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GAO HUMAN CAPITAL REFORM: LEADING THE WAY

HEARING

BEFORE THE

SUBCOMMITTEE ON CIVIL SERVICE AND AGENCY ORGANIZATION

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

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CONTENTS

	Page
Hearing held on July 16, 2003	1
Statement of:	
Smith, Pete, president, Private Sector Council; and Paul Light, senior fellow, governance studies, the Brookings Institution	82
Walker, David M., Comptroller General, U.S. General Accounting Office; and Christopher A. Keisling, GAO Employees Advisory Council	14
Letters, statements, etc., submitted for the record by:	
Davis, Hon. Jo Ann, a Representative in Congress from the State of Virginia:	
Majority staff memorandum	7
Prepared statement of	3
Keisling, Christopher A., GAO Employees Advisory Council, prepared statement of	57
Light, Paul, senior fellow, governance studies, the Brookings Institution, prepared statement of	91
Smith, Pete, president, Private Sector Council, prepared statement of	85
Walker, David M., Comptroller General, U.S. General Accounting Office, prepared statement of	17

GAO HUMAN CAPITAL REFORM: LEADING THE WAY

WEDNESDAY, JULY 16, 2003

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CIVIL SERVICE AND AGENCY ORGANIZATION,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:04 p.m., in room 2154, Rayburn House Office Building, Hon. Jo Ann Davis (chairman of the subcommittee) presiding.

Present: Representatives Davis of Virginia, Davis of Illinois, Van Hollen and Norton.

Staff present: Ron Martinson, staff director; Chad Bungard, deputy staff director and chief counsel; Vaughn Murphy, legislative counsel; Chris Barkley, legislative assistant/clerk; Robert White, director of communications; John Landers, detailee from OPM; Stuart Sims, legal intern; Steven Isbister and Taylor Copus, interns; Christopher Lu, minority deputy chief counsel; Tania Shand, minority professional staff member; Earley Green, minority chief clerk; and Teresa Coufal, minority assistant clerk.

Mrs. DAVIS OF VIRGINIA. The Subcommittee on Civil Service and Agency Organization will come to order. We are expecting another Member or two, but we are going to go ahead and start so we don't hold you up.

Earlier today I introduced H.R. 2751, the GAO Human Capital Reform Act of 2003. The broad subject of the bill, expanding personnel management flexibilities, is not a new one for this subcommittee. Already this year we have held three hearings on pay-for-performance systems or related matters, and we have passed legislation out of the full Government Reform Committee granting the Defense Department, NASA, and the Securities and Exchange Commission freedom from some of the dated personnel rules that govern the Federal Civil Service.

At each step of the way, this subcommittee has sought the advice of David Walker, the Comptroller General of the United States and head of the General Accounting Office. Mr. Walker has been a valuable contributor to these discussions, relying on both his agency's knowledge of existing governmental pay-for-performance systems and the GAO's own experience in strategic human capital management.

Today we are pleased to have the Comptroller General back with us, but in a slightly different role as we will be discussing whether to grant the GAO itself additional management flexibilities. I will

let Mr. Walker go into greater detail about his proposal, but at its most basic this legislation would make permanent GAO's early retirement and buyout authority; would give the Comptroller General and GAO managers more authority to reward employees for good work, while taking away the guarantee of the annual Federal pay adjustment; would increase leave benefits for upper-level employees; and last, would change the very name of the organization from the General Accounting Office to the Government Accountability Office.

We are also fortunate to have with us Mr. Christopher Keisling, a representative of the GAO Employee Advisory Council; Pete Smith from the Private Sector Council; and Paul Light from the Brookings Institution, who is one of our experts and residents on Civil Service issues.

I support the GAO's efforts to expand its personnel flexibilities. Couldn't you have changed the acronym? That's hard to say.

GAO is an arm of Congress. We rely on the investigative skill and impartiality of the GAO to help improve the performance and ensure the accountability of the Federal Government. As a result, it is essential that GAO and particularly the Comptroller General possess the management tools needed to maintain a work force of the highest degree of professionalism and skill. However, I am very interested in hearing from Mr. Keisling and our outside experts to get their perspective on the details of GAO's proposals, in much the same way that Mr. Walker provided his analysis at our previous hearings.

I thank you all for coming. I would like to say that when Mr. Davis, our ranking member, gets here, we will give him an opportunity to give an opening statement. And I ask unanimous consent that all Members have 5 legislative days to submit written statements and questions for the hearing record, and that any answers to written questions provided by the witnesses also be included in the record. Without objection, it is so ordered.

[The prepared statement of Hon. Jo Ann Davis follows:]

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Chairwoman Jo Ann Davis
Subcommittee on Civil Service and Agency Organization
"GAO Human Capital Reform: Leading By Example"
Opening Statement
July 16, 2003

Earlier today, I introduced H.R. 2751, the "GAO Human Capital Reform Act of 2003." The broad subject of the bill – expanding personnel management flexibilities – is not a new one for this Subcommittee. Already this year we have held three hearings on pay-for-performance systems or related matters, and we have passed legislation out of the full Government Reform Committee granting the Defense Department, NASA and the Securities and Exchange Commission freedom from some of the dated personnel rules that govern the federal civil service.

At each step of the way, this Subcommittee has sought the advice of David Walker, the Comptroller General of the United States and head of the General Accounting Office. Mr. Walker has been a valuable contributor to these discussions, relying on both his agency's knowledge of existing governmental pay-for-performance systems and the GAO's own experience in strategic human capital management.

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We are also fortunate to have with us Mr. Christopher Keisling, a representative of the GAO Employees Advisory Council; Pete Smith, from the Private Sector Council; and Paul Light, from the Brookings Institution, who is one of our experts-in-residence on civil service issues.

I support the GAO's efforts to expand its personal flexibilities. GAO is an arm of Congress. We rely on the investigative skill and impartiality of the GAO to help improve the performance and assure the accountability of the federal government. As a result, it is essential that GAO, and particularly the Comptroller General, possess the management tools needed to maintain a workforce of the highest degree of professionalism and skill.

However, I am very interested in hearing from Mr. Keisling and our outside experts to get their perspective on the details GAO's proposals – in much the same way that Mr. Walker provided his analysis at our previous hearings. Thank you.

# # # # #

STATEMENT OF THE HONORABLE DANNY K. DAVIS
AT THE SUBCOMMITTEE ON CIVIL SERVICE
AND AGENCY ORGANIZATION
HEARING ON

GENERAL ACCOUNTING OFFICE
HUMAN CAPITAL REFORM: LEADING THE WAY

July 16, 2003

I would like to thank the chair for holding this hearing and welcome the witnesses.

This year marks the 120th anniversary of the Pendleton Act, which created the modern civil service. Prior to the passage of this important law, the federal government was governed by a spoils system in which cronyism, bribery, and graft were rampant.

Theodore Roosevelt, who served as one of the first civil service commissioners, described the spoils system as "more fruitful of degradation in our political life than any other that could possibly have been invented. The spoils-monger, the man who peddled patronage, inevitably bred the vote-buyer, the vote-seller, and the man guilty of misfeasance in office."

One of the great innovations of our democracy is the creation of a professional and competent civil service that is relatively immune from political pressures and that maintains continuity from president to president. Unfortunately, over the past few years, we have seen agency after agency seek waivers and exemptions from these landmark civil service laws.

Last year, Congress granted broad waivers to the new Department of Homeland Security. Similarly sweeping waivers were granted to the Department of Defense two months ago. And other agencies, including the FAA, SEC, and NASA, have requested waivers recently.

In some cases, these personnel flexibilities were properly granted. For example, I agree that the SEC needs the ability to quickly hire accountants and examiners to implement the new Sarbanes-Oxley law. However, in other instances, we have gone too far in accommodating the requests of certain agencies. The authorities that the House granted to DoD will eviscerate the fundamental rights of almost 700,000 employees.

Civil service reform is an important task for this Committee, but I question whether we are approaching that task in the proper manner. The Committee is considering agency requests on an ad hoc basis. There appears to be no rhyme or reason as to which flexibilities are granted and which aren't, which rights are protected and which aren't. Instead of examining each agency request separately, we should be

spending our time looking at government-wide reforms. Unfortunately, we don't seem to be doing that.

The agency request before us today comes from the General Accounting Office. Although I am concerned about the process by which we are considering civil service reform, I am interested in learning more about GAO's request and how these flexibilities will enhance GAO's ability to perform its mission. After all, if GAO can't do its job effectively, then Congress can't perform its oversight role.

From what I know of the GAO proposal, I do have two recommendations. The GAO Personnel Flexibilities Act, which became law in 2000, granted the Comptroller General authority to implement personnel changes at GAO. The Act required that GAO provide Congress with a report assessing the agency's use of the personnel flexibilities provided for in the Act. The current proposal has no such reporting requirement and it should.

Additionally, the proposal would provide newly hired high-grade, managerial or supervisory personnel with annual leave that exceeds what is provided in current law. Under this provision, these individuals would receive 20 days of annual leave instead of the 13 days other new federal employees receive. If annual leave limits are barriers to effective recruitment and retention, this provision should be expanded to include all new hires at GAO. I trust GAO will work with me to address these issues.

I look forward to hearing the testimony of the witnesses. Thank you

Mrs. DAVIS OF VIRGINIA. I also ask unanimous consent that all exhibits, documents, and other materials referred to by Members and the witnesses may be included in the hearing record, and that all Members be permitted to revise and extend their remarks. And without objection, it is so ordered.

I also ask unanimous consent that a memorandum prepared by Majority staff regarding lessons learned from staff visits to Department of Defense demonstration project sites be submitted into the record within 7 days from this date. The Minority staff will then have an additional 7 days to submit its views. And, without objection, it is so ordered.

[The information referred to follows:]

Memorandum

To: Chairwoman Jo Ann Davis Subcommittee on Civil Service and Agency Organization

From: Majority Staff of the Subcommittee on Civil Service and Agency Organization

Date: June 24, 2003

Re: Lessons learned about Staff Visits to DoD Personnel Demonstration Project Sites

Majority Staff Visit to Dahlgren Naval Surface Warfare Center

On Thursday, June 12, 2003, the majority staff of the Subcommittee on Civil Service and Agency Organization met with Department of Defense officials at Dahlgren Naval Surface Warfare Center to discuss the personnel demonstration project in place at the laboratories in the Dahlgren Division of the Naval Sea Systems Command (NAVSEA).

Overview

Dahlgren management officials provided the staff an overview of the how the personnel demonstration project ("demo") has affected the Dahlgren naval base. The base currently employs 3,800 federal employees and 5,000 contractors, 60 percent being scientists and engineers. The demo has been in place since 1998 and 57.6 percent of NAVSEA employees participate. Of the 57.6 percent participating, roughly 80 percent of those employees are scientists and engineers.

Dahlgren management officials explained that the ability of the private sector to develop and maintain the technical research necessary for weapons systems has diminished in the last 15-20 years. The military has therefore borne the responsibility of conducting its own weapons research, which has been made easier by the flexibilities granted to Dahlgren in its demo.

Implementing the demo was initially a somewhat difficult process, but success was seen through the years in rising employee satisfaction rates. A 1999 survey revealed that many employees perceived unfair implementation of performance pay by managers. In 2000, managers and supervisors were re-trained in fairness standards regarding rating employees under the new demo project, emphasizing the underlying principles of performance pay. The re-training greatly improved employee morale and Dahlgren management officials explained that although implementation was difficult, the results made it worth the effort. In 1996, when employees under the old General Schedule were asked if they agreed that pay raises depended on performance, 23.1 percent agreed; whereas, in 2001, under the demo project, 48.2 percent of employees agreed. Likewise, when asked in 1996 if employees trusted their supervisors, 57.2 percent answered in the affirmative, and when asked in 2001, 63.3 percent answered in the affirmative. Lastly, when asked if employees agreed that pay raises depended on contribution to the agency mission, in 1996 18.4 percent of employees agreed, and in 2001 45.1 percent agreed.

Dahlgren management officials expressed concern over the impact of a centrally-imposed, one-size-fits-all personnel system, which they see in the Best Practices. The Dahlgren demo has spent six years in the adoption of its systems and in obtaining employee buy-in, a crucial factor in the success of this system.

Demo Project Components

Dahlgren management officials explained the five main demo project components: Broad Banding; Performance Development; Incentive Pay; Reduction-in-Force; and Competitive Examining and Appointment. The objective of these components is to "facilitate mission execution and organization excellence by obtaining, developing, utilizing, incentivizing and retaining high performing employees."

Broad banding. This is designed to streamline the classification process; allow for greater assignment flexibility; increase the authority to set pay; and reduce the administrative burden and costs of the General Schedule. Dahlgren has designed three career paths for employees depending on their work classification: Science and Engineering (ND); Administrative and Technical (NT); and General Support (NG). A career path differs from the General Schedule system in that it groups jobs according to type rather than according to level. Each career path is then divided into five or six pay bands, without steps, based upon the General Schedule. For example, an employee in pay band ND-4 is roughly equivalent to a GS-12 or13. Pay is then based upon performance, as well as promotions between bands. Locality pay and COLA increases are standard for all.

Performance Development. This component seeks to promote career-long development of employees. Both the individual and the organization share responsibility for an employee's progression toward career goals. To rate progress, a supervisor assigns an initial label of "acceptable" or "unacceptable" to an employee's work, followed by a more in-depth discussion of the employee's contribution.

Incentive pay. A key component in Dahlgren's demonstration project is to link pay and employee performance. The objectives are to align performance with the laboratory's goals and to retain top performers. Employees judged "acceptable" are eligible to receive salary increases or cash bonuses instead of within-grade-increases, quality-step-increases, performance awards, etc. as given under the GS system. "Pay Points" (1-4) are awarded based upon significance of the job and difficulty of the position, combined with the quality of the employee's work. The value of the points is determined by the Warfare Center Divisions, and every point an employee receives results in increased pay.

Reduction-in-Force (RIF). The streamlined RIF component is designed to ensure that employees view the process as fair and understandable while making performance, not seniority, the primary factor for retaining employees. In a single round of competition an employee in a position to be abolished may "displace" another if he/she is fully qualified for the existing position and has a higher retention standing. If a position cannot be found for the person, the employee will be separated.

