civilians, in no place is a modernized human capital system more critical than DOD. However, as I have often noted, such a system should not be implemented without an adequate human capital infrastructure and safeguards.

Although we do not believe that DOD should wait for the full implementation of the new human capital system at the Department of Homeland Security (DHS), which could take several years, we do think that there are important lessons that can be learned from how DHS is developing its new personnel system. For example, DHS has implemented an approach that includes a design team of employees from DHS, the Office of Personnel Management (OPM), and major labor unions. To further involve employees, DHS has conducted a series of town hall meetings around the country and held focus groups to further learn of employees' views and comments. According to DHS, draft regulations for the new personnel system will be issued this fall, final regulations by early 2004, and implementation to begin at that point. DOD, as any organization seeking to transform, needs to ensure that employees are involved in order to obtain their ideas and gain adequate "buy-in" for any related transformational efforts.

**3. Mr. Walker, in your testimony before the House Government Reform Committee and my Subcommittee, you expressed reservations with DOD's preparedness to implement a pay for performance system. You have observed that the Department does not have a credible and verifiable performance management system. S. 1166 seeks to address that concern by establishing criteria for a performance management system. Please comment on that portion of the bill.**

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<sup>2</sup> U.S. General Accounting Office, *High-Risk Series: Strategic Human Capital Management*, [GAO-03-120](#) (Washington D.C.: January 2003).

We are pleased that both the House of Representatives' version of the proposed National Defense Authorization Act for Fiscal Year 2004 and the proposed National Security Personnel System Act contain statutory safeguards and standards along the lines that we have been suggesting to help ensure that DOD's pay for performance efforts are fair to employees and improve both individual and organizational performance.

The statutory standards described in the National Security Personnel System Act proposal are intended to help ensure a fair, credible, and equitable system that results in meaningful distinctions in individual employee performance; employee involvement in the design and implementation of the system; and effective transparency and accountability measures, including appropriate independent reasonableness reviews, internal grievance procedures, internal assessments, and employee surveys. In our reviews of agencies' performance management systems—as in our own experience with designing and implementing performance-based pay reform for ourselves at GAO—we have found that these safeguards are key to maximizing the chances of success and minimizing the risk of failure and abuse.

The proposed National Security Personnel System Act also takes the essential first step in requiring DOD to link the performance management system to the agency's strategic plan. Building on this, we suggest that DOD also be required to link its performance management system to program and performance goals and desired outcomes. Linking the performance management system to related goals and desired outcomes helps the organization ensure that its efforts are properly aligned and reinforces the line of sight between individual performance and organizational success so that an individual can see how her/his daily responsibilities contribute to results and outcomes.

#### Questions from Senator Carper

**1. In your written testimony, you say it would be preferable to employ a governmentwide approach to address human capital issues in the future. Of the issues addressed in S. 1166 and the Defense Department proposal, which do you believe would be best handled using a governmentwide approach?**

As you point out, I have testified that Congress should consider both governmentwide and selected agency changes to address the pressing human capital issues confronting the federal government. Agency-specific human capital reforms should be enacted to the extent that the problems being addressed and the solutions offered are specific to a particular agency (e.g., military personnel reforms for DOD). In addition, targeted reforms should be considered in situations where additional testing or piloting is needed for fundamental governmentwide reform.

In our view, it would be preferable to employ a governmentwide approach to address certain flexibilities that have broad-based application and serious potential implications for the civil service system, in general, and OPM, in particular. We believe that several of the reforms that DOD is proposing fall into this category. Some examples include broad-banding, pay for performance, reemployment, and pension offset waivers. In these situations, it may be prudent and preferable for

Congress to provide such authorities on a governmentwide basis and in a manner that assures that a sufficient personnel infrastructure and appropriate safeguards are in place before an agency implements the new authorities. Importantly, employing this approach is not intended to delay action on DOD's or any other individual agency's efforts but rather to accelerate needed human capital reform throughout the federal government in a manner that ensures reasonable consistency on key principles within the overall civilian workforce. This approach also would help to maintain a level playing field among federal agencies in competing for talent.