Competitive Examining and Appointment. This component is designed to streamline the hiring process. Candidates for all positions at Dahlgren are placed into three "quality groups." The selecting official is allowed choose from many qualified people, instead of the top three candidates as dictated by the "rule of three." This component gives greater flexibility to managers to fill positions in a more effective and timely manner.

Overall, Dahlgren management officials explained that the demo is successful in achieving its objectives of pay-for-performance, flexibility and simplification of the HRM system. In 2001, when asked by the Office of Personnel Management to agree or disagree with the statement, 'I am in favor of the demonstration project,' 42.8 percent of employees agreed.

This was credited to the adjustment period from the General Schedule to the demo project. The China Lake demo project had similar employee feedback for its fourth year in 1982, but received 73 percent approval in its tenth year, showing the durability of the performance management system. Dahlgren management officials projected similar numbers in future years for their own demo project.

Employee Meetings

The subcommittee staff also met with three groups of employees to discuss the demonstration project first-hand.

ND-2 to ND-3 level employees. The first group consisted of ND-2 and ND-3 employees, roughly equivalent to GS-5 to GS-9 employees, software and hardware engineers. They were asked a series of questions regarding satisfaction levels with the demo. Each employee expressed support for the concept of "pay-for-performance," but expressed dissatisfaction with the implementation of the demo. One employee felt that the system unfairly rewards supervisors with large pay increases, but doesn't provide enough money for increasing salaries of lower level workers. The proposed solution was to have separate amounts of money for supervisors and employees. All four employees perceived the evaluation process to be unfair, and arbitrary at times.

Another problem they observed is that pay-for-performance can be undermined when one employee sabotages the work of another in order to make his work stand out. One man explained that an entire project took much longer because such practices occurred. Overall, the employees did not object to the design of the demonstration project at Dahlgren, but were not completely satisfied with the implementation.

Mid-level employees. The second group consisted of mid-level, technical employees, approximately equivalent to GS-11 to GS-13 level employees. This group was generally more supportive of the demonstration project, but still raised several concerns echoed by the lower level employees. They felt similarly that the financial benefits of the demo were tilted toward the management level employees, and not those in lower technical positions. One problem in particular that was repeatedly mentioned was that they perceived that salaries advanced more quickly, and were more competitive with industry, under the old system. An employee in the group, though, did say that the new system is "absolutely better" than the old one.

The human factor continued to be a significant concern for implementing the demo, and employees mentioned that fairness of execution depended somewhat on the manager and what the internal politics were present in a given office. Another implementation concern raised was that pay points were commonly "spread around evenly" to employees instead of using them to accurately reflect quality of work. They believed that since supervisors must submit a written justification to assign "0's" or "4's", (the lowest and highest possible evaluations) that supervisors consequently assign "1's," "2's," and "3's" to reduce their own workload.

In the end, these employees agreed that the new system, despite its flaws, was a positive move for Dahlgren and the Navy. They explained that it gives young workers incentive to work hard and get their projects done rather than merely doing the minimum amount of work required.

Senior Executive Service employees. The final group that met with the subcommittee staff was supervisors at the ND-V level equivalent to GS-14 and GS-15 employees. When asked at the outset if they liked the new demo project, everyone in the group expressed their support for

it. The elements they liked the most included the flexibility to more effectively manage and that performance carried more weight than seniority. Under the new system, it was explained, a supervisor could promote a high performing employee quickly and without department-level approval; whereas, under the old system, employees were stuck in a more rigid system. When asked what should be changed about the new system, one employee explained that even more flexibility, in the form of one large pay-band, would increase productivity.

When discussing poor performers, the supervisors were asked which system dealt with them more effectively, the General Schedule or the demonstration project. Although one employee said there was not much difference, another explained that the new system has a built in mechanism to deal with poor performing employees. At evaluation time, continually receiving zero pay points eventually leads to people removing themselves and finding a new position somewhere else. This was especially the case with younger workers that placed a higher value on money and less on job security. Overall, this group greatly favored the new system over the old one.

Staff Visit to China Lake (Naval Air Warfare Center Weapons Division)

On Tuesday, June 17, 2003, staff members of the Subcommittee on Civil Service and Agency Organization and the Government Reform Committee met with Department of Defense officials at China Lake, part of the Naval Air Warfare Center Weapons Division. Located in the Mojave Desert, China Lake is a research, development, testing, evaluation and engineering center.

China Lake is also home to the federal government's longest-running personnel demonstration project – a nearly 25-year-old pay-for-performance system that is often cited as a model for other alternative personnel systems. According to Defense Department officials, the experiences at China Lake, as well as the eight other Defense demonstration projects, serve as the basis for the Pentagon's "best practices" in personnel (which were recently published in the Federal Register) and provide the framework for a planned Department-wide pay-for-performance system.

The Basics of the System

There are 3,100 employees at China Lake who are part of the demonstration project – the exceptions being police, firefighters and wage-grade (or blue-collar) employees. Not coincidentally, the three groups outside of the demonstration project are the only three unionized groups at the base. Due to labor laws, the wage-grade workers were not permitted to join the demonstration project. The police and firefighters have chosen not to participate, although the firefighters joined for a brief time in the late 1990s before opting out again.

The demonstration project is anchored to the General Schedule, with six wide pay bands replacing the 15 narrow GS grades. In addition, there are only five career paths at China Lake: scientist and engineer; administrative specialist; technical specialist; science and engineering technician; and general support (clerical, administrative and technical support, police and firefighters).

Employees and managers are evaluated yearly. It is this evaluation that determines their annual salary increase. In the first step of the evaluation, an employee is judged either to be "highly successful," "fully successful," or "less than fully successful." From there, the evaluation is further refined, with each employee being rated on a 1-to-5 scale. *(See chart on next page.)*

Only workers who are deemed to be "fully successful" or "highly successful" receive the full pay raise - often thought of as a cost-of-living increase - granted to federal government employees each year. This cost-of-living, or "comparability," raise, is represented by the "C" in the chart below. Some employees who are evaluated as "less than fully successful" receive one-half of the annual pay raise; others receive no pay raise at all. There is no provision for decreasing an employee's base salary.

"Fully successful" and better employees are also eligible for incentive raises ("i" in the chart below") and bonuses ("b"). Each increment of incentive pay is equal to about 1.5 percent of base pay – so an employee who receives three "units" of incentive pay is getting a 4.5 percent raise, based on performance. Bonuses have similar values.

China Lake Demo Incentive Pay

Assessment	Rating	Definition	Salary Adjustment	Bonus
Highly Successful	1	Performance that is demonstrably exceptional	C + 4i or C + 3i	0-4b
	2	Quality performance that exceeds fully successful	C + 2i	0-4b
Fully Successful	3	Fully successful performance	C + 1i or C	0-4b
Less than Fully Successful	4	Below fully successful	½ of C	None
	5	Substantially below fully successful	None	None

Chart courtesy of Ed Rockdale, Head, Civilian Personnel Division, China Lake.

Base pay and locality pay are not put at risk in the China Lake personnel system. The bonus pool replaces cash awards. Everything else associated with the General Schedule – step increases, quality step increases, comparability (COLA), and within-level promotions – is put into the incentive pay pool. In practice, incentive pay equals 2.4 percent of employees' base salaries each year; another 0.8 percent of their salaries are used for the bonus pool. These constraints, managers say, force supervisors to make meaningful distinctions among employees, rather than simply evaluate everyone as "highly successful."

The System in Development and in Practice

China Lake adopted its demonstration project in the late 1970's because, managers say, the base was facing a low acceptance rate of job offers, had trouble retaining its core technical workforce, could not reward high performers, and was lacking flexibility in moving employees from job to job.

In a point stressed by both managers and employees, the specifics of the China Lake demonstration project were developed through 18 months of meetings and work groups. Rank-and-file employees were given a large role in determining how the new personnel system would take shape. Everyone involved in the process said this "bottom-up" approach was essential to the success of the personnel system.

Another key piece of the demonstration project is the performance review, evaluation and appeal system. Employees work with their managers to develop a performance plan each year; that plan is refined over the course of the year, through quarterly meetings. The end result, say employees and managers, is that workers are given a clear sense of the job(s) they need to do, as well as consistent feedback on how they are performing. If an employee is determined to be falling below "fully successful," a problem solving team is created to help raise the performance of that employee.

All employee evaluations are subject to review by a team of other managers, from outside the employee's direct line of supervision. In addition, an employee can ask to have his evaluation / pay raise formally reconsidered.

In practice, it is extremely rare for employees at China Lake to receive an evaluation of "less than fully successful" – usually less than 6 people a year are given this grade, or about one-tenth of 1 percent of employees covered by the demonstration project. The base's managers claim this is because the system – by denying poor performers a full annual pay raise, and making them ineligible for incentive or bonus pay – either causes poor performers to improve their work, or leave the base entirely.

The dozen or so employees we spoke to made it very clear that, although they enthusiastically support the pay-for-performance system, they would oppose a system where earning the comparability raise (COLA) was harder to achieve. Managers, too, expressed reservations, noting that while they would like to have more money to treat as incentive pay, such a proposal would inflict more harm, in terms of employee morale, than it would be worth.

Some Results of the System

According to China Lake managers, the demonstration project has achieved every goal it was designed to meet. It has improved recruiting and retention, helped reward the base's best employees, encouraged a culture of performance, and allowed managers more control over how their employees are utilized. Available statistics, as well as evaluations done by the Office of Personnel Management and the General Accounting Office, indicate the project has been successful.

For example, in fiscal 1979, the base had trouble hiring what it classifies as entry-level junior professionals. That year, only 22 percent of applicants who were offered jobs accepted them. The average acceptor had a grade point average of 2.7. Under the demonstration project,

the percentage of acceptances and the GPA of those taking the jobs rose steadily. By fiscal 1991, 48 percent of junior professional applicants were accepting jobs at the base, with an average GPA of 3.4.

At the opposite end of the spectrum, the base's own figures show that the majority of workers who separate themselves from China Lake – either voluntarily or through reductions-in-force - are employees who do not meet the "fully successful" standard. (The demonstration project makes performance count more than longevity during RIFs.)

OPM evaluations show employees at China Lake are more likely to believe there is a link between pay and performance than other federal employees.

In sum, China Lake management officials expressed concern about being placed in a centrally imposed, one-size-fits-all department-wide personnel system. The overall sentiment was that the proposed personnel management system that DOD wants to impose would be effective but not a better system than China Lake's current demo. The China Lake demo is tailored to the mission of the base and has been in place for over two decades. Moreover, the demo is largely responsible for China Lake's increased success over the years and has led to increased recruitment success, increased retention of valuable employees and high performers, a higher quality work product and improved employee and agency performance.

Mrs. DAVIS OF VIRGINIA. We are going to now begin with our first panel. And on our first panel we welcome the distinguished Comptroller General of the United States, David Walker, of the General Accounting Office. We are also delighted to have you testify about the changes you would like to see at the GAO.

We would also like to welcome Chris Keisling of the GAO Employee Advisory Council. He is here to give us the employees' perspective.

And, Mr. Walker, you are recognized first for 5 minutes.

If you would both stand. It is the policy of this committee that we swear our witnesses in.

[Witnesses sworn.]

Mrs. DAVIS OF VIRGINIA. Let the record reflect that they both answered in the affirmative.

Mr. Walker.

STATEMENTS OF DAVID M. WALKER, COMPTROLLER GENERAL, U.S. GENERAL ACCOUNTING OFFICE; AND CHRISTOPHER A. KEISLING, GAO EMPLOYEES ADVISORY COUNCIL

Mr. WALKER. Madam Chairwoman, thank you very much for holding this hearing. And let me just say it is always better to swear rather than be sworn at. I mean, swear in rather than sworn at, I should say.

I want to thank you not only for having the hearing, but I also want to thank you for your personal leadership in the area of human capital in the Federal Government and your willingness to sponsor the GAO Human Capital Reform Act of 2003, as well as seeking other cosponsors, which I understand that we will have more in the very near future. So I thank you very much for your leadership.

As you noted, I've testified on many occasions before this subcommittee and other committees of Congress about the need to transform how government does business, and I've noted that human capital strategy is key to effective government transformation, because it's really all about people. I've also noted our desire to try to lead by example in all areas of good government, including human capital strategy. I believe it's appropriate for us to do that as the agency that evaluates others, and I also believe it enhances our credibility by being in a position to be as good or better than any other agency that we would seek to evaluate.

As you know, we have somewhat of a unique role in government, and we have evolved over the years since 1921. And as a result of that evolution, we have some hybrid systems. While many agencies are coming up for the first time asking for things like broad-banding and pay-for-performance authority, we at GAO have had the authority for broad-banding for over 20 years, and, in fact, we have almost 15 years of experience with broad-banding for a significant majority of our work force. Furthermore, we have had authority for pay-for-performance for over 20 years, and we have almost 15 years of experience with pay-for-performance in that area.

And so many of the concepts we are talking about and additional flexibility that we are seeking are building upon what Congress has already given us and building upon the experience and lessons

learned that we have had for almost 15 years, rather than being new, out of the blocks at the present point in time.

As you noted, we are asking for a number of authorities, and in summary—and I appreciate you putting my whole statement in the record—we're asking to make permanent GAO's 3-year authority to offer voluntary early retirement and voluntary separation payments, which, as you know, Congress has already provided to most executive branch agencies. We are asking for the authority for the Comptroller General to adjust rates of pay of GAO employees on separate bases than the annual adjustments authorized for the executive branch. We are asking for permission for GAO to set the pay of an employee who might be demoted or reclassified as a result of a work force restructuring or other action at his or her current rate without having to compound the overpayment by continuing to make the automatic adjustments that current law requires. We are asking for authority to, in appropriate circumstances, reimburse employees for some relocation expenses based upon what's the benefit to the taxpayer and what makes sense for the agency, rather than an all-or-nothing scenario, which is what it is now. We are asking for the authority to be able to provide additional leave accrual for upper-level hires, because we are hiring more people from the outside. But, candidly, I will note that we would like to do it broader than that if the Congress would be willing, for people who have prior equivalent experience. But we're only asking for this because we believe this is a reasonable and minimalist approach.

We are also asking for authorization for an executive exchange program to build on the program that Congress approved that Congressman Tom Davis had proposed last year to go beyond information technology specialists to other areas where we have supply and demand and imbalances, subject to certain limitations; no more than 30 going out, no more than 30 coming in, in a given year.

And, last but certainly not least, we are asking for consideration to change our name from the General Accounting Office, which was reflective of what the agency did and the employees who comprised the agency for about our first 50 years, but is clearly not reflective of what we do today. A vast majority of our employees are not accountants, a vast majority of our employees do not do accounting and financial management-related activities, and so, therefore, we believe it more accurately reflects who we are, what we do, and it will enable us to keep our world-class brand name, which is GAO, which I and, I am pleased to say, Chris are proudly wearing on our lapels.

I think there's two things that are important here: process and proposal. There are several agencies that have come before this subcommittee and other committees and asked for extensive authority with little or no consultation with key stakeholders. I am proud of the process that we followed in order to come up with this proposal. We initially sent a straw proposal to the Hill and to our employees. We consulted with the Employee Advisory Council, that has a representative who will testify our managing directors, and our SES members. We listened to all of our employees and consid-

ered what clarifications, changes, and other commitments needed to be made in light of those comments.

We engaged in an unprecedented outreach effort that I would hold up to efforts that anybody else may have made in this regard. I think that's critically important.

As a result of that process, we have made some clarifications, some changes, and some commitments, most—many of which are in my written statement, to make it part of the formal record.

A vast majority of our proposals are not controversial; three of them have differing degrees of controversy. I believe that, due to the changes, clarifications, and commitments that we have made, there is really only one that has any significant degree of controversy, and that's the proposal decoupling us from the executive branch for the annual pay adjustments. We've made changes and commitments as a result of employee comments. I believe that to the extent that people disagree with it—and some people do, there is no doubt about it—it's either because of philosophical reasons or personal interest considerations. I can't deal with such issues. I've done as much as I can do.

In summary, the Congress has been kind to us in the past by giving us authorities in 1980 and the year 2000 that have clearly helped us to better serve the Congress and the country. It's clearly helped us to be in the lead with regard to government transformation, in general, and human capital reform, in particular. I respectfully request that the Congress give expedited consideration to this proposal. I think we followed a model process. I think we have a reasoned and reasonable approach. And I know that it will help us to continue to lead by example and make GAO a better agency to serve the Congress and to serve the country.

Thank you, Madam Chair.

Mrs. DAVIS OF VIRGINIA. Thank you, Mr. Walker.

[The prepared statement of Mr. Walker follows:]

United States General Accounting Office

GAO

Testimony

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

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GAO

Additional Human Capital Flexibilities Are Needed

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

GAO-03-1024T

July 16, 2003

GAO

Additional Human Capital Flexibilities Are Needed

GAO Accountability·Integrity·Reliability

Highlights

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

Why GAO Did This Study

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

What GAO Recommends

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

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

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

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

What GAO Found

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

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

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

Madam Chairwoman and Members of the Subcommittee:

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

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

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

GAO: A Unique Agency with a Hybrid System

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Key Elements of GAO's Proposal

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

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

- change GAO's legal name from the "General Accounting Office" to the "Government Accountability Office."

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

Process for Developing the Proposal

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

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

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

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

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

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

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

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

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

Nature of GAO Employee Concerns

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

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

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

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

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

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

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

Changes Made in Response to Employee Feedback

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

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

The following represents additional information regarding our specific proposal.

Voluntary Early Retirement and Separation Incentive Payment Authorities

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

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

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

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

Voluntary Early Retirement

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

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

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

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

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

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

Table 1: Summary Data on Voluntary Early Retirements

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

Source: GAO.

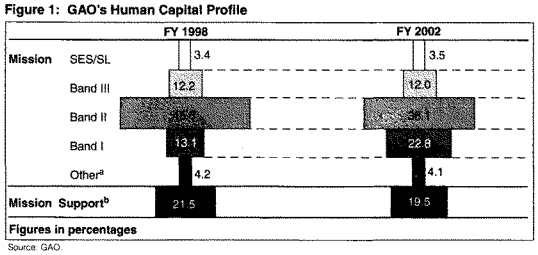
As you can see from the table, of the 79 employees who separated from GAO through voluntary early retirement, 66, or 83.5 percent, were high-grade, supervisory, or managerial employees. High-grade, supervisory, or managerial employees are those who are GS-13s or above, if covered by GAO's GS system;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

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

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

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

Figure 1: GAO's Human Capital Profile



Source: GAO.

Voluntary Separation Payments

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

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

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

Annual Pay Setting Policy and Adjustments

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

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

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

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

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

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

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

How GAO Plans to Use This Authority

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

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

GAO's Proposed Pay Authority Is Reasonable

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

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

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

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

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

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

Safeguards Provided

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

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

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

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

- Involve employees, their representatives, and other stakeholders in the design of the system, including having employees directly involved in validating any related competencies, as appropriate.

- Ensure that certain predecisional internal safeguards exist to help achieve the consistency, equity, nondiscrimination, and nonpoliticization of the performance management process (e.g., independent reasonableness reviews by the human capital offices and/or the offices of opportunity and inclusiveness or its equivalent in establishing and implementing a performance appraisal system, as well as reviews of performance rating decisions, pay determinations, and promotion actions before they are finalized to ensure that they are merit-based; internal grievance processes to address employee complaints; and pay panels predominately made up of career officials who would consider the results of the performance appraisal process and other information in making final pay decisions).

- Assure reasonable transparency and appropriate accountability mechanisms in connection with the results of the performance management process (e.g., publish overall results of performance management and pay decisions while protecting individual confidentiality, and report periodically on internal assessments and employee survey results).

Transition Period

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

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

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

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

"Pay Protection" Guarantee

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

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

Pay Retention

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

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

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

Relocation Expenses

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

Leave for Upper Level Hires

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

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

Executive Exchange Program

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

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

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

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

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

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

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

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

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

Concluding Observations

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

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

Contacts

For further information regarding this testimony, please contact Sallyanne Harper, Chief Mission Support Officer, on (202) 512-5800 or at harpers@gao.gov or Jesse Hoskins, Chief Human Capital Officer, on (202) 512-5553 or at hoskinsj@gao.gov.

Appendix I

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

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

● This element is applicable

N/A This element is not applicable

Source: GAO.

[a]The percentage allocated to each type of pay increase varies annually.

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

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

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

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

Appendix II

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

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

● This element is applicable

N/A This element is not applicable

Source: GAO.

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

[a]The percentage allocated to each type of pay increase varies annually.

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

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

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

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

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

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

● This element is applicable

N/A This element is not applicable

Source: GAO.

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

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

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

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

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

Appendix IV

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

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

● This element is applicable

N/A This element is not applicable

Source: GAO.

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

[a]The percentage allocated to each type of pay increase varies annually.

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

[c]Wage grade staff are not eligible for bonuses and dividends.

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Mrs. DAVIS OF VIRGINIA. Mr. Keisling, I will recognize you now for 5 minutes, and if you go a little over, it's OK.

Mr. KEISLING. Good afternoon, Madam Chairwoman, and Congressman. Thank you for the opportunity to speak before the subcommittee today.

In addition to my membership in GAO's Employee Advisory Council, I am also an Assistant Director in GAO's Atlanta field office. While my role on the Council is to represent my fellow Assistant Directors in the field, I am here today to present the views of the Council and all of the GAO employees that we represent.

In preparing for the hearing today, the Council considered the results of our outreach to employees during the introduction of the proposal as well as subsequent comments employees provided after revisions and assurances made by the Comptroller General. Although the Council recognizes that not all employees have the same opinions, we believe our testimony today is representative of a substantial cross-section of GAO employees' views.

Before I proceed, I want to acknowledge the points made by the Comptroller General regarding the importance of working with employees in proposing and implementing these changes. I think his testimony today and statement reflects a significant level of understanding of employees' concerns, coupled with the broader perspective of the more strategic direction he plans for the agency.

In summary: Employees generally support many of the provisions in the proposal, but have concerns about those provisions that affect their pay. Given the limitations on my time today and the emphasis of the comments we received, I will briefly describe the areas of support and then focus on employees' concerns in my oral statement. A more complete description is being provided in our written statement.

Employees recognize that attracting and retaining a high-quality work force is vital to the future of GAO. Thus, employees generally express their support for provisions to provide 6 hours of vacation time for upper-level hires, to fund varying levels of relocation expenses, to recruit and retain top employees, and to establish an exchange program with the private sector. They also generally support the provision that makes GAO's authority to offer voluntary early retirement permanent.

Most employees commented positively on these authorities, but some indicated the need for internal controls to monitor and report on their use, as are present to provide accountability for other authorities throughout GAO. For example, the Comptroller General reported to the Congress on GAO's use of the flexibilities provided in the first round of authorities granted in the GAO Personnel Flexibilities Act of October 2000.

In terms of concerns, employees expressed concern about proposed changes to Federal Civil Service employment rules that have historically provided GAO and most Federal employees with a fixed annual increase determined by the President and the Congress to protect employees against the effects of inflation and to consider varying locality-based costs.

Employee comments about the proposed changes included concerns that GAO-based annual economic adjustments are likely to be less than the amounts annually provided by the Congress. Thus,

employees performing at lower, but satisfactory levels could experience an effective pay cut from the amounts traditionally provided.

Another concern expressed by employees regards the flexibility for the Comptroller General to use some of the funds traditionally appropriated for cost-of-living adjustments for all employees to instead pay for performance-based individual rewards. Some employees believe this could imperil future GAO budgets by making a portion of the budget that was once mandatory more discretionary in nature.

Another general comment we received was that the wide latitude provided in the proposal gives the Comptroller General what some employees see as overly broad discretion in setting annual economic adjustments to employees' pay. On the other hand, some employees agreed with this aspect of the proposal, because they agreed with the need for greater flexibility to reward the agency's highest performers and to respond to budgetary fluctuations and emergencies. Some commented that the change could make GAO more attractive to new recruits and could serve to further dispel perceptions that Federal pay is not merit-based.

Some employees cited continuing longstanding concerns that the performance assessment process at GAO is highly subjective and, therefore, does not provide a valid basis for granting even greater discretion in allocating pay. Related to these concerns about subjectivity and the performance assessment system, employees expressed concern about data indicating that, as a group, minority, veterans, and field-base employees have historically received lower ratings than the employee population as a whole. It is encouraging, however, that ratings for these employees hired in the last 5 years have significantly smaller or no differences.

Employees have also expressed concern about the elimination of grade and pay retention rules. Some staff, particularly band 2 analysts and mission support staff, are concerned that this provision may result in an erosion in their future pay since there is a strong possibility that these two groups may be restructured in the near future.

In balance to these concerns, I want to take the opportunity today to recognize and express employees' appreciation for the Comptroller General's efforts to solicit employee feedback and to take action in response. For example, the Comptroller General revised sections of the proposal and made a number of assurances to address employees' concerns. Key among those assurances, the Comptroller General has agreed to explicitly consider cost-of-living and locality pay differentials in making annual economic adjustments to ensure that employees who are performing adequately will receive an annual increase that maintains their spending power. We appreciate his effort to include this guarantee in his statement today so that it will be established as part of the legislative record.

In conclusion, GAO employees are proud of our work assisting the Congress to make government operations more efficient and effective. The Council believes that GAO is making a concerted effort to become a more effective organization. We will continue to work closely with management in implementing and monitoring the use of any additional authorities granted to the Comptroller General.

We believe that it's vital that we help to develop and implement innovative approaches to human capital management that will enable GAO to continue to meet the needs of the Congress, to further improve our work environment and maximize the potential of our dedicated work force, and to serve as a model for the rest of the Federal Government. Thank you.

Mrs. DAVIS OF VIRGINIA. Thank you, Mr. Keisling.

[The prepared statement of Mr. Keisling follows:]

United States General Accounting Office

GAO

Testimony

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

For Release on Delivery
Expected at 2:00 p.m. EDT
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GAO'S PROPOSED HUMAN CAPITAL LEGISLATION

View of the Employee Advisory Council

Statement of Christopher A. Keisling,
Employee Advisory Council Member

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GAO-03-1020T

Good afternoon, Madam Chairwoman and members of the Subcommittee. My name is Chris Keisling. I am one of three liaisons to the Comptroller General and the Congress selected by GAO's 23-member Employee Advisory Council (also known as the EAC). I am an Assistant Director in GAO's Atlanta Field Office and while my role on the Council is to represent Band III employees in all field offices, I am here today, at the Subcommittee's invitation, to provide the views of the Council and a wide cross-section of GAO on the Comptroller General's Human Capital II proposal.

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

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

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

In preparing for our testimony today, the EAC considered the results of discussions with constituents, and input from Council representatives,

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

[2]These members are elected by their constituency to 2-year terms and may seek reelection once.

including information gathered from employees during the initial introduction of the proposal and comments provided on the Comptroller General's revised proposal. Although we have limited quantitative data in this regard and recognize that not all employees have the same opinions regarding all provisions of the proposed legislation, we believe our testimony is representative of a substantial cross-section of GAO employees.

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

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

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

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

GAO Employees Support Most Aspects of the Proposed Legislation But Have Concerns About Pay Provisions and Differing Opinions About the Proposed Name Change

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

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

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

Many Employees Are Concerned About The Provisions That Affect Pay

Many employees expressed concern about the provisions that affect the determination of annual pay increases and pay retention. The opinions expressed by employees generally fall into three categories: (1) general concerns and some supporting views regarding changes in traditional civil service employment rules that could reduce the amount of annual pay increases provided for economic adjustments but provide greater opportunity for rewarding performance, (2) concerns about making a

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

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

Concerns and supporting views on proposed changes that could reduce annual pay provided for economic adjustments but provide greater rewards

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

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

The Comptroller General has expressed his concern about trends in the executive branch that make it highly likely that the current civil service pay system will be the subject of comprehensive reform within the next few years. Citing federal agencies that already have many of these flexibilities, such as the Federal Aviation Administration[5] and the new

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

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

Department of Homeland Security, as well as agencies currently seeking reform, such as the Department of Defense, he has stated his belief that GAO needs to be "ahead of the curve."