**2. Many of the proposals made by the Defense Department have been made in the past by other departments and agencies to address longstanding, governmentwide human capital problems. Every department and agency, I'm sure, can claim to have difficulty, for example in recruiting and retaining qualified personnel to replace retirees, in hiring individuals quickly or in finding ways to reward employees for excellent performance. In your view, is what the Defense Department is seeking narrowly tailored to meet department-specific needs? Has the Defense Department provided sufficient justification for the kind of personnel authority they are seeking?**

The authority DOD is seeking is not directly tailored to meet department-specific needs. In addition, DOD has not provided a written justification for much of its proposal. Nevertheless, DOD does need certain additional human capital flexibilities in order to facilitate its overall transformation effort.

Secretary Rumsfeld and the rest of DOD's leadership are clearly committed to transforming how DOD does business. Based on our experience, while DOD's leadership has the intent and the ability to transform the department, the needed institutional infrastructure is not in place in a vast majority of DOD organizations. Our work looking at DOD's strategic human capital planning efforts and looking across the federal government at the use of human capital flexibilities and related human capital efforts underscores the critical steps that DOD needs to take to properly develop and effectively implement any new personnel authorities.<sup>3</sup> In the absence of the right institutional infrastructure, granting additional human capital authorities will provide little advantage and could actually end up doing damage if the authorities are not implemented properly by the respective department or agency.

DOD has noted that its new personnel system will be based on the work done by DOD's Human Resources Best Practices Task Force. The Task Force reviewed both federal personnel demonstration projects and selected alternative personnel systems to identify practices that it considered promising for a DOD civilian human resources strategy. These practices were outlined in an April 2, 2003, *Federal Register* notice asking for comment on DOD's plan to integrate all of its current science and

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<sup>3</sup> See, for example, U.S. General Accounting Office, *DOD Personnel: DOD Actions Needed to Strengthen Civilian Human Capital Strategic Planning and Integration with Military Personnel and Sourcing Decisions*, [GAO-03-475](#) (Washington, D.C.: Mar. 28, 2003); *Human Capital: Effective Use of Flexibilities Can Assist Agencies in Managing Their Workforces*, [GAO-03-2](#) (Washington, D.C.: Dec. 6, 2002); and *Defense Logistics: Actions Needed to Overcome Capability Gaps in the Public Depot System*, [GAO-02-105](#) (Washington, D.C.: Oct. 12, 2001).

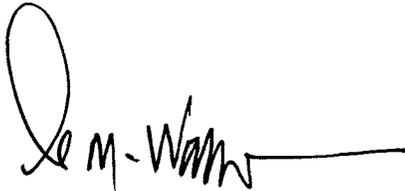
technology reinvention laboratory demonstration projects under a single human capital framework consistent with the best practices DOD identified.

Finally, as I noted in my statement before the Committee, the relevant sections of the House of Representatives' version of the proposed National Defense Authorization Act for Fiscal Year 2004 and Chairman Collins, Senator Levin, Senator Voinovich, and Senator Sununu's National Security Personnel System Act, in our view, contain a number of important improvements over the initial DOD legislative proposal.

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We are providing copies of this letter to the Ranking Minority Member, Senate Committee on Governmental Affairs; the Chairman and Ranking Minority Member, Senate Committee on Governmental Affairs, Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia; the Chairman and Ranking Minority Member, Senate Committee on Governmental Affairs, Subcommittee on Financial Management, the Budget, and International Security; and the Honorable Thomas R. Carper. For additional information on our work on federal agency transformation efforts and strategic human capital management, please contact me on (202) 512-5500 or J. Christopher Mihm, Director, Strategic Issues, on (202) 512-6806 or at [mihmj@gao.gov](mailto:mihmj@gao.gov).

Sincerely,

A handwritten signature in black ink, appearing to read "D. M. Walker", with a long horizontal line extending to the right.

David M. Walker  
Comptroller General  
of the United States

(450235)

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