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

- Removing GAO from the traditional process significantly alters a key element of federal pay protection that led some employees to seek employment in the federal sector. Changing this protection could diminish the attractiveness of federal service and result in the need for higher salaries to attract top candidates.
- A portion of appropriations historically intended to provide all federal employees with increases to keep pace with inflation and the cost of living in particular localities should not be tied to individual performance.
- GAO-based annual economic adjustments are more likely to be less than, rather than more than, amounts annually provided by the Congress; thus employees performing at lower (but satisfactory) levels who may not receive an equal or greater amount in the form of a bonus or dividend may experience an effective pay cut from amounts traditionally provided.
- The flexibility for the Comptroller General to use funds appropriated for cost-of-living adjustments for pay-for-performance purposes could imperil future GAO budgets by making that portion of the annual budget discretionary where it was once mandatory.
- The wide latitude provided in the proposal gives the Comptroller General broad discretion and limited accountability for determining whether employees receive annual across-the-board economic adjustments, the amount of such adjustments, and the timing of adjustments. This could result in unfair financial harm for some employees if the broad authorities were improperly exercised.[6]
- The Comptroller General has not made a compelling case regarding the need for these pay-related and other legislative changes, for example by showing that existing cost-of-living adjustment mechanisms are inaccurate

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

or that the agency has had difficulty in attracting and retaining high-quality employees.

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

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

In addition, the provision may, to a limited extent, address a concern of some field employees by providing alternatives to reductions in force in times when mandated pay increases are not fully funded or in other extraordinary circumstances. For example, from 1992 to 1997, GAO underwent budgetary cuts totaling 33 percent (in constant fiscal year 1992 dollars.) To achieve these budgetary reductions, GAO staff was reduced by 39 percent, primarily through field office closures and the associated elimination of field-based employees. While we hope the agency will never again have to manage budget reductions of this magnitude, this provides a painful example of the vulnerability of staffing levels, particularly in the field, to budgetary fluctuations. The proposed pay provisions would provide the Comptroller General with greater flexibility to manage any future budget crises by adjusting the annual pay increases of all employees without adversely and disproportionately impacting the careers and lives of field-based employees.

Concerns about making a portion of annual pay increases variable based on performance assessment

In addition to the revised basis for calculating annual economic adjustments, employees are concerned about the provision that transforms a portion of the annual pay increases that have historically been granted to federal employees for cost-of-living and locality-pay adjustments into variable, performance-based pay increases and bonuses. Because the GAO workforce is comprised of a wide range of highly qualified and talented people performing a similarly wide range of tasks, employees recognize that it is likely that some employees at times have more productive years with greater contributions than others. Therefore, most agree with the underlying principle of the provision to provide larger

financial rewards for employees determined to be performing at the highest level. However, in commenting on the proposal, some employees said that GAO management already has multiple options to reward high performers through bonuses, placement in top pay-for-performance categories, and promotions. Others expressed concern that increased emphasis on individual performance could result in diminished teamwork, collaboration, and morale because GAO work typically is conducted in teams, often comprised of employees who are peers.

These concerns are compounded by long-standing widespread employee concerns regarding the accuracy and validity of GAO's performance appraisal system, which is used for the current system of performance-based pay adjustments. Any effort to increase the link between pay and performance implicitly relies upon the existence of a reliable method for gauging individual performance. We received comments that the varying levels of complexity, time frames, resource availability, and sensitivity of GAO work make it difficult to objectively assess individual performance and to fairly and accurately compare employees' performance with sufficient precision. In other words, some employees believe that the subjectivity inherent in the system does not provide a valid basis for distinguishing between subtle differences in performance that may be measured in tenths of a percentage point between performance categories. Employee concerns about performance assessment have not significantly changed as a result of the new competency-based system GAO implemented last year. The comments we have heard are consistent with the concerns expressed to the Congress by GAO employees in 1993:

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

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

Concerns about the loss of traditional pay retention protections

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

Employee concern, particularly among some Band II analysts and mission support staff, focuses on the extent to which this provision may result in a substantial erosion in future pay, since there is a strong possibility that these two groups may be restructured in the near future. For example, one observation is that the salary range within pay bands is such that senior analysts who are demoted would likely wait several years for their next increase in pay or bonus. In this circumstance, employees would need to reconcile themselves to no permanent pay increases regardless of their performance. Some employees cited this potential negative impact on staff motivation and productivity and emphasized that to continue providing service at the level of excellence that the Congress and the American people expect from GAO, this agency needs the best contributions of all its midlevel and journeymen employees. However, the EAC recognizes that, absent this kind of authority and given some of the authorities already provided to the Comptroller General, some employees who may be demoted could otherwise face termination rather than diminished salary increases.

Employees Had Differing Opinions Regarding a Change in GAO's name

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

and may serve as a deterrent to attracting employees who are otherwise not interested in accounting.

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

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

Retention of Earning Power and Locality Pay Parity

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

Planned Revisions to Performance Management

In response to concerns regarding the performance management system and the related variable elements of annual pay increases raised by the EAC, employees, and senior managers, the Comptroller General has told employees that he will provide increased transparency in the area of ratings distributions, for example by releasing summary-level performance appraisal results. In addition, the Comptroller General has stated that he plans to take steps to improve the performance management system that

could further reduce any disparities. Specifically, on June 26, the Comptroller General released a "Performance Management System Improvement Proposal for the FY 2003 Performance Cycle" that outlines proposed short-term improvements to the analyst performance management system that applies to the majority of GAO employees. These include additional training for staff and performance managers and a reduction in the number of pay categories from five to four. A number of longer-term improvements to the performance appraisal system requiring validation are also under consideration, including weighting competencies and modifying, adding, or eliminating competencies. For all employees to embrace any additional pay-for-performance efforts, it is vital that the Comptroller General take steps that will provide an increased level of confidence that the appraisal process is capable of accurately identifying high performers and fairly distinguishing between levels of performance.

Deferred Implementation of Pay Provisions

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

Conclusion

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

Madam Chairwoman, this concludes my formal statement. I would be pleased to answer any questions you may have.

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Mrs. DAVIS OF VIRGINIA. I can say, you have already been a model to me here listening. It's pretty neat to sit here and have the Comptroller General and then someone representing the employees talking at the same time on the same panel, and I appreciate that from both of you.

Mr. Davis, our ranking member, if you have an opening statement?

Mr. DAVIS OF ILLINOIS. Well, what I will do is I just won't read the opening statement since I came, but let me just thank you, first of all, for holding this hearing, and I certainly look forward to the witnesses. I enjoyed meeting with Mr. Walker yesterday to get a preliminary review of what was being presented and what is being proposed, and I do have some concerns. One concern is I wish we were doing this comprehensively; that is, we were looking at agency reform across the board rather than what I call piecemealing it or dealing with agency by agency. But nevertheless, we are here at this moment, and I look forward to the question and answer and exchange period. And again, I thank you for holding this hearing and giving us the opportunity to seriously pursue reform of our Federal work force.

Mrs. DAVIS OF VIRGINIA. Thank you, Mr. Davis.

I will tell you that Mr. Walker and I had this same conversation, from what you just said, about doing this piecemeal, and my hope is that this becomes a model, and we can maybe use it as a model, if possible, or somehow make it into a model for the whole Federal Government if it works.

Mr. Davis, I'm going to go to you first and let you ask questions, if you would like.

Mr. DAVIS OF ILLINOIS. Well, thank you very much. And I appreciate that.

Mr. Walker—of course it's good to see you again, Mr. Keisling. Why don't I begin with you. I just raised the question about across the board as opposed to agency by agency. Would you respond to that?

Mr. WALKER. Absolutely, Mr. Davis.

First, as you know, we are in the legislative branch of government, and we are a unique agency and have certain hybrid systems.

That being said, with regard to the executive branch in particular, I believe it's critically important that we recognize that we do need comprehensive Civil Service reform. At the same point in time, how you do it, when you do it, and what basis you do it matters, and there needs to be a set of core principles and safeguards that would apply across all different departments and agencies in order to make sure that we avoid the further Balkanization of the Federal Government.

I'm pleased to say that with regard to the systems and safeguards that we recommended to this subcommittee and also to other committees of Congress for consideration in connection with the Defense Department Transformation Act, that we either have those in place or are committed to have those in place before we would operationalize any of the authorities that we are seeking here today. Therefore, from an intellectual standpoint, we are being consistent with what we are recommending for others.

I would also say that we are way ahead of the executive branch. We have had broad-banding authority for 20 years. We implemented it almost 15 years ago. We've had pay-for-performance authority for over 20 years; we implemented it for almost 15 years. And so I am hopeful that, as Chairwoman Davis said, that this will be another step toward hopefully not only helping GAO, but providing some valuable lessons and experience that could be helpful to other agencies in the Federal Government as well.

Mr. DAVIS OF ILLINOIS. Let me just—and I was thinking about the founding of the country and some of the basic principles that existed. And, of course, one of those is that the governed has as much right to input as whoever is going to be doing the governing. And that those who are affected by decisions, by change, should have as much opportunity to have input into the process of making the determination.

Were the employees given the opportunity to make recommendations and suggestions, have input, and kind of be up on what has taken place and what is being proposed?

Mr. WALKER. Here is what we did, Mr. Davis. We came up with a preliminary draft straw proposal. I can't get too much more tentative than that. We sent that up to the Hill. We also provided the proposal to our Employee Advisory Council, to our managing directors, and ultimately to all GAO employees. I then conducted two televised chats where I ended up—through closed-circuit television—addressing all GAO employees with regards to this proposal. We held a number of listening sessions of various sizes, in various locations for different types and levels of people within GAO. We provided an opportunity for all of our employees to send comments in, via e-mail, via notes, or whatever else. They had the opportunity to comment either directly to me, or they had the opportunity to comment to one of their democratically elected representatives on the Employee Advisory Council. I also met with all of our senior executives and, through electronic confidential balloting, asked them to vote on each of the provisions. They overwhelmingly supported every provision by various margins.

And so we have had an extensive outreach effort to be able to provide an opportunity for our employees to comment. We've made clarifications, changes, and commitments based upon that. And I feel good about the process we followed.

Mr. DAVIS OF ILLINOIS. Mr. Keisling, let me ask you, did you submit testimony to the Comptroller General prior to submitting it here today?

Mr. KEISLING. Yes, sir. We shared our testimony with the Comptroller General.

Mr. WALKER. And I shared mine with him.

Mr. DAVIS OF ILLINOIS. So it's kind of a——

Mr. WALKER. Pari-pasv.

Mr. DAVIS OF ILLINOIS. Well, did you make any changes in your testimony after you had submitted it to the Comptroller General before submitting it today?

Mr. KEISLING. The Comptroller General made a number of comments, varying from minor editorial comments, which, of course, we made those, and some suggestions to language that might be more representative of the types of input in the process that we

used to receive that input from employees, and so I made those changes as well. But in terms of substantive changes, for example, eliminating an area of particular employee concern, no, we didn't make any substantive changes to the testimony.

Mr. DAVIS OF ILLINOIS. Did you feel constrained to do that or—you know. I mean, I have people who write for me, and I don't really like to change too much what they write unless it's—you know, I just disagree with it or I find some grammatical errors. I've got one guy who he's always right no matter what, I mean, so you can't find anything wrong with anything he does. I mean, otherwise, you've got a big argue. But, I mean, did you feel constrained to make any changes?

What I'm really trying to get at is whether or not you felt in your role that there may be some conflict in your role, one, as an employee, and another as a representative of a group, but you are here actually dealing with your employer.

Mr. KEISLING. Yes, sir. The short answer is, no, I don't have any concerns about speaking forthrightly and honestly about employees' concerns. I have confidence that the Comptroller General understands that the testimony I've presented today reflects the view of many employees across GAO as well as the Employee Advisory Council. And I would like to give a vote of confidence to the Comptroller General for his willingness to form the Employee Advisory Council in the first place, some 4 years ago. And he has provided us with an open environment to solicit input from our constituents, and has really not imposed any constraints on our ability to reach out and to communicate what the staff feel. And I think the testimony today is representative of that relationship that we had with the Comptroller.

Mr. DAVIS OF ILLINOIS. I think that's what I was trying to get at. Do you have a level of comfortability in terms of the interaction as you carry out your duties and responsibilities in both roles?

Mr. KEISLING. Very comfortable. As a member of the 23-member Council, some of the discussions we have had with the Comptroller General have been quite, I will say, interesting. And there have been some heated discussion about some of the issues that have come up, but I think we've continually sought to find a middle ground that could achieve both the purpose of the Council and the intent of the Comptroller General.

Mr. WALKER. I think the State Department would say, Mr. Davis, candid and constructive conversations. I might add for the record that I didn't ask to see the Employee Advisory Council's testimony. They offered. And when they offered, I said, I will do the same for you.

I will also note for the record that before I move on any comments at all, I made it very clear: Look, this is your testimony. You say what you think you need to say. You can ignore everything I'm saying if you want, or you consider it to the extent that you deem appropriate.

Let me also say that, based upon comments that I got back from the Employee Advisory Council, I likewise looked at my statement and determined whether or not I needed to make changes to my testimony—I think if you look at our statements, they are not the same by any means, but the substance of the message is very con-

sistent, and I think that's encouraging. That's because we have a constructive relationship. The EAC is a democratically elected body that represents various interests, but, hopefully, can also represent the collective best interests of all employees rather than narrow interests of various groups. And that's what we strive to do.

Mr. DAVIS OF ILLINOIS. Thank you very much, Madam Chairwoman. I know I've gone way over, but perhaps we will be going back and forth.

Mrs. DAVIS OF VIRGINIA. We will probably have time for a few more questions, Mr. Davis.

Mr. DAVIS OF ILLINOIS. Thank you.

Mrs. DAVIS OF VIRGINIA. I think the bottom line of what Mr. Davis was asking there—and I'm just going to be sort of blunt. If the Comptroller General wasn't sitting here, would your testimony be the same, realizing he is your boss? And, David, you can't do anything to him when he answers me truthfully. Remember, you are under oath.

Mr. WALKER. The facts are the facts. I will close my ears.

Mrs. DAVIS OF VIRGINIA. Very good. There you go.

Would your testimony be any different?

Mr. KEISLING. I think my testimony would be of the same general tenor. I can't think of any other concerns that we haven't cited either here in the oral statement today or in the written testimony.

In terms of constraints, I guess one of the greatest constraints we face as an Employee Advisory Council is obtaining the views of the wide cross-section of GAO employees and making sure that when we express one—a comment and try to generalize it, that it is representative of more than just one lone voice or two people, that it represents a summary of what we have been told by our constituents. And we have gone to great lengths to make sure and to reach out—for example, in preparing the testimony, we solicited open-ended comments from all employees through our constituent groups. And I received all of the comments and basically sat down and looked for those areas where there was a consistent theme across all the different constituent groups.

And, of course, we are comprised of, you know, a variety of groups that represent very different employees at GAO not only in terms of their job function, but in terms of some of the other categories that have traditionally been represented at GAO, including minorities, disabled employees and veterans. And I think that's what the testimony today represents is the common threads that ran throughout all of the comments that I received. And that's the process that I used to develop the testimony.

Mrs. DAVIS OF VIRGINIA. And Mr. Walker made a comment that I think you did some sort of a survey, and overwhelmingly every provision was—I tried to write it down when you said it—was supported overwhelmingly.

Mr. WALKER. Let me be fair. Let me be very, very clear.

Mrs. DAVIS OF VIRGINIA. Because you know where I'm going to.

Mr. WALKER. Yes.

Mrs. DAVIS OF VIRGINIA. Was it overwhelming on the pay adjustment?

Mr. WALKER. Let me be very clear. Neither I nor the Employee Advisory Council has the ability to say with a statistical degree of

reliability what all GAO employees think about each of the provisions here. In order to do that, we would have had to have done a survey and basically conduct a referendum.

Mrs. DAVIS OF VIRGINIA. OK.

Mr. WALKER. We have not attempted to conduct a referendum because I don't believe that this is an issue that's appropriate for a referendum. At the same time, what I do have in my statement that we did do is after we ended up having the listening sessions, making clarifications, making changes, making commitments, I then went to our senior executive service and senior leaders. It's about 130 individuals who are the leaders and stewards of the agency. I asked them to vote via electronic confidential balloting on every provision in order to ascertain whether those who were responsible for delivering our client service, managing our people, not only delivering today, but preparing us for tomorrow, supported each provision and to what degree.

The result of that was every provision was supported by a supermajority. The minimum was better than two to one, and that was the name change, unanimous support for, for extending the buyout, to points in between.

Now, you and I both know that the senior executives' views are not necessarily reflective of the administrative staff or the middle-level views or whatever else. I have a sense for where our employees are on these various issues and how they differ. The bottom line is, we have listened and we have made changes. I think we have a reasoned and reasonable approach, and I believe it's the right thing to do.

The last thing I would mention, I asked Chuck Bowsher—who is my predecessor, and our historian, in the 1980's when we adopted broad-banding and pay-for-performance we had done a referendum how it would have come out? Now, we didn't do a referendum, and they didn't back then, I can tell you that now, because we've done more outreach and we've done more communications. They both told me, independently of talking to each other, that it probably would have failed.

Now, let's fast-forward to 2003. My predecessor made a pay protection guarantee back then which I'm honoring, that basically says that employees won't be any worse off under our new system than they would have under the old GS system. About 540 people are still subject to that pay guarantee, only 5 received it in the most recent pay adjustment, which tells me that while there was a lot of trepidation about going to broad-banding and pay-for-performance over 15 years ago, only 5 out of roughly 540 have gotten pay protection. So 535 are better off. I am confident that this will have a similar result as time goes past.

Mrs. DAVIS OF VIRGINIA. Thank you.

Mr. Keisling, you made a comment, and I tried to write yours down, too, when you said one of the things—and I think I have it right—that some of the employees are worried about is that if you do the pay adjustment so that they are not guaranteed what they are now, that they are worried that there would be a cut, or less than—did you mean really a cut, or do you mean less than, a smaller increase? Not a cut, but a smaller increase? I'm not sure what you——

Mr. KEISLING. I think you are correct in saying a smaller increase than has traditionally been provided.

Mrs. DAVIS OF VIRGINIA. But not a cut in their pay.

Mr. WALKER. There is nothing in this bill that would allow me, nor do I contemplate, cutting a GAO employee's current pay.

Mrs. DAVIS OF VIRGINIA. That was my understanding. I was concerned about his comments, so I wanted to make sure that the employees understood that; it's my understanding there could be no cut in pay.

Mr. KEISLING. That's correct. And I think again that there is a—the perception is, looking to the future, that the net effect might be—that the pay that they would have otherwise anticipated to accrue over the future——

Mrs. DAVIS OF VIRGINIA. Wouldn't be as large.

Mr. KEISLING [continuing]. Wouldn't be as large.

Mr. WALKER. Could I give one example, Chairwoman Davis? There is one group that clearly will not be better off as a result of this bill. Less than 5 percent of our employees are not performing at a meets expectations level. Under this bill, they will be worse off, because under this bill we would not have to give across-the-board increases nor merit pay increases to that small percentage of our employees who are not performing at a meets expectation level. But I would respectfully suggest that's the right answer.

Mrs. DAVIS OF VIRGINIA. But if this bill were to pass, those 5 percent that are at less than expectation may see the light and become better.

Mr. WALKER. That is the hope.

Mrs. DAVIS OF VIRGINIA. OK.

Mr. WALKER. And we are going to try to help them do that.

Mrs. DAVIS OF VIRGINIA. One other question for you, Mr. Keisling. What part of the GAO management flexibilities is the source of the most employee discontent, of the current flexibilities?

Mr. KEISLING. Of the existing flexibilities that we have?

Mrs. DAVIS OF VIRGINIA. Um-hmm.

Mr. WALKER. Or the ones we are proposing?

Mrs. DAVIS OF VIRGINIA. Either/or, or both.

Mr. KEISLING. We did not seek that type of input from our constituents in terms of the existing flexibilities that have been used. In terms of the element that most employees are concerned about, that would be decoupling from the Federal service pay system.

Mrs. DAVIS OF VIRGINIA. My time has expired. I'm going to go to Mrs. Norton Holmes and see if she has some questions.

Ms. NORTON. Yes. Thank you very much. Yes, I have a question.

Mr.—sorry. This gentleman who represents the EAC.

Mr. KEISLING. Mr. Keisling. Yes.

Ms. NORTON. Mr. Keisling, are you in the SES, or what grade are you?

Mr. KEISLING. No, I'm not a member of the SES. I'm a band 3 employee.

Ms. NORTON. A what?

Mr. KEISLING. A band 3 employee in GAO's Atlanta field office.

Ms. NORTON. What does that mean?

Mr. WALKER. GS–15.

Ms. NORTON. Yes. That's what I'm after.

My question regards to the rather murky testimony and indication in the written testimony about just who it is who supports the proposal. Now, here we have before us a proposal that involves every single person in the agency. And I'd like to know from you, Mr. Walker, when you talk about people who, in fact, support—that you know for a fact support it, whether you are talking about SES employees, or employees like the gentleman to your left.

Mr. WALKER. I'll give you my opinion. The only group I can say with certainty is the SES, because those are the only people that we have actually done electronic confidential balloting on and we asked them to vote on every provision. I can give you my opinion, which I think is consistent with what Mr. Keisling has said for the EAC.

For four of the provisions that we're asking about, there is little to no controversy and broad-based, overwhelming support. For three of the provisions, there are different degrees of concern. Those degrees of concern are significantly less than they were when we first came out with our straw proposal because we've made clarifications, commitments, and changes to address comments that we got from our employees.

The provision that is the most controversial by far is the one that proposes to decouple us from the executive branch on the automatic pay adjustments. I believe that there is a significant percentage that would prefer that we not do that, just as there was back when we went to broad-banding and pay-for-performance.

We've made changes, clarifications, and commitments. I believe those who do not support are in the situation where either, A, philosophically they don't believe in more pay for performance, or, B, they believe that personally they will be better off under the status quo rather than the new system. I can't change that. And I will tell you this: That I believe that this is for the good of the agency. It's a lot more reasoned and reasonable than what Congress has already granted many other agencies and what it's about ready to grant to the largest executive branch agency.

Ms. NORTON. I'm just trying to find out, you know, when we're talking—who—what level of employees are represented in the EAC?

Mr. WALKER. That's a great question, and then I will let Chris follow. We have 23 individuals. They represent all levels and different locations. We have some that represent administrative staff GS personnel; we have some at headquarters, some in the field. We have people that represent the professional staff, ranging from Band I up to Band II, or GS–7 to GS–15. We have individuals that represent African-Americans, Hispanics, the disabled, veterans, and the gay-lesbian community. It's a very diverse group.

But, Chris, you probably can give more detail than I can.

Mr. KEISLING. Well, the short answer is that the EAC represents about 3,000 of the 3,200 employees at GAO. Basically that's everyone outside the SES.

Ms. NORTON. Has the EAC taken an official vote on this matter?

Mr. KEISLING. The short answer is, no, ma'am.

Ms. NORTON. Well, how in the world—I say to both of you—can you represent what GAO employees believe if there is no official vote of the EAC taken, and, therefore, presumably no official posi-

tion of the EAC? I mean, what's the whole point of the EAC if it's not to vote up or down?

Mr. WALKER. Well, I will give you my view, and then Mr. Keisling can give you his view. We are not precluding the EAC from voting. We didn't ask the EAC to vote. Ms. Norton, we do not have a union, and in the absence of that, I decided over 4 years ago that I wanted to be able to have a mechanism in which that I can engage in ongoing and constructive dialog with a broad cross-section of our employees, which I do at least once a quarter. They set the agenda. The purpose of the EAC is for them to be able to bring items to the attention of management and management to be able to bring attention items to them on issues of mutual interest and concern affecting our employees. We end up talking with them at the earliest stages on what we're thinking about doing; they recommend things for us to consider doing; and we work together actively to try to help communicate things, get input from our employees, and try to make GAO a better place to work.

Yes, they could vote if they wanted to, but their vote wouldn't necessarily be representative of a referendum of our employees.

Ms. NORTON. I can understand that. What I'm objecting to—I don't object to the way the EAC may or may not want to behave, but I do object your representing where GAO employees stand when the only way I know in a democracy to know where people stand is to do a survey or to have a vote. Now, this applies to people up and down the agency. Now, when you're dealing with people at the SES level, there is very little to take exception here to, but when you are dealing with cooks and bottle washers as well, then it does seem to me to represent that everybody agrees, and we have this EAC, and everybody and his mother and his aunt and every ethnic group and every sexual orientation, so what more do you want?

What I want is if they are there, and Mr. Walker is going to come forward and say that this is what GAO employees believe, then I want somebody to take a vote up or down, because I tell you this much: In this Congress nobody in this committee is going to tell you what this committee believes without taking a vote up or down, or else no one's going to believe them.

And so I object to your testimony about where GAO employees stand in the absence of some indication that you have some basis. This is, after all, the GAO we're talking about, supposed to understand something about scientific method and about what kinds of ways to report what people believe and what they don't believe based on evidence you have. And so I'm just trying to find out. Your testimony is sprinkled with—I mean, this GAO report is sprinkled with GAO employees support most aspects, and I haven't heard from you any indication that you can—that you've got any evidence to back up that statement.

Mr. WALKER. Well, let me try to take a shot.

First, I think I have been very careful, and, frankly, I think Mr. Keisling has been very careful, not to be able to make a representation as to what percentage of our employees either support or oppose——

Ms. NORTON. No. You just said they all. For all intents and purposes, it's not—when you say GAO employees, that's tantamount to

saying all or most employees. And I'm saying what's the evidence for that?

Mr. WALKER. Well, first let me say, I stand behind every word in my testimony, and it speaks for itself.

Ms. NORTON. It obviously doesn't if I'm asking you questions. So I'm not—if it speaks for itself, I wouldn't be—I wouldn't be proffering a question.

Mr. WALKER. Well, I guess what I'm saying is, is I stand behind what I said. All right?

Second, what's the basis for it? The basis for it is extensive outreach, numerous meetings, numerous e-mails, communications that have occurred formally and informally between the EAC and their representatives. Has there been a statistically valid survey done? No. Was that considered? Yes. It was not done in part because the view was that we have listened to our employees, we have made clarifications, changes, and commitments, and we don't want to make a decision based upon a referendum; because to do a survey at this point in time would be nothing more than a referendum.

Ms. NORTON. Let me conclude by saying, yeah, you bet you don't want to make it based on a survey. That's your prerogative you choose to do business—you are the GAO—in that way. But I ask you, in the future do not submit a report that to the average person reading would mean that you had evidence to back up the notion that most of your employees or all of your employees agree with what is in this report. Your answer does not indicate that you have that evidence. You have conceded that you did no survey. I do not require, this committee does not require, a survey, but we do require, it seems to me, that you not represent that, quote, employees, which in general parlance means most of the people that we are talking about, agree with what I'm saying here. I do not believe you can say that, sir.

Thank you, Madam Chair.

Mrs. DAVIS OF VIRGINIA. I thank the gentlewoman. And I apologize for getting your name wrong earlier, Ms. Holmes Norton.

Just let me make one comment, and then I will recognize the gentleman from Maryland.

I believe Mr. Walker said that Mr. Keisling is democratically elected, as is the entire Council, which is the 24 folks, I think. And it's sort of like we Members of Congress are elected by our constituency, and then we come here to Washington. And we don't take a referendum back home on every vote; we vote representing them because they elected us. I sort of see that the same way. I sort of see that——

Ms. NORTON. He made no vote. That's the point. I'm not asking that the survey be taken, but even these people did not take a vote. These representatives took no vote, to go to your very point.

Mrs. DAVIS OF VIRGINIA. Well, that's not the point I was making. The point I was making is that Mr. Keisling is an elected official representing some folks, as we are elected representing some folks. And we don't take referendums to come up with our votes.

Ms. NORTON. But we take votes.

Mrs. DAVIS OF VIRGINIA. The gentlewoman is missing my point. But I will go on now to Mr. Van Hollen.

Mr. VAN HOLLEN. Thank you, Madam Chairman. I apologize for being a little late.

Welcome, both of you gentlemen, to the committee.

First, let me thank you, Mr. Walker, and commend you on the process followed by GAO up to the point of this hearing. I may have some further questions in following up, but at least compared to the Department of Defense—not a model that you would want to emulate—and compared to a number of other agencies within the executive branch that have asked for similar or much greater authority at reorganization, based on what I've heard from many people, you have been a model of how to proceed in these issues.

As you know, the last time that we met in my office I did have a question. After some of the earlier testimony you presented, there were some concerns among a number of employees at GAO, and I was assured that you were going to go back and consult and further explain what you had proposed. And, again, I'm sorry for being late. I would be interested in what steps you have taken over the last month to further consult with employees. And I understand your statement, that you don't have any kind of scientific survey, but what is your sense of where the employees stand, and on what are you basing that assessment?

Mr. WALKER. Thank you. Since we spoke, we continued our outreach efforts. My view initially and still is that the most controversial part of our proposal, the only one where there is a significant degree of controversy, by any reasonable definition of significant, is the proposal to decouple our annual pay adjustments from the automatic pay adjustment with the executive branch.

Now, what have I done since we met? In addition to further outreach, I have done several things: One, delay the effective date of this provision for a vast majority of our employees for 2 years, which will give us time to work with the democratically elected Employee Advisory Council, with our managing directors, and to put out for notice and comment to all of our employees what our proposed system will be that will take the place of this automatic adjustment.

Second, I have made it clear that, as long as employees are performing at the meets expectation level or better, then they will be protected against inflation, we will consider differences in competitive compensation by locality, and any amount that otherwise wouldn't be across the board would be an increase in base pay; it wouldn't be a bonus or a one-time payment, it would be an increase in base pay.

The only exception to that would be extraordinary economic conditions, like deflation or hyperinflation or serious budgetary constraints, none of which I expect will happen, but I think prudence dictates having those caveats. I don't know what's going to happen 30 years from now or 40 years from now.

And so we have listened to our employees, we have made changes, we have made clarifications, we have made commitments that went to the issue that I think was of most concern, understandably, of our employees, and that is the decoupling of annual pay adjustments from the executive branch.

Now, I might also add that as of the end of this year, if the Congress passes the Defense Transformation Act, which is likely to,

but you have to decide whether to do that, that about 45 percent of the executive branch will not be subject to this provision, but they have not have made the clarifications, the commitments, and the changes that I have made.

Mr. VAN HOLLEN. Right. Now, as I said, I think in comparison to other agencies you took a far more thoughtful and careful approach to this. Let me make sure I understand what you were just saying. You have provided an assurance that except under extraordinarily bad budget scenarios, for example, a situation much worse than anything we're encountering even today, and things are pretty bad today—that you would assure that employees who are meeting the minimal expectation would receive a COLA and locality pay; is that right?

Mr. WALKER. Yes, and we would have a different method. But, yes, they would receive protection against erosion of purchasing power due to inflation, and some consideration of locality at a minimum. And then they should receive a performance-based compensation increase in the form of base pay as well.

Mr. VAN HOLLEN. And the performance, again, what are the criteria you are going to be using for awarding the performance pay? I know you have been working on a system over time which brings you ahead of the Federal agencies that have requested much greater authority. If you could just briefly——

Mr. WALKER. Yes. For 70 plus percent of our work force, we have a competency-based performance appraisal system, the competencies of which have been validated by our employees. We implemented it for 70 plus percent of our work force last year. We are making changes based upon some recommendations of the EAC, managing directors, of others. We will continue to make changes. We are implementing a similar system for our attorneys this year; we plan to do it for our administrative staff within the next year and a half or so. And so they would be the basis—I mean, the results of these performance appraisal systems.

We also have pay panelling where we don't just rely upon what one person says, we have panels of management officials and executives who end up looking at individual performance relative to others. We have a key role for our Human Capital Office and our Office of Opportunity Inclusiveness to review proposed decisions before final decisions are made to make sure they are nondiscriminatory and, to the maximum extent possible, that they are consistent. So we have a lot of things in place.

I will say that our system isn't perfect. No system on the face of the Earth is perfect, and none will ever be, but I think it's the best in government.

Mr. VAN HOLLEN. Thank you.

Thank you, Madam Chair.

Mrs. DAVIS OF VIRGINIA. Thank you, Mr. Van Hollen.

Mr. Davis, would you like another round with these two gentlemen?

Mr. DAVIS OF ILLINOIS. Thank you. Thank you very much, Madam Chairwoman.

Mr. Walker, what do you see as being the benefit of the private industry exchange program?

Mr. WALKER. Well, first I think it's important to note that we are limiting this to no more than 30 GAO employees going out, and no more than 30 coming in. Candidly, I don't think we will come close to that, but we want to have some limit.

The idea is that we are finding more and more that in order to modernize management practices in government, there is a benefit to have some of our people go out and see how things are done in alternative scenarios, as well as there is a benefit for the private sector at times or not-for-profit entities to send people into government to gain a better understanding of how each other does things. This is important not just in the area of information technology, but we're having difficulty in recruiting Ph.D. economists we're having difficulty in recruiting actuaries, and certain skill areas where there's a supply and demand imbalance. And so we think this will give us an opportunity to be able to do some things that, for example the Securities and Exchange Commission, has done successfully. They are a professional services organization just like us.

But the bottom line of this provision and this proposal is to help us do a better job for the Congress and the country, and that's really what it's all about.

Mr. DAVIS OF ILLINOIS. The GAO Personnel Flexibilities Act required a report or reporting to Congress on how the agency is using its flexibilities to enhance its work effort. There is no reporting requirement in this proposal. We talked a little bit about that in terms of whether or not that should become a part of the new proposal should it be enacted. What's your response?

Mr. WALKER. I believe it should be. I believe in transparency and accountability. I believe it would be an improvement to the bill if there was an amendment that would really do probably a couple of things. I think this is consistent with what I heard Mr. Keisling say a little bit earlier.

The idea is after we design and implement our new system, and maybe have operated it for 1 year, have a report back to the Congress similar to what we just did for our last human capital flexibilities legislation. Here is the process we used. Here is what we did. Here is how we implemented it. Here is what the experience was.

I would also suggest that it may make sense to have us report back, as part of our Annual Performance and Accountability reporting, and maybe as also part of the appropriations process to the extent that we use voluntary early outs or buyouts, to the extent that we have exchanges, to the extent that we trigger one of these exceptional conditions that Mr. Van Hollen referred to, that we report that back to the Congress so that we have an appropriate degree of transparency, which can provide for the necessary degree of accountability for GAO. I am all for that.

Mr. DAVIS OF ILLINOIS. The proposal also suggests that we may increase the amount of annual leave provided to high-level supervisory or high-grade individuals who would be brought into the agency, that goes beyond what is currently provided. And I think we talked about perhaps some review of that. But, could you share the rationale for that proposal?

Mr. WALKER. Well, from an intellectual standpoint, I will say that there are proposals in Congress that would say that since there is more mobility coming in and out of government that is the reality and we have to recognize that is what going to happen. To the extent that individuals have prior equivalent service that may be non-Federal service, there are some proposals that would say, that experience should be considered in determining what rate of leave accrual those individuals should have when they come into the Federal Government, no matter what level they are.

I support that. But, the reason that we didn't go that far in this proposal is because while that might be a want, a need for us are higher grade, more—management and executive level and specialists where we know that it can have an adverse effect on our ability to be able to attract those types of people. I think as a matter of equity, I would be willing to go further than what we have proposed.

The only reason I have proposed what we have, is that is a need. The other is a matter of equity. But, if this committee decided that you wanted to go further and have us as an experiment for that, then I would support that.

Mr. DAVIS OF ILLINOIS. And finally, Madam Chairman, Mr. Keisling, what has been the reaction of your colleagues to the private industry exchange idea?

Mr. KEISLING. To be honest, sir, we did not receive a great deal of comment on this provision. We tested the waters and tried to get a feel for whether folks were concerned. And the comments that we received back, were that, in general, employees were not concerned about this provision.

I don't think that it has enough of a direct day-to-day impact on many of the employees at the lower levels, where they would have a basis to comment.

Mr. DAVIS OF ILLINOIS. Thank you very much, Madam Chairman. I was just thinking what it would be like if maybe we could exchange spots with the Senators every once in a while.

Mrs. DAVIS OF VIRGINIA. That sounds like a marvelous idea. If you would like to propose it, I might—would support it.

Mr. Van Hollen, do you have questions for a second round?

Mr. VAN HOLLEN. No. Let me just make one last point. I think GAO, based on what I have heard, you are a nonpartisan, bipartisan organization, however you want to describe it. And despite that fact, you have taken what I think are much greater precautions.

My great concerns with the administration's proposals are that they have not done the homework; they have not laid the groundwork; they have not provided a system in place to test over a number of years; they have not provided employees an opportunity to comment on that. Yet since GAO is nonpartisan, that is a place where, when we have a change of administration, Republican, Democrat, the potential for political pressure and political abuse and political favoritism is the greatest.

And I must say that especially in this context where we are seeing more of the use of political bonuses being paid out, a perception has been created among the employees throughout the Federal Government, many that I hear from, that it is really the danger of moving to a pay-for-performance system in the executive branch,

without the protections that you are talking about in your proposal. The concerns have been heightened by the fact that many career employees see political employees getting these big bonuses and being rewarded based primarily on political allegiance rather than merit, in many cases.

Fortunately, that is not something that is happening in GAO, which gives me greater comfort. But, despite the fact that you don't face those problems, you have taken the time to do some of the groundwork. I want to followup with you a little bit more after the hearing with respect to reaching out among the employees and what level of consensus you feel there is within the agency.

Thank you, Madam Chairman.

Mrs. DAVIS OF VIRGINIA. Thank you, Mr. Van Hollen.

And gentlemen, I would like to thank you both for being patient and being willing to come here and testify today. We will go now to our second panel.

If our second panel witnesses, Mr. Pete Smith, president of Private Sector Council, and Paul Light, senior fellow at the Brookings Institutions would come forward and remain standing, I will administer the oath.

[Witnesses sworn.]

Mrs. DAVIS OF VIRGINIA. Thank you, gentlemen. Let the record reflect that the witnesses have answered in the affirmative. Please be seated.

The panel will now be recognized for an opening statement. We will ask you to summarize your testimony in 5 minutes, and any fuller statement you may wish to make will be included in the record.

Would like to welcome Pete Smith, president of the Private Sector Council. I thank you for being with us today. You are recognized for 5 minutes.

STATEMENTS OF PETE SMITH, PRESIDENT, PRIVATE SECTOR COUNCIL; AND PAUL LIGHT, SENIOR FELLOW, GOVERNANCE STUDIES, THE BROOKINGS INSTITUTION

Mr. SMITH. Thank you. I am pleased to be here today to testify on the proposed human capital flexibilities being requested with respect to the General Accounting Office.

These proposals are of particular interest to me. For over 30 years, I have consulted with leading organizations around the world on H.R. strategy, compensation and change management, and for 6 of those years, I was CEO of a major consulting firm similar in size and with competencies not unlike those of GAO today.

In my role as president of PSC, a primary focus has been on modernizing outdated Federal human resources policies. In this regard, the GAO proposals are steps that are very much in the right direction.

First, these proposals are part of a clear and well-thought-out process to strengthen the management systems and organizational capabilities of GAO.

Second, as we have discussed, the proposals have been developed collaboratively with considerable input from within and from outside of GAO.

Third, the proposed flexibilities respond to GAO's changing work force. Over 30 percent of GAO's employees have less than 5 years of service. They represent a generation for whom traditional Civil Service personnel regulations are ill suited.

Fourth, if you were to pick any one individual in the Federal Government today to lead the testing of new human capital approaches, it would be the Comptroller General. His background in H.R. consulting, his broad management experience, his inclusive and deliberate style, and his proven integrity suit him perfectly for this task.

There is no question in my mind that these flexibilities as proposed will benefit the employees of GAO through fairer rewards and an even stronger organization, as well as Congress and the public.

In the private sector, none of these proposals would be novel or controversial, they are pretty much standard practice. From a Federal perspective, however, the introduction of performance pay may generate controversy. Accordingly, I would like to take a few minutes to address this issue specifically.

Under the current General Schedule for Federal employees, pay is set by grade and time in position, with no direct consideration for individual performance. One rationale for this practice has been that appraising Federal employee performance would require considerable subjectivity, which could be unfair.

This argument assumes that the existing system, paying the same salary to all people who have been in the same job for the same time is fair. It is equal, but it is by no means fair. It rewards someone doing marginal work exactly the same as someone doing outstanding work. It has a demoralizing effect over time, and it provides no incentive to improve.

There is always the possibility of some bias creeping into the system, but you can't legislate perfection. What you can do is train managers, emphasize the right values, and give them tools with which to lead.

Performance-based pay is one of these tools, one that works successfully in the vast majority of organizations around the world, and one that is far preferable to systems that pay for only time in position.

What GAO is proposing isn't revolutionary, it isn't risky, and it is not unfair. It is sound management, judiciously applied. I would like also to comment very briefly on the other elements of the proposed legislation.

As for the pay setting policy, I think it is very appropriate to provide the Comptroller General with the authority to fix pay schedules in accordance with market and funding considerations, especially in light of the increasing competition for skilled financial expertise.

The recommendation on pay retention provides that employees being demoted to a grade or a band for which have their salary above the maximum, have their salaries frozen until the range is increased to the point where the maximum exceeds their rate of pay. This is a sensible fix. There is no reason to increase pay for anyone whose salary exceeds the maximum value for their work.

As for the increased leave and relocation expenses, both of these provisions are common in the private sector. Today's work force, as David pointed out, is far more mobile than that envisioned in Title 5, and GAO needs to be able to provide inducements to attract upper level employees from outside to its ranks.

The executive exchange program is a good idea as well. PSC has longed believed that both the public and private sectors would benefit from the ability to exchange key managerial and professional talent for temporary assignments along the lines that GAO is proposing.

And, finally, the name Government Accountability Office is a clearer description, I believe, of GAO's role and significance than the name General Accounting Office. People with whom GAO interacts, at least outside of the Beltway, will have a better understanding of GAO if the name is changed.

Even more important is the effect the name change would have on recruiting. Which would you prefer? A job opportunity with an organization that basically does accounting, or one with an organization charged with helping Congress ensure that Federal agencies are accountable?

Chairman Davis and members of the subcommittee, this concludes my prepared statement. And I would be pleased to respond to any questions you may have.

Mrs. DAVIS OF VIRGINIA. Thank you, Mr. Smith.

[The prepared statement of Mr. Smith follows:]

TESTIMONY

GAO's Human Capital Reform Legislation

Pete Smith, President
Private Sector Council

July 16, 2003

U.S. House of Representatives
Committee on Government Reform
Subcommittee on Civil Service and Agency Organization

The Private Sector Council is a nonprofit, nonpartisan public service organization that works to help improve the management, efficiency and productivity of the federal government through cooperative sharing of knowledge between the public and private sectors. See our website: www.privsect.org

I am pleased to be here today to testify on the proposed human capital flexibilities being requested with respect to the General Accounting Office.

These proposals are of particular interest to me. For over thirty years, I consulted with leading organizations around the world in human resources strategy, compensation, and change management, and for six of those years I was CEO of Watson Wyatt Worldwide, a major consulting firm similar in size and with similar employee competencies to GAO today. For the past three years, in my role as President of the Private Sector Council, a primary focus has been on modernizing outdated federal human resources policies. In this regard, I view the GAO proposals as steps that are very much in the right direction.

First, these proposals are part of a clear and well-thought-out process to strengthen the management systems and organizational capabilities of GAO. They follow on the authorities granted to GAO by Congress in the GAO Personnel Flexibilities Act of 2000, flexibilities that have been used judiciously to reshape GAO's workforce.

Second, the proposals have been developed collaboratively, with considerable input from employees within GAO, including GAO's Employee Advisory Council, and consultation with OPM, OMB, and a number of good-government organizations.

Third, taken together, the proposals and existing flexibilities provide the Comptroller General and his management team valuable tools to help them develop, shape, motivate, and reward GAO's changing workforce. Over 30% of GAO's employees have less than five years of service, and they represent a generation for whom traditional civil service personnel regulations are ill suited.

Fourth, if you were to pick any one individual in the federal government today to lead the testing of new human capital approaches, it would be the Comptroller General. His background in human resources consulting, his broad management experience, his inclusive and deliberate management style, and his proven integrity suit him perfectly for this task.

There is no question in my mind that these flexibilities will benefit the employees of GAO – through fairer rewards and an even stronger organization in which to work – as well as Congress and the public, through a more effective GAO. They also can serve as a model for other agencies and the federal workforce as a whole, as civil service policies are brought into the 21st century.

In the private sector, none of the GAO proposals would be novel or controversial – all of them are accepted, standard practice. From a federal civil service perspective, however, the introduction of performance pay may generate some controversy. Accordingly, I would like to take a few moments to address this issue specifically.

Under the current General Schedule for federal employees, pay is set by grade and time in position, with no direct consideration for individual employee performance. One rationale for this practice has been that performance discrimination could be subject to

cronyism or other types of favoritism. Another rationale is that, unlike the private sector, which often has useful and clear measures of performance, appraising federal employee performance would require considerable subjectivity, which could be unfair.

This argument of course assumes that the existing system – paying the same salary to all people who have been in the same job for the same length of time – is fair. It is equal, but it is by no means fair. It rewards someone doing marginal work exactly the same as someone doing outstanding work; it has a demoralizing effect over time; and it provides no incentive to improve to employees for whom compensation is a motivator.

Merit pay – adjusting salaries based on performance and competencies – is not a perfect system, and there is always the possibility of some bias creeping into the system. But, as with any human resources process – such as hiring, succession planning, selecting people for training, or determining who gets promoted – you can't legislate perfection. What you can do is train managers, emphasize the right values, audit the processes, and give them the tools – such as merit pay – with which to lead. Assessing organizational and individual performance is a key responsibility of any organization, and there is no well-managed private sector company that doesn't take this responsibility seriously.

Today, most private sector employers have performance management systems that are perceived as fair and that generally operate without bias. They have achieved this by:

- Clearly defining competencies related to each position,
- Specifying performance objectives, linking individual goals to the organization's overall mission and strategy,
- Ensuring that employees and supervisors agree on goals and measurements at the beginning of the performance period,
- Training both employees and supervisors, and
- Implementing systems such as 360 degree feedback to broaden the base of inputs for the reviews.

These systems aren't perfect, but they are far preferable to a system that pays only for time in position.

I want to emphasize how carefully and effectively the Comptroller General is making the transition to merit pay. First, he has built a sound new performance management program as the foundation for the new pay system. Second, he has staged the implementation to give GAO two more years of experience with the new program before implementing merit pay. Third, he has assured all GAO employees that, under the new system, they will receive at least a general increase (its size to be determined on market conditions and other financial considerations) so long as their performance meets or exceeds the basic expectations of their positions.

This is not revolutionary; it is not risky; it is not unfair. This is sound management, judiciously applied.

Finally, I would like also to comment briefly on the other elements of the proposed legislation.

Pay Setting Policy. In my view, it is appropriate and necessary to provide the Comptroller General with the authority to fix pay schedules in accordance with market conditions, private sector practices, overall agency performance, and funding considerations, as is being requested in the legislation. Matching market conditions is particularly important given the increasing competition for skilled financial expertise.

Pay Retention. This recommendation provides that employees being demoted to a grade or band for which their salary is above the maximum have their salaries frozen (except for possible performance awards) until the ranges increase to the point where the maximum exceeds their rate of pay. This is common private sector practice and a very sensible fix to a long-standing problem in Title 5. There is no reason to increase pay for anyone whose salary exceeds the maximum value for their position.

Increased annual leave for upper level employees; relocation benefit flexibility. Both of these provisions are common practices in the private sector and often necessary when recruiting upper level employees. Today's workforce is far more mobile than that envisioned in Title 5. GAO needs to be able to provide a competitive package and reasonable inducements to attract upper level employees from outside its ranks.

Executive Exchange Program. The Private Sector Council has long believed that both the public and private sectors would benefit from the ability to exchange key managerial and professional employees for temporary assignments. In a project we did for the Office of Personnel Management in 2000, a number of private sector employers expressed strong interest in a governmentwide exchange program similar to the one GAO is proposing.

Redesignation. The name "Government Accountability Office" is a much clearer description for an outsider of GAO's role and significance, than the name "General Accounting Office." I expect that inside the Beltway the name change will be inconsequential. However, many of the people with whom GAO interacts—the private sector, state and local governments, and foreign agencies—will have a better understanding of what GAO is if the name is changed. Even more important is the effect the name change will have on recruiting. Which would you prefer, a job opportunity with an accounting operation, or an organization charged with helping Congress ensure that federal agencies are accountable?

Chairman Davis and members of the Subcommittee, this concludes my prepared statement. I would be pleased to respond to any questions you may have.

Mrs. DAVIS OF VIRGINIA. I would now like to recognize Mr. Paul Light of the Brookings Institution. I thank you, Mr. Light, for being here with us here today. You may proceed with your statement.

Mr. LIGHT. I am delighted to be here too.

This is probably my shortest statement in record. I wish you had sent me something more controversial and difficult to critique. My job in a think tank is like any think tanker. We wait for someone to roll a ball of yarn into the room and we attack it. And there is not a whole lot to attack here. I like this proposal. I agree with my colleague, Pete Smith. I find little reason not to move forward, especially with the kind of protections that my Representative who speaks for me today, would argue need to be in the bill in terms of reporting, as you are arguing, Congressman Davis, as well.

On both process and substance, I find a lot to admire here. I do like the fact that the Comptroller consulted widely with his employees. I am a survey researcher by training. I can design a survey to find out what the employees think. You would find variation. You go from the top down through the bottom, you are going to find variation on what people fear.

You have here an expression of experimentation. I think it is instructive to note that GAO has been working on pay banding for 20 years now. Started under Chuck Bowsher. I remember being on the Senate Governmental Affairs Committee Staff when Comptroller General Bowscher asked for these authorities, and they have been working at it.

They have evaluated it carefully, thoughtfully over time to take a look at where they need to improve, and most importantly I think, and this is where we do have concerns about the Defense Department breakout, if you will, is that they put a lot of money into training managers. This is tough stuff. You have to sit down with the employees every once in a while and talk to them about how they are doing.

There is the 80/20 rule in performance appraisal. It is a real fact that 80 percent of your employees believe that they are in the top 20 percent of performers. That means every year you are sitting down with them trying to convince them that they are wrong about themselves. That takes guts and that takes training, and GAO has invested a lot in it.

And over time this pay banding system has come to represent the very best practice in government. It is a very good system. I send a lot of students into it, graduates of various programs at which I have taught. And it really is a motivator.

Now, on the substantive side, I think this continues progress toward pay for performance, which I believe in. I believe in a performance sensitive system. There is a clear concern within GAO, from the statics that they provided on what we might call band creep. We have all heard about grade creep, where you see the movement upward over time as the work force ages, up through the General Schedule. Here you have good evidence that there has been little band creep.

We can't see what is happening within those bands in terms of how people are moving, but the overall evidence suggests that GAO is paying very clear attention to making sure that resources are

placed where they belong, which is in the middle and lower levels where the work gets done.

There are highly specific criteria for how you make the decisions on performance. My statement would have been half as long if I hadn't taken advantage of the opportunity to criticize this administration's decision to give bonuses to political appointees. I think it is absolutely wrong. I do not think it is defensible under any set of criteria.

I understand that the Clinton administration ordered that it not be done, and it was done by some agencies, and we know that it is being done by some agencies in the Bush administration, but not others. Nevertheless, I won't talk about that unless you really want to drill into it, because we could go on for a long time about that one.

Finally, the substantive proposal carries clear evidence of effect. It works. So when you've got something that works, you say, let's do a little bit more. Let's see whether we can push it a little bit more. And you've got to get the money for that from someplace. I do believe that the 5-percent who are not doing their jobs ought to get a big zero. I just think that is part of accountability in the system. And I think you have to be careful about how you put them in that bottom category, but that is where it goes.

Final point on the name change. You know, my reaction is that, you know, my last name is on beer cans and gutters all over America. All right. An agency by any other name is going to perform as well. My reaction to the name change was, I sure wouldn't spend a lot of political capital on it. But, if GAO wants the name changed, why not? If that is what they think they need, I find no evidence that we should not give it to them. They have done a really terrific job with these authorities.

One second to spare. Thank you very much.

Mrs. DAVIS OF VIRGINIA. Thank you very much. We will try to get you a bigger ball of yarn next time.

[The prepared statement of Mr. Light follows:]

THE GENERAL ACCOUNTING OFFICE HUMAN CAPITAL REFORM ACT OF 2003

TESTIMONY BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON CIVIL SERVICE AND AGENCY ORGANIZATION
OF THE GOVERNMENT REFORM COMMITTEE

PAUL C. LIGHT

WAGNER SCHOOL OF PUBLIC SERVICE
NEW YORK UNIVERSITY

CENTER FOR PUBLIC SERVICE
THE BROOKINGS INSTITUTION

JULY 16, 2003

Thank you for inviting me to testify today on the General Accounting Office Human Capital Reform Act. My statement is exceedingly brief, not because of a want for trying. In all candor, I can find little to fault in the current proposal. It has a careful logic, fits well with past reforms at the GAO, and is the result of careful evaluation and engagement. In short, it has been produced through the kind of process that I would like to see in all agencies, and reflects a commitment to evidence-based policy making that I believe this subcommittee values. Although I do not find a template here for the substance of human capital reform in other agencies, I do find a commitment here to the kind of process that is most likely to produce employee productivity during a time of rising expectations and an increased demand for performance.

I am sure this subcommittee has received the same briefings and documents that GAO has circulated to its Advisory Board, of which I am a member. Frankly, I could not be more impressed with the thoroughness of review. Consider, for example, the description of the process that GAO used for dialogue with its staff. If I read the documents correctly, the Comptroller General and/or his executive team have set the standard for consultation with the agency's employees. Although I am sure that there are some employees who still wonder what the proposal might hold for them, they can have little doubt that the agency is ready to listen. Moreover, as past experience indicates, GAO has also been willing to invest deeply in the management training needed to make these kinds of authorities work.

Although this subcommittee knows that I favor the effort to reform the Defense Department personnel system, particularly in the wake of successful bipartisan compromise in the Senate, I did not favor the kind of process used in developing the proposal. To rephrase the old auto repair commercial, you can talk to employees before enactment or after, but you will have to talk at some point. Far better to do it up front than under pressure. Federal employees have ample reason to be anxious. Indeed, every day seems to bring news of continued disquiet regarding the role of federal employees and their representative—pay parity is in dispute, the administration has unwisely restored political appointee bonuses, and there remain serious doubts about the real intentions behind the competitive sourcing proposal. I need not remind this subcommittee that this could do more harm than good.

Much as I and others have worked to improve the presidential appointee process, for example, there is no need to open the gates for appointee bonuses. Whether they are confirmed by the Senate or are appointed by the president, the vast majority of presidential appointees stay in office for a relatively brief time and move on to higher paying positions after service. Only 8 percent of the 435 Reagan, Bush 41, and Clinton administration's senior Senate-confirmed appointees reported a decrease in their earning power as a result of their service, while 36 percent reported an increase, and 43 percent reported no change at all. Since nearly half of these appointees were making much more than their presidential salary before entering office, one can surmise that presidential service has a rather dramatic impact on the post-service income of those called to serve in the nation's highest appointee posts. There is scant evidence that bonuses have

the slightest impact on motivation, and ample reason to worry that bonuses create the appearance of political favoritism, not objective performance. That is why so many of the Bush Administration's own cabinet officers expressly prohibit their appointees from competing for bonuses.

One need not worry about such appearances at the General Accounting Office. Managers have been well schooled on the measurement of performance. They engage in continuous feedback, reward and discipline employees on the basis of clearly stated criteria, and have, therefore, earned the trust of the Congress in the delegation of authority. Would that all federal agencies spent as much time working with managers on how to use these grants of discretion. Alas, as we all know, training is among the first items cut when spending gets tight, leaving managers and front-line employees alike with serious questions about their ability to do their jobs well.

I am also pleased to note GAO's commitment to self-study, which is expressed in its June, 2003, report on the role of personnel flexibilities in strengthening its human capital. It is useful to note, for example, that the pay-banding authorities have not created any noticeable grade-creep at the agency. To the contrary, GAO's data suggest that the agency is putting its resources right where they belong: on the front-lines where the studies are conducted. GAO has shown maximum interest in learning how its authorities have worked, and has conducted rigorous and anonymous surveys of employee attitudes toward the system. Would that all federal agencies gave their employees the same opportunity for input, whether through completely anonymous surveys or consultation with employee representatives.

If all agencies cared as much about their human capital as GAO does, I rather suspect that we would not have the continuing meltdowns that prompt urgent action by this subcommittee and the rest of the Congress. All too often, Congress is only asked to intervene in human capital when an agency confronts a crisis. This is precisely how the Internal Revenue Service, Federal Aviation Administration, the Securities and Exchange Commission, and National Aeronautics and Space Administration all came to the point of legislative relief. Luckily, GAO has long been well ahead of the curve on preparing for a changing labor market. It remains an admired agency in large measure because its reforms are, in fact, based on evidence, not hunch, and carried forward by Comptrollers General who are committed for the long haul. That is how Elmer Staats brought the agency into the modern era of program evaluation, how Charles Bowsher took the agency through its great downsizing with a gain, not loss, in productivity, and how David Walker now proposes to move the agency forward yet again.

Ultimately, this is not "trust me" legislation. It is well grounded, well designed, and very likely to achieve the stated ends. I can see no reason why this subcommittee should not grant the authorities sought, and encourage you to move forward.

As for the proposed name change to the Government Accountability Office, I give the benefit of the doubt to the Comptroller General and his team. An agency by any other name will still perform as well. As long as the change does not divert any resources from the core mission through unnecessary signage, I see no reason to deny this request either.

Mrs. DAVIS OF VIRGINIA. Mr. Davis.

Mr. DAVIS OF ILLINOIS. Thank you very much, Madam Chairwoman.

Mr. Smith, you mentioned individuals with less than 5 years of service not being suited for—or rules, some of the work force rules not being suited for them. Could you elaborate a bit on that?

Mr. SMITH. Yes, Congressman. You put it that way, it doesn't sound too sensible. What I said was over 30 percent of the work force has less than 5 years service, which means that the work force is either very young or there are new people coming in at higher levels. It is a combination of both of those things.

When the Civil Service rules were designed, in most of the working world, the expectation was you would go to school, graduate, get a job with a good employer and stay there, probably for the rest of your career, or maybe make one or two changes early in your career, then find the right place and stay throughout the entire career. So longevity made a lot of sense, waiting 10 years to get vacation pay at a reasonable level made a lot of sense.

Now, whether it is Generation X or whatever follows Generation X, or it is people moving, the work force is so much more mobile, that people coming in don't look at the workplace the same way. Pension plans in the private sector for example, and I imagine to some degree the Federal sector, aren't as intriguing to people who think that they might end up working for 5 or 10 employers or go to a few employers and go out on their own.

So to attract people, to respond to their interests and needs, to give the kinds of H.R. programs that employees want, you have to be much more flexible today than under Title 5. So that is what I was trying to say. I wasn't saying that new people are totally different from the old people, it is a blend of those things.

Mr. DAVIS OF ILLINOIS. You also suggested that bias and favoritism could be overcome in a merit system by training and by auditing the process. How much, or how devoted can an agency be to that?

Mr. SMITH. Well, an agency putting in performance pay in any real way has to be very devoted to that. It is true in any private sector company, you have to be careful, because bias can creep in there. But, obviously with changes in administration and political favoritism being a very important added ingredient in the government environment, it is necessary to make sure that performance criteria are set up very clearly, that they are checked and thought through with the kind of process that the Comptroller General and his management team have put in place, that audits are in place to make sure that there isn't favoritism, that their appeals process is in place, for employees who feel that they have been unfavorably treated for reasons of bias that don't have to do with their performance, can go and make an appeal through the management channels and other channels and so on and so forth.

So I think it is very important that those processes be in place.

Mr. DAVIS OF ILLINOIS. Mr. Light, I must confess that I find your approach to be quite refreshing, not just in terms of the name, but also in terms of the way you express your professionalism. You indicated that this proposal came through the kind of process that you would like to see all agencies go through, and you mentioned

some of that. Could you describe what you think that process has been?

Mr. LIGHT. Well, we had a very contentious hearing several weeks ago here, as you will recall, around the Defense Department's proposal where there had been no consultation. I don't think employees are going to go with you on everything, obviously.

But, if they feel that the process by which you reached your decision, whether it is a decision about your annual adjustment, whether it is a decision about the promotions that are being given, or whether it is a decision about a big system change like this, like DOD, I think that if you create a process that they think is fair and open, you have gone a long way to getting their buy-in whatever you do.

That means that you sit down and you let them fire at you. You sit down with the employee representatives beforehand and you say, here is what we are thinking of doing. We don't have it perfect, do you have some insights for us? I think one of the most important achievements in this process came over in the U.S. Senate where we had a deliberate effort and the time I think that this subcommittee and the full committee could have used to reach some bipartisan consensus on how to do the DOD bill. And still we are a long way from, perhaps, where we could have ended up with a more aggressive process.

So I think it is just consultate, consultate, consultate. You just have to get out there and talk and work and expose yourself, as I think the Comptroller General did, to the opinions of your employees. And sometimes it is not going to feel good, but you just have to keep the dialog going.

Mr. DAVIS OF ILLINOIS. Thank you very much. Thank you, Madam Chairwoman.

Mrs. DAVIS OF VIRGINIA. Thank you, Mr. Davis.

I wanted to just pose a question to both of you. Since GAO, any change we make in the their human capital system will probably be looked at closely as a model, like I said earlier. Do you believe that these flexibilities would be advantageous to all Federal agencies in performing their respective duties?

Mr. SMITH. Let me answer that first, Paul.

Yes, I do. As long as all Federal agencies do the groundwork that Paul has just been talking about, in terms of reaching out to employees and making sure they are right. I mean, the Federal work force contains such a variety, as you well know, of skills and experience.

GAO in large part is a professional service firm with those kinds of capabilities, actuaries, accountants, lawyers and analysts. Very different from, let's say the Forest Service, which is very different from the Centers for Disease Control, and we could go on and on with different kinds of examples.

To take what is working at GAO and just put that, without a lot of thought and effort, into these other agencies could work fine, but they could be totally inappropriate. I would say the elements of what GAO is asking for, management flexibility about pay, pay for performance, good performance management, building on their pay banding system, are all good ideas that should be explored and could well serve as models for other agencies.

I would also add that I feel that OPM and other organizations are doing very good work trying to define where changes in Civil Service regulations, along those lines, might make sense. So I am all for what he is doing. And I am all for looking into these models, but again, you have to be very careful before you pick them up and put them down in another agency.

Mr. LIGHT. I may have said at the beginning of my testimony that I did not think that this is a template, the template that you are seeking for the rest of the Federal Government. I mean, this is 20 years in the making that has taken us to this point. And I go back to this issue of training and the sort of creation of a culture that is committed to honest exchange and evaluation.

I mean, the Comptroller talks about 5 percent of his employees who do not meet expectations. In the Federal Government it is less than 1 percent who get that grade every year. It just takes time to build that culture of honesty. So I have always viewed GAO as this curious treasure that you can't really replicate much of anything that goes on there.

I know the Comptroller won't agree with that, but it really is an unusually wonderful agency, a real treasure for our government. And I like to look at it as a test bed, but I am from Minnesota, and we like to believe in Minnesota that everything we do can be exported, but you know it can't. So you have to be careful.

To take a look at their evaluations, see what they invested to get here, I think, is the trick. How did they make it to the point where we can trust them with these kinds of authorities, where you have this kind of love-in around this proposal. And I think that takes time and a lot of commitment. I don't think most Federal agencies can handle it. Some maybe, but not most.

Mrs. DAVIS OF VIRGINIA. And you know my concern. We keep having these hearings. I just keep waiting for the next shoe to drop, which agency next wants to revise itself or transform. And I just don't want to do it piecemeal. That is my real concern.

Mr. LIGHT. I strongly encourage your work on that. The line is forming. It already started coming through the front door. It is worse than any line I saw for Terminator 3, it is worse than any line that you can see at any Blockbuster, and I am telling you, they are all waiting. Because once DOD is out, I think that the cascade is going to be throughout the authorizing committees.

So, you know, you have a real challenge here to say, OK, listen, we are going to put our stake in here on the issue of this template. So good for you and good luck to you. I think it is very important.

Mrs. DAVIS OF VIRGINIA. We need it.

Mr. SMITH. Could I add two points there?

One is that in terms of time, as Paul says, GAO has taken a long time to develop these things. So they are good things. And they would work well in many agencies, however the agencies may just not be ready yet.

The second comment I want to make addresses the question, why is the line forming so long? I don't think the line forming is so long because everybody wants goodies, I think the line is forming quickly because everybody recognizes the old Civil Service system isn't a good way to manage. They want better ways.

And that should be supported. The fact that they want better ways should be supported. How they get them is another question. And I totally support the need to do the kinds of things that Paul is talking about.

Mrs. DAVIS OF VIRGINIA. Thank you, Mr. Smith.

Mr. Light, you might be able to help me on this one. On the exchange program, I can see the advantage for the folks in GAO to go out into the private sector. Help me understand what advantage it is going to be for the private sector to come into GAO?

Mr. LIGHT. Well, they have that great building and that cafeteria.

Mrs. DAVIS OF VIRGINIA. That is what I thought you were going to say. But how about some real meaty substance to that.

Mr. LIGHT. Well, I think that, you know, you've got to——

Mrs. DAVIS OF VIRGINIA. Just to get them out of the private sector so we have room for folks, right?

Mr. LIGHT. GAO has a very good reputation out there. And I think that, you know, we just came out of the field as we call it, with the survey of college seniors, about-to-graduate college seniors.

You know, there is an incredible desire for public service in this country. I don't call it redemption. I mean, you can go to the private sector and have a wonderful life, and that is fine, you do your volunteer work, and your board work and so forth and so on. But there are a lot of Americans who want to give something back. And GAO has a very good reputation out there. And for people who do the kinds of things that GAO does, I mean, you are right at the top of the policy advising chain at GAO. You can have—you can make a big difference.

So I think that is a very attractive feature for private sector people.

Mrs. DAVIS OF VIRGINIA. Thank you, Mr. Light. My time is up. Mr. Van Hollen.

Mr. VAN HOLLEN. Thank you, Madam Chairman. Let me just pick up on a couple of points that both of you raised. And I think they are excellent points. GAO has a culture of having worked with this kind of evaluation system over a period of time. They have sort of road tested it before they actually put the pay-for-performance piece on top.

And, as Mr. Smith said, many agencies may not be ready for it. If they had built up those systems over time, then it may be one thing. But, having not laid the groundwork, it is another thing. And since, as Mr. Light said, his testimony was short with respect to GAO because he is confident in the proposal they are putting forth. I would like to disucss the DOD bill, which as you know the House has passed a version, the Senate has passed a version.

The Senate version I have some concerns with, but it is—as you described, Mr. Light, in your testimony—a bipartisan compromise, at least on that side. And I would like your thoughts, if you are prepared to give them today, as to whether—if you could vote one of the bills out of conference today—you would take the Senate compromise? And if so are there any additional protections that you would want to place in it?

Mr. Walker talked about, even with the rigor of the GAO system, a 2-year moratorium with respect to putting this in place with respect to many of his employees. Would you recommend that, given the fact that DOD has no experience with the kind of rigorous evaluation systems of GAO? Would you, on top of whatever protections are in the Senate bill, suggest that we have some period of moratorium before we allow it to go forward in full?

Mr. LIGHT. I am under oath, I recall. Without insulting this fine committee and this body, I think the Senate bill is the right bill. I know that my colleagues at the Defense Department complain that the bill does not provide what they want. But, as the old Rolling Stones song tells us, sometimes you don't get what you want but you get what you need.

I think the Senate bill is what DOD needs. I think that the big problem that we did not talk about in that bill was the manager's ability to use the authorities. Nobody talked about that. We all talked about what the front line needed. We spent all of our time arguing about that.

But, you have a bunch of managers over in DOD who are architects of a hyperinflated performance appraisal system. They are the ones who do that year after year. I understand why they inflate the system. I understand the reasons for it.

But, the one thing that I do not see in that legislation is a very serious commitment to the training dollars needed to get those managers up to speed.

The phase-in, the DOD folks say that they can already get 130,000 in without, under current law, without phase-in. I kind of like the idea of some sort of phased-in approach so that they can get some experience as they move forward, start with the agencies, the research labs and so forth, where you can get good, quick implementation and see how things are working.

But, if I had to chose between the two, I would pick the Senate bill. I think having Democrats involved in this conversation is so important to the legitimacy of the implementation of that legislation, this cannot be a one-party issue. It has to be bipartisan. And I just think that alone is worth everything in that compromise.

Mr. VAN HOLLEN. Thank you. Do you have any thoughts on it, Mr. Smith?

Mr. SMITH. I would just add two things.

One thing is that as these different agencies, DOD and others, come in and ask for flexibilities, may be fine. But someone in Congress needs to be looking carefully at the issue of what really needs to be the same across all of the executive branch, and what should be allowed to be different.

There are some things that should be very different. As I said before, the jobs differ. But if are there are going to be some common approaches, if the SES, for example, is going to change and be a really skilled mobile management force, crossing from Department to Department and agency and agency, then somebody needs to take a look at that as these individual Department reforms are done. I think the DOD reform effort is part of that.

The other thing is, while I think the administration, by and large, has done a very good job focusing on management issues—picking up work that has been done by previous administrations—

I think the one area where they need a lot more attention is employee communications, generally of the kind that the Comptroller General has done.

I don't see a lot of that done. I think it is a big problem in implementing any change, no matter how well designed it is.

Mr. VAN HOLLEN. Thank you. It is a huge problem based on the feedback that I am getting from lots of people, but I appreciate your comments. I am grateful that the ranking member of the committee made me a conferee on the bill. I will take your thoughts into account, both of you, during the conference.

Thank you very much.

Mrs. DAVIS OF VIRGINIA. Thank you, Mr. Van Hollen.

In closing, I would like to again say thank you to all of your witnesses for their participation, and to let the panel members—to let the members of the committee know that we will reconvene for a business meeting at 3:40, and this subcommittee now stands adjourned.

[Whereupon, at 3:35 p.m., the subcommittee was adjourned.]